

ACTA

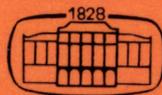
OECONOMICA

PERIODICAL OF THE
HUNGARIAN ACADEMY OF
SCIENCES

EDITORIAL BOARD

M. SIMAI (Chairman)
M. AUGUSZTINOVICS
T. BECK
A. BRÓDY
CS. CSÁKI
B. CSIKÓS-NAGY
P. ERDŐS
T. ERDŐS
F. FEKETE
I. HETÉNYI
R. HOCH
J. HOÓS
I. HUSZÁR
B. KÁDÁR
J. KORNAI
F. KOZMA
A. NAGY
V. NYITRAI
Z. ROMÁN
M. TIMÁR

EDITOR
T. FÖLDI



AKADÉMIAI KIADÓ, BUDAPEST

VOLUME 36
NUMBERS 1-2
1986

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

Editorial

L. FALUVÉGI: The Seventh Five-Year Plan of the Hungarian Economy (for 1986–1990)	3
I. ILLÉS: Structural Changes in the Hungarian Economy (1979–1985)	21
A. KÖVES: Foreign Economic Equilibrium, Economic Development and Economic Policy in the CMEA Countries	35
L. SZAMUELY: Prospects of Economic Reforms in the European Countries in the 80s	55
M. TARDOS: The Conditions of Developing a Regulated Market!	67
K. FALUS-SZIKRA: Wage and Income Disparities Between the First and Second Economies in Hungary	91
G. RÉVÉSZ: On the Expansion and Functioning of the Direct Market Sector of the Hungarian Economy	105
J. RIMLER: Economic Obsolescence and Employment (A Comparative Analysis of the Hungarian and Dutch Economies)	123
E. GÁCS: Hungary's Social Expenditures in International Comparison	141

REVIEWS

R. KULCSÁR: Results of the First Nationwide Prestige Survey in Hungary	155
--	-----

BOOK REVIEWS

L. ANTAL: Economic Control and Management and the Financial System of Hungary on the Way of Reforms (<i>P. Á. Bod</i>)	169
Entwicklungen des Ost–West Handels unter erschwerten weltwirtschaftlichen Bedingungen. (I) Voraussetzungen für die Gründung von gemischten Unternehmen zwischen Ost und West (II) Moderne Methoden des Unternehmensmanagement in Ost und West. (III) (<i>E. Kemenes</i>).	172

BOOKS RECEIVED

REPERTORY OF VOLS 31 TO 35

ACTA OECONOMICA

PERIODICAL OF THE HUNGARIAN ACADEMY OF SCIENCES

EDITORIAL BOARD

M. SIMAI (Chairman), M. AUGUSZTINOVICS,
T. BECK, A. BRÓDY, CS. CSÁKI, B. CSIKÓS-NAGY,
P. ERDŐS, T. ERDŐS, F. FEKETE, J. FEKETE, I. HETÉNYI,
R. HOCH, J. HOÓS, I. HUSZÁR, B. KÁDÁR,
J. KORNAI, F. KOZMA, A. NAGY, V. NYITRAI,
Z. ROMÁN, M. TÍMÁR

EDITOR
T. FÖLDI

VOL. 36



AKADÉMIAI KIADÓ, BUDAPEST
1986

CONTENTS

Editorial	1
L. FALUVÉGI: The Seventh Five-Year Plan of the Hungarian Economy (1986—1990)	3
I. ILLÉS: Structural Changes in the Hungarian National Economy (1979—1985)	21
A. KÖVES: Foreign Economic Equilibrium, Economic Development and Economic Policy in the CMEA Countries	35
L. SZAMUELY: Prospects of Economic Reforms in the European Member Countries of the CMEA in the 80s	55
M. TARDOS: The Conditions of Developing a Regulated Market	67
K. FALUS-SZIKRA: Wage and Income Disparities Between the First and Second Economies in Hungary	91
G. RÉVÉSZ: On the Expansion and Functioning of the Directly Market Sector of the Hungarian Economy	105
J. RIMLER: Economic Obsolescence and Employment (A Comparative Analysis of the Hungarian and Dutch Economies)	123
E. GÁCS: Hungary's Social Expenditures in International Comparison	141
A. RÁBA: Hungarian Development—with Bottlenecks	181
J. KÖLLŐ: The Impact of the Labour Market on the Employment Structure in Hungary	197
B. KÁDÁR: Hungary's External Economic Strategy in the Second Half of the 1980s	209
J. GÁCS: A Gradual Liberalization of the Hungarian Import: Conditions, Chances and Consequences	231
J. SUBA-VARGA: "Foreign Trade Constraint" and Cyclical Development	251
I. SALGÓ: Economic Mechanism and Foreign Trade Organization in Hungary	271
J. KORNAI—ZS. DÁNIEL: The Chinese Economic Reform—as Seen by Hungarian Economists	289
A. INOTAI: Economic Relations Between the CMEA and the EEC: Facts, Trends, Prospects	307

COMMENTS AND CRITICISM

L. SZAMUELY: G. H. Popov: Efficient Control and Management	329
--	-----

REVIEWS

R. KULCSÁR: Results of the First Hungarian Nation-wide Prestige Survey	157
A. DUKÁSZ: Trade in Securities in Hungary	339
Á. MAJOR: The First Year of the Use of the Bill of Exchange	343

BOOK REVIEWS

L. ANTAL: Economic Control and Management and the Financial System of Hungary on the Way of Reforms (<i>P. Á. Bod</i>)	171
--	-----

Entwicklungen des Ost-West Handels unter erschwerten weltwirtschaftlichen Bedingungen. (I)	
Voraussetzungen für die Gründung von Gemischten Unternehmen zwischen Ost und West:	
Erfahrungen und Aussichten. (II) Moderne Methoden des Unternehmensmanagement in	
Ost und West. (III) (<i>E. Kemenes</i>)	174
I. PETŐ—S. SZAKÁCS: Forty Years of Hungarian Economy 1945–1985 (<i>A. Török</i>)	349
E. BAGÓ: Diversification in Industry (<i>M. Laki</i>)	351
A. INOTAI: The European Economic Community at the Crossroads (<i>L. Csaba</i>)	355

BOOKS RECEIVED

REPERTORY OF VOLS 31 TO 35

EDITORIAL

The editor is usually tacit—at least in his own periodical. He reads but does not write. If he now demands the floor this is because the present Volume 36 of *Acta Oeconomica* reaches the reader twenty years after the publication of the first issue.

The late academician Imre *Vajda*, a scholar engaged in international economic relations and an enthusiastic promoter of international contacts among economists had launched the periodical as the first chairman of its editorial board with the message that it should become a mouthpiece of progressive efforts aimed at the modernization of Hungarian economy through economic reform, an increased and sane participation in the international division of labour. It may be established, without any self-praise, that our periodical has followed this direction.

Its message somewhat distinguishes *Acta Oeconomica* from many other economic periodicals. Not as if we belittled pure theory and the efforts made by economics at refining the methods used for exploring economic reality. Yet through these two decades in our editing policy we have preferred those articles which analyzed economic reality, whether they approached matters from macro- or micro-economic viewpoints, or analyzed processes important for domestic economic development or for external economic relations.

Putting economic policy to the fore in a periodical is not quite free from problems. It necessarily raises the question of relationship between science and politics. This relationship has always played a big role in the reasoning of economists. If economists wish to apply their “inventions” and make their advice accepted, they have to turn not to the world of business, but have to reach agreement with the leadership of society, with politicians. Relationship with politics plays a great role in Hungarian economics as well. This relationship may be said to have been good for some decades. The present leadership of the country has claimed the support of economists from the very first days of its existence.

The fate of the proposals of the Economic Expert Commission in 1957, called into being by the political leadership, the majority of which were implemented about ten years later, also shows the natural fact that the relationship between science and politics may be good or less good, but it cannot be idyllic without one or the other abandoning its own substance. Politics may take the advice of scientists and experts but has to transsubstantiate it from its own viewpoints. Scientists and experts may

undertake to serve policy but they must not become its slaves if they wish to preserve their own identity. In principle, in its long-term approach science precedes and has to precede politics, it does not and cannot follow the daily and short-term changes of politics. I would emphasize that only short-term movements are meant. It does credit to both politics and science that in long-term and global problems there has hardly been any difference between the judgements of politics and science for decades. This is, that has made the position of Hungarian economists relatively easy, particularly in the last two decades (apart from some tensions). It has also made an earlier unknown upswing in economic thinking possible. The acknowledgement of results and the recognition that international dialogue may significantly contribute to the upswing was the main justification for launching this periodical. One of the manifestations of these favourable tendencies is that, in spite of the many changes all over the world and in the country in the last twenty years, in its task undertaken it could adhere to its original intentions. It wishes to follow them in the next years, too. The inclusion of new forces in the Editorial Board will certainly promote this.

Beyond the above basic conditions, also solution to the financial concerns of publishing periodicals, emerging all over the world, was a condition making possible for the periodical to appear in the overwhelming part of the two decades (15 years) in twice as many pages as when it had been launched. This was possible between 1971–1983 with the support of the *Scientific Council for World Economy* and since 1984 with that of the *Hungarian Chamber of Commerce*, the *Hungarian Economic Association*, the *National Bank of Hungary* and the *Ministry of Finance*. Thanks are due to them for their extended support, that complemented the basic funding provided by the *Hungarian Academy of Sciences*.

It is our painful duty to remember the grave losses afflicted on the Editorial Board by the deaths of two distinguished members in the last two years: Ernő Csizmadia, member of the Hungarian Academy of Sciences, rector of Karl Marx University of Economics, and Iván Gönczi, professor of the University of Agricultural Sciences.

THE SEVENTH FIVE-YEAR PLAN OF THE HUNGARIAN ECONOMY (for 1986-1990)*

L. FALUVÉGI

At the start of the Seventh Five-Year Plan period, covering 1986-1990, the Hungarian economy has reached a crucial point on its new growth path begun in 1979. The question arises whether Hungary can maintain or improve its position in the international ranking. It is a fundamental undertaking of the Seventh Five-Year Plan to give an affirmative answer to this question. The article expounds the basic conditions necessary for the dynamization of Hungarian economy: further reductions of inputs, elimination of loss-making activities, development of an up-to-date economic structure, improvement of capacity exploitation. For all that an adequate economic control behaviour and a system of social conditions, shouldering also conflicts, are necessary, the most important elements of which are also summed up in the paper.

The Hungarian economy has in recent years largely exhausted the possibilities which the necessity of curbing the domestic use of national income in the interests of improving equilibrium has offered. This course can no longer be followed. We have to make a start towards a renewal. But just as the consolidation of equilibrium can no longer be based exclusively on the curbing of domestic use, a renewal cannot rely on its opposite, either, that is on simply reviving domestic demand and increasing investment. The main endeavour of the plan is, therefore, to accelerate the modernization of economy by relying on ever better performance, to stimulate economic growth gradually and, in harmony with it, to improve living standards and strengthen the defence potential of the country.

Throughout preparations for the Seventh Five-Year Plan efforts were made to coordinate goals, conditions and instruments in the best possible way, to adjust most resolutely to the requirements of intensive economic growth and to the ever growing demand for democratic ways.

Planning for 1986-1990 was intertwined with the long-term planning destined to outline and to shape the future. In the course of identifying the goals of the Seventh Five-Year Plan we looked ahead to the year 2000 and weighed up the development concepts of the immediate future also with a view to the course of development and the long-term objectives of the socialist countries. It was as part of such work that our concepts regarding demographic policy as well as regional and settlement development were formulated, while the future of Hungary's industry, agriculture, energy supply, education, transport and of the natural environment were also surveyed in this context.

* Based on the author's address to the National Assembly on December 20, 1985.

Experience offers a safe background

We have to ask in the first place *on what kind of experience the plan is based*. Naturally, one should learn, in the first place, from what was achieved and the accumulated troubles of recent years. The Sixth Five-Year Plan (1981–1985) centered on to principal goals: restoring external economic equilibrium and maintaining living standards. We expected that both the external and internal conditions of management would become graver, that we would have to face new kinds of challenges and that, on this account, serious efforts would be necessary for plan implementation.

Knowing the facts, one can safely say today that, although *in those days* the plan appeared pessimistic to many, in view of world economic conditions, but also relative to the development of domestic performance, it proved to be rather optimistic. This is borne out by the following facts.

In the wake of economic and political events, a credit crisis erupted in late 1981, and more than fifty countries had liquidity troubles. The conditions of access to credits became extraordinarily tough for Hungary as well and real rates of interest rose considerably. Therefore, a hard struggle had to be waged for two or three years in order to maintain the liquidity of the country. This could only be done by starting to reduce the non-rouble stock of debts earlier than had been originally planned. With this aim in view, we succeeded in achieving an annual trade surplus of \$ 400–600 mn, altogether \$ 1.8 bn between 1982–1985. This could be attained by increasing exports dynamically, though it is true that the efficiency requirements had to be relegated to the background in the meantime.

In these last years the prices of Hungarian exports have deteriorated on international markets and possibilities for sales were also narrowed by the protracted depression in Western countries. We were particularly sensitively affected by the fact that the world market prices of meat products, ferrous metallurgical and aluminium products—which account for a large share of Hungarian export—still continue to fall steeply.

Cooperation with CMEA countries provided a safe market for Hungarian commodities even in this difficult period. But economic growth was made difficult also because we could import almost 10 percent less than what had been stipulated by the five-year agreements from crude oil and other primary fuels. Mainly on this account, instead of the planned 16–18 percent increase, imports from the socialist countries have more or less stayed level. The terms of trade deteriorated more than the expected rate in this market as well.

In this situation it was even more necessary to save energy and raw materials in order to keep the Hungarian economy viable. In spite of the more than 5 percent per unit energy saving achieved between 1981–1984, about Ft 20 bn additional investment and, in addition, large subsidies had to be allocated to the energy sector above the planned figures, necessarily reducing thereby the development chances of other sectors.

Since external circumstances developed much more unfavourably than planned, the surplus necessary for restoring external equilibrium could only be produced, in respect of both markets, with only a much bigger volume of commodities and a greater engagement of resources than had been originally envisaged. We had no choice left but to reduce the domestic use of national income and also to restrict imports temporarily.

The period of the Sixth Five-Year Plan can be objectively judged, in our opinion, by setting out from the fact that, in spite of the grave external economic conditions mentioned, we have succeeded in restoring the favourable international standing of Hungary and in maintaining the achievements of welfare. Although the rate of economic growth lagged behind what had been planned, we could, in a short time, increase the share of exports in output while reducing its import contents. Remarkable results have been achieved in per-unit energy and material consumption, and in a few fields progress—albeit slow—has been made in modernizing the structure of economy. For instance nuclear energy has appeared in electric power production; the production of microelectronic parts in large batches has started and a good beginning has been made on the society-wide use of electronics. Grain yields place Hungary in the world vanguard and there has been a spectacular growth in the infrastructure of tourism in both quantitative and qualitative respects.

In the period of the Sixth Five-Year Plan as much was spent on maintaining living standards and on improving living conditions as had been envisaged in the plan. Partly owing to circumstances that acted as constraints, and partly due to unforeseeable processes, the structure of incomes developed differently from what had been planned.

The purchasing power of wages could not be maintained between 1982–1984, and in 1985 it lagged behind the 1980 level by 5 percent. On the other hand, incomes from complementary activities were significantly higher. Supply and demand were in balance on consumer markets only at much higher consumer prices than what had been planned. Social expenditure increased in five years, at comparable prices, by 13–14 percent, i.e. close to the plan figures. Social policy measures in the last five years absorbed Ft 18 bn—this was more than double the planned amount. Its major part had to be used, however, for counterbalancing the government measures related to consumer prices. Yet the improvement of living conditions has not come to a halt in the most important fields, e.g. in housing. True, the burdens shouldered by the public are greater, but the figures essentially agree with the plan and in respect of schoolrooms and kindergarten accommodations as well as hospital beds, they are higher. In the last five years more classrooms were built for primary schools than in the two preceding five-year periods taken together, and as regards weekend homes and holiday homes more than in the last fifteen years.

Much can be learnt from the particular features of economic development in recent years and it has already been taken into account when elaborating the new five-year plan. I would stress three aspects.

One is that the advantages of foreign credits and their later burdens have to be

weighed up with particular care. Debts should only be undertaken to an extent where their burdens do not limit the scope of manoeuvring of economic policy excessively even if conditions deteriorate unexpectedly. We had to amortize the loans raised in the past decade—paying much higher rates of interest than earlier and with continually deteriorating terms of trade—in the period of the Sixth Five-Year Plan, otherwise we could not have maintained the country's liquidity. A loss of liquidity would have meant heavy shocks and protracted uncertainty.

The fight to restore equilibrium has been waged in these last years by the whole society—the collectives of firms and cooperatives, families and retired people—all of them standing fast and making great sacrifices.

In the course of the current medium and long-term planning work we took good care lest the distribution of sources should again prejudice the equilibrium. This can only be avoided if moderation in the allocation of assets prevails not only for the duration of the emergency situation, but also until economic circumstances become more orderly. It is our common responsibility to consider the interests of coming generations and the requirements of continuous development, as of equal rank with the necessities and realities of the present.

It follows that debts have to be reduced further—if at a slower rate—also during the Seventh Five-Year Plan period. In modernizing the productive fixed assets and in technological development the international financial opportunities, including the involvement of direct foreign investment as long as it corresponds to Hungarian interests, have to be better exploited than has hitherto been the case.

Secondly: the shift to the new growth path, to intensive development is accompanied by jolts and conflicts. It causes more concern than what was imagined by many. As we have seen: structural transformation involved, and still involves, social shocks, massive unemployment and the curbing of social policy benefits in several countries. Hungary has so far avoided this course and intends to avoid it in the future as well. But neither can we choose the course of accelerated structural transformation by drawing in extensively factors of production, or—as I said—by serious indebtedness. This is one more reason why we can no longer put off the structural transformation of the Hungarian economy—not even by invoking an all-embracing social stability—else the material sources of raising living standards would run dry in the long run. The experience of recent years has confirmed our conviction that we have to undertake—sometimes unpopular—steps entailed by selective development and keener economic competition. Such as e.g. the reduction of subsidies, the reorganization of firms, perhaps their liquidation, together with the concomitant regrouping and retraining of labour. In connection with structural transformation the plan outlines strategies which provide for the acceleration of the process already started in a manner that does not jeopardize but, on the contrary, consolidates the main values and achievements of our society.

Thirdly, the easier manoeuvring of economic policy, control and management, implies better adjustment to world trends in technological and economic development,

and to the requirements of international cooperation. We must be able to adjust quickly to changing circumstances while keeping strategic goals in view, as it is impossible to precisely foresee and determine everything for five years ahead. Not even the wisest government or a plan embodying great foresight can undertake such a task in this world of ours. Thus, we have to be open and adequately flexible in planning, in the interpretation of our plans, in control activity and in everyday economic work as well.

Planning options

In the course of our planning work, lasting two and a half years, we have been reasoning in terms of alternative options all along, relying on various forecasts of external and internal conditions. We developed three versions. In the course of drawing up the plan we represented them to various federations, the Trade Unions, the Academy of Sciences, and to those representing interests as well, and they were also debated in the planning and budget committee of the National Assembly.

However great our desire to provide for greater progress in social welfare and in technological development than in earlier years, this alternative could not be satisfactorily founded. Another, opposite, version explored what minimum economic and social progress could and should be set as a target if external conditions deteriorate considerably. Planning work was aimed at avoiding this variant to the greatest degree possible.

Finally, the version between the most and the least advantageous proved to be realistic and this was underpinned by planning. It best reconciles economic development and equilibrium requirements with the social objectives and conditions believed to be acceptable by the bodies representing various interests.

Having learnt the lessons of world-economic development of the few recent years, we paid greater attention than ever to the *foreign economic strategy* of the plan. It is in our elementary interest to maintain the openness of Hungarian economy, but greater efforts have to be made to turn the benefits inherent in the international division of labour to our advantage.

Economic cooperation with the CMEA countries, particularly with the Soviet Union, is of decisive importance for the development of the Hungarian economy. According to our experience of multilateral relations, every CMEA country tries to render its economy more intensive and to operate it more effectively. It is of prime importance for Hungary to make exports and imports more efficient and more advantageous also in this region.

It follows that one of the characteristic features of plan-coordination with the CMEA countries was to consider a longer term. We concluded, or will conclude, agreements on economic and technological cooperation, covering the period up to the year 2000, with the Soviet Union and with other socialist countries. We identified the fields in which there is a common interest in technological development and scientific

research, and marked out the long-term directions which are called upon to overcome the common troubles in energy and food supply. Mutual trade with the CMEA countries between 1986–1990 may be put at more than Ft 2000 bn. More than 60 percent of this will be transacted within the framework of Hungarian–Soviet economic relations. Imports from the socialist countries will again grow—as against these past years—by an annual average of 3 percent, and Hungary's debt will fall to quite a low level in this market. Joint work has not yet ended with the completion of plan-coordination. More than fifty subjects of common interest have been listed in the protocols, the plans of which will be continuously coordinated. Relying on experience to date, we have to stress that it is important to meet, above all, the existing commitments mutually as well as to expand cooperation in a way that conforms better to mutual interests.

It is of particular importance for Hungary that sources of primary energy and the main raw materials continue to be imported in 1985 quantities. This provides security for the economy. But the agreed volumes of imports also make it obvious that we have to be consistent in energy and material saving. Our experience of 1985 offers warnings in this respect. To counterbalance imports of fuel and materials Hungary has to supply more agricultural products and consumer goods beginning with the next year. Standards as regards the modernity and quality of manufactures, particularly of engineering products, will become especially strict. The Seventh Five-Year Plan envisages Hungarian participation in the building of the "Progress" gas pipeline, and, as a result, the import of natural gas can considerably expand already in the last years of the plan period and in the next decade as well. The Paks Nuclear Power Plant will continue to be built in international cooperation.

We are interested in establishing economic relations with the developed Western and the developing countries in the longer term as well. Forecasts indicate that the revival, started in recent years, takes place in the developed industrial countries in a highly diversified way. Fast development may be expected particularly in the Pacific region while, on traditional West European markets, Hungary will have to face several difficulties, sometimes lying beyond the realm of economy. World economic processes always produce surprises. We can only prepare for them if we expand the scope of competitive products and if the work of exploring and creating markets becomes more efficient.

In order to consolidate equilibrium, Hungary has to attain a surplus of altogether \$ 2–2.5 bn in five years in trade settled in convertible currencies. This allows us to meet our international financial commitments fully and to reduce debts to the planned level. According to the plan Hungarian exports will grow a little less than in the preceding five years, at an annual rate of 3–3.5 percent. It has been our experience that, if the growth in exports is forced in the prevailing commodity pattern, equilibrium can only be restored temporarily. If we want its lasting consolidation, the competitiveness of exports must be considerably enhanced. Non-rouble exports are, even at present, growing more slowly than planned because, among other things,

stocks of exportable foodstuffs can be increased to a lesser extent and because the exports of highly energy- and material-intensive products have to be cut back. The export of manufactures has to rely much more on modern engineering, chemical and light industrial products as well as on processed food, which are in demand and marketable even in developed countries.

According to our computations a situation might be reached by the middle of the plan period where exports and imports can grow at the same rate. This will imply more advantageous conditions and circumstances for our whole economic development.

Growth will be faster

Faster growth than the one attained in the preceding five years has been planned for the new plan period. National income is to grow by 3 percent a year, that is, by 15–17 percent in five years. The domestic utilization of national income may exceed the 1985 level by 13–16 percent in 1990. This is indeed a substantial change relative to the preceding five years, since it allows, simultaneously with the consolidation of equilibrium, that personal consumption should grow by 8–10 percent. The rate of net accumulation—i.e. not counting replacement—may attain 15 percent within the domestic utilization of national income by the end of the plan period; and gross accumulation (i.e. including replacement) 25 percent. In their wake national wealth might grow by 12–15 percent.

But these objectives, the backbone of the economy-wide plan, can only be given sound foundations granted much better performance. Serious changes have to be made in *the efficiency of production and management*. According to the plan, the greatest part of the increment of national income has to derive from such sources. Increasing efficiency must be the result of several interrelated processes.

In setting the targets for the *reduction of inputs in production* we watched several developed countries which are aiming to increase their output while keeping their energy and material consumption practically unchanged, and they set out to realize this goal in 10–15 years. In Hungary a proportion near the optimum is now the aim. One percent increment in national income should at most entail a 0.4 percent increment of energy consumption. The total energy consumption of the economy—inclusive of consumption by the general public and the infrastructure—must not grow by more than one percent, and electric energy consumption by no more than 3 percent. The per unit material consumption of the whole economy has to be reduced also by 0.5–1.0 percent annually.

Such economies demand many thousands of minor or major modernizations, replacements of equipment and changes in technology. Such developments have to be organized in a manner different from that of investment projects which expand sources of energy and materials, that run to many tens of billions of forints. We definitely advocate such developments for the period of the Seventh Five-Year Plan since we are

certain that this is advantageous in the long run. Such measures will be organized by the government programme of energy management and technological modernization aimed at the economical use of materials, as well as the utilization of recycled raw materials. This will be done by setting the direct targets of input-reduction, recommending methods for attaining them, and by coordinating the financial, credit and other facilities designed for the implementation of these programmes. The programmes are expected to achieve, through reductions in per unit inputs, an energy saving of about 50 petajoule (PJ)—the equivalent of more than one million tonnes of oil—up to 1990, and about Ft 50–60 bn savings in materials in five years. All this is indispensable for the implementation of the plan.

In the interests of reducing inputs on a national level it is particularly important to improve and consolidate the position of industries and groups of firms which transitorily or for some longer time find themselves in a difficult position. In early 1986 we resolutely tackled already the structural troubles of metallurgy, coal mining, the building industry, meat production and processing, as well as those of some large engineering firms. Our basic position in these matters is that the economy cannot endure for long if some firms or activities do not increase but consume national income, since they can only do so at the expense of others. This is why we cannot and do not want to maintain unchanged, nor finance from central sources, such loss-making structures. We have thus to accustom ourselves to the idea that even in these areas we have to discover how we can manage labour, materials, energy and fixed assets more efficiently and more economically and where it is rational to reduce production on efficiency considerations. First of all we have to discover how, through what long-term activities, they can get out of the mess. In this interest we want to find the best possible combination of material and financial interrelations and of human aspects—together with those interested, in the first place the enterprises concerned themselves.

On the one hand, we wish to find out how a relative stability of management could be brought about in these fields. If, for instance, some product is needed in the long run, it is better to set strict conditions to its producer than to leave him in uncertainty. On the other hand, on the basis of stabilization programmes of firms, covering several years, the technological, economic and organizational question of comprehensive modernization may be put on the agenda as well.

In planning work we had to reckon with the fact that the total available legal man-hours will continue to diminish and that the employable labour force will still shrink in the major part of the plan period and will only slowly increase afterwards. Preparations have to be made for the considerably larger number of young people who will start work in the nineties. From the viewpoint of long-term progress it is an important requirement that we should not simply offer them a job, but also meaningful and efficient work, and that the accelerating trend of rising labour productivity should not suffer a break even in that period.

The efficiency of employment has to grow considerably in the years to come for

the above reasons. This must find expression in the rise in labour productivity in the material sectors of production exceeding the growth in output each year. Per capita national income should grow by 3.5 percent a year, considerably exceeding the average rate of 1.3–2 percent of the recent past. There are some people who doubt that such improvements can be attained. But we cannot rest content that the productivity of labour in Hungary should be much lower than the international average.

Better results demand a *fuller exploitation of productive capacities*. This is particularly important in those areas where modern expensive machines and equipment lie idle, while they could help expand efficient exports or replace expensive imports. This is indicated by the fact that between 1981–1984 capacity utilization in the industry fell by about 5 percent.

The main reason for the low exploitation of productive equipment in Hungary is that production and work performance are very cyclical. It has been a general and damaging practice for years that at the beginning and at the end of the week, or on days before and after holidays, fewer people are at work and they produce much less. The fluctuation in work performances is also evident in the startling data that between 1981–1985 industrial output in March, June and September (i.e. the last months of the quarter) exceeded average monthly performances by 7–8 percent, while in the first two months of the quarters it was lower by the same amount. Rush-work at the end of the year is still general, and in 1985 also the number of hours spent at the workplace per workday continued to diminish. All that has to be urgently changed. Such disorganization and laxity may amount to 10–15 working days on a national scale, which alone would allow for a 1–2 percent increase in national income.

New forms of organization have been created in recent years for the better exploitation of capacities and for increasing productivity. The most widespread of these is the economic workteam (community) organized in enterprises (as overtime—Ed.note). Their work can be advantageous to the firm and the economy if it does not make up for the local deficiencies of organization and incentives but complements the successful operation of the firm by flexibly expanding production and the export potential. We continue to count on useful economic work communities, and their activities providing services for the general public and complementing productive activities. In the meantime, however, we wish to improve the rewards and standing of work done as part of one's full-time job by strengthening incentives and exploiting the new possibilities offered by the new income regulations, also by clearly increasing the standards of work required.

Thus, efforts to improve the efficiency of management hinge on whether we succeed in organizing production and cooperation relations better, and in reducing losses that derive from disorganization, or a shortage of materials and parts, that is, on whether we succeed in improving the attitude to work, the work morale of people and the responsibility of management and staff. The government will undertake a comprehensive review of the related problems in early 1986 and, in order to make

employment more efficient, proper measures will be taken and some rules and regulations will be amended. It expects and fully supports such efforts on the part of collective control bodies, and enterprise and cooperative managers.

The economic structure has to be updated

In the course of Seventh Five-Year Plan the industry, and particularly the technologically more advanced and competitive manufacturing firms and activities, have to become the motors of renewal. We expect that industrial output will rise in five years by 14–16 percent, and its contribution to the national income will rise by more, by 22–24 percent. The productivity of labour, computed on the basis of net product, will rise by 27 percent against the 17 percent growth in the preceding five years, and the deterioration in capital efficiency will come to a halt. There are some people who would like to attain, and prescribe in the plan, a faster rate of growth. Realistically, a higher rate could not be prescribed. Of course, we support such efforts if they are aimed at increasing the output of internationally competitive and, primarily, profitable products.

The share of manufacturing industry in total industrial investment will rise considerably, from 44 to 54 percent. But the danger threatens that if no improvement is achieved in the efficiency of production in the energy sector and in the basic materials industry and if no satisfactory saving is made in energy and materials then these industries may again claim more resources than had been planned. These would necessarily have to be regrouped from other industries, thus upsetting the internal relations provided for in the plan.

In recent years national income generated by energetics, ferrous metallurgy, the building material industry and other industries producing basic materials has deteriorated by 4 percent at an annual average. This unfavourable tendency has certainly to be discontinued. It has been asked of manufacturing industry, however, that it raise its contribution to national income at a rate approaching an annual 6 percent. Should their income producing ability improve to a greater extent than planned, we should like to use the major part of such additional resources to improve the development possibilities of the competitive areas and firms in manufacturing.

Hungarian agriculture has fully carried out the duties that devolved on it from the Sixth Five-Year Plan, both as regards its part in helping to restore external economic equilibrium and in ensuring the provisioning of the public with food. In the next plan period there are even bigger opportunities for improving performances since yields on many farms still lag behind the average. The output of agricultural products will rise by 8–10 percent relative to the average of the preceding five years. Within that—relying on efficiency considerations—it will pay to increase field crop production at a faster rate. In the development of meat production efforts should be concentrated on improving quality and profitability. If the degree of processing of

food is potentiated and quality and packaging are improved the range of well marketable commodities may be realistically expanded. The auxiliary activities of farms will be indispensable in the future as well, and it is even planned to expand such activities. Finally, it is also expected that the national income created by agriculture will grow at a faster rate than the 3.5 percent p.a. characteristic of recent years, that is, by an annual average of 4 percent.

The performance of the building industry will grow by 12–15 percent, and its contribution to national income—after the decline of the recent past—will grow by 2.5 percent a year. To ensure this, however, it is indispensable that the organizations of the construction industry should better adjust to the changing needs and improve their work. Investment projects and reconstructions have to be completed in a shorter time and, last but not least, prices charged and costs incurred have to become realistic.

An improvement of efficiency includes efforts to ensure that the productive infrastructure should progress at the same rate as the commodity producing industries. Its share in total national investment should approach one quarter by the end of the decade. The primary related objective of the plan is an accelerated development of telecommunications, coupled with modernization. A programme will be initiated which is designed to secure that, by the year 2000, the telephone connections available are in keeping with the development standards of Hungarian society and the economy, permitting facilities to be widely accessible in this country as well. We may reckon with greater resources for expanding the supply of piped water, protecting the quality of water, as well as for modernizing the railways and improving their safety.

Investments in environmental protection will double relative to the recent past, reaching Ft 45–47 bn in the next five years in order to preserve our natural values and arrest the further deterioration of the environment. Within this figure, government support for environmental protection will multiply. But not even that will be sufficient if we fail to create a feeling of responsibility for the environment in the general public.

In the plan period which is drawing to an end less money than desirable was available for investment projects modernizing production and the infrastructure and promoting technological progress. The technical potential of the Hungarian economy deteriorated in some important areas by international standards. The new five-year plan intends to spend much more on accelerating modernization than what could be used for this purpose in the preceding plan period. In the socialist sector Ft 1200–1250 bn have been earmarked for investment in five years—at current prices. A round 40 percent of this are central and local government projects, the remainder depends on decisions by firms. We reckon that the public will individually invest more than Ft 300 bn complemented by credit and government support, mostly on housing. If the sizeable sum earmarked for national economic investment will be well distributed, as regards its structure by projects and under sound organizational conditions, we can provide good foundations for a substantial advance in technological progress and the modernization and improvement of living conditions.

Development policy has set as its target a satisfactory adjustment to the

significant technological changes that are taking place in the world. With this in view computer technology and informatics will be made accessible to domestic production and management practices. Electronization providing the foundations for these, as well as the development of microelectronics, will be supported. To this purpose a major government programme has been drafted, beginning with education, through the production of parts and components, to modern information facilities for public administration. Relying on our advantageous conditions, biotechnology and the biotechnological industries will be developed together with the related agricultural activities. By the same token, the central programme for the development of the production of pharmaceuticals, plant protectives and intermediates will be continued. On a similar basis we should like to renew that valuable tradition of Hungarian industrial history whereby an internationally outstanding result or discovery used to trigger off a whole series of activities that proved competitive on foreign markets. The technological and economic trends mentioned have to permeate the whole national economy as soon as possible. Also the national medium-term plan of research and development, recently approved by the Council of Ministers, is based on them.

A distinct and highly important source of economic modernization relying on technological development in the immediate future will involve the closest possible link and mutual influence of scientific research and production, in conformity with market requirements. The transfer of applied research results into production must be speeded up, and the domestic use of the most advanced foreign technologies and scientific achievements should be promoted. Three percent of the domestic use of national income will be spent on R + D. Central support for research will grow by almost 30 percent compared with the preceding five years, and investment into research will almost double. Research institutes, universities and enterprises will be able to spend more than Ft 150 bn on R + D. A greater part of centrally managed resources will now be spent on tasks providing foundations for the main directions of technological development. Closing the gap to the front rank of scientific and technical progress will be promoted by a comprehensive programme covering the period up to the year 2000, which was recently approved by the CMEA member countries. We undertook to participate in the implementation of this vast programme in harmony with our economy-wide plan.

Tasks related to raising living standards

When drafting the Seventh Five-Year Plan, the starting point was that commodity supply was to be improved, earnings have to reflect performances better, social benefits have to depend on need, and income distribution should be realized with a more equitable sharing in taxation.

How will the sources of financial stimulation shape? *Real wages* in 1990 may be about 5 percent higher than at present, provided that performance develops according

to plan. The planned growth of real wages has to be judged, of course, in the context of their decline over recent years. In 1985 this process was halted and in the coming years real wages will be able to gradually rise again in a perceptible manner. Naturally, wages will exercise a genuine pull if wage rises are much more differentiated from firm to firm—depending on their economic results—and if the economic units distribute earnings in proportion to performance. The government recommends that firms pay particular attention in their wage policy to skilled workers who are difficult to replace, to engineers distinguishing themselves in the planning and implementation of new technologies, to medium-level managers who competently direct production and to staff members who display the spirit of enterprise. Under the conditions and requirements of new management practices this is in the elementary interest of every community.

Incomes deriving from social insurance and social benefits have a large share in personal incomes in Hungary—even by international standards. In the years to come this share will grow slightly, from 34 to 36 percent. The plan expresses our long-term effort that social care should expand in harmony with global economic performance, since the basic requirements of economic and social progress can only be coordinated in this manner at this stage.

Within the scope of social benefits in kind, we continue to maintain that health care and public education are citizenship rights and their availability should be subject to fees within a narrow range only, in the case of services of lesser importance. Social policy will achieve a better balance by gradually complementing the institutions providing general care with local social networks and family-aid centres which can provide effective care and support adjusted to the actual needs.

As regards the extent of social care, benefits and facilities, the mechanism of distribution and the modernization of the institutions dealing with them: proper priorities must be observed. It is important to maintain the purchasing power of money allowances in an ever widening scope. Conditions are now more advantageous, since the plan establishes that the rise in consumer prices has to be curbed to 5 percent a year, much less than in the preceding plan period. This is a serious commitment based on the ongoing application of economic instruments. Unjustified efforts to raise prices will have to be countered. The purchasing power of low pensions will be raised with income-complementing measures, and that of other pensions will be maintained over a wider range than today. The purchasing power of family allowances and scholarships will be safeguarded, over the whole of the plan period.

Improving the demographic and health situation is a longer-term social task. A harmonic economic development can only be based on balanced demographic and generally good health and family conditions. The government defined the long-term and medium-term development trends and tasks of population policy already in 1984. It set as a target to cancel the increase of post-natal mortality and of the decline in the birth rate in order to reverse the unfavourable demographic processes in the long run. The instruments to be applied to this end will be a manysided improvement of the

conditions under which childbirth and the raising of children can be undertaken; social forces will be mobilized against widespread habits detrimental to health which produce distortions in the way of life; and threats to the social environment have to be reduced. The submitted draft plan envisages that the system of child-care aid will be gradually replaced by a system of child-care fees providing a larger sum which is more advantageous for mothers. More nursery and kindergarten accommodations will be made available. A somewhat rising share of national income, 5–6 percent will be spent on the functioning and development of institutions in the health and social services and 8–9 percent on education and cultural purposes. Priority tasks in health care and modernization at the base, that is, of the general practitioners' clinics, of the pediatric service, of medical dispensaries in the factories and of the dental service. They will be better supplied with equipment and instruments. Greater care should be devoted to prevention and health information.

A social and economic programme is being drawn up for public education. Great emphasis is placed on the modernization of the contents and organization of education—on the basis of the recently passed Education Act. In the interest of an adequate training of present large age-groups, the economic conditions of secondary education have to be improved in the first place. In the years to come the major museums, galleries and several famous churches will be reconstructed according to a clear priority order.

Care of families

The government is well aware that the main anxiety of many families, and mainly of the young, is still how to obtain adequate housing. We expect that 320–340,000 new dwellings will be built within the plan period and that at its end one fifth will be high-rise tenement flats. By 1990 almost three quarters of existing dwellings will be provided with piped water. Although the ratio of dwellings connected to the public sewage system will also rise, we cannot rest satisfied with the progress envisaged.

Social policy benefits will be further improved in the coming years. Above-average benefits will be granted to young couples and to families with several children. The councils will draw up social and economic programmes for improving the housing situation.

We do not evade the question whether the proper *instruments* are available for *implementing* the goals identified in the plan. This question is all the more justified because, although in the preparatory discussions concerning the plan the goals essentially met with unanimous approval, as regards the instruments several doubts were voiced.

The reform of economic control and management continues

Not every problem could be finally settled in the course of planning work. Such a question is, for instance, what further incentives and organizational steps are needed for expanding exports settled in convertible currencies safely; what economic and technological measures are necessary to put straight the business of industries and groups of firms in trouble; and whether the claims for a dynamic development by industry and agriculture—and exceeding the plan figures—can be properly backed. I think that this does not show any weakness in planning. Planned development and consensus are strengthened if government only decides on certain matters when the proper conditions thereto have already come about or have been created, provided this is made clear in advance. Questions left open will be settled in the course of working out annual plans and within the framework of continuous government activities.

Relying on the position taken by the CC of the HSWP in April, 1984, *we continue with the comprehensive modernization of the economic control and management system.* A modification of the enterprise tax system is in preparation as a result of which a greater part of centralized net income should be realized in the commercial sphere than has been the case hitherto, and less tax should be levied on the processes of production. The conditions and diversified interrelations of a unified personal income tax system are under examination which would also enable a better coordination of regulation of enterprise incomes and personal earnings and to become socially more just. In order to strengthen long-term attitudes in management, it will be examined how an interest in collective ownership could be expanded to cover more people. The instruments and mechanisms of the flow of social capital will be developed further and, related to this problem, the banking system will be transformed as well. According to an accepted programme, the introduction of new forms of enterprise management will continue, forms of organization and cooperation promoting more efficient management will be worked out; the system of prices and subsidies will be updated; incentives for operating on the domestic and the external markets will be coordinated better, and the regulation of research and development will be improved.

We gradually wish to expand the range of manoeuvring of economic organizations during the plan period, in proportion to growing income-producing ability. But regulation is not omnipotent when it comes to the development of firms. Their “elbowroom” should first of all be made dependent on the market situation, and on the efficiency of management. Beginning with 1986 the burdens of development tax and interest payments will be gradually reduced to facilitate promising investments related to national economic objectives. Economic organizations undertaking a major development of advantageous exports may obtain facilitations in the framework of various tenders and agreements related to the project, thus providing more room for competition between ideas and proposals. These new opportunities will expand the scope of manoeuvre of firms.

Enterprises and cooperatives will complete the elaboration of their *medium-term*

plans in the first half of 1986. Much depends on these plans and, mainly, on their implementation, since the goals of the national economic plan are realized, in the last resort, through the work of the economic organizations.

Around the middle of 1986 the *councils* of the capital, the counties, cities and villages will also draw up their own five-year plans. It is a new feature in council management that they have to organize and harmonize the development of their various establishments with much greater autonomy. In addition, they may themselves decide on how much to spend on development, operational costs or maintenance. The allocation of development resources among settlements of different size will be more proportionate.

Good conditions are needed in order to obtain sound enterprise and council plans. We think it is an auspicious starting point that the Seventh Five-Year Plan outlines a programme of evolution, offering realistic prospects for the economic units.

* * *

What has been said must have made clear that the ideas of planning and its order of values have undergone big changes in Hungary in recent few years. A sense of realism has gathered momentum in planning. In conclusion let me recall the ancient saying: "*Navigare necesse est!*" But he who does not know what port he is steering for, cannot make use of any kind of wind. The direction of progress, the comprehensive system of conditions are unequivocally indicated by the Seventh Five-Year Plan and it also provides action programmes for the social and economic development of the immediate future. It sets such goals and imposes duties which are intended to promote the progress of our country. But let us admit there are difficulties as well. All of us charged with taking part in implementation are enriched by the role which devolves on us.

О 7-ОМ ПЯТИЛЕТНЕМ ПЛАНЕ РАЗВИТИЯ ВЕНГЕРСКОГО НАРОДНОГО ХОЗЯЙСТВА (НА 1986—1990 ГГ.)

Л. ФАЛУВЕГИ

Статья представляет собой изложение доклада о 7-ом пятилетнем плане развития венгерского народного хозяйства, представленного на обсуждение Государственного собрания. В ней критически анализируется экономическое развитие предыдущего периода, намечается программа экономического прогресса и постоянной динамизации на ближайший период, с учетом реальных условий международной ситуации.

Уроки предыдущих лет показали, что необходимо всегда тщательно взвешивать выгоды и последующее бремя иностранных кредитов, поскольку иначе экономика может встать на такой вынужденный путь, который значительно сужает свободу действий и руководства экономикой. Автор указывает также, что наряду со вскрытием резервов перехода на интенсивный путь развития необходимо идти на определенные общественные конфликты. Новый путь экономического роста требует также и найти точки присоединения к мировым направлениям технико-экономического развития.

Основным условием ускорения экономического развития является лучшее использование преимуществ международного разделения труда, динамичное повышение эффективности производства, дальнейшее снижение затрат материалов и энергии. Автор констатирует, что существенный прогресс возможен лишь тогда, если удастся добиться быстрого, но селективного развития обрабатывающей промышленности. Нельзя обойтись без свертывания убыточных производств и без создания в связи с этим условий экономически эффективной занятости.

Основная задача ближайших лет состоит в ускорении научных исследований, технического прогресса и нововведений, а также распространении в масштабе всего общества электронизации. В статье указывается, какими централизованными мерами стремится правительство к ускорению этих направлений развития.

В заключение в статье излагаются те включенные в план общественно-политические меры: расширение социального обеспечения, сохранение реальной стоимости выплат из общественных фондов потребления, повышение реальной заработной платы, которые необходимы для прочного движения вперед и для разрядки существующих общественных напряженностей. Естественно, что успешное выполнение задач как в области экономического развития, так и в отношении жизненного уровня требует последовательного совершенствования экономического управления. Автор намечает создание такого регулирования, которое расширяет сферу действий хозяйственных организаций.

STRUCTURAL CHANGES IN THE HUNGARIAN ECONOMY (1979-1985)

I. ILLÉS

The article analyses some aspects of macrostructural changes and of those in the product pattern in the Hungarian economy after 1979, i.e. the beginning of economic policy efforts aimed at restoring external equilibrium. Amidst these efforts the interrelations discussed in the article were paid less attention. The author surveys the changes in the structure by branches of economy and by basic groups of industries, as well as those in the regional structure and in social sectors. The tendencies in the efficiency of main branches are also indicated. Next, some aspects of changes in the product pattern and of competitiveness are analysed (new products, world market share, unit value of exports relative to the world market average). Finally, an attempt is made at drawing some conclusions from the structural changes.

The period beginning with 1979 exhibits new characteristics in the economic development and economic policy of Hungary. The best known and most striking ones are the efforts to achieve external equilibrium, the results achieved and the accompanying difficulties. These have basically determined economic development and policy in the said period, so that any other phenomena can only be evaluated in this context.

Yet this is not what I am going to examine relying on the results of investigations carried out at the Institute of Economic Planning of the National Planning Office, but the macro- and micro-structural changes that have taken place amidst, or rather in the background of, the efforts made in order to restore equilibrium. I shall not discuss, therefore, either the dynamics of economic development and domestic consumption, or the problems of distribution, the relative rates of consumption and accumulation, or the changes in living standards. These may well be key questions of development in recent years, but they are rather well known and the tensions therein in equilibrium may also be resolved later on, hopefully so that postponements will not become irreparable failures. Behind the structural changes of economy there lie, however, factors that seem to have longer lasting impacts.

Macrostructural changes

Changing sectoral proportions

It first strikes the eye that in the period under examination a fundamental change has taken place in the role played by agriculture in the national economy, that is, in the *relationship between industry and agriculture*. The years from 1979 to 1985 represent, namely, the first such period in the post-war history of Hungarian economy in which *the share of agriculture did not decrease but increased* both in the gross output and the net national product and that to no small extent: from 16 to 19 percent in the net product and from 15 to 18 percent in the gross output. This has made agriculture (structurally) the most dynamical sector of the national economy, one may say, the primary carrier of economic dynamics.

What may be even more important is that it was for the first time in 1981–1985 that the growth of net product surpassed in agriculture that of gross output. This is demonstrated most significantly by the fact that the increment of agricultural net product in the last six years (Ft 31 thousand million) has been more than that of the preceding 29 years (Ft 29 thousand million), computed at constant prices.

It happened for the first time, too, that the ratio of agricultural workers within total employment increased instead of the accustomed decrease. This change is particularly significant if compared to industry: in 1978 the number of agricultural and forestry workers was only 58 percent of industrial employment; by 1985 this ratio reached 70 percent.

All this relates, of course, to agricultural organizations, while the dynamics of agricultural development is to be explained in a large part by the fast growth of non-agricultural activities within agricultural organizations. Although the ratio-indicators would be different if activities outside the fundamental ones were disregarded, yet the basic truth of the statements will hold.

Beside agriculture, the second most dynamical sector of economy is that of *non-material services*.^{*} Although its growth rate slowed down a little in comparison with the preceding period, yet not to such extent as that of the national economy as a whole. Its share in the gross product has grown considerably (from 9.4 percent of the year 1978 to 11 percent by 1985).

At the same time, the ratio of employment of the non-material service sector has also started to grow within the total. In absolute figures, the growth was moderate (about 110 thousand in seven years); however, on account of decreasing employment

^{*} According to the Hungarian classification of branches of economy: agriculture (including forestry) extracting and manufacturing industries (inclusive of food processing), and construction are branches of material production in the closer sense. Transport, trade, water management and communications are considered as material infrastructural branches and the rest (personal services, housing, health and social services, education, science, sports, administration, financial services, and defence, etc.) are non-material services—Ed.note.

in other sectors, this brought about a considerable shift in proportions (from 16.9 percent of 1975 to 20.8 percent by 1985). This change is especially remarkable in consideration of the practically unchanged employment share of non-material services in the total course of the 25 years between 1950 and 1975.

In the period under examination also the investment rate of the infrastructural sectors grew to a considerable extent. The share of non-material infrastructural investment within the total rose from 26.8 percent in 1978 to 33.4 percent in 1985, and that of the whole infrastructure from 46.9 to 54.4 percent (at 1981 comparative prices). This growth in the share of infrastructure took place, however, within a decreasing volume of total national—and of infrastructural—investments and was due exclusively to the circumstance that investment in other sectors decreased to a greater extent. It is an even more important factor that in the period under examination private investments of increasing volume gradually replaced the infrastructural investments of the socialist (state-owned and cooperative) sector decreasing faster than the average. The rising share is thus exclusively a consequence of this fact. (In 1978 the rate of private investments amounted to 38 percent within the non-material infrastructure, and reached 55 percent in 1985.)

From 1945 up to the early 1980s the prevailing tendency in Hungary was a continuously decreasing share of infrastructure, especially of non-material infrastructure, within national wealth and the stock of fixed assets. The period 1980–1985 was the first one in which fixed assets of the latter sector grew parallel to those of the national economy.

This change strongly affects the whole national economy and national economic efficiency. This is because the national capital efficiency was improving over a long period through the improvement of capital intensity in the infrastructural sectors (though in fact, the capital supply of the latter was deteriorating), while in the material sectors in the narrower sense capital intensity was rising and capital efficiency deteriorating all along. This tendency has now changed. Capital intensity in the non-material infrastructure has already been rising in the last ten years (its capital efficiency has deteriorated). It has, therefore, ceased to be a factor in counterbalancing the rising capital intensity of material production. The consequence is a deteriorating capital efficiency on national level.

If it is added that infrastructural employment also started to grow dynamically in the said period, the result is unambiguous. From the late 1970s the complex efficiency of infrastructure (combined live and embodied labour input per unit of output) has been decreasing. By the early 1980s this reached a level high enough to counterbalance the efficiency improvement in the material sectors in the narrower sense, continuing in spite of all difficulties. Paradoxically, this has been the result exactly of the process so much expected: i.e. that the share of infrastructure in national economy at last started to grow.

The change in relations between *primary material producing and manufacturing blocks* within industry has no little part in the prevailing difficulties, either. While in

1977–1978 8–9 percent of national economic investment went to mining and the electric energy industry, this rose to 13 percent in 1985. These two are the only branches of national economy in which investment volumes have not been diminishing in the last seven years, but growing considerably (even at a much higher rate than what had been planned). In a peculiar way, these industries kept their staff, while in other industries employment fell by nearly 15 percent during the same period. During the seven-year period live and embodied labour resources were thus increasingly redirected into these two industries, while the contribution of mining to the national income i.e. to the net material product fell by 22 percent at comparative prices, and that of the electric energy industry remained practically unchanged.

Mostly under the pressure of circumstances, a process full of contradictions takes thus place in Hungary, in which an increasing part of assets, resources and labour is directed to sectors where the production of national income is gradually diminishing and is drawn away from where the national income producing capacities are growing. The investment rate of mining and the electric energy industry grew while their share in the net product fell from 8.5 to 6.1 percent. Their shares in production and investment were equal in 1978; today the latter is double of the former. During the same time, the share of manufacturing in the net product grew from 20 to nearly 30 percent, and fell in investments from 21 to 15 percent. In 1978 the shares of production and investment were approximately equal in this field, too, and in 1985 one is nearly double of the other—but exactly the other way round than in the primary materials industry.

Within the block of food economy, the *relationship between agriculture and the food processing industry* has considerably changed. While the output of agricultural products grew by 16–17 percent in the period under examination, food production grew by 22 percent. As for contribution to the national income, the situation was the reverse: the net product grew by 17 percent in the production of agricultural goods (that of the sector by 30 percent). On the other hand, the net product of the food industry has decreased by 21 percent in the last seven years. Thus the efficiency of agriculture has much improved, while that of food processing has much deteriorated.

In this process, on the other hand, objective differences in efficiency, rooted in the much higher flexibility of farms than of food processing plants, certainly play a role. On the other hand, it is not to be disputed, either, that the food industry takes over certain burdens from agriculture. And these have a particular weight in the present highly fluctuating market situation. The frequently asserted purchase obligations, the necessity of storing perishable products, quality problems—all these weigh more on the food industry.

At current prices, the contrast is found to be even greater: the net income of agriculture grew by 72 percent in seven years, that of food industry decreased by about 5 percent. Undoubtedly, the grave losses of income suffered by the food economy have not been compensated for in the purchasing (procurement) prices paid to agriculture which has resulted in a peculiar income redistribution.

Organizational and sectoral movements

Structural changes have another special aspect. These are organizational and sectoral movements the outlines of which have become distinct especially during the last three or four years.

The ratio of activities has been growing in almost every branch of economy which *do not belong to the main line* of the organizations of the branch, or, within certain activities, the share of such organizations has been growing which do not belong to the branch concerned. The situation is most characteristic of agriculture, in which the weight of activities other than the main line has grown in gross output from 20 to 29 percent in seven years. The change has been significant on the national economic level, too. The ratio of activities "alien to the main line" grew from 8.5 percent in 1978 to 11.5 percent in 1985 in gross output, and from 10 to 14 percent in NNP.

Another aspect is the dynamic development of the *private sector* and of households' complementary activities. The share of the private sector in the net national product grew to nearly 2.5-fold between 1978 and 1983 (at current prices), that of households' complementary activities (excluding household-plot farming) to 1.6-fold, while the growth of net product as a whole was only 26 percent. The share of household farming plots remained practically the same. As a consequence of these changes, the ratio of the private sector and of households' complementary activities in national income grew from 5.8 percent in 1978 to 9.0 percent in 1983 and by 1985 it may rise to 10.8 percent according to plan computations (14–15 percent with household farming plots included).

Since 1981 we have been witnessing the establishment and dynamical growth of *new small-scale organizations* (small enterprises, small cooperatives, economic working communities, specialized groups of economic teams [communities] within enterprises). Their share in the gross national product only reached 0.2 percent in 1982, in 1984 however, it rose to nearly 1.2 percent. Also the part of leased shops and restaurants on a contractual basis is to be listed here: in 1983 about 7 percent of the total shop and restaurant turnover could be recorded there.

The influence of all these changes is, if not separately, but on the whole, highly significant. This is also expressed by the fact that while in 1978 80 percent of the national income was produced by the large socialist organizations' main-line activities, this fell to 67–68 percent by 1985.

The importance of these changes in the last seven years' development of the national economy is undeniable. However, beside the beneficial effects, there also emerged certain difficulties.

A part—though only a small part—of the spectacular growth of the new sectors comes from activities taken over from the large-scale sectors. Therefore, the low increase of the national income produced in the large-scale sector is not quite independent of the expansion of and competition by small organizations and of activities outside the main line, but is at least partly their consequence.

These changes, though improving flexibility and adjustment to market demands, did not always contribute to national economic productivity.

At the same time, the income formation of these activities, and particularly their personal income formation is not quite proportional to their productivity. In 1983 14–15 percent of the national income was produced by such activities, while they earned 27 percent of labour incomes. Thus their personal income formation “capacity” is about the double of that of the large-scale socialist sector.

Regional differences in growth rates

A growing proportion of economic activities in the provinces relative to those in the capital city has been a further characteristic of the whole period in Hungary. Within those employed in socialist (state and cooperative) industry, the 27 percent share of Budapest in 1978 falls to 22 percent in 1985. This change in proportion is of a similar scale as had been in the “peak” years of regional industrialization, but the circumstances are now entirely different. It is because the shift in proportions now does not take place by deliberately increasing the number of industrial jobs in the provinces, but by a larger than the planned decrease in industrial employment in Budapest. The number of Budapest industrial workers has decreased by about 25 percent in seven years, and this cannot be counterbalanced by improved productivity. Therefore, in the period under examination, the weight of the capital city in the value of output also falls by about 10 percent. The yearly 1.9 percent increase of the Hungarian industrial production comes about as an average of a 1.5 percent decrease in Budapest and a 3.0 percent increase in the provinces.

In the other sectors of material production a similarly diminishing proportion of the capital city is found. As for investments, however, at least as regards the socialist sector’s investments, a different tendency may be observed. Namely, Budapest’s share in the socialist sector’s investments had been growing at a high rate up to 1980 and then fell back to the 1978 level. And within communal (public utility) investments the share of the capital city definitely grew: from 32 percent in 1978 it rose to nearly 41 percent in 1982.

These structural changes are explained first of all by the fact that central housing investments were least reduced in Budapest. This difference was in a large part justified, since provincial towns developed spectacularly and with huge financial support during the 1970s. Their share in communal investments fell from 38 to 29 percent by 1983. Spectacular examples of this process are presented by Miskolc and Debrecen, in which per head communal investment was nearly the double of that in Budapest in 1978, while in 1982 the Budapest per head communal investment was already nearly the double of that of the above-mentioned two cities.

The process, however, has not brought any substantial change in the situation of *small towns and villages*, in spite of numerous declarations made to such effect. The

large-scale regrouping occurred at the expense of the big cities in the provinces, and to the benefit of Budapest, while the share of villages—where 45 percent of the population are living—fluctuated between 12–14 percent in the socialist sector's communal investments. (The reason why their share in total communal investments was much higher than that is that private home building was here quite considerable.)

Thus, while Budapest has a constantly decreasing share in the formation of national income, and its contribution decreases even in absolute terms, its weight in the socialist sector's investments is growing at a high rate in certain sectors. These changes in proportions of opposite directions may, of course, have various social and economic reasons. It is, however, by all means remarkable that the changes are in a way similar to those in profitability and investments, found during the examination of the branch pattern.

Analyses of efficiency and the microstructure

Changes in efficiency and the microstructure are much more difficult to trace than the process of growth and macrostructure. The data basis and its interpretation involve, namely, much more uncertainty in this respect. It is, however, indisputable that while national efficiency indicators show, in general, a strong deterioration or slowdown, more detailed structural investigations reveal a highly differentiated picture:

— in material production in the narrower sense (industry, building industry, agriculture) no such big difference could ever be found between the growth rates of gross output and net product to the benefit of the latter, that is, the per unit material inputs could be considerably reduced in this field;

— the last seven years' import savings are unparalleled in the post-war economic history of Hungary;

— since 1978 the growth of inventories and of uncompleted investment projects has much slowed down (the volume of uncompleted investments started to diminish in 1983);

— per unit raw material and energy inputs decreased;

— although the rise of the national economic productivity indicator slowed down, structural changes played no little role in it. From 1981 the growth of productivity in material production in the closer sense of the word approached the average of the past decades, and the dynamics of production per man-hour even attained it;

— finally, though the capital efficiency indicator of the national economy deteriorated considerably, this was partly caused by the structural change in fixed assets (more correctly, by the fact that the structure did not change, namely, that the diminishing ratio of infrastructure could be halted), and partly by a considerable

increase of unused capacities accompanying a low growth rate of production, while the actual use of fixed productive assets was not worse than before.

Summing up, the statement can be ventured that progress has been made in the quantitatively determined conditions and requirements of intensive development. The significance of this achievement is enhanced by the fact that it has taken place under the circumstances of a relatively modestly growing economy. Thus, the reduction of per unit input entails an absolute reduction and not a reduced growth of inputs. This is, of course, not to say that no further reserves can be found in this field.

What causes the most serious concern of the past seven years is the state of technological standards, quality and up-to-dateness, lagging behind world market requirements. The importance of this question is represented by the chart below showing only quantifiable phenomena.

It is striking that the 1977–1979 trough was followed by a definite speed-up of product development and of substitution of new products for old ones, so that by 1983 the products first manufactured in the given year reached a proportion they had not attained since the late 1960s and early 1970s. The share of products first produced in the last five years shows, however, that the product development neglected in the years 1977–1979 still exerts its influence, since the ratio of products that can be qualified as new ones is much lower than it was in the mid-1970s.

A similar tendency is revealed in abandoning the manufacture of outdated products. The average age of engineering products was growing between 1977 and 1982; their production ceased in a minimum number of cases.

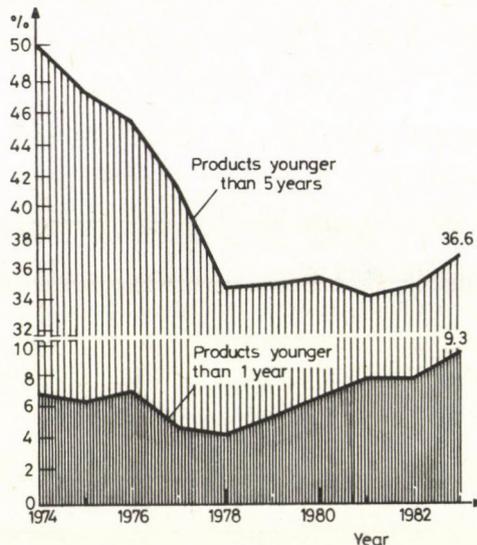


Fig. 1

Change in proportions of new products in machinery exports (percent)

Source: Yearbook of Industrial Statistics. Central Statistical Office, Budapest 1975...1983.

It is a favourable development that the number of automated, semi-automated, electronic, and digital-controlled machines has grown. The growth in absolute terms conceals, however, a relative lag, since the share of these machines has been much faster growing in other countries. This is further demonstrated by the fact that no breakthrough, or even progress could be made in the export share of the so-called high-technology products (complete factory equipments, machine tools, instruments, telecommunication and vacuum technical products, electrical products).

Table 1
Share of high-technology products in Hungarian exports by main markets (percent)

Year	Socialist countries	Industrial market economies	Developing countries
1977	15.4	2.1	18.5
1978	17.2	2.1	14.6
1979	18.2	2.2	16.0
1980	17.5	2.3	13.8
1981	16.1	2.4	15.4
1982	16.0	1.9	19.6
1983	16.9	1.4	18.9
1984	17.3	0.9	13.0

Source: Foreign trade statistical yearbooks, 1977-1984.

The problems of keeping pace with technological changes are also indicated by the changes in the foreign exchange receipts per weight unit in the different groups of products. The so-called unit values (return from sales per 1 tonne of the given product, by groups of products) do not, of course, express merely price, but the degree of processing, quality, and up-to-dateness as well, and are therefore apt to supply a relatively complex description of an economy.

According to these indicators, Hungary had lagged far behind world market standards already in 1978, the return from exports per weight unit had amounted to about 50 percent of the world market average prices in the average of the different groups of products. In most groups of products, the Hungarian position further deteriorated by 1982. On the food market where the price level was stagnating in the whole world, the Hungarian "unit value position" showed no further deterioration.

A considerable increase took place, however, on the world market in the unit value of manufactured products, so that in this field Hungary's relative position became much worse. A striking example is that of machine tools: in 1978 the unit value still amounted to 79 percent of the world market average returns, while in 1982 to merely 38 percent. The situation seems to be even more serious in telecommunication

equipment exports, in which the Hungarian position had not been very good even in 1978: only about a quarter of the world market export unit value could be earned. And in 1982, as a consequence of the world-wide progress of computerization and miniaturization, only 4 percent (!) of the world market unit value was received. (This is also indicated by the fact that by the early 1980s Hungary had become the greatest per head producer of electronic valves, while more advanced countries are now almost exclusively producing transistors and integrated circuits.)

The average price of exports accounted in convertible currency per weight unit of household electric appliances also amounts to only 23 percent of the world market average, even though in this group of products the selling prices of the developing countries also play a role.

Thus our lagging behind, or "deviation" from the technical standards of the advanced countries is not merely an imminent danger, it has to some extent become a reality. The reasons are obviously plenty; however, beside the curbing of investment and the technological embargo, also stagnation of the Hungarian scientific-technical potential and equipment, sometimes even their decline, the diminishing financial and moral prestige of the technical intelligentsia working in production, and a frequently occurring contraselection must be mentioned by all means. If a further lag is to be avoided, solution to this problem must be given priority in the coming period. The more so, as otherwise also the efforts made with a view to restoring equilibrium will be in vain, since a continuous depreciation of exports does not allow any genuine improvement in the ratio between exports and debts.

Lessons to be learnt and conclusions

Of course, investigation of the structural changes and international competitiveness of the Hungarian economy cannot provide short-term, directly applicable economic policy conclusions. Yet I think it will be justified to formulate a few general consequences, even if they are not entirely new. Nevertheless, they can give a different emphasis to certain elements, lending them new contents.

In the macrostructural changes of the Hungarian economy a few such phenomena have been observed which obviously represent new elements in comparison with the earlier situation:

— First, a tendency is definitely emerging which shows that the structural shifts in the investments of the socialist sector, and within it particularly the central investments, are exactly opposite to the shifts in the income pattern of the national economy; this can be observed in the sectoral as well as in the regional structure. At first sight, this could be interpreted as a compensation process, through which central investments are increasingly limited to the traditional government infrastructural spheres. Since, however, such shift in the structure of central investments has also seriously affected the total investment structure, more is involved than that. The fact is that the investment and allocation processes have been

driven to forced paths and that the increasing rate of non-income-oriented use of constantly diminishing investment resources has not helped economic recovery.

— On the other hand, the existence and functioning of certain balancing factors have been more distinct in the last seven years. In this, of course, economic policy measures have had a part. Such factors are the diversification of activities of socialist enterprises and cooperatives, new forms of enterprises, and the households' investment activities. These have acted as balancing factors in dynamics, in structural changes, as well as in the equilibrium of the domestic market. At the same time, they have exploited the growth possibilities "left open" by the limited imports. Of course, all their benefits notwithstanding, these processes cannot provide a solution to the fundamental problem of perspective of the national economy: how to shift to an intensive growth path representing higher standards of technology and up-to-datedness.

In the course of the period under examination, differences have grown and sometimes sharpened in the efficiencies of certain sectors and economic units. Today more is to be lost by egalitarianism or by allocations of unchanged structure than 5–7 years ago. One example will suffice to illustrate this: without the three primary material sectors (mining, electric energy industry and metallurgy), the complex efficiency of the national economy would not have decreased by 1.1 percent, but would have grown by 2.5 percent.

— In a certain aspect also regional differences have grown. As a consequence of the diminishing share of central resources in infrastructural development, the differentiating effect of the households' financial capacities has increased.

All this means that while these last years there has been much talk about differentiation and selection in Hungary, a rather definite differentiation and selection have in fact taken place "by themselves" in the economic and social processes, resulting from their very nature. The task of economic policy today is not to start some kind of artificial differentiating process, but to decide about its attitude towards the processes that are taking their course.

Also the consequences of those structural changes in different sectors are to be considered which have speeded up these last years. As for accumulation perspectives, a situation has developed by 1985 in which the enterprise sphere and the households represent practically the same order of magnitude from the aspect of national economic savings i.e. the sources of net accumulation. (That is, the development funds calculated on the basis of after-tax profits and depreciation allowances of enterprises and cooperatives are about the same as household savings: Ft50 thousand million each.) If it is added that the household credit stock has been growing by an average of Ft25 thousand million annually these last years, while the enterprises' and cooperatives' investment credit stock has not grown practically at all, the proportion will still further shift to the benefit of households.

This is an entirely new situation. The households' resources have been used in Hungary mainly for the development of households' infrastructure only these last years. The growth of the share of infrastructural investments is in a large part due to

this fact. Thus the weight of infrastructural investments has already reached the desirable level, so that its further growth would already hinder the development prospects of the competitive sphere. If, therefore, the allocation of the sources is given, an attempt must be made at using more of the households' savings for investments into productive projects. Certain methods of this have already been worked out. They are worth further developing.

On the other hand, the share of the traditional private sector, the household farming plots, the households' complementary activities and the new forms of enterprise may reach 17–19 percent in the national income by 1985. (The figure covers activities statistically recorded within the officially measured national income.) This already represents an order of magnitude which necessitates a careful integration into the organizational order, i.e. the mechanism of economic activities. However, the Hungarian systems of planning, economic control and management, taxation and law do not yet reflect the fact sufficiently.

Obviously, I could not describe in detail all the structural changes of the last seven years. Yet I do think that the phenomena discussed are apt to throw light on a few key questions of development of Hungarian national economy which will be useful to observe in elaborating the economic strategy for the years ahead.

СТРУКТУРНЫЕ ИЗМЕНЕНИЯ В ВЕНГЕРСКОМ НАРОДНОМ ХОЗЯЙСТВЕ (1979—1985)

И. ИЛЛЕШ

В статье анализируются некоторые аспекты макроструктурных сдвигов и изменений ассортимента продукции, происшедших в венгерской экономике с 1979 г. Отмечается, что важные и характерные структурные сдвиги состоят в следующем: небывалое повышение доли сельского хозяйства в валовой и чистой продукции народного хозяйства, а также в численности занятых; повышение доли сферы услуг, в особенности отраслей нематериальных услуг, в капиталовложениях и — что не менее важно — прекращение падения ее доли в национальном богатстве и в основных народнохозяйственных фондах. Неблагоприятной особенностью развития является то, что в силу объективных условий произошло значительное смещение доли капиталовложений в пользу производства основных материалов и энергетики за счет обрабатывающей промышленности, в то время как продукция, особенно чистая продукция энерго-сырьевых отраслей уменьшилась и отдача резко снизилась. Также неблагоприятным является уменьшение выпуска и снижение экономической эффективности пищевой промышленности. Достойны внимания имевшие место в последнее время изменения, касающиеся секторов и организационной структуры. Как в валовой, так и в чистой продукции народного хозяйства значительно повысилась доля дополнительной и побочной деятельности, выходящей за рамки основной деятельности хозяйственных организаций, возросла также и доля новых форм предпринимательства (хозяйственные товарищества, хозяйственные товарищества на предприятиях, производство на арендной основе), а также доля традиционного мелкотоварного частного сектора. Что же касается региональной структуры, то доля Будапешта в промышленности страны и вообще в материальном производстве продолжала снижаться.

В статье дается анализ некоторых аспектов изменения ассортимента продукции и ее конкурентоспособности. Констатируется, что хотя физический объем венгерского экспорта рос быстрее средних мировых темпов, его доля в мировом экспорте тем не менее снизилась, прежде всего вследствие неблагоприятных для Венгрии тенденций динамики цен. Однако это связано и с объективными причинами — неудовлетворительными темпами технического развития и относительно низким уровнем обновления продукции.

Наблюдаемые в обрабатывающей промышленности тенденции в отношении экономической эффективности не являются — относительно — неблагоприятными, однако это не в последнюю очередь объясняется значительным сокращением численности занятых и капиталовложений. Однако в отраслях энергетики, производства основных материалов, пищевой промышленности, а также инфраструктуры наблюдается значительное ухудшение показателей производительности труда и эффективности использования основных фондов.

В заключение в статье подчеркивается, что структурные изменения становятся ключевым вопросом развития венгерской экономики в ближайшие годы.

FOREIGN ECONOMIC EQUILIBRIUM, ECONOMIC DEVELOPMENT AND ECONOMIC POLICY IN THE CMEA COUNTRIES

A. KÖVES

Although there are weighty arguments in support of carrying on the restrictive economic policy of the last years in Eastern Europe, permanent export difficulties and tensions in domestic economy show that such a policy has a decreasing chance of success. Why is structural adjustment so slow under the conditions of restrictions? What kind and which direction of economic policy revision is necessary?

On examining the trade balances of the small European CMEA countries,* it is found that the early 1980s brought a turn-about in their trade with the West. While before 1981 their trade balances showed deficits, though diminishing after 1978, from the year 1982 a considerable surplus was earned in their trade with the Western countries, rising to \$4.5 thousand million in 1984.

It was simply a necessity for them to reach an active trade balance at a time when two countries (Poland and Romania) became insolvent and others also faced grave financial difficulties. Their chances of obtaining credits were badly narrowed down, their debt service grew to a large extent, thus they could only maintain their foreign economic relations with the Western countries through a considerable improvement of their foreign trade (current account) balance. And, as is exemplified by the countries that became insolvent in 1981-1982, the breaking of foreign economic ties, or their shrinking below a certain level jeopardizes the functioning ability of the economy: it renders smooth production impossible and may shift such burdens on households as surpass their toleration.**

It was this necessity that produced—as a consequence of the weakness, ambiguousness or, in certain instances, a complete lack of economic reform efforts—the policy of export growth and import restriction forced by administrative methods to

* I owe thanks to László Csaba, Gábor Oblath and László Szamuely for their remarks on a previous version of the present article, and to Veronika Pásztori who compiled Table 2 and helped me with a number of comments. Rozália Bogó-Jehoda, Judit Boncz-Tóth and Ádám Puskás helped me in data collection.

**What Deputy chairman of the Council of Ministers, Lajos Faluvégi, said holds not only for Hungary: "... economic policy and economic management have found themselves in a state of *monetary compulsion* where maintaining solvency has required ever greater efforts ... this is neither a deliberately formulated economic policy concept nor a goal stipulated in the Sixth Five-Year Plan, but circumstances forced upon us by external conditions." (Italics in the original—A.K.) (Quoted in [1].)

the prejudice of domestic consumption. In recent years, this policy has produced important results also appreciated outside the CMEA region: it has helped to restore creditworthiness, reduce liquidity difficulties and consolidate the economic situation.*

The foreign trade-processes of the last five years

In order to appreciate the result, we must know its origin. As in any other indebted country of the world, in the small European CMEA countries economic policy also wished to restore external equilibrium by increasing exports and simultaneously decreasing imports. Finally, however, efforts were successful mainly at reducing the value of the imports from the West: by 40 percent between 1980 and 1984. Exports also decreased between 1980 and 1982 and a surplus was achieved in 1982 only because exports decreased less than imports. In 1984, however, a considerable export increase—11 percent in terms of value, and probably approximating 20 percent in that of volume—also had its part in trade surplus of the small CMEA countries. What is more, in that year the greater part of the surplus was already produced by the increase of exports. This favourable development notwithstanding, the value of exports was still 12 percent lower than the 1980 record.

Table 1
CMEA and Latin-American countries' trade with the West (million \$)

	CMEA total ^a			CMEA-6 ^b			Latin-America		
	Export	Import	Balanced	Export	Import	Balanced	Export	Import	Balanced
1979	38.868	41.027	-2.159	18.756	21.827	-3.071	61.500	59.556	1.944
1980	46.002	45.268	734	21.210	23.668	-2.456	76.452	76.356	96
1981	42.361	41.719	642	18.061	19.639	-1.578	78.468	82.092	-3.624
1982	42.248	38.602	3.646	16.748	15.815	934	74.688	66.096	8.592
1983	41.817	37.452	4.365	16.868	15.000	1.869	77.796	50.868	26.928
1984	44.704	36.183	8.521	18.724	14.259	4.465	86.112	57.336	28.776

^a European CMEA countries

^b European CMEA countries without the Soviet Union

Source: OECD Foreign Trade, Series "A"; the trade between the GDR and the FRG is taken into account on the basis of: Warenverkehr mit der DDR und Berlin (Ost). Statistisches Bundesamt, Wiesbaden, Fachserie F, Reihe 6.

* A well-known West German analyst of East-West relations made the statement: "... Consolidation policy was an unprecedented challenge for the CMEA countries. Western credits, which in the 1970s... were available and represented a decisive factor in increasing industrial investments and consumption in Eastern European countries had to be repaid without delay in spite of all economic plans of the CMEA planning organizations, with no new stand-by credits available, as it had been customary before... The efforts made by the CMEA member states to attain trade surpluses were inevitable and should be appreciated." [2]

On examining the foreign trade performance of the CMEA countries in an international context, it is found that in Latin America, the most indebted continent of the world, imports also radically fell in the course of the consolidation process following the balance-of-payments crisis. There, too, this was the first step in trying to restore a foreign economic equilibrium. The OECD imports of the countries of the said region were 38 percent lower in 1983 than the peak of 1981. That is to say, the extent of the decrease in Latin America was about the same as in the small CMEA countries, with the difference that the radical import restriction took two years in the former, while it took four in Eastern Europe. In 1984, however, Latin American imports were already growing dynamically, unlike CMEA imports, and only remained below the 1981 level by 30 percent. The increase of imports was enabled by the fact that in that year also Latin-American exports to the OECD countries began to grow intensively, adjusting to the fast rise of demand on the world market, first of all in the United States. The value of exports already surpassed not only the 1982 trough, but by 10 percent the record of 1981 as well.

In Latin America, the situation was thus similar to that in the CMEA in that import restriction played a key role in improving the balance of trade. What makes it different from the CMEA situation is, however, that—considering the whole of the consolidation period—exports have also proved to be a factor favourably influencing the balance. This is why the Latin American countries could, in spite of a renewed growth of imports, achieve a larger surplus—amounting to 50 percent of the import value—in their trade with the OECD than the small CMEA countries (31 percent).

The foregoing comparison, throwing light on the weak export capacities of the CMEA countries, makes it easier to understand why it is difficult to maintain a surplus in these countries in the long run, especially such a considerable trade surplus as was achieved in 1984. The difficulties are shown by the fact that according to the data available early 1986, last year the balance of trade with the West (respectively, of trade against convertible currencies) of almost all of them worsened, in the case of some countries, e.g. Hungary's to a considerable extent. The difficulties arising on both the import and the export sides do not seem to be temporary nor easy to overcome.

As for difficulties on the *import* side: it has always been clear to economists in CMEA countries that import restriction has its limits. After a certain time, a continued lowering of the import level has an adverse effect not only on economic growth, technological development and modernization, but it also impedes the functioning of the economy, such as smooth production and exports, as well as the accustomed standards of supply to households. It is easy to see that the above-mentioned 40 percent import reduction has reached, or is nearing, this limit in these countries.

However, the problem is not only the *extent* of import restriction, but also several other characteristic features and conditions of Western imports which render such a large-scale import restriction especially hard to bear in the countries.

It is a well known characteristic of the socialist countries' Western imports that they consist predominantly of non-competitive goods. The CMEA countries buy such

goods from the West which they do not produce at home, or not in the required quantity and quality, or which they cannot purchase within the CMEA trade. It would be thus a difficult and lengthy process to substitute these imports by domestic production or CMEA imports even if not primarily administrative, but economic instruments were used to promote import substitution in these countries.

The difficulty of substituting Western imports is a consequence also of the fact that, because of the overall economic difficulties of CMEA countries, their decelerating growth and forced Western exports, the expectations in these countries that they could compensate themselves for some of the loss of their Western imports by increasing imports from within the CMEA have proved to be unfounded. What is more: from the aspect of the CMEA countries, it is not the only difficulty that the volume of socialist imports has been stagnating since the early 1980s, but this is even made worse because they had to increase their exports to the socialist countries at a relatively high rate even at a time when their Western imports were restricted, since this was made necessary by the deteriorating terms of trade with the Soviet Union. It is, however, well known that exports to the socialist countries are highly Western-import-intensive. Their continued increase in a situation of decelerating economic growth is therefore contrary to the efforts aimed at Western import restriction.

We have seen that, in contrast with Latin America, *exports* have played a subordinate role in improving the balance of trade. The difficulties of increasing exports in the CMEA countries directly originate in their commodity pattern in the first place. It is a general experience that in the period of forced balance improvements the export pattern of the CMEA countries has not improved. It has not been a characteristic development of these last years that new, up-to-date industrial products demanded on the world market have come to be included in the export list. When and where exports did actually increase, this mainly happened with the traditional commodity pattern: the predominant part of the increment was composed of various primary energies, materials, semi-processed chemical and steel products. It is not the only trouble with this export structure that world market demand for such goods is growing only slowly, while sellers pursue a ruthless competition for markets and, therefore, selling prices also develop unfavourably. It is an even greater trouble that there are increasing obstacles in the way of producing such goods for exports. The CMEA countries themselves are short of primary energies and raw materials, since trade in these goods (the small CMEA countries' imports from the Soviet Union) does not grow, either, while the energy- and material-intensity of the economies is only decreasing at a low rate, so that serious tensions had developed in supply by 1985. And yet it is not at all necessary for the export structure to become rigid to such extent at a time of import restriction. On the contrary: for example, in Latin America the boosting of exports to the OECD took place in quite a different structure. According to 1983 data, while machinery exports grew by 85 percent, the exports of other manufactures (SITC 6+8) by 42 percent and of food products by 19 percent, raw

material exports (SITC 2+4) were stagnating and primary energy exports fell by 12 percent.

It is also understandable that the difficulties of both the export and the import side were accompanied by growing tensions in the domestic economy, i.e. by the fact that economic growth rate measured in 1984—somewhat faster than that of earlier years—could, in general, not be maintained in 1985, at least according to the first six months' industrial production figures.

Restriction and structural transformation

As it must be clear from the preceding, not only the East European economic policy has been characterized by efforts directed at a fast and radical improvement of foreign trade balances after 1981. Forced efforts at trade surplus have also been characteristic of other indebted regions. What is more: as testified by the available data, not even the strictness of forcing the surpluses has been a special feature of the East European economic policy. What is, however, a striking feature (especially, but not exclusively, in comparison with other regions) is the particular severity of the export difficulties arising from the commodity (and production) pattern.

These difficulties indicate, in the first place, that it will not be easy for the CMEA countries to realize a surplus in their trade with the West, in the future, either. Besides, the permanent acuteness of the export problem demonstrates that, although Eastern Europe has been able to cope with the short-term trade balance situation through restrictive economic policy, it has proved to be inapt to carry through important changes in the field which is the proper purpose and meaning of a restrictive policy: in the reduction and elimination of less efficient activities non-competitive on the world market (or in rendering them competitive), and in the starting and dynamic development of activities corresponding to the given world market demand and cost conditions. That is why a situation has developed in which every restrictive measure breeds a new one. Using László *Antal's* words: "a downward restriction spiral" develops [1], and the conditions are not created under which restrictions could be gradually withdrawn, without this withdrawal threatening with an immediate reappearance of the balance troubles hardly overcome (or of tensions in domestic economy which could not even be eased yet in many places).

This situation is by no means to be explained by a failure to recognize the necessity of a continuous change and modernization of the economic structure in the Eastern European countries, or, specifically, by that the consequences of the process of becoming insolvent during the 1970s can only be eliminated through structural adjustment in the long run. Economic policy and plan documents, all official declarations and publications have been more than ever stressing the necessity of structural changes and their possible trends.

It is obvious, however, that the measures so far taken are by far not enough to

bring about a change in the economic structure in the desired direction and at the desired rate with a view to increasing the export capacity. The necessary structural changes come up against several deeply rooted obstacles in connection with the prevailing tendencies of socioeconomic development, economic policy, mechanism, and the usual way of handling foreign economic tensions. Of these, a few will be listed below, such as are generally characteristic:

1. The traditional economic development strategy of the CMEA countries persists, i.e. the old conception of development and cooperation, in which the possible highest degree of self-sufficiency on CMEA-level is considered as the most important task. One of the consequences of this is the high priority given to the extremely capital-intensive national and international development projects aimed at securing energy and raw material supply and carried out at the expense, among other things, of the manufacturing industry that could be the most important factor from the aspect of improving world market export capacity.*

2. Even in a situation as described above, the manufacturing industries of the small CMEA countries have made considerable—and in a few fields even fast—progress these last years. However, this development, as that of the whole economy, has been and is taking place for the most part exactly in accordance with the quantity demands of the CMEA market, and in a structure and on a technological level required by that market. And on the CMEA market the standards of requirements and the structure of demand are markedly different from those on the world market and so is, partly, the direction of structural change, which is one of the serious problems of the 1980s. And all this requires quite a different approach, different actions, different measures, and a different combination of central economic policy and enterprise behaviour from what is demanded by the world market. What is more, this adjustment continuously requires increasing efforts. The small CMEA countries' terms of trade have been deteriorating within the CMEA for ten years and they have to counterbalance their imports, stagnating in quantity since the late 1970s, by dynamically growing exports (mainly by exports of manufactures). The deteriorating terms—other than price—of trade within the CMEA also require them to make serious efforts.

3. Because of their institutional seclusion from the external world, enterprises in CMEA countries can only adjust themselves to the changing world market conditions, i.e. change their development and production policy, and purchase and sales pattern, in the best of cases with a delay and indirectly, in a way to an extent judged correct by the economic policy of the given state. Because of the dynamic changes taking place today in the world market demand and supply patterns, this is now an even more serious obstacle than before to exportation in general, and in particular to maintaining

* For a detailed explanation see [3].

and improving the positions of the enterprises of CMEA countries in the dynamically developing fields of trade in manufactures.

4. The armoury of the restrictive economic policy applied in the CMEA countries does not sufficiently contribute to the required structural transformation. This armoury is different in each country owing to differences in the economic management systems, in the domestic socio-economic situation, in management priorities and other factors. It is, however, characteristic that in each country, as has been mentioned in the introduction, restrictions, prohibitions, open and concealed instructions are prevailing among the measures aimed at improving the foreign trade balance. By these measures imports and domestic consumption have successfully been restricted, domestic commodity stocks mobilized for western exports, and reserves and capacities earlier used for other purposes could now be made available for exports.

The fact that hard central administrative rules were introduced with a view to overcome the balance-of-payments troubles is not specific to the CMEA, either; all indebted countries were compelled to do so in the years of debt crisis. What is specific is that these rules were hardly completed by other kinds of measures to improve the macro-economic conditions of adjustment, such as are meant to achieve a slower growth of imports and a faster growth of exports as a result of changes in the economic structure.

Arguments for continuing the debt-reducing economic policy

In spite of these difficulties in boosting exports, the CMEA countries still set out from the necessity to realize a significant surplus in their trade with the West (more exactly, in their trade accounted in convertible currency) in the short- and the medium-term, i.e. the plan period of 1986–1990. In more than one country those extremely forced targets are still effective which prescribe a radical reduction of the debt stock in a few years. In other countries, though opinions are less optimistic about the size of surplus possible to maintain in foreign trade, the conception is held to be invariably valid according to which efforts will have to be centred on achieving a trade surplus in the coming five years: this must be made into one of the primary objectives of economic development plans. This applies to Hungary, too. *“The requirement is not merely that the debt stock should not be growing, but also that it should be decreasing.”* (italics in the original—A.K.)* [4] The state secretary of the Hungarian National Planning Office emphasizes that this priority must be coordinated with the new priority of the planning period: “accelerating economic growth to some extent”. However, the latter is *“basically only possible depending on efficient exports accounted in convertible currencies, and socialist imports* (italics in the original—A.K.) . . . otherwise . . . accelerated growth could only be maintained by using external resources. We have

* And, even more emphatically: “It may be subject to discussion, especially in yearly plans, at what rate the debt stock should be reduced, but there is no real alternative to reduction itself.”

followed this road once, and know its unfavourable consequences." And he explains the requirement of decreasing debts as follows: "...on the one hand, debt service burdens are high, mainly because of high real interests (drawing away no little amount of resources from the economy), on the other hand, we can permanently preserve creditworthiness only if we prove that, through its export results, the Hungarian economy is not only able to meet its debt services, but also to reduce its accumulated debts, ... if the creditor is repeatedly convinced that the country is a reliable debtor and will, therefore, always grant the credits necessary for balancing the economy." (ibid.)

I judge the arguments in support of an economic policy maintaining a trade surplus and reducing debts very similarly to János Hoós.

1. It is in fact the *burdens of the debt stock* that support this reasoning in the first place. Even though nominal interest rates have lowered somewhat these last years, the interest burden is still heavy with the given debt stock and the level of interest rates (and of export prices), and they can even be rising unexpectedly under the impact of exogenous factors (international trends of interest rates), as is shown by the bitter experience of the years 1980–1982. In the countries where debt burdens are the heaviest, for example, in Poland, even the maintenance of a considerable foreign trade surplus, realized these last years, might provide for a stabilization of the debt level i.e. for the mere possibility of reducing the debt stock only after some years will have passed. And, as long as the debt stock is rising, so is, presumably, the debt service (except for the case of an improbably favourable change in interest rates and in the terms of credits to be taken, as well as a long-term rescheduling of a large part of the so far accumulated debts), and thus further indebtedness is a constantly growing burden on the economy. The weight of this argument cannot be challenged, even if the debt service burden is a function not only on the size of the debt stock and of the terms of the debt service, but also of the economy's export-capacities. Exports may grow at a rate that the debt burdens weighing on economy should decrease even with a rising debt service.* Yet it is not at all self-evident for decision-makers—we shall revert to the subject later on—whether it is possible to increase exports even at a relatively fast rate in the long run.

2. As for the argument that creditworthiness can only be maintained by a policy decreasing the debt stock, and that deviation from it may bring about an unfavourable turn in the international judgement of the small CMEA countries, this was not to be doubted in 1982–1983, but in the new situation that has developed since it may be challenged. In the years after 1981 when the international debt crisis broke out and creditors were in a panic whether debtor countries would at all be able to meet their

* An export growth exceeding the growth of debt service as a possible alternative of restrictive economic policy was formulated more than five years ago by Rezső Nyers and Márton Tardos: "to adopt ... an economic policy ... of an *expansive export-oriented character*," which "... first sets only the objective that the *development of the export potential should exceed the growth of debt burdens*." (italics in the original—A.K.) [5]

payment obligations after their huge accumulated debt stock, and whether a large part of the debts would not have to be simply cancelled, it could be well understood that credit granting banks and governments, as well as international financial institutions attributed importance to lowering debt stocks among the tasks of consolidation. The situation has changed in many respects since. Negotiations about the management of debts have proved to be, if not easy, yet on the whole successful. Not only a recognition of the mutual interests of debtors and creditors has played a role in this, but also the recovery from the global recession at the turn of the decade, which enabled debtor countries to increase exports and allowed a slow reduction of the interest rates.

It is worth reflecting about the fact that while in 1985 negative evaluations of the Latin American debt situation have grown again in number, they are not based on actually increasing debts. Those worried about a debt crisis [6, 7] are worrying in fact because they are not sure whether the domestic economic and social tensions, worsening as a consequence of the last years' restrictive measures in the debtor countries, allow to carry on with consolidation. Can the necessary structural transformation start, or can it be continued? [8] As for debts, the main worry is that bank credits to developing countries are diminishing: in these countries a net outflow of resources is taking place instead of inflow of foreign resources. Therefore, it is uncertain whether the necessary economic reforms can be carried into effect. [9]

The Baker plan submitted at the joint general assembly of the International Monetary Fund and the World Bank held in Seoul in 1985 has shown a conviction spreading among creditors that, after the first phase of consolidation, the best means of managing the debt crisis in the indebted countries is not domestic restrictions which have enabled these last years to withdraw capital from these countries—as wanted by the creditors—but on the contrary, it would be better to stop the withdrawal of capital. It should, however, be made a condition of further credit granting that the countries in question should adopt an expansive export-oriented economic policy.

These developments are also relevant for the small CMEA countries. As it can be seen in *Table 2*, the *net* Western debts of the CMEA countries fell considerably between 1981 and 1984, and the indicators (ratio of net debts to exports, per head debt stock) describing the debt burdens on national economy improved. The debt service, and interest rate service of the small CMEA countries showed a definite improvement, meaning that they had to spend a diminishing ratio of export earnings in convertible currencies on repaying due debts, or on paying interests. [10]

The *Table* shows, further, that in those years the debt stock of the CMEA countries changed in a more favourable way than that of Latin America: the latter had increased debts also in 1982–1983, or at least, as regards the net debt stock, it was stagnating. Except for Poland, the interest service burdens of the CMEA countries are lower than the Latin-American average.*

* On the other hand, in Eastern Europe the debt service ratio is higher, namely, the amount of payments of debts and interests on medium- and long-term debts expressed in percentage of yearly exports (accounted in convertible currencies). The reason for this is that a much greater part of the Latin-American debt has been rescheduled than of the CMEA debts.

Table 2
Debt stock of the CMEA and the Latin-American countries (thousand million \$)

	1981			1982			1983			1984		
	CMEA	CMEA-6	Latin- America									
1. Gross debt	88.5	65.0	284.3	85.6	63.5	325.3	84.0	62.5	338.9	85.0	63.0	351.1
2. Net debt*	74.0	59.0	244.0	71.0	58.8	287.9	65.0	54.0	281.4	65.1	52.1	285.5
3. Debts recorded by BIS and OECD**	75.1	46.5	180.0	72.7	44.4	219.0	65.6	40.0	242.0
4. Ratio of net debts to exports, in %***	125	195	226	120	200	295	100	190	288	95	170	266
5. Per head gross debt (\$)****	230	585	744	225	572	858	218	563	887	221	567	918

* Assets recorded by BIS deducted.

** The latter cover state export credits and guaranteed credits of firms.

*** With CMEA countries, compared to exports accounted in convertible currencies.

**** For the CMEA countries computed by the 1983, and for Latin America by the 1982 population.

Source : 1-2. IMF, BIS and partly own computations.

3. Joint edition BIS-OECD.

4-5. IMF and own computations based on International Financial Statistics.

Beside other factors, the reason why the data of the *Table* shed a less favourable light of the Latin-American countries may be that in reducing the debt stock, the latter attribute greater importance to rescheduling debts (they were compelled to reschedule to a greater extent), and to increasing monetary reserves (not included in *Table 2*). We now only wish to point to the changes in the international payment performance of the small CMEA countries judged as favourable even by a double measure. On the one hand, their debt stocks and debt burdens decreased *as compared to the earlier level*, and on the other, *as compared to other indebted regions*, thus "in comparison with the extremely high risks in Latin America" [2], they took a favourable turn. All this represents a development which may bring about much improvement in judging CMEA countries as debtors. Thus the prospects of the CMEA countries for obtaining credits have been improving since 1983, their liquidity has considerably grown, their day-to-day worries in financial relations with the West have eased, even if this easing is little reflected in the domestic economic tensions.

From the aspect of maintaining creditworthiness, all this does not require debtors to reduce the amount of their debts, but to make possible in the long run, by expanding the exporting capacity of the economy, the meeting of current payment obligations.

3. Behind the two arguments brought up in support of the surplus forcing policy, there lies, however, a serious and by all means justified worry, namely, that if economic policy fails to give, for any reason, such priority to the foreign trade balance as between 1982 and 1984, and does not attribute such importance to the surplus and its size to be realized annually, or even monthly, imports will suddenly start rising, without eliciting a parallel rise in exports. The worry goes back to historical experience—the lessons taught by the indebtedness of the 1970s—as well as to the realization of the fact that no considerable structural changes or efficiency improvement have taken place in the small CMEA economies since then; the functional mechanism of the economy has remained practically the same. It is to be feared that if control were somewhat loosened and no daily care were taken to fulfil the strict balance requirements, earlier troubles would be repeated. And, if this is so, the fact that it is again possible to receive credits should be considered more as a development disorienting economic policy than one encouraging selection among various alternatives. All the more so as, because of the increased import hunger rooted in the years of restriction, insufficient export capacities may now lead to especially serious balance tensions.

For example, the question is often raised as a matter of course in connection with the foreign trade surplus, that the investment restrictions having been applied for a long time as part of the adjustment policy have now led to such a lag in technology as must at least partly be made up for, lest it should grow irreparable. According to EEC specialists' opinion: "Most countries have now completed the sometimes drastic balance-of-payments readjustments which became necessary after the late 1970s. There should now be more room to mobilize growth resources, and hence to reverse the investment slowdown of recent years. . . . this is now a pressing need given the

effects of the slowdown on the age structure of fixed assets at a time when faster structural adjustment is needed to consolidate future output and export prospects." ([11], p. 497.). Without questioning the justification of such reasoning and the serious or even irreparable damages caused by a growing technological, economic and infrastructural lag, and the fact of an overall slowdown of investments, it is obvious that weak export performance in the CMEA countries is not a consequence of investment restriction* but, on the contrary, investment restriction, among other things, became necessary exactly because export weakness. The accelerated investments of the 1970s, partly relying on the dynamically growing machinery imports from the West, did little to increase Western exports. The development projects preferred today being largely import-substituting ones on the national or on the CMEA level (though the investments themselves may be highly Western-import-intensive), it is now especially doubtful, whether any large-scale promotion of investments could lead to the required results if the development trends, investment policy, and the armoury of this policy are not first revised.

Of course, this situation—though clearly demonstrating the well-foundedness of worries about the possible consequences of easing balance requirements—does not supply arguments for continuing the surplus-forcing policy, but rather suggests that it is a pressing necessity to revise the tendencies and armoury of development policies.

4. Somewhat reformulating what has been said in the preceding passage: the main argument in support of the import-restrictive and surplus-forcing policy is, explicitly or implied, that it only has one feasible alternative, the one which differs from it only in the severity of restrictions, thus aiming at faster economic growth and higher domestic consumption, whereby, however, imports, the trade balance and the debt stock may change for the worse.** The possibility that if certain conditions in economy were changed—for example, those mentioned in connection with restriction and structural transformation—such changes in quality and efficiency could come about as might essentially improve the ability to export to the world market, is discarded as an irresponsible and unrealistic idea when taking into consideration the actual alternatives of action. (*Explicitly*, it is usually only discarded in the short run, for the next one or two years, but it is *always* discarded: in 1978 just as in 1985.) In other words: no essential changes are expected in the mechanism and institutional system of economy, or, a possible economic reform is not trusted to bring about positive changes in the export performance of a given country within a foreseeable time. Such handling of the reform has various reasons: in some countries no reform is envisaged at all, in other ones the declared reform principles are inconsistently implemented, and in many cases they are even conflicting with the actually pursued economic policy and management practice. The failure to carry out reforms, or their being pushed to the

* By international (not only CMEA) standards, the investment ratio is relatively high even in Hungary, though the volume of investment fell more than on average in the CMEA countries [12, 13].

**In this reasoning it is unimportant whether acceleration would serve infrastructural development, industrial modernization, or the raising of living standards in the first place.

background—though progress would indeed be badly needed because of accumulated economic difficulties—is related, among other things, to the fact that the crisis manifested itself exactly in the lack of a foreign trade equilibrium. As we have seen, the immediate and radical easing of tensions in the foreign economic sector, proclaimed as a necessity, required an extensive application of such—mainly administratively restrictive—means and measures even in countries that have abandoned directive plans, which ought to be suppressed by the reforms, while differentiation through market, competition, and efficiency have lost in importance. It follows, too, that as long as the absolute necessity of balance-improving efforts can be referred to against any other objective, it is also easy to find arguments against any essential change in the economic mechanism and the institutional system.

5. The arguments so far brought up in support of the surplus-forcing policy may be conceived as a coherent system: the forcing of the surplus is considered in it as a necessity, or as a necessary evil, which follows from the given economic situation and not from the economic policy to be pursued in the long run. Surplus-forcing is not considered to be conflicting with a long-term foreign economic strategy aimed at an increased integration into the world economy, what is more, it may be even suggested that it is only this policy that can create the conditions for such an integration.

There is also another interpretation of this policy: forcing surplus exactly with a view to the long-term development policy of the CMEA member states. This is rooted in the conception which explains the opening of the 1970s towards world economy not by setting out from the conditions and requirements of the domestic socio-economic development, but mainly attributes it to mistaken political and economic policy decisions, such as were aimed, unnecessarily, at an “exaggerated” development of economic relations with the West. In this interpretation, the fact of the serious indebtedness should direct attention to the urgent necessity of revising this mistaken policy, and of resolving most of the economic problems which some of the CMEA countries wished to resolve by increased participation in the global division of labour by intraregional cooperation and increased efforts at collective self-sufficiency, and further, of laying greater stress on protesting the “technological-economic independence” or “integrity” of the CMEA countries. The armory of related arguments has not grown much these last years, therefore, as for its criticism, we only refer to our earlier works [15, 16]. We only wonder that after the general restriction of Western imports in recent years the irrelevance of these arguments is still not quite clear to everyone.

The worst danger is that on whichever grounds imports are continuously restricted, this process can lead in itself, declared intentions notwithstanding, to a drop in world economic relations, to turning inwards, which might have long-term negative impacts on socio-economic development in the CMEA countries.

External equilibrium and economic growth

Against all these arguments, the policy of forced surplus-increase halted in 1985. Recognition of the fact that policy based on forcing exports of an unchanged commodity pattern and on a radical administrative restriction of imports fails to lead to the desired balance targets and may even increase economic tensions should cause a change in the economic policy approach, depending on the general domestic political and social medium of the different countries.*

The economic policy dilemma is often treated as one between external equilibrium and economic growth. This is justified from certain aspects, otherwise, however, it is misleading. It is justified in that a dual policy of overcoming stagnation and balance-of-payments difficulties was formulated in the CMEA countries in the early 1980s: not only the realization of surplus in the trade with the West was laid down as a high-priority economic objective, but, parallel to it, the acceleration of economic growth (in a few countries, maintenance of a relatively fast growth). Not only Hungary, but all CMEA countries envisage some acceleration of economic growth, or the maintenance of its existing rate, for the late 1980s, too. Nevertheless, previous experience and even more so, an analysis of the prevailing economic conditions make it obvious that in the present situation of the European CMEA countries any kind of accelerated growth, of whichever conception or methods, accelerates Western imports in the first place (much rather than Western exports) and is, therefore, conflicting with the other fundamental objective of economic policy, i.e. the maintenance of a foreign trade surplus.

In the following, we shall mention just a few well-known factors which render accelerated growth in the present situation especially incompatible with the last five years' practice of import restriction. One of the most important justification for accelerated growth is the speeding up of technological development, i.e. of investments serving this purpose. We have already discussed the arguments supporting this policy. And the policy of accelerated growth giving priority to technical progress and modernization is by all means strongly Western-import-intensive. It is generally known that CMEA development projects serving modernization and catching up with technological progress have always largely relied on Western imports of the most up-to-date machines and equipments, as well as of technological know-how.

The other factor to be noted is that there are only limited possibilities to increase socialist imports. Earlier, the objective of fast growth could be set in the CMEA countries in the expectation that imports from the socialist partner countries could be also increased, which would then help fulfil the economic development plans. Beyond

* The question whether the restrictive policy so far pursued can be continued arises not only in respect of Eastern Europe, but also in Latin America where, as we have seen, export growth has a greater role in the process of recovery. And yet it is asked by the Vice-President of the World Bank: "Are there prospects for resuming sustained growth when so large a share of export earnings (and, perhaps more important, so large a share of domestic savings) must be transferred abroad?" and: "Even if technically feasible, for how long can transfers be sustained before the social and political fabric of society breaks down?" ([17], p. 15).

purchasing the most up-to-date equipments, Western imports were only accelerated if it turned out in the course of fulfilling the plans that socialist imports came up against difficulties at the planned rate and in the planned composition. The situation is different today, in that these difficulties are obvious from the outset. Imports from socialist countries can only be increased to a minimal extent in the next plan period; a considerable increase of Western imports is thus needed for accelerating economic growth in the individual countries.

It renders the problem even more difficult that there are no signs to indicate that the structure of the envisaged growth would differ from the traditionally developed growth structure to any considerable extent. In a foreign trade approach: while accelerated growth is concomitant with a significant increase in Western imports, this can expand socialist exports in the first place, since the deterioration in the terms of trade within the CMEA and in the factors other than price, that has taken place so far and will go on in the next plan period, pushes Eastern European countries in this direction.

The envisaged accelerated economic growth is incompatible in this respect with maintaining the surplus-forcing policy. And yet it would be mistaken to draw conclusions *from this* on the indefensibility of the foreign economic policy so far pursued. Namely, it is not this that follows from the preceding, but that there are no, or only badly limited, possibilities for the acceleration of growth. This is what justifies a high-degree caution of economic policy towards acceleration and the stress laid on the statement that it can only follow depending on an efficient increase of exports to the West and on the development of imports from the socialist countries.

As opposed to this, relying on our arguments brought up so far we shall try to prove in the following that not only a fast—or faster than today's—growth, but *all kinds of economic development* demand a revision of the forced balance-improving policy which was conceived in reaction to the balance-of-payments difficulties. One of the fundamental questions of the following years' economic policy is, however, of which direction and nature this revision should be.

Limits to the present policy and possible alternatives

Hungarian trade with the West—as well as trade of other small CMEA countries—has been characterized since 1979 by repeated import restrictions because of sufficient exports, which have, of course, had adverse effects also on production and exports. After five years of continuous import restriction, even though of changing intensity, it is more or less evident that a further restriction of imports would fail to improve the balance and also that imports must be increasing in the next five-year plan period, even if at a moderate rate, otherwise a further deterioration of the economic situation cannot be stopped.

Therefore, the maintenance of a trade surplus *balance* is increasingly dependent on the export performance. This fact is also reflected in the papers and documents which set the target of further debt reductions for the coming plan period. They assume today that the surplus must and can be maintained in the Western trade with a parallel increase of imports and exports. In fact, however, as we have seen, the present surplus-forcing policy does not dispose of an armoury to achieve a considerable increase in export performance and to promote a continuous development of the export pattern according to efficiency, i.e. market criteria. More exactly: this economic policy is aimed primarily at improving the *current* balance situation, which requires a short-term approach and actions leading to fast results. Therefore, it has means and possibilities to increase exports of an unchanged pattern in the first place. Such efforts, however, meet ever more often with the difficulty of the scarcity of goods available for export, not in the last place because of the long-lasting stagnation of very slow growth of imports from the socialist countries which can be prognosticated also for the second half of the decade, and also because of the tensions in certain countries' domestic economy (in energy and primary materials, etc.). Thus the objectives of increasing exports may prove impracticable, the demands of equilibrium may exceed the country's capacities. And this can only lead to repeated import restrictions only further aggravating the situation. Therefore, if the objectives and priorities of the surplus-forcing policy are left unchanged, this involves the risk that while economy and society will be further compelled to bear the burdens of restriction affecting accumulation as well as consumption, and the losses attributable to the unchanged export pattern, the balance will still not be improving (on by far not to the desired extent). There will be no expansion policy or any considerable growth, yet their feared consequence—further indebtedness without improved export performance—will follow. The chance of a recovery will be reduced.

Under such conditions it is by far not so clear that the surplus-forcing policy should be given priority over any other alternative. Real economic conditions speak for the revision of this policy. This is going to be, however, a difficult process, if only because of what we said about the arguments supporting maintenance of this policy. It is by no means indifferent, whether revision takes place by relying on economic policy decisions made with this in view, or whether it is recognized at a later date and tacitly, that economic processes do not take their course in accordance with plans and conceptions.

The appreciation of such revision will then depend on the actual content of the economic policy changes and on the methods of practical implementation. The mere fact that a foreign trade surplus or deficit of \$500 million is prescribed in the plan and that this target is achieved or not, cannot be well appreciated without other aspects being taken into account. Today, however, the use of external financial resources in economic development, or, to put it more moderately and more realistically, a slowing down of the last years' outflow of resources, may help to ease acute socio-economic tensions. This could be considered as an important positive development. It is to be

feared, namely, that if short-term tensions remained, this would drive the economic management to such a forced path and would compel them to make such further restrictions in foreign and domestic aspects as would render recovery difficult, or even impossible, even in a longer perspective.

Nevertheless, we think that if the policy of forced surplus so far pursued cannot be effective in the future, it does not follow at all that now the opposite course must be taken, and we should let imports grow unbridled notwithstanding the low export capacity of economy, and let a new wave of fast increasing debts come. Worries about such kind of change in economic policy are fully justified.

The revision ought to be aimed at something else. The Hungarian economic policy should first of all make use of the possibility offered by the changed external conditions and should not give priority to the *current* state of the Western trade balance over any economic policy target. Equilibrium considerations should not be put aside in the future, either. But the severeness of administrative import restrictions should be gradually and carefully eased, and replaced by economic instruments in a way that this, together with a changed import structure i.e. allowing for competitive imports (at first, of course, only to a very low degree), should become a part of the process of differentiation taking place on the basis of efficiency criteria. To the extent this can take place and the economic conditions are created for an accelerated development of efficiently producing and exporting activities (such as can efficiently use Western imports) and for suppressing and reducing less efficient ones, and to the extent it is accepted that it is not only imports that can be replaced by domestic production, but the substitution of domestic production by imports (even by Western imports) may also be necessitated by certain economic reasons, to the same extent can the not short-term target of continuous structural transformation and increased export capacity be reconciled with the demand that economic policy should be further able to control the changes of the foreign trade balance. And, to the extent as efficiency improvement and structural transformation measurable by the export performance would take place, to the same extent acceleration of economic growth could be a consequence (not the aim) of the revision. No doubt, such a change will have the consequence that the balance of trade with the West may develop in the coming years less advantageously than what would be *planned* while maintaining the forced surplus policy. Just as well, however, it may develop more advantageously than it actually would if this policy were pursued unchanged.

We do not think that such a change in approach in planning and economic policy could bring about any sharp turn in the trend of economic development. But we do think that, if—instead of short-term changes in the balance—economic policy can in fact give priority to the question, how the export performance can be improved, which conditions are to be created to assure competitiveness on the world market, and how to help and facilitate the process of adjustment to the changing conditions of world economy, then, in the long run, more advantageous conditions may come about for

obtaining further credits as well as for repaying debts, than if, neglecting all this, it would solely concentrate on maintaining the short-term balance of payments.

Therefore, we find the substance of the economic policy revision in that it would give greater freedom in economic policy action to the economic leadership, as a matter of fact, it would enable them to deal also with long-term economic problems, thus ensuring, among other things, continuous progress in the reform of the economic mechanism and the revision of the directions and methods of economic development, failing which the achievement of the declared targets of efficiency improvement, structural transformation and lasting equilibrium remains illusory.

References

1. Antal, L.: Conflicts of financial planning and regulation in Hungary (The "nature" of restrictions). *Acta Oeconomica*, Vol. 30, Nos 3-4 (1983), pp. 341-367.
2. Schröder, K.: Ost-West Finanzbeziehungen nach der Krise 1981-1983. *Aus Politik und Zeitgeschichte*. Beilage zur Wochenzeitung Das Parlament, 2. Februar 1985.
3. Köves, A.: Some questions of energy policy in East European countries. *Acta Oeconomica*, Vol. 35, Nos 3-4 (1985), pp. 345-357.
4. Hoós, J.: Alternatives of growth and priorities in the 7th five-year plan of Hungary (1986-1990). *Acta Oeconomica*, Vol. 35, Nos 1-2 (1985), pp. 17-28.
5. Nyers, R.-Tardos, M.: What economic development policy should we adopt? *Acta Oeconomica*, Vol. 22, Nos 1-2 (1979), pp. 11-22.
6. Mr. Baker's address at the opening session of the 1985 IMF/IBRD annual meeting. *BIS Press Review*, October 17, 1985.
7. Cohen, B.: No choice but to shift the burden. *International Herald Tribune*, August 9, 1985.
8. Brainard, L.: Current illusions about the international debt crisis. *World Economy*, 1, 1985. pp.1-10.
9. Samuelson, R.: How do you spell relief? *Newsweek*, October 21, 1985.
10. Recent trends in the international financial situation of Eastern Europe. *Financial Market Trends*. 301 Special, OECD, Paris 1985.
11. *UN economic survey of Europe in 1984-1985*. Part 2. New York 1985.
12. Faluvégi, L.: Minden erőnkkel az évi tervért (We should do our best to fulfil the annual plan). *Népszabadság*, August 10, 1985.
13. Munkácsy, Gy.: Európai KGST-országok — az "extenzív" gazdasági növekedés tartalékainak kiapadása II (European CMEA countries—exhaustion of the reserves of an "extensive" economic growth). *Világgazdaság*, October 30, 1985.
14. Szamuely, L.: Prospects of economic reforms in the European member countries of the CMEA in the 80s. *Acta Oeconomica*, this issue.
15. Köves, A.: Turning inward or turning outward: reflections on the foreign economic strategies of the CMEA countries. *Acta Oeconomica*, Vol. 26, Nos 1-2 (1981), pp. 51-69.
16. Köves, A.: Alternative foreign economic strategies for the CMEA countries. *Konjunkturpolitik*, 28. Jahrgang, Heft 5. (1982), pp. 324-341.
17. Knox, D.: Resuming growth in Latin America. *Finance and Development*, 9, 1985. pp. 15-18.

ВНЕШНЕЭКОНОМИЧЕСКОЕ РАВНОВЕСИЕ, ЭКОНОМИЧЕСКОЕ РАЗВИТИЕ И ЭКОНОМИЧЕСКАЯ ПОЛИТИКА В СТРАНАХ СЭВ

А. КЕВЕШ

В европейских странах-членах СЭВ (кроме Советского Союза) на всех предыдущих этапах разработки новых пятилетних планов необходимость сохранения достигнутого в 1983—84 гг. активного баланса внешней торговли с расчетами в конвертируемой валюте принималась как непреложное требование. Однако опыт 1985 г. показал, что увеличение экспорта сталкивается — вследствие товарной структуры экспорта — с возрастающими трудностями, а сдерживавшиеся в течение ряда лет потребности в импорте становятся все более настоятельными. При всем этом продолжают существовать внутриэкономические диспропорции. Таким образом, неизвестно, можно ли добиться планируемого прочного актива, и если можно, то не ценой ли неосуществления целей экономической и общественной политики.

С другой стороны, положение большинства стран СЭВ в области внешних платежей консолидировалось и они вновь получили возможности доступа к новым кредитам. Однако если снижение уровня задолженности в последующий плановый период не является насущной необходимостью, то из этого отнюдь не вытекает, что следует (можно) вновь встать на опасный путь быстрого роста задолженности, как это было в 70-е годы. (Таковыми последствиями сопровождалось бы, например, оживление экономического роста без существенного повышения экспортного потенциала). Но это означает, что со стороны внешней экономики есть возможность пересмотреть сложившуюся в вынужденной ситуации 1981—82 гг. политику, которая административными методами форсирует рост экспорта и сокращение импорта за счет внутреннего потребления и оставляет мало простора для мер, направленных на улучшение макроэкономических предпосылок приспособления. Такой пересмотр дал бы экономическому руководству стран-членов СЭВ большую свободу и возможность действий в последовательном проведении реформы хозяйственного механизма, в переоценке направлений и методов экономического развития, без чего достижение провозглашенных целей повышения экономической эффективности, улучшения структуры и установление прочного равновесия останется иллюзией.

PROSPECTS OF ECONOMIC REFORMS IN THE EUROPEAN CMEA COUNTRIES IN THE 80s*

L. SZAMUELY

Both the compelling need for change in the system of economic control (in the so-called economic mechanism) and the perception of its necessity by the political and economic leadership are present today in the majority of the European socialist countries. And yet the 80s have not become a decade of reforms. The author tries to explain possible reasons for the postponement of comprehensive reforms, on the one hand, and to interpret the meaning, the trend of changes taking place now, on the other.

According to conventional wisdom economic and social reforms in general are put on the agenda in socialist countries when their socio-economic development becomes disturbed by grave troubles and/or impeded by serious obstacles. With a bit of simplification this conception can be summarized as follows: reform is born by crisis. There is not much doubt, indeed, about the historical and logic validity of this thesis. For example, up to the present day the greatest reform of socialist economy and its theory, the New Economic Policy (NEP), introduced in the Soviet Russia in 1921, could be accepted by the Bolshevik Party only under conditions of a deep economic and social crisis. And this, of course, was not a historically singular case but also a logically conceivable necessity. No government (either in the East, or in the West) would change an effective and successful policy, i.e. it would revise it only under some pressure. It is all the more true for social reforms which in a certain sense always resemble a "leap in the dark": unknown risks, social burdens, conflicts encountered in hope of uncertain benefits. Social reforms (economic ones included) never spring into being from a mere comprehension of some sort of abstract common sense, of enlightened authority, but only as a result of entering and successfully fighting the social conflicts.

If it is true, however, that a social reform is a product of certain social tensions, pressures or—if you like—crises, the inverse thesis is hardly valid: crisis situations do not lead by all means to reforms. Overcoming such situations is often possible in different ways, too. I believe that Central and Eastern Europe of the 80s abounds with facts to prove the truth of both theses.

* Based on a paper presented at the Second Annual Scientific Conference of the Italian Association for the Study of Comparative Economic Systems (AISSEC) held in Trento, Italy on October 11—12, 1985.

The situation in Central and Eastern Europe at the beginning of the 80s

Since the mid-seventies there have been many changes in the economic circumstances and economic development of the seven European member countries of the CMEA (Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania, the Soviet Union). The earlier trend of high economic growth rates has been broken and there was even an absolute contraction of net material product (NMP)* in some countries (not only in Poland but also in Hungary in 1980 and Czechoslovakia in 1981)**; the foreign debt has reached unprecedented levels; a number of countries had liquidity problems, and two of them became practically bankrupt, asking for a rescheduling of their debts; the general restriction on investments was characterized first by a slowdown and then in 1982 by an absolute decline in investment activity in five member countries, and among them there was an absolute decline in Poland and Hungary for four, in Czechoslovakia and Rumania for two consecutive years; improvements in the standard of living over two decades have changed into stagnation, and in some countries even deterioration; the shortage of some consumer goods and foodstuffs has increased, etc.

These were general phenomena in the early 80s, appearing in every single CMEA member country. (Naturally, not in the same way: e.g. the external economic equilibrium of the USSR was not shaken, and it did not have liquidity problems either; Hungary did not have troubles in the supply of consumer goods, at least not of foodstuffs; in the GDR the growth rate of NMP *produced* did not decline though NMP for *domestic use* stagnated, even contracted; all other phenomena, however, were characteristic of these countries, too.) The reason of these phenomena, indicative of crisis, is well-known: the direct cause that gave rise to the events—at least in the case of the six smaller CMEA countries—was the deterioration of the external economic equilibrium. The latter was the consequence of the “oil-shock” of 1973 that shook the foundations of the world economy and of the delayed and/or faulty response of economic policies of CMEA countries to the rearrangements in the international economy. The deeper reason, however, is the dead-end strategy of the extensive (quantitative) growth which had been pursued in all socialist countries. Not only external, world market conditions have changed but also the inner sources of extensive growth (the cheap labour force moving away from agriculture and the apparent amplitude of natural resources) have been exhausted.***

The stress on the importance of the intensive (resource—efficient) path of economic growth has become a commonplace today in the European CMEA

* A category of the Material Product System (MPS), the system of official economic statistics of all the CMEA countries.

** The statistical data for 1985, of course, are not included here and further on.

*** A more detailed analysis of the crisis phenomena of the early 80s can be found in [1].

countries. Also it is evident to everybody by now that intensive development needs the most advanced technology, accelerated technological change, the greatest possible economy in the use of materials and energy, strict quality control, etc. There are innumerable party and government resolutions about this in each country. One cannot even say that these resolutions do not point to the most important condition—the necessity of a change in the system of economic control and planning (in the so-called economic mechanism). Thus, both the compelling need for change and the perception of its necessity by the political and economic leadership are present (at least in the majority of the member countries). And yet the eighties have not become a decade of reforms. The question is: why?

Reasons for the postponement (delay) of comprehensive reforms

A possible explanation, I think, can be drawn from an interplay of several factors.

1. One of these factors is the form of manifestation of the crisis itself. As I have mentioned, the crisis appeared in the sudden deterioration of the external economic balance which provoked acute liquidity troubles and threatened all smaller European CMEA countries greatly depending on foreign trade with a paralysis of their economic life. This emergency situation needed emergency measures. To restore the equilibrium of the balances of payments, to achieve surpluses in the trade balance, needed for the repayment of their debts, the governments of Central and Eastern European countries turned to the only means available to them: drastic restriction of imports on the one hand and forced boosting of exports of marketable commodities (semi-manufactures: chemicals, iron and steel; food; fuels; consumer goods) on the other—even at the expense of creating or aggravating shortages of goods in some countries, to the detriment of domestic consumers.

As is well known, the restrictive and belt-tightening policies have achieved their goals. According to the report of the Secretariat of the United Nations Economic Commission for Europe the combined trade balance of the six smaller CMEA countries with the market economies improved by over \$1 billion in 1984, following the massive gain of almost \$5 billion in 1982 and a \$1 billion rise in 1983, while the Soviet Union raised its large surplus of \$4.3 billion achieved in 1982 to \$6.7 billion in 1984 [2]. The current account deficits of the six CMEA countries, which amounted to 8.1 and 4.8 billion of US dollars in 1980 and 1981, turned into a small surplus in 1982 and rose to about \$3.7 billion in 1984 [3]. The liquidity position of all the countries in question significantly improved and their creditworthiness was restored. According to data of the BIS/OECD reporting system the gross debt of Eastern Europe and the Soviet Union in convertible currencies declined from \$91.4 billion in 1982 to \$85.8 billion by the end of 1984 while the net debt declined from 75 to 62 billion US dollars [4].

The emergency manoeuvre was, and in some countries is still carried out by strictly centralized measures. The nature of this attempt implies that it could not be done otherwise in a short time. The radical reforms promising higher competitiveness and economic efficiency but involving the decentralization of control, wider autonomy for enterprises and local administration, are not suitable in the short run for the quick solution of the balance-of-payment crisis—though in the long run only these can bring about the real stabilization of the external equilibrium. On the other hand the institutions of the directive planning system are particularly fit for such policies. In this respect the new-born directive planning system was instantly baptised by fire at the beginning of the Stalin era, in 1931, when the Soviet Union accumulated an enormous debt (mostly *vis-à-vis* the USA) as a consequence of the large-scale imports of machinery needed for the industrialization of the country. The debt was of exorbitant volume for that time: it amounted to 1.4 billion roubles, that is to about 720 million US dollars at the actual official exchange rate. The solution was rather drastic: cutting total imports to one-fifth of the original level in three years and forcing the sale of grain, the most important export commodity, at unfavourable prices during the Great Depression. The aftermath of this endeavour was a mass famine, but the debt was paid back within a few years. (See [5, 6, 7].)

Thus, when the main priority is to find a solution for the short-term, urgent problems, the reform aiming at economic efficiency in the long run, and even the question of efficiency itself, will get only second consideration, and centralized decision-making and directives will be the main means of management.

Therefore, it may be said that the external disequilibrium, though leading possibly to crises, does not normally result in reform in the socialist countries. Hence the external economic disequilibrium does not cause domestic social tensions since, due to the increasing import of goods and increasing incomes accompanying the faster rate of growth in the whole economy, the standard of living and the supply of goods often improve. The deterioration of the external economic situation is not felt by producers either, because in their business activity they are generally isolated from foreign markets. Therefore, the central governing bodies are not under pressure to innovate, to introduce changes and reforms. Such a situation may occur later, if at all, if the restoration of the external economic equilibrium demands too much sacrifice from society for too long a time. Therefore, the leadership has a relatively free hand in implementing restrictive measures.

Concerning the longer run effects of such a short run economic policy on prospects of a reform, I would like to quote my above-mentioned paper, written two years ago: "It is to be feared (and there are already serious signs referring to this, e.g. in Hungary and Poland and perhaps in other countries, too) that the above-mentioned solution for the deflationary crisis (implementation of strictly centralized restrictive measures—L. Sz.), while not leading to the restoration of dynamic economic growth, may establish a socio-psychological atmosphere that favours the 'proven' direct, centralization methods and not the new initiatives necessary for reforms, thus

preserving extensive growth already deprived of its sources." [8] The last two years showed that this fear was not unfounded. We could see how the "provisional", "exceptional" restrictive measures became permanent in almost every country. This points to a "vicious circle", self-supporting power of restrictions (the Hungarian economist L Antal called it some years ago a "restrictive downward spiral": [9]) since without reform the external balance remains shaky in an economy functioning in the old way, which means that restrictions will be necessary further on.

2. Another factor that might explain the absence or delay of reforms is a change in the social priorities in Central and Eastern European countries in the last ten to fifteen years as compared to the 50s and the 60s. The society and first and foremost its leading strata now attach much higher value to stability than to radical changes. The 10–15 years beginning with the mid-fifties,—to be more precise, with Stalin's death (1953)—,brought an end to great cataclysms: the trials of World War II, revolutionary changes in social systems achieved by dictatorial methods based on mere coercion, etc. In the Soviet Union this turbulent period was even longer, almost forty years, going back to World War I and the October Revolution. Reforms started or at least put on the agenda in the second half of the fifties meant in fact the consolidation and stabilization of the new social systems or at least bore a promise of it.

The social acceptance of reform ideas was in a sense easier at that time than it is today. Reform, as a matter of fact—in contrast to popular belief—is not the antithesis of revolution. Both lead to smaller or bigger but by all means radical changes in social existence. The essential difference is that reforms are carried out from "above", by the governing power itself on the basis of a social consensus or coercion. Revolution brings about social changes from "below", as it sweeps away governmental regimes opposing changes. In the 50s and 60s reforms were changes belonging to the chain of the previous revolutionary transformation, they were part of an unceasing search for a proper road but at the same time—as has become apparent since—for a longer period closing stages, too. In spite of the interruptions or half-successes of the 60s reforms, in spite of the lost economic dynamism, the stop in social change and the contraction of the world market share of socialist economies, the Brezhnev era of eighteen years had one immensely positive aspect, namely, that it brought about—after half a century—the feeling of tranquility and security to Soviet society. It also secured the continuous satisfaction of basic consumer needs, though supply shortages and troubles reappeared in the 70s. The situation in the majority of smaller CMEA countries can be characterized more or less similarly (the obvious exceptions are Poland and Romania). It is quite understandable that after such a long period of relative tranquility the leading strata of East European societies are reluctant to initiate changes promising unforeseeable risks and uncertain benefits. Societies in a state of upheaval, therefore, are more easily drawn into reform experiments,—as is well demonstrated in today's China,—than those countries where the force of inertia born by relative stability and tranquility has to be overcome.

3. The idea of a reform aimed at a comprehensive transformation of the economic system presumably meets enthusiasm on the part of the leading strata all the less because the traditional directive planning system proved to be surprisingly resilient in the severe economic troubles of the 80s.* Not that the previous high rate of economic growth and, in some countries, the absolute level of economic activity could have been maintained. Not even in the sense that quick structural redeployment demanded by the different circumstances could have been carried out. (Yet, for long decades, both in the East and the West, these two macroeconomic abilities had been pointed to as advantages of the directive planning system in contrast with the market economy's ability to accomplish microeconomic adjustment.) Where the directive planning system proved to be appropriate was in the quick execution of operative measures implemented by central controlling bodies, the enforcement—sometimes with drastic severity—of central control and supervision, in short, the handling of the economy when the waves of crisis almost dashed over their heads. Understandably, the leading strata, preferring stability, are particularly cautious about changing this system under present conditions.

How to interpret changes in economic control and management and what their trend is

Under the pressure of the circumstances in the first half of the 80s the short-run interest (restoration of the external economic equilibrium) has still enjoyed priority over the longer-run interest, which can be summarized as a development of socialist economy along the path of intensive growth. It is evident, however, that only the latter can lead to a lasting external and internal economic equilibrium and lay a strong foundation of social stability. Thus the same reasons which explain the delay of reforms, point to the necessity of putting reforms on the agenda in the not so distant future. Why do I say future when it is well known that nowadays, too, a lot of measures are being—one can say permanently—implemented in every single European CMEA country without exception in order to improve the system of economic control and management? The answer can be found in the motives and contents of different efforts.

Concerning the motives: the traditional Marxist concept of a socialist economy and economic systems based on it have needed unceasing revisions from the beginning and—from time to time—essential corrections. The theoretical reason for this is that in the traditional Marxist interpretation of a socialist economy the entire problem of functioning of this economy did not exist, it was unknown. In an economy consciously organized and controlled by the society there are—according to this view—no conflicting interests; society has a homogeneous structure and, consequently, the

* This was first pointed out by a young Hungarian economist, László Csaba, in an unpublished study [10].

social relations are transparent and the administration of people is replaced by the administration of things.

But from the beginning, this conventional approach had to treat and interpret somehow the disturbances which could not be reconciled with the theoretically harmonious, trouble-free and rational operation of a socialist economy. From the theoretical treatment and explanation, however, some concrete proposals and prescriptions followed how to do away with these disturbances and how to improve the operation of economy. In an earlier study analyzing the development of reform ideas in Hungary [11] I tried to describe a pattern of what I called the "bumpy road to cognition of the economic mechanism". Although that scheme was mostly based on Hungarian experience, it depicted in a generalized way the efforts of leaders and researchers of existing socialist economies to understand and correct operational disturbances of these economies.

According to it the first stage of this bumpy road can be characterized by references to *extraeconomic factors* (destruction caused by, or the menace of, a new war, an economic blockade, hostile subversion, etc.). Another approach almost as old as the former one yet the most widespread one up to now, I called *the organizational treatment* of the shortcomings of socialist economy. It attributes the troubles to poor organization, lack of discipline, insufficient education of labour, backward consciousness of the toilers, subjective shortcomings of the managers and executives, possibly the deficient structure of the organizational system and as a solution it recommends their correction or prevention. Although it deals with phenomena within the world of economy, this organizational approach lacks scientific basis and usually offers a spectacular and high-sounding but palliative treatment with rather shortlived effects.

This way of treatment very often coincides with an approach which I would call *economic-political response* to economic troubles.* As a matter of fact, governments also often react to cumulating disproportions in economy, to an aggravating shortage of goods—and/or social tensions, public discontent concomitant with them—with certain corrections in their economic policy pursued. They might change the rate of private consumption and of accumulation, reallocate investment, boost output and/or import of consumer goods, expand services, housing, etc. This usually also involves stronger financial stimuli to raising production and/or productivity (e.g. higher agricultural procurement prices, wages, etc.). Such a correction of economic policy condemned *post festa* as a faulty one usually proves to be rather partial. As a rule, it does not amount to revising the strategy or method of economic growth but only to a temporary slowing down of its rate, to a modification in some of its inner proportions which in most cases also turn out to be temporary. (There is abundant economic

* This way of reaction to economic troubles was missing in my earlier article already mentioned. I am indebted to Professor H.-J. Wagener of Rijksuniversiteit of Groningen (the Netherlands) for drawing my attention to the importance of this point.

literature dealing with causes and motives of returning to the growth rush which leads to severe dislocations—not least owing to research work of Hungarian economists.)

The corrections of economic policies, however, inevitably lead to a revision of the economic mechanism, too. The result of this revision may be what I called a *rationalization of the directive planning system*: a reduction of the number of obligatory plan indicators; introducing indicators which reflect the quality and quantity of work and possibly the requirements of the user better; stronger incentives for the economic units to fulfil these plan indicators; their wider autonomy in the choice of means of fulfilment. This approach is, therefore, no longer initiated by ideological preconceptions but by the objective examination of reality, the recognition of different interests of economic agents, and attempts to correct the recognized shortcomings by improving the motivation. But it stays strictly within the framework of the existing directive planning system, and it is the functioning of the latter it wants to rationalize, that is—in official parlance—“to perfect” or “to develop further”.

The treatment of economic disturbances either through reorganizations or corrections of economic policies or by modifications of the system of plan indicators and regulations is very often called by the catchy term “economic reform”. This usage of words cannot, of course, be forbidden. But a clear conclusion can be drawn already from the history of many decades of development of socialist economies: the meaning of a genuine economic reform is *a change in the principles of functioning of the economic mechanism, consequently, in the situation of the economic agents, in their relation to each other, in their economic environment*. With the present level of economic development of the socialist countries this boils down to a shift from the existing directive planning system to a kind of regulated market economy.* The need for such a shift, that is, for a radical reform has been ripened by historical experience since it has been proved that all the other methods so far used for overcoming economic troubles only bring about superficial and/or shortlived solutions.

This scheme of the road towards an economic reform—as all schemes in general—simplifies reality and practically no CMEA country exactly developed according to it. Social development is not a constant road of improvement anyway. The idea of reform, and the reform itself, does not have to pass every stage of development; some may be left out; some grades or even whole stages may be passed more than one time, following periods of inaction or even setbacks. The sequence of

* A similar interpretation of the meaning of economic reform was given by Professor Włodzimierz Brus, the eminent Marxist scholar in one of his recent studies: “The term ‘economic reform’ has become so ambiguous from journalistic over-use—any change in the methods of planning and management is often spoken of as a reform—that I should like to define it more precisely as a change in the operating *principles* of the economic system, involving a switch to a different economic mechanism. To be specific, an economy of ‘real socialism’ becomes reformed when obligatory plan-targets and physical allocation of resources are abolished and replaced with autonomous planning at different levels (national economy, sector, enterprise), so that the regulatory functions of the state are exercised predominantly through appropriate adjustment of market magnitudes (prices, incentive schemes, monetary and fiscal policies, etc.). . . . of all the countries of ‘real socialism’, only Yugoslavia and Hungary have so far met my criteria of a reformed socialist economy (though, obviously, considerable differences exist between the two).” [12]

stages, therefore, is neither obligatory, nor irreversible. Its main purpose is to put the corrections and reform-type measures implemented and being implemented in the socialist countries into logical and historical perspective.

In the first part of the 80s, under the pressure of circumstances, different attempts emerged to improve the functioning of the existing systems of economic control and planning in the European CMEA countries. These endeavours correspond with and fit into certain stages of the above-mentioned schematic development. This reveals the character of the latest events and their trends, but at the same time the limits of the economic reforms and of the scheme, too. On the one hand, the reform cannot be narrowed down to a reform of the economic mechanism, on the other hand even the implementation of a reform of the economic mechanism in the narrow sense also depends on the outcome of the struggle in the political sphere.

In Poland, for instance, on January 1, 1982, a system of economic control came into force which rejected directive planning and attempted to base the economy on the operation of market forces and self-management. This programme contains everything that had been implemented, for instance, during the Hungarian reform of 1968 or had, at least, been proposed in the mid-sixties not only in Hungary but also in Czechoslovakia, the Soviet Union and elsewhere. The present Polish reform, however, is no more than a reform experiment since the fundamental social and political condition for its success, i.e., social consensus, is lacking. And nobody knows how and when it will emerge.

The creation of a consensus, of a unified will, is not easy even within governmental apparatuses. For example, Soviet social researchers (see the latest paper by *Zaslavskaya* [13]) point to the fact that the different levels and branches of the apparatus have their own particular interests which differ in their attitudes towards the preservation and/or change of the present situation, or the carrying out of reform measures. This is quite understandable. In Hungary the demand for a step forward was raised in the early 80s in the very aspect that had hardly been touched by the economic reform of 1968: the institutional system. This field is large: it includes the organizational pattern of enterprises characterized by dominance of the overconcentrated and overcentralized giant enterprises and by the lack of the small- and medium-sized firms; the relationship between the firms and the controlling governmental bodies in which the firms remained in administratively subordinate, dependent positions *vis-à-vis* the ministries even after the reform; the reorganization of the governmental apparatus since as a consequence of the abolition of the administrative subordination of firms, the previous activity of ministries mostly becomes superfluous; the functioning of the banking system, because of a need for the creation of a network of competing commercial banks; the reorganization of foreign trade activity, since it should be organizationally linked to domestic production and distribution.

The list of mere economic tasks could be much longer, but it must already be obvious that these economic changes are closely linked to deep social changes. And the latter involve transformation of the previous governing institutions, democratization

of the social relations, creation of new institutions serving the reconciliation of particular and common interests or improvement of the old ones. Without this even a rationally devised system of economic control and regulation will stumble in its operation, in fact, it might even become dysfunctional. (The long history of the Hungarian reform provides a lot of examples.)

Thus, the road to economic reform is necessarily bumpy, with many ramifications. None of the socialist countries has been able to go along it yet, but almost all of them have tried to set out—some of them several times. The deadlocks and turn-backs only make the restarts more difficult but do not prevent them: today there is no other alternative to social progress and economic modernization in the socialist countries.

References

1. Szamuely, L.: The Eastern European economic situation and prospects of foreign trade. *The New Hungarian Quarterly*, Vol. XXV, No. 95, 1984. pp. 60–72.
2. *Economic survey of Europe in 1984–1985*. Prepared by the Secretariat of the Economic Commission for Europe. United Nations, New York 1985. pp. 190–191, 205.
3. *Ibid.* p.205.
4. *Ibid.* p. 208.
5. Stalin, I.: *Sochineniya (Works)*. Vol. 13. Gospolitizdat, Moscow 1951. p. 277.
6. Nove, A.: *An economic history of the USSR*. Penguin Books, 1972. p. 211.
7. Köves, A.: *The CMEA countries in the world economy: Turning inwards or turning outwards*. Akadémiai Kiadó, Budapest 1985. pp. 29–37.
8. Szamuely L.: *Op. cit.* p. 71.
9. Antal, L.: Conflicts of financial planning and regulation in Hungary. (The “nature” of restrictions.) *Acta Oeconomica*, Vol. 30, Nos 3–4 (1983), pp. 341–367.
10. Csaba, L.: *Reformtörekvések és reformpótlékok a 80-as évek első felében* (Reform efforts and reform substitutes in the first half of the 80s). Budapest 1984. Manuscript.
11. Szamuely L.: The first wave of the mechanism debate in Hungary (1954–1957). *Acta Oeconomica*, Vol. 29, Nos 1–2 (1982), pp. 1–24.
12. Brus, W.: Socialism—feasible and viable? *New Left Review* (London), No. 153. Sept–Oct. 1985. p. 57.
13. Zaslavskaya, T. N.: *Ekonomika skvoz' prizmu sotsiologii* (Economy through the prism of sociology). *EKO* (Novosibirsk), No. 7. 1985. pp. 3–22.

ПЕРСПЕКТИВЫ ХОЗЯЙСТВЕННЫХ РЕФОРМ В ЕВРОПЕЙСКИХ СТРАНАХ-ЧЛЕНАХ СЭВ В ВОСЬМИДЕСЯТЫЕ ГОДЫ

Л. САМУЭЛИ

Согласно ходячему суждению, хозяйственные и, вообще, общественные реформы ставятся на повестку дня в социалистических странах тогда, когда в их общественно-экономическом развитии обнаруживаются серьезные трудности, помехи. Такого рода ситуация возникла с конца семидеся-

тых годов в европейских странах-членах СЭВ. Автор перечисляет неблагоприятные явления их экономического положения, свидетельствующие о кризисе прежней стратегии и методов экстенсивного развития, и отмечает, что необходимость перехода на новые пути интенсивного развития, включая необходимость преобразования системы народнохозяйственного планирования и управления, можно считать общепризнанной в этих странах. Однако восьмидесятые годы, тем не менее, не стали до сих пор десятилетием реформ в европейских социалистических странах.

Возможные причины откладывания (запаздывания) реформ автор видит во взаимодействии трех факторов. Первый — это сама форма проявления кризиса, выявившаяся во внезапном и резком нарушении внешнеэкономического баланса и платежеспособности ряда стран СЭВ. Стабилизация внешнеэкономического положения потребовала применения экстренных мер по регламентации импорта, форсированию экспорта за счет наличных товарных фондов, сокращению капиталовложений и урезыванию жизненного уровня. Вынужденное принятие экстренных мер на долгое время усилило роль и значение административных методов централизованного управления и, естественно, отложило реформы, связанные с децентрализацией управления и расширением самостоятельности предприятий. Второй фактор — это изменение общественных приоритетов за последние полтора-два десятилетия, по сравнению с пятидесятыми-шестидесятыми годами. Последним предшествовал длительный и бурный период войн, социальных потрясений, глубоких революционных сдвигов. Реформы (или их попытки) пятидесятих-шестидесятих годов хорошо вписывались в этот период радикальных изменений и были, собственно говоря, их последним, завершающим туром. Стабилизация общественно-экономической жизни в последующие годы, несмотря на элементы стагнации, впервые принесла ощущение надежности, обеспеченности существования для самых широких слоев общества. Поэтому понятно, что ведущие общественные слои неохотно идут на риск, сопряженный с радикальной реформой. Третий фактор — это живучесть традиционной системы директивного планирования, которая хотя и не предотвратила падения темпов роста и не обеспечила быстрой перестройки народнохозяйственной структуры в соответствии с новыми требованиями технического и социального прогресса, но оказалась дееспособной в быстром проведении жестких оперативных мер централизованного управления по восстановлению внешнеэкономического равновесия. Приоритет сохранения стабильности общественной жизни мотивирует определенную осторожность ведущих общественных слоев в изменении этой системы.

Однако причины, объясняющие отсрочку реформ — необходимость восстановления экономического равновесия, сохранения стабильности общественно-политической жизни — в то же время определяют и их насущность, так как только они могут подвести прочную и надежную базу как под внешнеэкономическое равновесие, так и под общественно-политическую стабильность. В статье в заключение прослеживаются те тенденции в развитии европейских социалистических стран, которые указывают на неизбежность радикальных реформ в не столь отдаленном будущем.

THE CONDITIONS OF DEVELOPING A REGULATED MARKET

M. TARDOS

The Hungarian experience proves that commodity markets cannot be operated alone in an economy without labour, money and capital markets. The paper analyzes the tasks of the market of factors of production. It points out that the creation of labour, money and capital markets does not conflict with the state control of economy, since there is a great need for a strict aggregate demand policy. Direct government control cannot be dispensed with not only in respect of public services, but in respect of market goods government preferences can be also asserted. According to the analysis a more efficient utilization of the market than the present one requires a more fundamental change in the traditional method of control of the socialist economy, than offered by the current modifications

Numerous evaluations can be read about the development, successes and shortcomings, of the Hungarian economy which, seeking new ways, openly broke, almost twenty years ago, with the traditional method of direct government control. Most of the opinions are approving. Although practical experience and its analyses still leave a lot of fundamental issues uncleared, there is an unambiguous agreement in *the following two questions*: 1. Since the introduction in 1968 of the new economic mechanism, the Hungarian economy has met the domestic demand better than earlier. 2. No radical change has taken place either in the exploitation of resources, or in adjustment to market demand.

It is not the purpose of the present paper to assess the now almost twenty years of development, world market changes and adjustment to them, but, analysing the specific features of economic management and the institutional system, it merely seeks an answer to the question, *why the turn has not been a decisive one*. With this in view, it will first examine the specific features which distinguish the Hungarian control and management system introduced in 1968 from the traditional socialist systems. Second, it will try to specify those most important social and economic features of the now functioning economic management system, which must by all means be changed in order of an efficient, Hungarian demand-oriented economic management.

The economic management of the socialist countries and the Hungarian economic mechanism

It is a well-known fact that two extreme images of the socialist economy had developed still before it came into existence. The *adherents* of socialism defined the economy as a system functioning on the basis of social ownership of the means of production where the conflict between individual and social interests is solved by an

organized harmony in contrast with the anarchical system based on capitalist private ownership asserting individual interests. On the other side, the *opponents* of socialism expected the collapse of social management after the abolition of private ownership of the means of production, because of the lack of knowledge necessary for the central management of economy, and for the realization of an organized harmony.*

In practice, the countries advocating socialist ideas and nationalizing the means of production have not brought economic decisions and price determination totally under government control.

When the means of production were nationalized, the centralized hierarchy of the executive power was pragmatically extended everywhere to the conditions of management. There have been numerous attempts to describe the practice of central control and management following the nationalizations, called traditional central planning. (See for example [1], [2], [3].) In reality, however, it is difficult to capture what is general in a system developing under diverse and specific national conditions and subject to historical changes. I shall, therefore, only point out a few of its features, which are the most relevant for our examination.

1. Because of the large proportion of state property, state (government) administration plays a dominant role in the traditional socialist economy.

2. The economic units are operated by the state administration and the party by different methods depending on forms of ownership; however, in compliance with the central will, expressed in the national economic plan, through the directive elements of central planning, i.e. the obligatory plan targets, and the allocation of resources (materials, investments, money, etc.).

3. In this system, the goal of fiscal and monetary policy is to finance the plan. Such systems of price and income regulation, of subsidies and taxation are developed which enable to cover the costs arising in the course of plan implementation. In an ideal case, producer prices approximate the relative costs, while consumer prices are deflected from producer prices according to state preferences. It is not the primary task of the price system to bring supply and demand into harmony. Credit granting is also adjusted to the object of fulfilling the national economic plan.

4. The citizens' incomes are earned through activities pursued in centrally managed economic organizations. Salaries (wages) as well as the financial incentives of managers and other employees are paid depending on plan fulfilment and the meeting of financial targets determined by the plan, combined with egalitarian principles.

* The debate about socialism of the 1930s, in which the Lange-Lerner model appeared as a new element may be considered as a ramification of hypotheses alien to reality. Many called this model, without justification, the *market model of socialism*, though there was no mention of market in it, only that prices would be simulated by a central organ in accordance with a system of market prices, and the centrally fixed prices would regulate production. The model built upon total centralization of price fixing, and upon centrally set rules of behaviour, well harmonizes with the general equilibrium model. The only substantial difference is that in the general equilibrium model of capitalist market economy a centre is not needed, while the economic model of socialism can only function if it has a centre with special knowledge and decision abilities.

Beside these four, in my opinion fundamental, characteristics of the traditional central control and management system of socialist economy there were a number of other accompanying features between 1930 and 1960 of which only a few will be mentioned here-under;

— forced economic growth concomitant with a neglect of quality in many different fields prompts a large-scale centralization of resources;

— in the exploitation of resources, preferences selected without adequate control are asserted;

— the economy is partially isolated from the outer world not directed by the central power, i.e. from the world economy;

— there is an effort at a high-degree stability of prices.

This system functioned in an adequate manner as long as economic growth could be achieved by increasing the number of workers, by accumulation to the detriment of consumption, by an abundance of raw materials, and by a more intensive exploitation of the inherited infrastructure. However, as soon as these reserves were exhausted, a change in the economic control and management system became necessary.

The majority of socialist countries attempted to replace volume targets by quality targets while preserving the fundamental character of economic management, only changing the accompanying features.

The amendments were primarily aimed at simplifying the hierarchical division of the centralized system and at reducing the number of the medium-level control organs. In the course of this process:

— Efforts have been made to diminish the number of levels separated within the multi-step government administration hierarchy. Reduction of the number of the ministerial medium-level control organs and enterprise mergers (by forming associations, unions and combines), i.e. administrative decentralizations have been complemented by different methods in each country. Administrative decentralization was coupled with the centralization of economic units. The economic dependence of merged companies (in some cases large enterprises, unions or combines comprising a whole industry and acting as legal entities) on state administration weakened. Not only the number of central plan targets, but also their tautness and the strictness of calling to account decreased.

— It became clear in each country that the concentration of resources on a few central projects could not be pursued for long. For example, the Hungarian practice of the 1950s demonstrated that the building of a "country of iron and steel" (while neglecting other products and services) can cause economic, social, and political crisis. It became clear, too, that even the development of the preferred industries can only be organized within a well set complex inter-enterprise system of production and supply of intermediary goods. Further, it also became clear that the basic condition of production incentive was to enable consumption, that is, that a supply which corresponds to the solvent demand of wage-earners should meet with the income of

workers. The fulfilment of these two requirements greatly increases, however, the number of tasks for which the central plan should provide an organized solution. Therefore, the assertion of production development preferences meets with ever growing difficulties, lessening the possibility of setting preferences at all. It is to be noted that some hold the opinion that it is enough to reduce the number of preferences in order to eliminate chronic shortage.*

— The requirement of partial insulation from world economy lost much of its importance as soon as it became manifest that the domestic resources available for reaching the economic policy objectives were insufficient at the present level of utilization. Thus it was necessary to make use of every additional possibility, including the advantages offered by the international division of labour. In the majority of CMEA countries, foreign trade accounting was changed in a way that enterprises should directly perceive the foreign exchange value of import costs and export earnings through so-called price multipliers (coefficients) substituted for exchange rates. As a consequence, insulation from the world market lessened. It is true that in this respect changes soon slowed down in most of the countries, partly because of the internal contradictions and slow development of the CMEA integration and partly because of factors hindering the development of East–West relations, such as the insufficiency of the export potential of the CMEA countries.

— With a view to increasing the active role of money, efforts were made that producers' prices should follow more closely relative costs and should express scarcities, too. Thus, in almost every member country of the CMEA a charge of fixed assets, playing the role of interest was introduced, and a tax playing the role of mine rent was imposed on mineral resources. In consumer price policy, increased efforts were made to reduce subsidization, further, to diminish money reserves accumulated in households by imposing higher turnover taxes on certain products qualified as luxury articles.

These tendencies conflicted with the earlier established requirement of price stability. To diminish the contradiction, changes were effectuated with compromises. The imposition of taxes (charge on fixed assets, mine rent, etc.) introduced with a view to improve efficiency was counterbalanced by reducing other taxes on the occasion of the periodical price reforms. The rise in current costs was counterbalanced, when necessary, by subsidies. Thus, on the one hand, only certain price reforms were concomitant with a general rise in price level and, on the other hand, producers could adapt themselves to the new prices of inputs reflecting more the changing costs and limited resources than earlier ones, without any essential change in production pattern and technology. Cost increases concomitant with some of the price reforms were sooner or later shifted by producers onto buyers. Statistics, however, did not show, or only partly, the rise in the consumer price level, since the "luxury articles" sold at

* The foregoing requirements were clearly formulated by V. A. Medvediev [3].

higher prices remained outside the scope of price observation, despite their increasing turnover.

As against the above-outlined programme of changing the traditional centrally planned economic control and management, the Hungarian economic reform promised wider and more radical changes. In the narrower sense: it abandoned the system of target planning and central material allocation. In a wider perspective: it adopted a comprehensive economic policy strategy, with the following main principles:

- although the preponderance of public property remains, the economy is multisectoral, cooperatives are equivalent to the state sector, and production and trade based on means owned by individuals also make an integral part of the national economy;

- exchange of goods between enterprises and between households and enterprises is effectuated through a multichannel *trade* system, and not through central distribution;

- obstacles to the price-forming effect of demand and supply conditions must be removed; prices should not merely reflect costs and state preferences;

- the economy must not be insulated from the world market; world trade prices must directly orientate enterprises;

- enterprises are autonomous, profit-oriented units;

- the workers' participation rights in enterprise decisions must be increased.

Therefore, in a broader interpretation, the new economic mechanism is a programme which intended to change not only the accompanying marks of the traditional socialist economic control and management system, but its fundamental characteristics as well.

To what extent have the elements of this programme—to be found in party and government resolutions—been put into practice? (The analysis follows the basic features listed at the beginning of this article.)

The principle of predominance of public ownership

The declarations acknowledging the multisectoral character of the economy have not been followed by deliberate changes consciously deviating from earlier policies. What is more, up to 1978 the share of state ownership in the social wealth, and the share of the state sector in the production of the national income had been clearly growing in Hungary, to the costs of both the cooperative and the private sectors. A tendency contrary to this had been shown before 1978 only by the household farming plots of agricultural farms. (See *Table 1*).

The share of the cooperative sector began to grow after 1978, and that of legal private activities from 1980.

In addition to the agricultural household plots and auxiliary farms, private initiative was given more room in that, from 1982 on, the contractual and rental system

Table 1
National income distribution by forms of ownership
 (percentage)

Sectors	1960	1970	1978	1982	1983
State	67.4	70.7	73.2	68.4	67.3
Cooperative	17.0	23.6	21.3	23.6	23.2
of which: household plots of cooperative members (1)	4.2	5.2	4.3	4.7	4.1
Auxiliary farms of employees ^a (2)	6.6	3.1	3.3	3.8	4.4
Private sector (3)	9.0	2.6	2.2	4.2	5.1
Total of private activities ^b	19.8	10.9	9.8	12.7	13.6

^a The share of cooperative members' household farming activities in the national income was made proportional to the employees' auxiliary farms on the basis of gross output.

^b Private activities cover the total of (1)+(2)+(3).

Source: Statistical yearbook 1984.

has been more freely applicable in the domestic trade and catering industry (in the framework of which private individuals operate small shops and restaurants). Besides, from January 1, 1982, economic units may be established in the form of associations. Yet, the weight of the private activities has not grown considerably: outside agriculture its presence is only felt in a few fields of trade and services. According to statistics, changes are not important in any of the sectors. Private activities—including cooperative household plots, employees' auxiliary farms, economic workteams (working communities), associations working on the basis of a civil law contract, private craftsmen and others—produced 14 percent of the national income in 1983 and 15 percent in 1984, according to statistics. This still is a much lower share than that of 1960, yet 50–60 percent higher than the trough of 1963–1964.

Of course, statistical data only provide information on licensed and tax-paying private activities. Domestic and foreign observers of the Hungarian economy share the opinion that the rate of development and extension of private activities go well beyond what can be followed by statistics, and thus their role played in the output of economy is also greater than demonstrated by statistics. No reliable data are available about the real dimensions of private activities and about the size of a national income including illegal (not recorded) activities. According to some estimates, national income covering also unrecorded activities surpasses the official figure by more than 10 percent, and the value of private activities reaches one third of the total amount. This assumption, however, does not change the fact that, as has been mentioned, the predominance of the state sector in the social structure of economy had not decreased but rather increased before 1978. The increase taking place since 1978 has hardly changed the established proportions. The cooperative sector only regained its lost share after 1972. And private activity, though mobilizing earlier unused resources and improving the economic potential, could not get organically integrated into the

economic processes, mainly because of differences in earning prospects and in capital supply. The advantageous effects of the developments are much reduced by the fact that while earnings in state and cooperative enterprises are under strict control, incomes earned through, partially illegal, private activities in industry, building industry and services are high. In agriculture, the situation is somewhat different: household farming plots and the auxiliary farms of employees pay less for an hour's work than the cooperative and the state sector, which is counterbalanced by the fact that a considerable *increase* of the total income is possible through private activities. The differences in earning prospects segregate the labour market and thereby reduce the capacities of the state and cooperative sector. On the other hand, the taxation of legal private activities, still rather high, though of a lowering degree since 1982, the political uncertainty about the future of the private activities, and the unsolved question of credit supply to the latter are such factors because of which only a few people will undertake the risk of development. The poor supply of private activities with capital and machinery is economically unjustified, and that is one more reason why they are incapable of getting organically linked to the socialist sector.

Enterprise autonomy

It is probably the questions of enterprise autonomy that have been discussed in economic literature in the most complex and most diversified manner since 1968. Therefore, I restrict myself to outlining just a few aspects which are necessary for further explications. In 1968 enterprise freedom was both formally and actually increased to a large extent. Since then, central organs have not issued any directive rules as to the production and development targets of enterprises, or their material and resource supply. It has become a general principle that the most important success indicator of enterprise activity is profit. Notwithstanding, because of the many institutional ties left intact, enterprise independence has remained rather strongly limited. (Although not on the basis of central plans, enterprise activities still are controlled by the state and party apparatus. The latter also appoint or confirm in their position the key executives of enterprises, and decide on the managers' financial and moral appreciation, etc.) The fulfilment of the central will—which may concern domestic commodity supply, export increase, or the observation of wage limits—can at any time be demanded by the sectoral ministers exercising proprietary control over enterprises and by the functional control organs (Ministry of Finance, National Bank of Hungary, National Office for Materials and Prices), and by other government and party organizations.

The party and government hierarchy also plays an important role in influencing the formally independent cooperatives. In order that a leader elected by the members of the cooperative may take up his post, he must have the direct approval of the regional party organs. The regional cooperative organizations functioning in each

county, formally having the function of protecting the cooperatives' interests, control in fact, as representatives of the central and regional power organizations, the cooperative managers' income, regulate cooperatives' subsidiary activities, and in the 1970s they directed the merger campaigns of cooperatives, etc. ([4], [5]).

Finally, the economic decisions of the party and government organizations put serious limits on the functioning, and thereby also on the performance, of the private sector.

The financial system

It was the financial system where the new economic mechanism held out the promise of the most thorough change: instead of directive instructions, it should have been money expressed in yields, interests on credit and capital value that should have orientated economic actors towards economically rational decisions. A number of important changes were made with this in view. For example, a growing number of prices became free, while also the officially fixed or controlled prices could be changed, not only parallel to changing costs, but also as demand and supply required. The credit applications of economic organizations were judged in consideration of likely returns. The reallocation of incomes between enterprises and central organs had to take place, according to the approved principles, on the basis of fundamentally uniform rules valid for all enterprises. The uniform credit and income regulation system could only be broken by such exceptions as government preferences announced in advance.

The actual changes, though not so radical as the promises, were not at all negligible. In the most fundamental question, however (asserting the requirement of rentability, i.e. the return of invested capital), no major breakthrough was achieved. It has remained a more important interest of the enterprise to fulfil the expectations of the superior organs than to earn profits. Thus a duality is characteristic of the new situation: enterprises have to make increased efforts to cover costs with receipts, while they must also continue to fulfil the other (not financial) expectations of the party and government organizations. It makes their contradictory situation somewhat easier that, the government declarations notwithstanding, neither prices, nor budgetary relations present an unambiguous condition for them. Their bargaining with the state administration about financial conditions [6] allows, in almost every case, a compromise which enables survival with even moderate efforts.

In fact, financial regulation has not succeeded in overcoming the hierarchical dependence, which is also demonstrated by the failure to introduce uniform regulation. The set of rules of state intervention has been analysed in detail by the Chief Directorate of Revenues of the Ministry of Finance. In connection with the rules of price setting, of enterprise income taxation, of wage control, and of credit launching

the large number of decrees and rescripts comprising individual exemptions deserves attention.*

Interventions have different effects on efficiency. In some cases the effect is differentiating, in others it is levelling or neutral. It should not be assumed, however, that only those interventions are disadvantageous which level efficiency. Mitigation as well as intensification of the effects imply that it is not economic competition but the organs (agencies) establishing the rules that designate winners and losers. (See *Table 2.*)

In my opinion, the reason why the change made in the financial system has not brought more improvement in a better utilization of resources and adjusting production to demand is that the central organs did not seek to apply a uniform regulation of the solvent demand of national economy (prepared even to reduce it, if necessary), and did not pull down the obstacles before a free flow of money between enterprises. Instead, after elimination of the directive plans, since they did not trust the market mechanism, they chose to change the decision power of the control organizations to the benefit of the functional, mainly the financial, organs, but not reducing it on the whole. Referring to national economic interests, but often to the detriment of social wealth (property), the state administration used individual financial instruments to regulate enterprises in a way that the latter should escape any serious economic conflicts.

The situation and income of citizens

Although one of the specific motives of introducing the new economic mechanism was exactly the low efficiency of the economic incentive system of managers and workers, there is little change in this respect. Alternative chances for employment and wage earning are all only open to citizens in the non-centrally controlled sphere of economy, i.e. in the second economy. The only change in the socialist sector (state and cooperative enterprises) is that the earlier role of plan fulfilment has been taken over by profit in the shaping of personal incomes.

* The individual character of the regulation is also proved by the yearly 1200–2500 rescripts, concerned with enterprises, issued by the Ministry of Finance, in addition to the main regulatory elements. To these rescripts are added further ones by other supreme authorities, for example, by the National Bank of Hungary, the sectoral ministries exercising rights of enterprise supervision and, not infrequently, by regional political control organs (party organizations). Most of these rescripts are refusals of applications for exemption, and only the remaining few hundred represent further individual tightening or concession as compared to the already differentiated regulation. 50 percent of the rescripts have a retrospective effect, i.e. they often change the taxes on incomes earned in the past. [7]

Table 2
Distribution of the main regulatory elements

Kind and number of regulators	Levelling elements			Differentiating ^a elements		Total
	Supporting inefficient enterprises	Afflicting highly efficient enterprises	Neutral	Afflicting the activity of inefficient enterprises	Supporting highly efficient enterprises	
Percentage distribution						
Price regulating (67)	14.9	11.9	16.4	23.9	32.9	100.0
Income regulating (155)	33.6	11.6	15.5	25.8	13.5	100.0
Credit regulating (22)	4.6	4.5	4.6	50.0	36.3	100.0
Wage regulating (50)	36.0	14.0	24.0	18.0	8.0	100.0
Total (294)	27.6	11.6	16.3	25.8	18.7	100.0

^a Regulations working in fact towards income differentiation.

Source: Gálik, L.: A normativitással kapcsolatos értelmezés és kísérlet a normativitás érvényesülésének körvonalazására (Interpretations of normativity and an attempt at outlining the assertion of normativity). *A Pénzügykutató Intézet Közleményei* (Bulletins of the Financial Research Institute) 4, 1983.

Not even a pragmatic practice of the rules, determining the managers' income and changing from time to time, was able to reward the efforts to successful managers and change the undesirable state of affairs in which managers' income is growing more slowly than that of workers.

The primary objective of enterprise wage regulation has remained, up to these days, to coordinate the households' purchasing power with consumer goods supply. Restriction of average wages encouraged to keep cheap labour, and restriction of the wage bill only enabled wage rises with the migration of labour, sometimes even to an extent not justified by the labour situation.

Of the last years' changes the most important one may be that the rise of personal incomes has been limited in enterprises by progressive, yet relatively moderate taxes, which is less disturbing for management than was the earlier rigid wage regulation. However, the payable amount of wages and earning has remained strictly "earmarked". And the egalitarian tradition of wage distribution among workers has proved to be so strong that a differentiation of basic wages could not be implemented despite political demands. Thus enterprise managers are justified in their complaints that even with special benefits and overtime they can still only stimulate a small part of the staff to increase their efforts. And the majority of workers can only regret that the

wages of their 40- or 42-hour working week reflect neither the quality, nor the intensity of their work. These conditions have also contributed to the situation that work accomplished during the official working hours is still inefficient, there is a large number of superfluously employed workers, and productivity is low.

In state enterprises and in cooperatives labour wasting and labour shortage could not be eliminated, mainly because of the persisting rigidities of wage regulation. A better satisfaction of needs is in a great part attributable to the income distribution sphere beyond central control, i.e. the so-called complementary activities. A peculiar social consequence of this—especially favourable for party and trade union organizations—is (beyond the improvement of supply) that the workers performing complementary activities combining legal and illegal elements are not dissatisfied with their income even at times of decreasing real wages, and the dissatisfaction of others can be turned against them. A peculiar contradiction may be observed: the carefully guarded social peace has been and is hampering efficient management.

The necessity of breaking through

The conclusion can be drawn from the preceding that countries changing the traditional mechanism of the socialist economy have achieved certain results even without changing the basic characteristics of the system, first of all within the vertically constructed large industrial organizations; in general, shortage could be mitigated, and the worst disturbances of supply and demand mastered.

All this improvement, though unable to counterbalance the exhaustion of reserves needed for growth, entails two important advantages from the aspect of the functioning system:

— On the one hand, it does not hurt the essential interests attached to maintaining the centralized hierarchical structure of economic management. The hierarchy (as a whole) does not in fact relinquish any of its substantial rights, only the top level delegates some, in many cases formal, decision rights (sometimes against resistance) to the lower levels of the hierarchy kept well in hand.

— On the other hand, amendment—based on the recognition that the centre is unable to control directly and harmonically the full sphere of economic activities in compliance with social needs—has not come into open conflict with the idea legitimating the system, i.e. the programme promising to overtake and leave behind the advanced countries, since changes are expected from the coming into prominence of “up-to-date, large-scale enterprise forms”.

The analysis of the Hungarian practice striving after a more thorough reform of the traditional socialist economic control and management system suggests, at the same time, that considerable energies have been released by the improved growth conditions of the cooperative sector, the considerably eased restrictions of private activities, through elimination of the official system of directive plans and of allocating

material resources, and by the increased regulatory role of money; and all this has improved the households' commodity supply more than achieved in other Eastern European countries. And yet the changes have not been sufficient to counteract the exhaustion of resources and the deterioration of the external economic situation, nor to open the road to a further rise of Hungarian society.

One of the main contentions of the critical literature discussing the causes of dissatisfaction and the prospects of further development is that the emergence of the enterprises' profit incentive has been impeded, mainly after 1972, by the central organs' interventions. According to this statement, interventions are explained by the situation that the proprietary rights of supervision over enterprises—freed from the ties of directive plans—continued to be exercised by the sectoral ministries during implementation of the reform. Since the dependence of enterprises has remained, the economic control agency could easily resort to its traditional armoury: making use of the proprietary positions of the state, it could make known or suggest its desires and conceptions to enterprises, especially if the latter came into a contradictory situation. On the other hand, the state used the budget to free enterprises from the coercion of economic circumstances. As I have already mentioned, a relationship has developed between the budget and enterprises in which a very important role is played by taxes as well as individual tax exemptions and subsidies.

It would follow from these critical statements that elimination of the proprietary functions of the sectoral ministries and reduction of subsidies from the budget should directly lead to an efficient and regulated market economy.

Doubtlessly, the critical statements concerned with the practice of proprietary supervision and the financial interventions different for each enterprise, therefore discriminatory or, using *Kornai's* term, paternalistic, [8] highlight an important aspect. The question is, however, what the result of eliminating the sectoral proprietary supervision and of the individual financial regulation would be, if the other conditions of the 1968 economic regulatory system remained unchanged. In my opinion, such changes would cause important and even unbearable disturbances under the given conditions:

- A large part (40–50 percent) of enterprises would go bankrupt, and such mass bankruptcy would produce unpredictable spillover effects.

- Profitable enterprises would increase wages to an unjustified degree, as long as they could, and they would start a lot of investment projects with uncertain returns.

- Making use again of the resources and staffs of bankrupt enterprises would start with long delays, and this would increase shortages.

Of course, a reform programme could not envisage an action causing such grave effects because of the social consequences of the shock, even if there were reason to assume that the change would lead to adequate results after some time of rearrangement.

Seeking answer to the question, why the mechanisms of market self-regulation are so powerless in the Hungarian economic management system that they elicit

continued interventions on the part of the centre, I shall use the market model for a basis of comparison. Of the self-regulatory properties of the market model, as against those of the new economic mechanism, only so much is important for our reasoning that they play a major part in adjusting production and the resource structure to demand. Therefore, the model is not to be identified with the 19th-century, often idealized, free competition, but it is a rather stylized system of today's capitalist mixed economies, in which, the not negligible role of the modern state and large oligopolistic companies notwithstanding, almost every factor of economy has to stand fast on the market in the struggle for solvent demand.

In market economies there usually are several types of market (for example, market of commodities and services, markets of labour, of capital, of money, of land) functioning parallel to each other, influencing and correcting one another. Without the intention of presenting textbook schemes, I only refer to the fact that in a market economy, the different, closely correlated markets shape one another undivided in space and time. The self-movement of commodity markets is accompanied, for example, by the self-movement of the resources- and money markets. When making decisions on the utilization of savings, or the mobilization of new capital, the entrepreneur takes into account the probable market price of labour and capital. If the development project is not expected to refund labour, capital, and other costs, the entrepreneur will not only renounce the use of external sources, but will even consider to invest his own savings in projects outside his enterprise.

For enterprises with diminishing profits or transitory losses, their organic links with resource markets offer important possibilities of correction. The inadequately growing or even diminishing profit does not make them incapable of adjusting themselves to the conditions of the labour market. Wage-rises do not entail punitive taxes. In a similar way, enterprises do not lose their connections with the money and capital markets even under deteriorating conditions. If they can convince their partners that the envisaged investments will produce adequate yields, they can even expect to get new capital. Thus bankruptcy is in fact a threat on them, but they have a wide scope of activities enabling them to escape it, without support from the state administration. Under such conditions, if bankruptcy changing proprietary relations finally does take place, it is a socially highly expansive version of economic adjustment, which happens, as a rule, only if the enterprise is incapable of renewal by itself.

In the Hungarian economic management system established in 1966–1968 self-regulation was given free way, even in principle, only in commodity markets. And even the extent of this is limited by prescriptions of price regulation, and the restriction prevails not only in the market of products with official prices but, through the price calculation schemes and their control, also in the sphere of products with free prices. As for capital and labour markets, the system left even less room for self-regulation. From 1968 to 1980 the profit earned in the commodity market determined the amount that could be spent on wage-rises on the one hand, and the investment resources of the enterprise, together with the depreciation to be left with the enterprise, on the

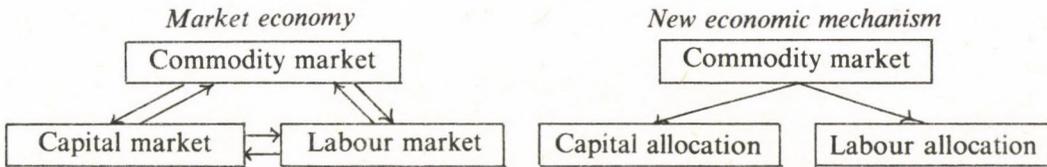
other. After 1980 the enterprise has been free to decide, with due consideration for its tax-payment obligations, on the amount of the after-tax profit to be spent on investment and on raising wages, as well as on the wage-rise/investment ratio. According to the logic and practice of the system, enterprises spend every forint of their net profit on wage-rises or investments within their own framework, irrespective of their necessity or expected returns.

This system of relations, deficient as compared to the market model, meant that the enterprise was not watching market signals in the first place when raising wages or when making investments. (For lack of labour and capital markets, it could not much do otherwise.) It used its net profit by all means for raising wages and/or for enterprise investment. Thus, profit-making enterprises paid out the amount available for wage-rises even if that was not justified by the labour situation of the firm. Similarly, the amount available for own investment or for covering development credits was used for such purposes, whether the prospects of the investment projects were good or bad. Wage-rises unjustified in certain cases are explained, on the one hand, by the enterprises' fear of labour shortage, and on the other hand by the fact that social successes were judged, to no little extent, by the rate of wage-rises. An important motive behind enterprises' spendings on investment is that their activities are judged not so much by the return of the invested resources and the profit made, as by the satisfactory domestic supply with and the growth of exports of their products. And, of course, with a greater capacity it is easier to fulfil these expectations. Besides, it has to be taken into consideration that enterprises earning high incomes could not profitably invest—outside their own framework—the incomes not used for their own development. Joint ventures and the possibilities of purchasing bonds have only been gaining ground from the late 1970s. And the bank deposit of receipts made no sense because of the low, in many cases even negative, real interest rate, the periodical restrictions on the use of the deposits and the threat of their being taxed away.

The lack of money and capital markets caused even more serious problems if the enterprise earned little profit or ran at times into a loss. In such cases, namely, in keeping with the rules, the enterprise could not increase wages even if that was clearly necessitated by economic conditions. Low or diminishing profit could cause similar difficulties in investment: within the limits allowed by the regulation, the enterprise could not start a new investment project, however efficient development opportunities offered themselves.

As it can be seen in the figure below, in the system of relations of the new economic mechanism there was no feedback to be described by monetary processes between resource allocation and commodity markets, and there was no direct relationship between the resource markets, either. This compelled economic regulation to put a restraint on the dispersion of enterprise incomes and to drive their utilization towards a forced path. All this is, of course, not to say that there was no feedback at all from resource allocation to commodity markets, but only that it did not take place through direct money flows and price changes. If, for example, an investment project

*System of relations between commodity
and production factor markets in the practice
of the Hungarian regulation*



was more successful than expected, this was only expressed in the increase of enterprise profit, but did not lead to a revaluation of the firm's capital. The additional profit was spent on wage-rises unjustified by the labour situation, or/and the enterprise spent its income on own investment even if it was not expected to bring adequate returns. And, in the opposite case, when the actual yield of investments was lower than planned, the prescriptions made wage-rises very expensive. Thus labour migrated from the enterprise, or its continued employment became more expensive. Thus an unsuccessful investment further deteriorated the enterprise's situation through the capital and money allocation mechanism. As a consequence of an investment with a poorer result than planned, it was not the enterprise's capital value that fell below the book value, but the enterprise became insolvent because of the lower than expected returns, and thus it was deprived even of the possibility (unless by government subsidy) to receive new credit. Thus an enterprise that was developing to a lower than planned degree became dependent on the banking and budget apparatus.

Thus, it was characteristic of the new economic mechanism that while enterprises were in a great part free to draw up their own plans i.e. to decide on production, sales and investment issues, because of the financial regulations they could only adjust themselves insufficiently to deviations from the plan in external conditions or in their own performance. Any unpredictable change in external conditions or in their capacity made them dependent on the benevolent support of the central organs.

Let us now revert to the question, what would happen, if the inner conflict of the regulations of the new economic mechanism were to be resolved by a sudden hardening of the enterprise budget constraint, as it is often promised by government declarations and as it is demanded by many, relying on Kornai's analysis in *Economics of shortage*.

It is now easy to see what has been explained above, that—for lack of complete labour, money and capital markets—the direct consequence of such a change would be mass bankruptcy. Is it justified to expect a solution to the problem from the mechanism of enterprise bankruptcies and to criticize the Hungarian economic management practice followed after 1968 because it prevented loss-making enterprises from going bankrupt by such interventions as are frequently used also in the leading industrial countries?

Despite superficial similarities, there are radical differences in these phenomena

between the leading industrial countries and the Hungarian economy. Without taking a stand for the bailout actions of the leading industrial countries, I confirm my earlier statement to the effect that, under the prevailing conditions of the Hungarian economy, no such methods of adjustment can be adopted with which enterprises pushed into financial distress by a uniform, non-differentiating regulation would go bankrupt.

Bankruptcy—and thereby a rearrangement of enterprise property—can fill two positive functions. On the one hand, the fear from bankruptcy and the coercion to survive may serve as important motive powers of development, and, on the other hand, bankruptcy and the concomitant depreciation of enterprise capital, i.e. a rearrangement of the production pattern may be economically useful. Because of social and political tensions accompanying actual bankruptcies, the latter cannot become the most important means of adjustment, though they might play a role in the last resort (*ultima ratio*).

Therefore, an economic situation is unacceptable in which the exclusive or most important method of adjustment to economic uncertainty is bankruptcy, and in which the number of bankruptcies is very high on this account. And, if, for lack of capital, money and labour markets, in the model of the new economic mechanism central interventions had been eliminated, bankruptcy would have had to be used as the primary tool of automatic adjustment in every case when an enterprise was, for any reason, unable to stay within the narrow zone of growth allowed by the central financing conditions. Namely, since it is not the preservation or augmenting of property what the economic actors hold to be their task and since there is little possibility of a profitable external investment of resources that cannot be rationally utilized within the enterprise, it is necessary to centralize incomes surpassing the planned level. The resulting strong income centralization (and the concomitant lack of market supply of money and capital) leads to a situation where, under the Hungarian conditions, not only those enterprises would go bankrupt which cause social losses, in which receipts do not cover current costs through long periods. Also those would fail which came into a more disadvantageous situation because of market tendencies or other factors, than they were with the conditions observed in their economic regulation, almost independently of their efficiency as compared to other enterprises. [9]

In order to make financial severity the main method of adjustment to economic conditions, first of all economic regulation has to change. A uniform regulation of enterprises would be needed, and within it prices much more flexible than those of the cost-plus price system, better adjusted to demand and supply conditions. Many have recognized the necessity of creating these two conditions; in practice, however, progress is almost impossible. This is because, on the one hand, a uniform regulation not differentiating even by sectors, and excluding any bargaining (called *normative* in Hungarian usage) is considered on the whole as useful for efficiency, but on the other hand, its effect on the differentiation of enterprise and individual incomes is qualified as

unbearable. In respect of prices, such regulation would demand that the rule—according to which domestic prices can be raised no higher than the world market import price level measured at real exchange rates and increased by customs duties—should be applied not only to enterprises whose cost level approaches the import price, but to all those whose products are in demand on the domestic market.

At present, however, the new economic mechanism is unable to apply financial coercion successfully as an adjustment method not only because without central interventions the generally introduced rules would push an unduly large number of enterprises into bankruptcy, but also because, in a market system, bankruptcies infer the existence of free capitals ready to take over the ruined enterprises. Such free capitals are, however, not formed in the state and cooperative sector. Their lack is not a consequence of capital scarcity, but of the centralization of incomes and of the fact that (if possible) only so much is left with the enterprises as is enough for the economic objectives in agreement with the central conception.

Thus government could not allow a general hardening of the financial constraints. During the last almost twenty years the central organs have been continuously forced to use not only the methods of intervention declared to be normative and by no means uniform, but also openly differentiated interventions of varying intensity, and different for each enterprise, such as

- changing price calculation prescriptions independently of market changes,
- rescheduling of working capital and investment credits,
- tax exemptions,
- granting of wage preferences,
- granting of withdrawing individual central subsidies,
- prescription of a reserve building obligation,
- taxing away the enterprise's financial means, first of all obligatory reserves,
- forcing organizational mergers.

Being afraid of enterprises' insolvency, the central organs often approved increases in producers' prices and were compelled to grant individual tax exemptions, subsidies and preferential credits.

The above clearly show that government interventions restricting enterprise independence are not accidental in the new economic mechanism. The lack of labour, money and capital markets could only be replaced by a budgetary and credit policy pursuing strongly preferential targets, and by some other governmental instruments.

The contradictory nature of the situation is indicated by the generally accepted view that the adverse effects of wage regulation can only be eliminated by accepting the labour market and by making enterprise management consider wage saving just as important as economy with any other cost factors. At the same time, neither workers, nor managers have been prepared during the last twenty years to accept an open labour market and to face conflicts that would have come to the surface between enterprise management and staff. The change would have struck the political organizations of society, the party organs and trade unions even more unexpectedly.

From the point of view of the central power, the investment issue is at least as delicate a question. On the basis of information questioning the efficiency of money and capital markets in advanced industrial countries it did not seem unjustified to constrain the enterprises' investment freedom on the strength of the (still prevailing) view that, if an enterprise wishes to thoroughly transform its production structure, it should be able to do so under strict central control even within the framework of the new economic mechanism.*

This ideology provided the grounds for a high taxation of incomes as well as for a practice of credit granting and subsidies, in which the activities planned by the enterprise and supported by the government organs were considered as the basis of financing, while returns were neither taken into account, nor demanded. And this practice has created its own victims and beneficiaries. The main victim was society since, promises notwithstanding, the new investment financing practice did not curb either the demand for an ever increasing accumulation, or the erosion of the already functioning capital. And, among the beneficiaries we find the organs which could, by asserting preferences, retain more of their power position that would have been justified in the new situation (National Planning Office, sectoral ministries), as well as those which strengthened their power position more than it was desirable (budgetary organs, the National Bank of Hungary and the State Development Bank). As for the enterprise managers' position, the situation was ambiguous. On the one hand, they had increased security, since they could share the moral risk of development projects with the state administration. What is more, whenever state organizations urged and supported the starting of a project, while not making available the necessary resources, the responsibility for eventual failure was also shouldered by the state apparatus. On the other hand, their situation also deteriorated in a sense, there being no clear criterion of judging their activities, success being more often dependent on the "goodwill" of state organs than on their own management activity. The uncertainty of their situation was further increased by the fact that state financial organs often proved to be unreliable partners. (Credits granted were withdrawn, the terms of and interest rates on credits were changed in an unpredictable manner, etc.).

To replace the money and capital markets by administrative measures also implied acceptance of the fact that enterprises did not satisfactorily manage the

* The resolution on the reform of the economic mechanism intended to confer freedom of investment decisions on enterprises only up to the degree of maintaining the production level. As for capacity increasing investments, bank-loans were taken into account, and the bank had to decide on the loan so as to be in agreement with the plan, and in consideration of returns. The ideological foundation of limited autonomy was formulated by the Polish economist W. Brus, highly popular in Hungary in the 1960s, who explained, relying on the economic views of O. Lange and M. Dobb, that "the market mechanism is not suited to develop the main perspectives and guidelines of economy, nor, particularly, to select the main perspective and investment trends." [10] And he drew the conclusion that the government makes direct decisions in the reformed socialist economy "on the allocation of the investment fund among the different sectors", specifies "capacity increase to be achieved by the investments" and made the statement that, "in view of the 'superiority' of the central plan, the central level is obliged to apply a regulated market mechanism and to take a series of indirect decisions in order to narrow the limits established by the direct decisions." [ibid.]

resources made available to them. They continued to believe their task was simply to increase production and sales activities further (in addition to achieving financial results coordinated with the state administration), and not to preserve and augment the property. An entrepreneurial attitude interested in property was in fact not open to them, for if they needed money exceeding current proceeds, they could not get free capital on business terms, and when their own proceeds surpassed the value of profitable investments within the enterprise, they had practically no or hardly any possibility to place out some of their money.

Therefore, without money and capital markets, management could only be efficient if the practice of central taxation, subsidies and preferential credits actually reached the efficiency level of the money and capital market and if the practice of central taxation and subsidies did not have a harmful influence on enterprise attitude on the commodity market, either. This is, however, not possible. It follows that if an economy wishes to achieve complete success by means of a regulated market, it needs a self-regulating system more highly developed than that of the new economic mechanism, that would comprise not only a commodity market, but labour, money and capital markets as well.

Further, it remains to be clarified, whether it is possible to create a strong enough interest in property without capitalist ownership relations, if enterprise management is not under the direct control of the proprietors.*

I think this scepticism is not negligible. The experience of socialist economies following the road of reforms is not promising in this respect. Economic managers have often been spending carelessly not only in state-owned enterprise, but also in cooperatives as well as in the Yugoslav self-managed enterprises. According to some opinions, not even the shareholders of capitalist companies can curb the expansion drive of managers. Yet it does not seem impossible to find a solution to the problem. As for capitalist joint share companies, syndicates, the majority of experts do not agree with this opinion. Owners, and among them shareholders, usually succeed in achieving that the specialist managers of the company seriously observe the viewpoints of company property, profit, value of shares, and dividends. If their interests are harmed, they are in a position to apply sanctions. In the case of the socialist economy, errors committed so far need not be considered determinant for the future if only because managers of state-owned enterprises have so far not been made accountable for returns of capital in the first place. Similarly, cooperative members and the numbers of self-managed enterprises have not been acting as owners, either, but tried, in the best case, to assert their own income interests.

There are numerous examples of rational economy without direct material incentive, under adequate institutional conditions. There have been countless managers identifying themselves with their enterprise even if the successes of the latter have only had a moderate influence on their income. We have no reason to assume that

* This is challenged by Andrea Szegő ([11, 12])

only a strong material incentive can lead to identification. Besides, we can, of course, refer to the fact that state-owned property managing institutions (holdings) are successfully working in many countries (Italy, Austria, Spain, etc.), and that there are successful companies functioning in the way of state-owned property managing institutions (for example, in France).

If society recognizes the importance of capital incentive in the sector of economy outside public utilities and can assert it within the framework of law, enterprise management will comply with the demand of returns of capital.

This change requires that the success of enterprises should not be measured on the basis of output, or of the current profit of production, but on the basis of the financial assets of the enterprise. Therefore, a capital accounting system of enterprises must be established. This is to say that every state-owned enterprise has to publish yearly not only its current profit, but the changes in the value of its property as well, which also serves as information on its future profit making abilities. The re-introduction of this simple method known for centuries means that the enterprise management has to account for the difference between the book value of assets, computed on the basis of development and investment costs and depreciation allowance on the one hand, and the capital value computed on the basis of expected profit on the other. It is by relying on these computations that enterprises are to submit proposals for the reorganization or closing down of their units, or for selling some, as well as for spending their free resources on the development of the enterprise, or on investments outside the enterprise. These enterprises which are not only compelled to admit through the accounting of the capital value that their property is less than the book value, but also that they are unable to repay the capital loan received will have to file a petition for bankruptcy procedure.

Thus the system of capital accounting is apt to exert direct institutional control over enterprise management. It would further improve the efficient management of enterprise property if workers were paid a capital rent during their employment period. The self-government type management of enterprises to be formed after 1985 could thereby work on the basis of direct property incentive.*

If some or the majority of enterprises can be transformed into joint stock companies and shares become negotiable, the quoted value of the shares may enable an additional control of the activity of enterprise management.

Economic necessity coupled with the influencing of political will through an institutionalized representation of interests may encourage the party and government leadership to implement thorough changes in the institutions of economic management, even such as would deviate from the image of socialism as seen earlier. Thus the multisectoral nature of the economy may be maintained, and the labour, money, and capital markets may be accepted in addition to the regulatory power of commodity markets. These changes are not conflicting with the ideals of a socialist society free

* These ideas have already been formulated by several authors, see [13], [14], [15].

from exploitation. It must be made clear, too, that an old scale of values and the safeguarding of positions held may be present in the political leadership as well. Conservatism feeding on these grounds may also be legitimated by actual difficulties involved by shifting over to market processes. For example, in the course of passing over to demand-oriented, regulated, advanced market conditions, there is an increased danger of inflation, shortages, extreme income differentiation, unemployment, and of the country's international insolvency.

Starting from this point, it is important to make it clear that an advanced market is nothing else but a regulated market, either in Hungary or in any other country. To attain it, the socialist state has to fulfil its economic functions more efficiently than it has been doing. Here belong: aggregate demand management (i.e. that the money in the hands of households, enterprises and institutions should not exceed commodity supply); harmony between the revenues and expenses of the budget; a constitutional control over the indebtedness of the budget; the creation of such a banking system which is able to finance efficient enterprise actions; market control (i.e. that enterprises should not be able to abuse their powers rooted in certain monopolies—either as sellers or as buyers); such development of taxation that it should restrict the dispersion of personal incomes; a structural change in budgetary expenses, so that also infrastructure should be in harmony with social needs. The state must also watch that exports and imports should be adequately coordinated.

* * *

In 1984–1985 party and government organs accepted a complex programme aimed at the further development of the economic control and management system and it is now being put into practice. The changes which are to reduce the dependence of a large number of enterprises on the state administration hierarchy and to increase workers' right of decision, moreover, which also aim at a thorough change in the financial system, carry in themselves a possible solution to the questions raised in the present article. It is too early to appreciate the effect of the changes as yet. It is, however, already certain that the spreading of new forms of enterprise, the reduced profit tax, the introduction of taking resources, the imposition of a tax on accumulation instead of partially taxing away depreciation, the partial release of price and wage regulations, and the introduction of elements of capital flow are all to be considered merely as moderate initial steps. The efficient comprehensive constraint on aggregate demand is still missing, no sufficient institutional interest is attached to the protection and increase of social wealth functioning in business life, and the prospects of capital flow are still limited.

It is no simple task to follow the road further as outlined above, since it demands changes in the most important characteristics of traditional central planning, and a thorough transformation of the established power structure, while it still does not hold out the promise that Hungary can overtake the leading capitalist countries within reasonable time following the changes.

It is, however, only the solution of these tasks through the free shaping and assertion of the will of the various social groups that can enable the development of a socialist economic control and management order which can offer much more to people than the present one: in the field of work in which one can find self-accomplishment, in adequate incomes and in utilizing their income in a sovereign way, while also opening the way to a free shaping and assertion of their will. It is only such change that can successfully ward off the danger of lagging behind world development trends.

References

1. Bornstein, M.: Economic reform in Eastern Europe. In: *East European economics post-Helsinki*. Joint Economic Committee of the Congress of the U.S., Washington 1977.
2. Brown, A.—Neuberger, E.: Basic features of a centrally planned economy. In: Brown, A.—Neuberger, E.: *International trade and central planning*. University of California, 1968.
3. Медведьев, В. А.: *Управление социалистическим производством*. Политиздат, Москва 1983.
4. Tellér, Gy.: Ómechanizmus, új mechanizmus, ipari szövetkezetek (Old mechanism, new mechanism, industrial cooperatives). *Mérvetánc*, 4. 1984; 1. 1985.
5. A szövetkezeti mozgalom a gazdasági reformfolyamatban (The cooperative movement in the economic reform process). *Valóság*, 2. 1984.
6. Antal L.: Development—with some digression. *Acta Oeconomica*, Vol. 23. Nos 3–4 (1979).
7. Gálik, L.: A normativitással kapcsolatos értelmezések és kísérlet a normativitás érvényesülésének körvonalazására (Interpretations of normativity and an attempt at outlining the assertion of normativity). *A PM Pénzügykutatási Intézetének közleménye*, 4. 1983.
8. Kornai, J.: *Economics of shortage*. North-Holland, Amsterdam 1980.
9. Tardos, M.: The role of money: economic relations between the state and the enterprises in Hungary. *Acta Oeconomica*, Vol. 25. Nos 1–2 (1980).
10. Brus, W.: *Market in a socialist economy*. Routledge and Kegan Paul, London 1972.
11. Szegő, A.: Érdek és gazdasági intézményrendszer (Interest and economic institutional system). *Valóság*, 6. 1983.
12. Szegő, A.: Vita a reformalternatívákról (Debate on the reform alternatives). *Kritika*, 6. 1984.
13. Adamecz, P.—Kömlös, J.: A nagy kockázatú vállalatok tartós eszközigényének finanszírozása (Financing the permanent resource needs of high risk enterprises). MTA Közgazdaságtudományi Intézet (Institute of Economics of the Hungarian Academy of Sciences), Budapest 1984. Manuscript.
14. Kotz, L.: Elgondolások a hosszú távú vagyongerdekelttség alakulásáról (Conceptions on the development of long-term property incentive). Agrárgazdasági Kutató Intézet (Institute of Agricultural Economics), Budapest 1984. Manuscript.
15. Rott, N.: A népgazdasági érdekekkel egybevető vállalati fejlesztési tevékenység feltételrendszere (The system of conditions of enterprise development activity coinciding with the national economic interest). MTA Közgazdaságtudományi Intézete, Budapest 1984. Manuscript.
16. Pokol, B.: Az érdekképviseleti szervek a politikai akaratképzésben (Organizations of representation of interests in the shaping of political will). *Társadalomtudományi Közlemények* (Bulletin of sociology), 1. 1985.

УСЛОВИЯ СОЗДАНИЯ РЕГУЛИРУЕМОГО
РЫНКА В ВЕНГРИИ

M. ТАРДОШ

Автор статьи ищет ответа на важный с точки зрения дальнейшего совершенствования управления экономикой вопрос, а именно: не следует ли за ограниченными успехами функционирующего в стране хозяйственного механизма искать такие факторы, которые связаны не только с изменением намерений хозяйственной перестройки после 1972 г., но и с недостатками введенной системы.

С целью анализа автор выделяет четыре основные особенности традиционной — сложившейся в Советском Союзе и Восточной Европе — системы управления экономикой:

- превалирование в экономике государственного сектора,
- непосредственное вмешательство партийных и государственных органов в конкретные вопросы хозяйственной деятельности,
- различное для различных предприятий функционирование финансовой системы, подчиненное центральным установкам,
- привязывание условий труда и доходов граждан к показателям успеха.

Эти особенности не изменились в практике хозяйственного управления Советского Союза и восточноевропейских стран. В случае Венгрии их изменение вписывается в программу реформы, однако происшедшие перемены представляют скорее изменения, а не коренное преобразование системы.

В отношении экономических рычагов венгерский опыт доказывает, что в экономике не могут функционировать только товарные рынки без рынка рабочей силы, денег и капитала. В статье анализируются задачи рынка факторов производства, а затем указывается, что создание рынка рабочей силы, денег и капитала не означает отказа от государственного регулирования экономики, ведь рыночная система настоятельно нуждается в строгом регулировании народнохозяйственного спроса. Далее, нельзя обойтись не только без прямого государственного управления сферой коммунальных услуг, но и без государственных предпочтений, касающихся рыночной продукции.

Более эффективное использование рынка, согласно анализу, требует изменения характерных черт традиционного планового хозяйства.

Введенные в Венгрии в 1985 г. новые институты представляют дальнейшие шаги в этом направлении, однако их эффект с точки зрения поставленных проблем еще нельзя считать несомненным.

WAGE AND INCOME DISPARITIES BETWEEN THE FIRST AND SECOND ECONOMIES IN HUNGARY

K. FALUS-SZIKRA

There is a double wage (and income) level in Hungary: wages in the sector of large enterprises are significantly lower than in the private sector and, generally, in the scope of small ventures. The main cause of this large income disparity is the shortage present in the whole economy and the deriving weakness of competition.

The way to mitigate this exaggerated disparity in wages (incomes) must be sought first of all in raising the state level of wages. Secondly, it is also necessary to moderate excessively high incomes in the second economy which are not proportionate to performance. But this must not be done through administrative measures, it should mainly be the result of the operation of market forces, of evolving competition.

In Hungary there is a dual wage and income level: in the large-enterprise sector the level is substantially lower while in the second economy and therein in the private sector and, as a rule, in the sphere of small enterprises, it is substantially higher.* This is a consequence of hidden problems but at the same time it is the source of much difficulty.

Causes and consequences of disparity

When socialist transformation was started in Hungary the wage level was set on the basis of the assumption that a very broad range of personal needs would be satisfied with goods and services not to be bought from wages but received free or at extraordinary discount from public funds. In the meantime this has turned out to be unviable. The chance to rent homes for next to symbolical sums has badly diminished, and to benefit from health care, schooling and cultural services free of charge has been also marred. At the same time the wages contain no or little coverage for such expenses. On the other hand demands have increased at a fast rate. Consumer goods and services that used to be unknown or luxury items (like cars, holiday cottages, tourism) have been included in the "consumption basket" of broad strata, with which the wages paid out in the state sector could hardly keep pace. This is especially true for the last 7-8 years.

Under the prevailing circumstances the Hungarian companies cannot afford to pay considerably higher wages than what they actually do. Neither the level of labour

* In this paper the notion of incomes accruing in the second economy is given a narrower interpretation. Labour incomes outside the socialist (state and cooperative) sector as well as those earned in the socialist sector but by the other than full-time activity belong here, while the problems of incomes accruing in the agriculture, being a quite unique domain, are not considered.

productivity nor the degree of budgetary levies permit that. However, there is no doubt that this wage—a low one even compared to the generally acknowledged subsistence costs and the actual living standards, and which, as it is said, “is too little to make a living”—has its own feedback effect on economic performance.

Among other things, Hungarian families are forced by low wages to let all their able-bodied members undertake work also outside the family, even if this is at the detriment of family care, the upbringing of children, and the work done within the family. (Obviously, an interaction exists here. The high degree of employment is forced not only by the low wage level but also the higher than desirable degree of employment, i.e., overemployment plays a role in the low wage level.) In addition, the low wage forces many workers to undertake work also beside the main, the full-time job. On the other hand the substantially better chances of earning money outside the full-time job devalue the wages that can be achieved through full-time work, undermine its incentive power and often produce counter-incentive and withholding of performances. All the above contribute to the low productivity of the Hungarian economy, the poor quality of products, and thereby to the poor international competitiveness. Owing to low productivity, the low wage level does not produce low wage cost per unit of output.

The multitude of money-making opportunities available in the second economy undoubtedly alleviate the social tensions caused by low wages and help to bridge the decrease of real wages that has seriously affected some strata since the late seventies. However, the same give rise to new and propagating social tensions. First of all because the chances of different groups of people undertaking work for the purpose of earning such income are very different. Some strata are almost completely excluded and their situation has deteriorated badly both in a relative and an absolute sense. On the other side there has developed a stratum that can make maximum use of such opportunities, and irritates the public atmosphere with its high incomes, its quickly growing wealth and its often extravagant way of life. In addition, consumer prices are rising and this increase is accelerated by the higher incomes paid for activities in the expanded second economy. Free prices adjust to the income level augmented by the extra incomes and not to the official earnings, and this afflicts broad strata of the population.

Naturally, the incomes earned in the small enterprising or private sector are not always astronomical. Income differentials are still enormous in this sphere. A good many artisans pursuing traditional repair-and-service activities, working without employee in rural and suburban areas, for example, derive modest incomes. The extraordinary incomes flow first of all to those who have employees and also engage in retailing.

The incomes of self-employed, autonomous people normally exceed that of persons living on wages and salaries all over the advanced world. Firstly, the entrepreneur profits from his invested capital, secondly, he earns entrepreneurial profit. If he is not paid interest after his invested capital he will not invest it. If he does not earn entrepreneurial profit he will not enterprise. (Unless the lack of other opportunities forces him to do so.) Nobody runs the risk entailed by enterprising but in

the hope of a higher income. Most people prefer to work for more modest but safe earnings to working for something uncertain which, though luring, is accompanied by the hazard of failure. This is also backed up by Hungarian surveys. Here, however, this difference is particularly big. The income of autonomous small ventures exceeds that of those living on wages and salaries to a higher degree in Hungary than in countries with capitalist market economy. It is a further peculiarity that here the higher earning also benefits the employees of small enterprises. Free market wages amount to the double and triple of wages paid in big enterprises for full-time work. About the same is the ratio of hourly earnings reached in enterprise business partnerships (working communities or workteams) to earnings in the full-time job. In capitalist countries, just on the contrary, the workers of small enterprises earn less money than those working for big enterprises.

The fact that in Hungary the income in autonomous small ventures is much higher than in countries with capitalist market economy may be traced back to several reasons. The fact that small entrepreneurs and their employees usually work more, and more intensively, than the workers of big enterprises in the full-time job is one of the factors. On the other hand, their activities are in many spheres more efficient, better adjusted to buyers' demands, and their costs are smaller. At the same time, they can sell most of their products and services at higher and fast increasing free prices. Thus, for example, while the price level of the socialist sector has increased since 1968 by somewhat more than 60 percent in the sphere of public services, that of the private small-scale industry increased by nearly 150 percent. According to estimates of the Ministry of Finance the price receipts of small enterprises per one man-hour are about two-two and a half times, and calculated per unit value of fixed assets three times the receipts of big enterprises. It is another non-negligible factor that mainly those who work directly for the population are able to conceal part of their incomes from the control of tax authorities. Mainly these small entrepreneurs and small-scale producers are the ones who earn outstanding incomes.

The income spent by small producers on personal purposes is significantly increased by their limited chance of, or little interest in, making investments for business purposes. The sometimes irritating extravagant way of life also originates in this fact. In addition, owing to the past high degree of uncertainty of the private sector—one never knew whether a permissiveness of the moment would not be soon followed by another restriction, and this feeling of uncertainty is still fed today by some impulses—a good many of those working here and in the new small entrepreneurial forms seldom work in a sober, far-sighted manner. It is much more frequent that they try to get rich and earn maximum income in the shortest possible time, even if at the cost of business morality, trustworthiness or by infringing the valid regulations. Nor is it too rare that the high income is reached by using materials, tools, machines and, especially, the worktime of the main full-time job with the state or cooperative sector.

The great income disparity and the far higher level of incomes in the secondary economy are, in the last resort, rooted in the shortage to be found in the entire national

economy, in the consequential weakness of competition in the second economy as well as between the first and the second economies. The high incomes of the majority of entrepreneurs earning high incomes are based in the first place on their pursuing activities making up for shortage and on turning out products or offering services not available or offered in much poorer quality in the state market. The autonomous ventures capable of relieving shortages in one field or another necessarily find themselves in a privileged or next to monopolistic position. This is why they can set higher prices than the state sector, this is why they can increase their prices at a higher rate than the rise of the price level as a whole, even benefiting from inflation. In the high degree of income disparity also the labour shortage prevailing in the whole national economy plays a prominent role. The workers of the state sector as a whole do not have the opportunity to exploit this, from their point of view favourable, asymmetry of the labour market for increasing their wages. On the other hand those engaged in the small entrepreneurial sector do have this opportunity. Furthermore, should the enterprise fail, they are not forced to accept a much smaller income because there is always a way back to the socialist sector which welcomes them in jobs that often offer considerable additional income (like tips, "sliding" money, etc.). Also the tax authorities must reckon with the shortage situation. They cannot be particularly rigorous with those trying to conceal a part of their income because they cannot risk the implications of their "rigour", i.e. eventual supply problems or a worsening of commodity or service shortages.

Earlier the unfolding of competition in the second economy was directly hindered in Hungary by the authorities themselves by refusing to issue artisans' and retailers' licenses when an entrepreneur of a similar line was already working in the neighbourhood. By now this kind of restriction has been abolished. However, tough competition has not developed but in a few isolated fields. More than one profession shows clear signs of operating something near to a practice cartel. Grocers, boutiques, forwarders, beside coordinating their prices, are occasionally even able of creating an artificial shortage. The failure of the socialist sector to put up a real competition also contributes to this situation. The socialist sector usually retreats from where the small entrepreneurs firmly set their feet. The weakness of competition is also related to the fact that although, upon the measures taken in recent years, the number of small entrepreneurs has increased, their offer of products and services has not increased to a similar degree. Firstly, the actual number of small entrepreneurs has not increased as much as it is recorded in statistics. A good many of them have, namely, not entered the market anew but old moonlighters have simply become licensed artisans and small entrepreneurs. On the other hand most of the newcomers pursue small entrepreneurial activities in addition to a full-time job maintained in the big enterprise sector, as a sort of overtime activity and, of course, with much smaller output than if they did it full-time. The performance of full-timers is also impeded by several circumstances, namely, the difficulty of procuring materials, equipment and parts, the rather heavy financial burdens of hiring employees, and the powerfully progressive taxation.

The Hungarian income tax system is steeply progressive also by international comparison, relative to other countries, and the high degree of progressivity begins on a comparatively low income level. Today, the bigger part of a small entrepreneur's net income over the yearly amount of 200,000 forints is taxed away, so it is not worthwhile to earn more legally. The tax system does not take it into consideration that the income left with the entrepreneur after taxation is not merely a wage that serves consumption but must also contain interest on the invested capital as well as a part compensating for entrepreneurial risk. The legal expansion of activities of small entrepreneurs and the expansion of supply are, of course, strongly impeded by the above. Under such circumstances shortages are not relieved appreciably and competition among producers does not develop.

On the other hand, however, solvent demand for the products and services of the small entrepreneurial sector is vivid, high prices notwithstanding. As far as the consumer market is concerned, the best customers of private small-scale industry, private retailing and other forms of small enterprising are mainly the wealthy high-income strata already mentioned above, mostly belonging to the actors of the second (or the third) economy. The effective demand of these strata has not decreased in spite of the general decrease in living standards, on the contrary, it has increased. As far as the purchases of state enterprises and institutions are concerned, the new small enterprises mainly work for them and not directly for the public, still finding here a broad absorptive market which is not too particular about the sum of the bill. Under such circumstances demand is hardly a limit to the growth of prices and, consequently, of incomes in the small entrepreneurial sector. While in the state sector wages are increasing at a rate below the increase of the consumer price level, incomes in the small entrepreneurial sector, i.e., the second economy—not considering agriculture—are growing, on the contrary, faster. The gap between the wage and income levels between the first and the second economy widens.

What could be done here? Setting loose the wage level in the state sector would not produce the desired effect, on the contrary, through the steep acceleration of inflation it would render the situation still much graver and intolerable. Whereas the pressing down of incomes in the second economy would result in an atrophy of small entrepreneurial activities and, consequently, in a worsening of shortage symptoms. The ways toward reducing the excessive wage and income disparity must be sought elsewhere, mostly outside the scope of the wage and incomes policy in the strictest sense. Naturally, one cannot make any prescription. I am only going to outline some relevant correlations in the following. I have been inspired by several papers, especially the study by Lajos Héthy and Dezső Vass read in manuscript [1] and the article by István Gábor R. and György Kővári [2].

The conditions of raising the state wage level

Increasing the performances of industry

What are the conditions of increasing the state wage level? Of course, we mean here a raising of the real wage level and not simply a nominal wage rise which is simply aimed at making labour more expensive or at diminishing the state subsidies included in consumer prices, and which is neutralized by the rise in consumer prices or the income tax on the other side.

The only possible basis of raising the wage level is a higher performance of the economy and, basically, of the industry. The raising of the wage level in itself does not produce higher performance. The increase of demand caused by higher wages, especially under the circumstances of our powerful dependence on the external economy, is not a suitable basis for dynamizing the economy, not even if production is impeded in some fields by sales difficulties and want of orders. Such an increase of demand would inevitably result in an increase of imports without adequate counter-export and, thereby, in the aggravation of Hungary's external economic situation. At the same time, there would not follow a domestic increase in the commodity supply also matched structurally to the increase of purchasing power, either. A rise in the wage level can only take place on the basis of an invigoration of the economy based on higher performance adjusted to market requirements, where the structure and quality standards of industrial production are flexibly adjusted to the demands of both the external and the internal markets, including the general public. This requires the consistent carrying on with the reform of economic control and management, a shift from resource-constrained economy toward demand-constrained economy on the one hand and, simultaneously, an updating of the industrial productive apparatus, a technical-technological renewal of the industry and the infrastructure serving the industry, on the other hand. (The point whether technological renewal can be managed merely from domestic resources or it cannot dispense with external resources is beyond the scope of this paper.)

All the above present a task far exceeding the sphere of labour affairs. Its accomplishment, however, would bring about a substantial change in the state of affairs of the labour market. This must be given a closer look because it also has an impact upon relative incomes in the two sectors.

Decreasing the number of employees in industry

The technological updating of the Hungarian industry, the modernization of techniques and technology, would make a fair number of employees redundant in the large-scale industry, while the steady carrying on with the economic reform would compel companies to really rid themselves of the redundant employees. The labour

shortage of the large-scale industry is real only in a few fields even now. As a whole, redundant labour and unutilized reserves—according to some estimates amounting to 15–20 percent—are more typical of the industry, both in workshops and in offices. The swollen industrial staff in some big enterprises and in the entire large-scale industry represents a strong barrier to the improvement of work organization and work discipline, as well as to the updating of the production structure. A reduction of staff along with the updating of the production structure in the state industry could remove a big obstacle from the way of the necessary transformation of industry's production pattern and its flexible adjustment, and could thus contribute to increasing the total volume of funds that could be spent on wages. The thus increased wage bill, again, would be cut into fewer parts, distributed between fewer employees. At the same time, a smaller than at present but technically better equipped and better paid staff whom the changing terms of the labour market and discontinuation of the chronic excess demand for labour would also put in a new situation, would work in a far more disciplined manner and more efficiently than now. All that would provide favourable conditions for raising the wage level.

In Hungary today the worst obstacle to the reduction of staff in line with the updating of the production structure is the unsolved problem of labour becoming unnecessary in the actual job. Reduction of the swollen staff that cannot be engaged efficiently should be carried out without inflicting large-scale unemployment. From the political point of view mass and lasting unemployment would produce an unacceptable situation and it would not be advantageous from the economic point of view either. Today the capitalist countries with advanced social policies pay workers who have become unemployed allowances near to the costs of living, and this is even more compulsory in the case of a socialist country. Unless a worker expressly produces loss, the "gain" cannot be more but the difference between the unemployment benefit and the wage at the maximum. If it is seriously meant that this allowance must be enough to cover the basic necessities, a point that needs to be observed seriously, then this difference should be very little. The labour released as a result of staff reduction in the big industrial enterprises, or at least their majority, ought to find employment elsewhere. But where?

Employment of released labour

A part of the released labour would naturally find new job inside the large-scale industry itself or in different sectors of the infrastructure that belong to the socialist sector. This way there would be no or only minimum saving available for the purpose of raising the wage level. The situation is different with other ways of solution. Thus, the expansion of opportunities to work abroad could be taken into account. In this context some change in approach would be sensible and, as a result, the state would not simply approve to take up jobs the individuals themselves find abroad but would

also undertake a role in organizing this kind of seeking employment. Another part of labour released from industrial big enterprises, especially women with family, could accept part-time employment better suited to their private circumstances, or could temporarily or durably find useful activity in family care. The forced work of women outside the household out of necessity has been the cause of a great number of social and economic troubles anyway. Of course, this is not a regressive target of "back to the kitchen" kind, but a free choice for as many women as possible, according to individual inclinations, to engage in family care or in taking up work outside the family. (It must be noted that a really emancipated society gives this alternative also to men.) To make this alternative a reality an adequate socio-political system, socio-political allowances, benefits, etc. are necessary. (Of course, from the wage saving accruing from the reduction of the work outside the household of women with family only that part may be allocated to revising the wage level that need not be compensated from budgetary funds in the form of social benefit.)

Although the importance of the said solutions is not negligible from the point of view of the re-employment of labour released from industrial big enterprises, the dominating role will most probably have to be played by another area, namely, the small entrepreneurial sector including small-scale industry (artisans) and retailing. The small entrepreneurial sector and first of all the small-scale industry is capable of absorbing a good part of the labour released from big enterprises—when conditions are favourable. One has to consider here not only and not primarily the traditional artisans' workshops but also the small firms using the latest scientific and technical methods and possessing modern equipment which complement the activities of big enterprises and which foreign experience shows to greatly contribute to the technological updating and efficient functioning of big enterprises. The number of persons working in the Hungarian small-scale industry was 368,000 before World War II, while it is only about a third at present. This decrease is not justified by global trends or by the special Hungarian conditions. On the contrary. In Hungary the measures of the last two decades have almost exclusively increased the number of artisans who work beside a full-time job or pension. The increase in the number of full-time artisans was merely 5 percent between 1970 and December 31st 1984.

Today, as well as in the future, the small entrepreneurial sector can discharge its function only in a strongly limited way if its activities are pursued mostly as a secondary job or in overtime. This situation needs to be changed also in order to let a part of the labour released from the large-scale industry take up employment here and to let this, too, contribute to the raising of the wage level in state-owned firms. (Naturally, there is an interaction here. The increase of the state wage level is one of the conditions of putting an end to the broad coercion to undertake overtime work.) Moreover, all circumstances are in favour of pursuing small entrepreneurial work as a full-time main job, by as many a people as possible in the future. (This does not concern the household farming plots in agriculture.) As against the actual situation, this ought to be made attractive and advantageous—and not the "enterprising" or activity done

in overtime work. This is required by the predictable labour and employment situation as well as by the whole economic and social progress in Hungary.

The number of people working as employees and wage workers in the small entrepreneurial sector, and therein in small-scale industry and retailing, could also be increased considerably. Before the war, in 1938, 168,000 employees working in small-scale industry, today 23,000, i.e., less than a seventh. At present one self-employed artisan has 0.26 employee on the average, that is, one quarter, at least legally. According to KIOSZ* estimates, if the rate of hiring employees would only increase to the 1948 level, when one artisan had 0.85 employee on the average—which is much less than before the war—then, with the present number of artisans, about 40,000 new vacancies could be offered without the costs putting any burden on the state.

The increase in the number of those working in the small entrepreneurial sector would also have a beneficial influence on the other side, inasmuch as it would, through growing competition, curb the extraordinarily high incomes irrespective of performance in this sector. Thus it would also contribute in this way to doing away with the income disparity between the first and the second economy.

The outlined ways, even if ultimately successful, are necessarily difficult and painful ones. It is obvious that the reduction of employment in the large-scale industry will take place not as a result of the attraction, receptivity of the small entrepreneurial sphere, of the availability of other chances of activities, but first of all under the influence of reductions and dismissals by big enterprises. Difficult and even critical individual situations and some insulated or transitional, frictional unemployment can be hardly avoided in their course. Preparations must be made, measures necessary for easing the difficulties must be taken.

Cuts of non-wage enterprise costs and budgetary expenditure

Further possible sources of raising the wage level could be a reduction of enterprise costs other than wages, and allocation of the amounts thus saved for the purpose of wage rises. The relatively small weight of the cost of live labour is a characteristic feature of modern production already revealed by Marx. The share of wage is especially low in the costs of the Hungarian industry. Product prices carry five or six times more other costs than the wage and its related costs. Therefore, this offers the first opportunity for saving, by decreasing the input and engagement of embodied labour, by decreasing it in absolute as well as in relative terms, i.e., relative to the price receipt. The Hungarian companies are burdened by extraordinarily high taxes and levies also by international comparison. The division of social net incomes between the budget and the enterprises was 85:15 in 1985. A reduction of these burdens through

* The national organization of private craftsmen and artisans. (Ed.-note)

diminishing the less efficient budgetary expenditures could also be a source of raising the wage level. The main way is, of course, to reduce the state subventioning of uneconomical and loss-making activities. However, also other ways can be taken into consideration. For example, the curbing of the costs of the various, oversize control apparatuses that work expensively, the winding-up of superfluous offices and institutions inside and outside the economic sphere, etc. All of these entail conflicts, they are not painless operations, especially as they are also accompanied by labour becoming redundant.

Controlling the raising of wage levels

Through what mechanism can the raising of the state wage level assert itself? According to the view now broadly accepted in Hungary, the wage level of any given enterprise must depend on the economic performance and success of that enterprise. Also a part of the new wage control forms work in this line, As far as I am concerned, I do not find this solution satisfactory. Its weakest point is the lack of any guarantee whatsoever concerning the balance between the outflow of wages and the commodity coverage. The enterprise performance is very easy to manipulate, especially in the short run, and the profit or net revenue required for a wage increase can often be stated where none has actually accrued. What is more, when the budget constraint is soft, a wage rise can also be achieved by those companies that are unable to state the necessary result even by embellishing it. It is, namely, easy to prove in most cases that the staff was not to blame for the poor result, and that the situation would become untenable if the wage increase of an enterprise fell below that of other enterprises. The enterprise wage level linked to the enterprise result is therefore the hotbed of inflation. The inflationary pressure grows parallel to the increase of wage level differences among enterprises. This is also supported by foreign experience. Another weak point of the said solution is that while a sectorally more or less uniform wage level or one approaching it, works towards the dropping out of the inefficient enterprise, being unable to pay the wages that are too high for it to afford, the enterprise wage level depending on the given company's ability to bear wage costs works, in contrast, in favour of preserving the inefficient enterprises and letting them vegetate. At the same time, this makes it impossible to radically improve their activities because this cannot be accomplished with substantially lower wages than what other enterprises pay.

In my opinion, the healthy development of economy needs a centrally coordinated formation of the wage level (after elimination of the characteristics of shortage economy this could be carried out basically by an institutional reconciliation of interests between employer, employee and state representation) where the enterprise wage level does not strongly depend on the successful functioning of the enterprise, i.e., on how much it can afford the wage. On the other hand a small degree of such dependence is desirable. especially in the moving wages, bonuses, profit shares, etc.,

and it is a laudable and globally acknowledged demand of labour to have some share in the enterprise result. Thus, the wage levels of the different sectors cannot be completely uniform, but the probability of great differences between the wage levels of enterprises needs to be eradicated by all means. A powerful dependence on enterprise results is necessary not for the masses working in the enterprises but in respect of the earnings and status of enterprise executives.

*Moderation of extraordinary high incomes
in the second economy*

Moderation of the income disparity between the first and the second economy also necessitates a reduction of extremely high incomes independent of output in the small entrepreneurial sector. It must be nevertheless taken into consideration that an accurate regulation of incomes is not possible in the small entrepreneurial sphere as those are formed by the workings of the market. The fundamental solution is offered by competition, the assertion of rivalling through elimination of shortage of commodities and services, through transformation of the sellers' market into buyers' market in the entire national economy. The demand and supply conditions of the small entrepreneurial sphere are namely impossible to isolate from those in the national economy as a whole. When the traits of shortage economy are typical in the national economy as a whole, there cannot be a balance in the small entrepreneurial sphere either. Under such circumstances the mobile small entrepreneur who can flexibly change his place will always find the area where he can earn outstanding income. When a field shows the signs of saturation he changes over to another field. Under the circumstances of a general shortage there always are such opportunities.

Drastic interference with the incomes of the small entrepreneurial sector is a boomerang. Application of the "tax squeeze" puts a brake on supply, increases supply difficulties, and pushes entrepreneurs towards illegal activities and illegal incomes. The expansion of competition in this sphere requires an increase in the number of those working in the small entrepreneurial sector full-time, as well as removal of the obstacles that set narrow limits to the development of certain enterprises and to the interest of entrepreneurs in expanding their activities. The trend of the labour situation in the entire economy may be of significant influence from this point of view. The ending or appreciable relieving of the chronic labour shortage would enhance competition in the small entrepreneurial sector. The endeavour trying to make "proportionate" the incomes of entrepreneurs, of the self-employed, to those living on wages and salaries, meaning to bring them down to the latter income level, is wrong and hopeless. Instead of the unnecessarily progressive tax, that is often nearly a pressure towards fraud, it would be more expedient to apply a less progressive system which is, on the other hand, not so easy to circumvent and which is more consistently and rigorously enforced by the tax authorities. (Naturally, there are necessary conditions of

this also in the fiscal apparatus.) The above would favourably affect the general moral situation as well. Owing to its presumable inability to cover more than a fraction of the so-called invisible revenues, i.e., to control the concealing of the basis of assessment, the envisaged introduction of the personal income tax in Hungary is not likely to reduce the income disparity between the first and the second economies. On the contrary, it implies the risk that it would become an ever heavier burden of incomes originating from the state sector which are easy to control and which have already been enough taxed.

Perhaps the above prove sufficiently that the problems of the wage and income disparity between the first and second economies cannot be solved with isolated measures. It depends on the whole of the economic system and the economic policy whether the conflicts caused by small enterprises will be relieved or aggravated.

References

1. Héthy, L.—Vass, D.: A bérendszér állapota és változtatásának lehetőségei (The state of the wage system and the opportunities of change). Budapest, 1985. Manuscript
2. Gábor, R. I.—Kövári, Gy.: Keresetszabályozás és munkahelyi ösztönzés (Kísérlet egy tévhit eloszlatására) (Regulation of earnings and enterprise incentive. [An attempt at dispelling a misbelief]). *Közgazdasági Szemle*, 6. 1985.
3. *Statistical yearbook 1983 and 1984*. Central Statistical Office, Budapest.
4. *Hungarian statistical pocket book 1984*. Central Statistical Office, Budapest.

ДИСПРОПОРЦИИ ЗАРАБОТКОВ И ДОХОДОВ МЕЖДУ ПЕРВОЙ И ВТОРОЙ ЭКОНОМИКОЙ В ВЕНГРИИ

К. ФАЛУШ—СИКРА

В Венгрии существует двойственность уровня заработной платы и доходов: в секторе крупных предприятий он значительно ниже, а в частном секторе и вообще в сфере мелкого предпринимательства — существенно выше. В этом играет роль то обстоятельство, что мелкие предприниматели и их работники обычно работают больше и интенсивнее, чем работающие на крупных предприятиях, а с другой стороны, их деятельность более эффективна и лучше учитывает потребности покупателей, их издержки ниже, а большую часть своей продукции и услуг они реализуют по более высоким и быстрее растущим свободным ценам. Играет роль также и то, что работающие непосредственно для населения способны утаить часть своих доходов от контроля налоговых органов. Однако основная причина существенной диспропорции доходов кроется в дефиците, существующем в народном хозяйстве в целом, и вытекающей из этого слабости конкуренции.

Путь сокращения чрезмерных диспропорций заработков и доходов следует прежде всего искать в повышении уровня заработной платы на государственных предприятиях. С другой стороны, необходимо сокращение не соответствующих производительности, вопиюще высоких

личных доходов во второй экономике. Но этого следует достичь не административным путем, а должно явиться прежде всего результатом функционирования рыночных сил и развертывания конкуренции. Условия расширения конкуренции: с одной стороны, повышение числа занятых в сфере мелкого предпринимательства как основной сфере деятельности, а с другой стороны, ликвидация преград, ставящих узкие ограничения росту отдельных предпринимательств. Стремление снизить доходы работников-предпринимателей до уровня зарплаток рабочих и служащих является ошибочным и бесперспективным.

ON THE EXPANSION AND FUNCTIONING OF THE DIRECT MARKET SECTOR OF THE HUNGARIAN ECONOMY

G. RÉVÉSZ

The expansion and functioning of the direct market sector that has come about in the Hungarian economy in the last twenty years beside the too centralized large enterprise organization is examined in this study. The private small-scale activities and partly the small and medium ventures operating in the framework of the large socialist organizations belong here. The author emphasizes the braked character of the activity of this sector and the self-restraint manifest in it. This is related to the restrictive measures, taxation rules and dependence on the large organizations as well as to the fact that the small organizations could not get integrated into the whole of the economy. This braked character and lack of trust in the future are causes of a particular monopolistic position and, frequently, of adventurism. In the author's opinion small (and medium) ventures deserve to be supported.

In the early 1950s the business units underwent a most powerful centralization in the small Central and East European countries that had chosen the path of socialist industrialization, including Hungary. It is needless to dwell on details, but necessary to state that this artificial centralization was carried out by means of power (that is, it was not bred by the self-movement of the economy) and was adjusted to the requirements of the directive planning system. The engine of the process was not the ideology proclaiming the superiority of large-scale manufacturing. Ideology was rather used for backing-up what was forced upon the economy, insisting on a model of economic control and management (economic mechanism) which became outdated in a historically short time.

As a result of the centralization process a network of giant enterprises comprising many establishments (plants) was built out in these relatively small countries while in the advanced industrial countries the small or medium-size enterprises with a single establishment remained predominant. In the industry (for which we have comparative data) enterprises employing more than 1,000 persons employed about 90 percent of industrial employees in Czechoslovakia, and 70 percent in Poland and Hungary (each in 1980). The corresponding data are 60 percent in Britain, 50 in the Federal Republic of Germany, and merely 40, 30 and 20 percent in Italy, Austria and Switzerland. Also the establishment (plant) structure is more centralized in the socialist industry than in the advanced Western countries. The percentages of workers employed in industrial establishments with more than 500

employees are the following (total industrial employment = 100): GDR 80, CSSR 70, Poland 60, Hungary 55, whereas USA 40, Austria 35, Switzerland 30, and Italy 25.*

The reasons why the advantages of large size, which can be easily demonstrated logically and with the apparatus of business economics, only assert themselves in a strongly limited manner (in some fields) in actual business, as well as how far the smaller size offers advantages elsewhere and in other respects, are studied and illuminated by extensive literature of general concern, covering not only the capitalist economy. Without a claim to complete coverage I mention hereunder the major explanations and factors of small size which are of direct relevance for the subject:

— Development entails a robust differentiation of needs in personal and productive consumption, and the mass occurrence of special individual demands. The flexible small and medium-size units of manufacturing and services are capable of satisfying them better, more quickly and often more cheaply than the clumsy big enterprises where the costs of shifting to other products are *ab ovo* bigger.

— Some modern equipment (often using electronics) make it possible for small size to be accompanied with high performance in many fields. At the same time, an adequately competent use and operation of the delicate equipment is difficult to guarantee under large-scale production conditions.

— In the fields of production and productive services a mutually amplifying progress of powerful specialization and diversification may be observed. Mostly small (medium) units, specializing themselves in some tiny link of the chain of production, preparation of production, maintenance, production and product development, circulation, informatics, etc., grow almost omniscient and are arranged for satisfying demands of the most different natures (in this context diversification may justly be regarded as their attribute).

— The ceasing-out and setting-up of small and medium-size units, and the concomitant readjustment of capital and labour in accordance with the changing circumstances, take place more easily, with fewer conflicts and smaller loss than in the case of big units. This is another important factor of their superiority from the point of view of flexible adaptation.

— In close correlation with the aforesaid the small and medium units represent the main base of creative-minded innovations of the nature of adaptation.

Not independently of the said advantages of small size in Hungarian economy relieved from the closed system of plan directives and having started up some market forces, there has emerged quite a broad zone of economy which consists of small and, partly, medium-size units and is directly market-oriented. As it will be discussed later in more detail, this zone comprises work organizations which either function under the umbrella of large socialist organizations or are private property. Furthermore, here

* These data taken from an as yet unpublished paper of Katalin Máté, [1] relate to industrial enterprises establishments employing more than 10 persons. Éva Ehrlich has also shown [2, 3, 4] that the structure of industry in the advanced western countries, analysed on the basis of the number of employees, has nearly been unchanged through several decades (50–60 years in some countries).

belong the illegal craftsmen (who actually are members of the second economy), and, last but not least, the broad ranks of those pursuing small-scale production. The above list shows well that this is not only the "black" or small-scale producer's, that is, the private economy's domain. This is why I do not use the conventional term "second economy" but speak about the directly market-oriented part of the economy. In my opinion, namely, the main characteristic of this area of economy showing many colours from the organizational, proprietary and functional points of view alike, is that the activities of its units are directly guided-controlled by the given, in many respects deformed, market environment. Their existence or non-existence directly depends on their business success—as against the large socialist organizations where the market impacts are mediated through a multitude of artificial transmissions. The latter are also expected to satisfy such requirements of administrative control as are often conflicting with market impulses, moreover, in case of trouble they can always count on the intervention of the state in their favour. This is why the zone presented above in detail may be regarded an established direct market sector of the Hungarian economy.

This sector of small and medium enterprises of the economy is filling a gap: its main function is to turn out products that large enterprises cannot produce profitably under the given conditions; and it applies forms of work organization which are unusual in the frameworks of big enterprises. Its existence allows people to utilize their working capacity (and to some extent their capital) relatively freely and really independently.

At the same time, there has not been any appreciable change in the organizational system of the socialist large companies of Hungary during the past 20 years, in spite of several government measures aimed at organizational decentralization. Overcentralization seldom justified in technico-economic terms is invariably typical of socialist business organizations in production, home and foreign trade, finances, information, etc. Once again, effect has become a cause. This overcentralization is an impediment to the unfolding of rational, efficient business management and to Hungary's shifting to the "intensive growth path". The unnecessarily centralized structure also produces and maintains the partial "substitutes" for the overt plan directives: responsibility for supply, other expectations (e.g. concerning export), the regulator and commodity bargain, the investment policy manifest in big investment projects and major programs etc., as well as the powerful and administrative kind of control asserting itself in all the above. It contributes to the sustaining of all of these in Hungary although, concerning our own economy, we have come to realize that the socialist economy is a commodity producing planned economy and, accordingly, the only soil on which the economy can rationally function is the self-regulating market influenced by the state and the real autonomy of enterprises (business units).

In this paper the problem of socialist big organizations will not be treated any more. I will discuss the types of units belonging to the direct market sphere of the economy and I present an estimate about how many people participate in the

functioning of this sphere in Hungary, furthermore, using a sectoral breakdown, about the volume of labour expended in this sphere. I will note that although this sphere is very extensive, its activity is strongly contained, and I will try to show the motives and factors of this containment.

Extension of the sphere

Already in the early 60s, in connection with the development of the new socialist agrarian model in Hungary, a relatively wide scope was given to small-scale production or auxiliary activities attached to agricultural enterprises, mainly of agricultural nature and, to a smaller extent, pursuing other (industrial, building industrial) activities. Following the reform process started in 1968 the non-agricultural small commodity producing and service units proliferated under the umbrella of agricultural cooperatives, as so-called auxiliary (complementary) activities, providing a considerable source of income for cooperative farms. Furthermore, private business activities in industry, building industry, repair-and-service, done under license or as moonlighting, have also expanded. Since 1982 the various types of legitimized small enterprises have developed into an although small yet most dynamically developing factor of economy.

According to some estimates two thirds or three quarters of the Hungarian families are involved in this multitude of small-scale activities pursued mainly as part-time work in addition to full-time jobs in the socialist sector. It does not seem to be an exaggeration to suppose that their extension and expansion have played a remarkable role in the fact that the majority of the population has been capable to balance the significant decline of real wages through additional work after 1979 and this has been a significant contribution to the maintenance of political stability. At the same time through the small-scale activities (and also from other sources) certain groups have earned extraordinary surplus incomes. The consequential differentiation in financial status, unusual under socialist conditions and not in line with the "official" hierarchy of society, has become irritating.

In assessing the number of persons participating in the existing enterprises that may be potentially regarded as small or medium-size ones in the directly market sector of economy, in small-scale production in the broad sense, I do not attempt to give accurate data and to demonstrate their dynamics. I depend on the data available from literature and statistics. However, as these data sometimes contradict one another, the following numerical data must be taken as rough estimates.

In the statutorily licensed *private small-scale* industry, altogether 160.000 workers are recorded in Hungary. 75 thousand of them are full-timers, 15 thousand are retired, 50 thousand work beside having a full-time job elsewhere, and 20 thousand are employees. In addition, there are 7 thousand registered helping family members and 6 thousand apprentices. However, these data must be complemented. According to professional estimates [5] the actual number of employees is 50–60 thousand in the

small-scale industry and 80–90 thousand in the building season. Assisting family members together with the unregistered ones may be estimated at 20–25 thousand. If the retired, the helping family members as well as those pursuing small-scale industrial activity in addition to a full-time job are considered half-timers, then the full-time equivalent number of people working in small-scale industry may be estimated at about 190 thousand.

According to estimates, from those pursuing legal small-scale activities 40 percent perform actual industrial work (turning out products, performing industrial services), 36 percent do building industrial work, 10 percent are engaged in transportation and 10 percent in other service activities. This way, from the 190 thousand persons full-time equivalent the participants in industry in the strict sense can be estimated at about 85 thousand, at 65 thousand in the building industry and 20 thousand each in transport and services.

As regards data concerning those pursuing illegal industrial activities the estimates widely differ in Hungary. They are in the range between 150–400 thousand. My vote is for the 400 thousand, but let us just take 300 thousand as half-time workers and let us suppose that 40 percent of them do industrial and 40 percent building industrial work. Thus the full-time equivalent number is 150 thousand, from which 60 thousand are listed in industry and building industry each, the rest must belong to transport and services.

From the workers of *enterprises* in the socialist *agriculture* approximately 300 thousand persons are employed in *activities* other than the main line of production. Adjusted to the sectoral proportions of net receipts about 30 thousand of them are presumably engaged in food industrial activity closely built on production, 100 thousand in other industrial, 90 thousand in building industrial, 60 thousand in transport and trading, and 20 thousand in "other", probably mainly service, activities. I suppose that the food industrial auxiliary workshops as well as the commercial and transport units are mainly extensions of agricultural production (for example wine production in agricultural firms engaged in viticulture, transportation of own products also including internal transportation, and marketing thereof). I furthermore assume that the remaining part of the industry, half of the building industry and the other services are the "outward" activities alien to agriculture. On the basis of this assumption we find 160 thousand people working in small and medium units. 100 thousand of them may do industrial, 40 thousand building industrial, and 20 thousand other, service type of work.

In *private retailing* the number of persons engaged in it is 40 thousand including employees and helping family members. Although there is an illegal backyard here too, and illegal outwork activities are connected to it, I will dispense with completing the figure. On the other hand, it will be taken into account here that under the *subcontracting lease system* in retail-trade and catering another 30 thousand persons are working.

Till now I have covered the small units functioning in the frameworks that have

existed before 1982. I am now going to take account of the new types of enterprising forms that were legally developed in 1981.

In *companies* created through the breaking up of larger units (e.g. GELKA Engineering Industrial Electric Maintenance Co. and AFIT Car Maintenance Industrial Trust) 30 thousand people, in *small cooperatives* 15 thousand people are working. Most of them (30 thousand persons) do product manufacturing and perform services and a good part of them (15 thousand persons) do building industrial activities.

In the *business partnerships* set up by self-employed private people about 50 thousand are engaged, mostly in secondary activity. From the number of members, usually highly qualified experts with special knowledge, reduced to full-time equivalent by a factor of 0.6, I list 50 percent in industry, 30 percent in building industry, and 20 percent in other services.

There still remain two forms which are in some respects similar but harder to evaluate on the basis of the nature of activity, namely, the professional cooperative industrial and service teams (hereinafter: professional workteams) and the enterprise business partnerships (workteams) (VGMK) working in the framework of big cooperatives and big enterprises. The difficulties here arise, firstly, from the fact that it is hard to generalize the nature of their activities and, secondly, it is not a simple task to review and study them because of their extreme proliferation and variety. We cannot even venture here to give a nuanced description or evaluation of their activities. Some aspects must nevertheless be noted, also in order to show how far and in what sense they may be considered small organizations that can be treated in separation from the parent company.

There is no doubt that their proliferation after the promulgation of statutory possibilities was also enhanced by the fact that their existence brings relief in the enterprises' wage situation (under the given terms of income regulation); as it is casually put, they were partly created in order to circumvent the constraint of income regulation. Furthermore, they enable some enterprise employees to at least marginally earn an hourly wage corresponding to that in the directly market sphere through working beyond the main working time or in a way that can be accounted as such with the enterprise.

On the other hand it must be underscored that in most of the cases the high VGMK (workteam) earnings are based in the Hungarian circumstances on unusually hard, demanding and intensive work. Furthermore, following the VGMK (workteam) form, elements of new-type conditions are developing in big-enterprise frameworks. Self-organizing small units that select the participants themselves and also implement collective self-government and self-control have emerged and, integrated in the intra-enterprise division of labour, undertake or offer to carry out certain given tasks. It is not difficult to find benefits reminiscent of the autonomous workteams (Saab experiment) and in a sense of the Kalmar method (Volvo), embodying some germs of work enrichment and participation.

The following types of VGMMs (workteams) can be distinguished:

a) VGMMs pursuing the full-time routine activity and offering extra output. Here the new form normally discharges the function of a strongly progressive piece wage. A unit of additional output means in the VGMM 2.5–3 times more earnings than in full-time work (and one and a half times of that during weekend overtime work). It is a condition of the acknowledgement of this extra performance that the output specified for and accounted as full-time performance must be presented (i.e., to fulfil the norm usually set higher than earlier).

b) Units connected with full-time activity but discharging special tasks. Here belong for example the satisfying of individual demands concerning routine products: manufacturing products with unusually high requirements towards work and self-organization and usually in smaller than the normal volume: performing special tasks of design, technology, mounting, or, for instance, organization.

c) Organizations not connected with the full-time activity. The following may be considered here: participation in the implementation of investment projects, applied research work, carrying out of tests or tasks before the starting batch, so-called substitution for cooperation, etc.

Naturally, the types often appear as a mixture. For example in VGMMs that can be put in category a), frequently so-called 'guest-workers' participate who work full-time in other fields of the enterprise, in whose case the point is certainly not the routine continuation of the working time.

Coming back to numerical terms: about 25 thousand full-timers and 55 thousand half-timers or retired workers participate in the work of the workteams of farms. Reckoning with a factor of 0.4 and assuming that 50 percent of the activities pursued are industrial, 40 percent building industrial and 10 percent other services, we can deduce the following staff data in terms of full-time equivalent: the staff on industrial work (manufacturing of products and industrial services) in 25 thousand, on building industrial work 20 thousand, and on other services 5 thousand persons. Considering that the majority of the workteams belong to agricultural "parent enterprises" and these activities are out of the line from the point of view of the parent enterprise, I treat the workteams as potentially separate small organizations (capable of going independent).

The total staff of VGMMs is 210 thousand persons. Considering that the productivity of VGMM work is much higher than the usual standard, I reckon here with a factor of 0.5. Of VGMM activities about $\frac{2}{3}$ are industrial, 25 percent building industrial, and the rest consist of other services. I assume that 40 percent of industrial activity is a simple continuation of the routine work done in the frameworks of big enterprises. Consequently, the VGMMs discharging such tasks may not be regarded independent small organizations, not even potentially (although autonomy and self-organization is typical also of them in several aspects). On that basis I arrive at the conclusion that the staff of VGMMs doing relatively independent work may be

estimated at 40 thousand in industrial activities, 25 thousand in building industrial activities, and 10 thousand persons in other activities (in terms of full-time equivalent).

Last but not least, mention must be made of the actual and potential entrepreneurs in the *agriculture*, namely, the *small-scale producers*. There are no records, therefore I will not cover here separately the small agricultural units functioning in a more or less real commodity producer position in "self-accounting" lease form, integrated in the frameworks of big agricultural enterprises (e.g. the small units of the Baksa and Szentes cooperative farms and other initiatives according to the model of Liska*. I nevertheless consider them to be most progressive and promising elements of the economy.

30 thousand self-employed farmers are recorded as agricultural private producers. In addition, also concerning household-plots, the number of small agricultural units of producer nature (commodity producing or utilized for self-sufficiency) can be estimated at 1.4 million (gardens over the size of 200 square-fathoms,** other cultivated area units over 400 sq. fathoms, small farms keeping animals above set ceiling). According to some computations [8] the labour input of producers is much bigger in the small agricultural units than what the socialist large-scale farms, naturally much better equipped and provided, spend on agricultural production much more efficiently but, apparently, less profitably.

Reckoning with 1.4 million units it may be supposed that no less than 2.5-3 million persons (who are partly not in working age or not belonging to the active earners) participate in agricultural small-scale production. About 500 thousand people are employed in the basic activities of state farms and agricultural cooperatives. On the basis of the aforesaid it is probably not at all exaggerated to state that the work expanded in agricultural small-scale production is equal to the normal activity of 700 thousand persons.

We have scanned the areas of Hungarian economy which do not belong to the socialist sector, as well as those belonging to auxiliary and secondary activities organized inside the socialist big enterprises. The results so far reached are *summarized* in the table.

In the small-scale activities, potential and real enterprises reviewed, approximately 4 million people take an active part. There may, naturally, be some overlappings here. For example workers of auxiliary workshops of agricultural enterprises, of VGMKs or workteams can be at the same time agricultural small-scale producers, or their helping family members. Beside the nearly 3 million participants in agricultural small-scale production there are more than 1 million persons working in other producing and service branches.

It may be estimated that these 4 million people expend a volume of work in small-scale activities and enterprises equal to that of one and a half million of full-time

* For more detail see [6, 7].

** 1 sq. fathom = 38.32 sq. feet

Distribution of workers in the directly market sector of the economy
Estimated data, thousand persons

Denomination	Participants	Total staff reduced to full- time equivalent	activities (reduced staff)				Other service
			Industrial	Building industrial	Transport	Trading	
Legal small-scale industry	235	190	85	65	20		20
Illegal small-scale industry	300	150	60	60	15		15
Auxiliary workshops of agricultural enterprises	160	160	100	40			20
Retailing	40	40				40	
Leases and independent forms	30	30				30	
Small enterprises	30	45	30	15			
Small cooperatives	15						
GMKs (business partnerships)	50	30	15	10			5
Cooperative specialized workteams	80	50	25	20	5		
VGMKs (workteams)	210	75*	40	25			10
total, without agriculture	1150	770	335	235	40	70	70
from this: persons doing secondary activity	700						
Agricultural small-scale production	2750	700					
Total, including agriculture	3900	1470					

* In the reduced staff I disregard 60 thousand persons who continue their routine main activity in the frame work of VGMKs.

workers in jobs with the socialist big enterprises. Half of this volume of labour is utilized in agriculture and the other half in the remaining sectors.

The reduced staff engaged in industrial small-scale activities (enterprises) represents 20 to 25 percent of the full-time employees of socialist industry.* Concerning the building industry this rate is much higher, about 75 percent.

Limits and impediments

The directly market sector is thus rather broad in Hungary. There is no doubt that following its spreading shortages have become smaller and in some partial markets excess supply and a certain competitive situation have developed. It is still characteristic that the relatively broad scope notwithstanding, demand must find the ways of its satisfaction also in this sphere. There are thousands of indications that the problem is not due to the frequency of the real and potential small producers or of small (medium) enterprises functioning in the economy but to the fact that their scope is strongly limited also as such. The point is not and not primarily that the small-scale activity/small enterprise may not grow into a medium or big enterprise but that this sphere can, or wants to, function within the limits of its own potential chances in a contained and partly illegal manner. In the following the main reasons for and some consequences of these limits and impediments will be outlined.

1. The limits of their functioning are set from several sides by *statutory*, formal bounds. I mean the limits restricting the number of employable persons: these constraints should be lifted for a better functioning of the economy. I furthermore mean the limitation of activities by progressive taxation: one often hears even from small entrepreneurs utilizing their own labour and that of their families that "it does not pay to accept more work as long as the majority of the income is taxed away". I should like to note it here that according to my scarce experience the self-employed are exposed to the income assessment of financial authorities with nearly no chance of protection and, therefore, they want to maintain the modest frameworks of their activities (or the appearance of it). Their taxation ought to be placed on objective grounds and an institutional system of real protection in tax affairs ought to be created for small entrepreneurs.

2. The *authorities* often hinder the setting up, functioning and survival of small-scale activities (small enterprises) by *informal* measures. May I recall the repeated campaigns carried out by local (county) authorities in the early and middle seventies against, and in order to curtail, the auxiliary activities of agricultural cooperatives that were set up and operated in accordance with statutory provisions.

* When the direct market sphere is also considered from the point of view of the Hungarian manufacturing industry's establishment structure on the basis of the number of employees, it is found that the share of establishments employing more than 500 workers only amounts to about 45 percent (the "original" data being 55 percent, as shown above). This is already not very far from the corresponding data of some advanced Western countries.

A person involved in economic and social problems hears a lot of more actual cases involved. For instance, in a smaller settlement people wanted to form a separate and "independent" purchase-and-sales cooperative for local purposes. "You must do with the existing ÁFÉSZ",* said the competent official. And although people in fact could not do with the county ÁFÉSZ and were dissatisfied with the work of its local branch, they could not get the permission they had demanded. One hears of more than one case when the "competent official" killed small enterprises or self-employed people he did not like and whom he considered unnecessary or objectionable from the economic point of view, through taxation (we do not mean cases when the authorities, justly, retaliated for tax fraud).

3. It is a characteristic impediment to the functioning of small-scale activities and small enterprises as well as to asserting their efficiency (also in the meaning of the term from the point of view of the national economy and society) that they cannot get properly *integrated in the system of the division of labour as a whole*. It is often hopeless for them to acquire up-to-date *means of production* (machines, material, parts, etc.). The cause is, among other things, that in the haze of having established themselves for big batches the domestic manufacturers and sellers disregard this market—which, by the way, should not be underestimated with respect to its volume—and disregard its special requirements towards trade. Furthermore, it is almost natural in the conditions of shortage economy that in the course of "allocation" the small-scale activities and the private entrepreneurs come last.

Everybody knows that there are enormous shortages in the *productive infrastructure* and this is especially depressing for the specialized and, by necessity, one-sided small units. No domestic and foreign trading, financial information, or consultative organization has been established (or has not been well established). It adds to the disadvantageous impacts that the small organizations are almost unprotected in facing monopoly organizations and authorities they cannot penetrate, i.e., they do not have any competent representation. Is there anyone in Hungary who has not heard about the anomalies of the "allocation" of credits to small producers? Who has not heard of cases when the small entrepreneur delivered the product in accordance with the contract, the ordering company received it but did not pay because it was just short of money (being itself on the waiting list) and the small entrepreneur was the only loser? Or who has not heard about the insolence of large organizations and their agents in charge of procurement of agricultural products—abuses concerning qualification, goods actually exported but taken by the quality inspector as goods unsuitable for export?

Today it is impossible to make efficient business without access to broad and instant information and without its No. 1. instrument: a telephone. While provision is generally poor in Hungary, for small producers/small entrepreneurs it is hopeless to

* Abbreviation for general consumption and sales cooperative—Ed. note.

get a telephone extension, especially in rural areas, and this makes their vulnerability even much worse.

Thus, it is no wonder if shortage, their *ab ovo* subordinate position and vulnerability push the relations between small entrepreneurs and authorities, quasi-authorities and enterprises maintaining relations with them into the morass of sometimes undisguised corruption.

4. Under the given conditions the business conduct of small producers/small entrepreneurs is typically mistrustful. People have been taught to be careful because of historical experience, frequent and incalculable changes in the conditions of their activities and business, for reasons sometimes motivated by political-ideological considerations, for reasons they cannot understand or accept. They prepare themselves for a new "squeezing" cycle of the policy and economic policy, for a worsening of statutory conditions of business or—on the other side—for losing the benevolence of those big organizations (their representatives) on which (of whom) their chances greatly depend. Therefore, even irrespectively of the said limitations, small producers and small entrepreneurs arrange themselves provisionally, trying to secure the way of withdrawal. Even if they could do better and happier as self-employed small producers/small entrepreneurs they prefer to undertake that line only as secondary activity while maintaining and establishing their position within the bounds of socialist organizations (preferably so as to be as compatible as possible with the small-scale activity) or take good care of having their family well established in the socialist organizations. This is why there are so many people or families with dual status, this is why and not only—or perhaps not even primarily—because of tax reasons that there are so many craftsmen working unlicensed. Finally, this is why there is such a great aversion against capital investment which means a real risk (that is, which is not only or only partly made with the purpose of hoarding).

Consequences and conclusions

The limitation and self-limitation of the activities of small producers/small entrepreneurs have a *peculiar retroaction upon the small-scale production of commodities and services and their market*. I should like to note in this context three correlated peculiarities: the low technical standards and productivity; the symptoms reminiscent of monopoly positions also where there are many actors; and, finally, a certain adventurousness.

The relatively *low technical standards and productivity* and the consequential constraint on activities follow from the aforesaid. The frequent shortage of productive assets, including equipment which small producers need, the uncertainties of availability, and the refraining from any major capital investment are enough good reasons in themselves. At the same time, the business efficiency of their activities in their respective field is still higher than that of big organizations.

From a certain point of view the small producer (small entrepreneur) enjoys a comfortable situation in Hungary. Distrust and the authorities handling the applications for licences with reservation in spite of all directives keep the legal competitors within bounds. The dual status of himself or of his family provides him with a safe background, he is not forced to accept just anything. The similar circumstances of potential competitors also help maintain his illegal or only partly legal position. The relatively good quality of his work in comparison with his counterparts working with socialist organizations that supply the public market seems to be nearly unpayable. His limited activity is only known to a limited circle and in this circle he is the Expert. All these circumstances which save him from tough competition facilitate to establish and maintain his *special monopoly position* in a given circle.

The capitalist small-scale producer (and small entrepreneur) strives at lasting functioning and development in tough competition, and his goodwill is the sterling foundation of his enterprise. The Hungarian artisan and small entrepreneur often has not but his present time, *his existence is typically temporary*. Outside the quarters where he is very particular about his good reputation he is *apt to accept work beyond his abilities and possibilities* if it is well paid. Then, if he cannot fulfil what he has undertaken or if he fails to meet deadlines or does work of inferior quality—well, then “après moi le déluge”.

The limitedness of small activities/small enterprises naturally has its national economic impacts far beyond its own range.

As is already shown above, in the small-scale activities often pursued as a secondary (part-time) job a relatively very high percentage of the population take part. Only one of the facets of this fact is explained by the big organizations' inability to economically satisfy a substantial part of productive and personal consumption which has become strongly differentiated in the given stage of development and way of life. (Under the influence of the West European—mainly Austrian—consumption habits known to the population, the pattern of solvent public demand shows a standard which is probably higher than justified by our own development level.) The small-scale activities have been *strongly induced* by the shortage originating from the above, and by the fact that the relatively low technical standards notwithstanding, small-scale activities still provide more economical and better supply. After the lifting of statutory bounds this sucking effect has resulted in a comparatively very fast expansion of small-scale production/small entrepreneurship.

The other facet consists of the following: owing to the increase of learning and the spreading of technical and business civilization, broad strata of the population *have become capable of independent activities* of small-scale production and enterprising, and of an independent utilization of their intellectual assets. Following the driving force of their needs and under the now prevailing more liberal conditions, millions of people have—as shown above—deliberately paved for themselves various ways toward the assertion of their faculties. However, as I have stated, their chances are limited and constrained. For this very reason I consider it a cardinal task to provide

conditions under which the intrinsic *entrepreneurial and intellectual capacities* of the Hungarian people—already manifest in the functioning of the directly market sphere—*may unfold more definitely and cover a wider scope.*

The related inference may also be derived from another aspect (see [9]). The obstacles to a dynamic upswing of the Hungarian big enterprises are often really objective ones. Technological updating is normally highly capital intensive in the case of big enterprises. On the other hand, our investment funds are scarce and the chances for getting the equipment of modern technology and learning its use are strongly limited also from other points of view. Participation in the international integration processes is not facilitated by the given terms of CMEA cooperation nor by the nature of our western relations.

On the other hand, *true progressive effect could be achieved* by manufacturing and marketing such products and product families (meaning not only industry but also agriculture) and by offering such services where the advantage originates from instant and intelligent adjustment to frequent changes in demand, from inventiveness, from the ability to create and offer specialities and small innovations, i.e., such ones where *the small and medium enterprises (ventures) are superior to big enterprises.* I am convinced that if we can break out from our present stagnation in such a direction then the positions of Hungary could also be strengthened towards the CMEA partners and they would also gain from their relations with us.

Some final ideas

The impeded functioning of the direct market sector of economy and the self-limitation of its participants are, in my opinion, harmful for the whole society. This in itself contributes to the continuation of shortage symptoms and, as already noted, it hinders the assertion of the potentially existing human creative force also in general. This is why I deem it necessary to promote the development of small-scale activities, small (and medium) enterprises. What is needed are measures serving their development and not such as to “channel” and restrict them. Among others, it is also necessary to develop further eligible statutory forms (e.g. to codify the form of limited liability private company as legal entity).

In this context it must be taken in account that where the benefit is not expected from major development projects and giant investments, where the promising way is that “many a little makes a mickle”, there the task of the centre is not to draw up and implement any minute plan in a breakdown by specific items but to form and develop *conditions to support the viable units*—also meaning the infrastructural conditions. The process of *selection* must be left mostly to the *self-movement of economy.*

It is necessary to achieve that people have trust in the steady existence of the small-scale production and small enterprising sector and in the relative stability of the terms of its functioning. It must be made unambiguous formally and in codified ways

that socialist commodity production is a multisector economy where small-scale activities and small enterprises are not only provisional complementary and auxiliary parts but integral elements. By *creating stable conditions* for their activities and by *setting up their representations* which authorities consider real partners and in which *statutory rights* are vested, desirable contributions can be made to creating their business and existential security.

The incomes originating from the functioning of small-scale activities and enterprises are still irritating. Many claim in Hungary that those are incompatible "with the postulates of socialist distribution, with the notion of distribution according to work done". This objection is strongly amplified even by a little easing of limitations. That is, the conceptual impacts of the notion of distribution according to work done must be faced. It must be made clear that the notion of distribution according to work done was formulated by contrasting the specific features of socialism with those of capitalism (income from capital are not predominant) and in contrast with communistic ideas (distribution is not in accordance with needs). This concept, however, does not give any guideline about income proportions that may be regarded as necessary or "equitable" in socialism. (The income structure could never and nowhere be explained on the basis of this notion of distribution even within the state sector.) On the other hand: it must be made generally known and introduced in the ideology that the multisector commodity producing socialism is a dynamic economic formation to which there belongs a differentiation (somewhat milder than in capitalism) in the incomes and wealth of individuals and families. Furthermore, it also has to put up with a limited but still not insignificant private capital which also serves the interests of society as a whole, as well as with revenues originating from that capital and also including returns on capital and the element of risk.

It follows from the nature of the matter that from the sea of small-scale activities/small enterprises some units grow out, gain in importance, and develop into medium-size firms. This is, of course, an advantageous process, it accompanies the direction outlined and belongs to its progressive impacts, but it also implies that some of these organizations outgrow the frameworks of private business. Without precluding other ways of solution I suppose that the idea of Mrs. Katalin Falus-Szikra [10] is viable and feasible. Support must be given to the *transformation of the private enterprise into cooperative one*, especially above a given ceiling (which ceiling must obviously be differentiated by lines of activity). Transformation into a cooperative could be facilitated through adoption of different forms of workers' participation in smaller private units run with several employees. Furthermore, the original owner (or, in case of his death, his immediate family members) should be entitled to participation in the new cooperative management and to certain compensation for value. The transformation would thereby be acceptable also for him (his heirs).

It is not believable that the stagnation and relative recession of Hungarian economy could be terminated by the boosting of the sphere discussed in this paper: there can be no solution without duly settling the affairs in the world of big enterprises.

However, the driving force of the sphere discussed must not be underestimated. Not only because the promotion of small-scale activities, small (and medium) enterprises would considerably increase the level and efficiency of satisfying consumers' demands. Not only because an efficiently functioning background of small-scale producers and small (and medium) enterprises is one of the direct conditions of the efficient functioning of big enterprises. What is perhaps even more important is that the assertion of the progressive forces inherent in the sphere of the economy discussed here should give impetuses of overall effect to the development and consolidation of the automatism, ways of conduct and some institutions of socialist market-oriented management.

References

1. Máté, K.: Ipartelepi és vállalati koncentráció a feldolgozó iparban (Concentration of industrial establishments and enterprises in manufacturing industry). Institute for World Economics, HAS, Budapest 1984. (Manuscript)
2. Ehrlich, É.-Kramarics, G.-Tüü, L. Mrs.: *Enterprise and establishment size in industry in East and West — Collected statistics*, No. 61. WIW. Wien 1980.
3. Ehrlich, É.: *Establishment and enterprise size in manufacturing: an East-West international comparison*. No. 80. Wiener Institut für Internationale Wirtschaftsvergleiche (WIW). Wien 1982.
4. Ehrlich, É.: The size structure of manufacturing establishments and enterprises: an international comparison. *Journal of Comparative Economics*, 9. 1985. pp. 267-295.
5. Koi, F.: Az önálló vállalkozások főbb jellemzői napjainkban (Major characteristics of autonomous enterprises today). Hungarian Socialist Workers' Party, Political Academy, Budapest 1984. (Manuscript)
6. Bársony, J.: Tibor Liska's concept, the socialist entrepreneurship. *Acta Oeconomica*, Vol. 28. Nos 3-4. (1982) pp. 422-455.
7. Varga, Gy.: The experiment of Szentes. *Acta Oeconomica*, Vol. 28. Nos 3-4. (1982) pp. 460-465.
8. Némethi, L.: *Hatékonyág és fejlesztési lehetőségek a magyar mezőgazdaságban* (Efficiency and opportunities of development in the Hungarian agriculture). 1984. (Manuscript)
9. Bauer, T.: A reformpolitika a gazdaságpolitika komplexitásában (The reform policy in the complexity of economic policy) In: *Friss István emlékezete* (In memoriam István Friss). MTA KTI közleményei. No. 32. Budapest 1984.
10. Falus-Szikra, K.: Small enterprises in private ownership in Hungary. *Acta Oeconomica*, Vol. 34. Nos 1-2. (1985) pp. 13-26.

О РАСПРОСТРАНЕНИИ И ФУНКЦИОНИРОВАНИИ НЕПОСРЕДСТВЕННО РЫНОЧНОГО СЕКТОРА ВЕНГЕРСКОЙ ЭКОНОМИКИ

Г. РЕВЕС

В статье автор рассматривает распространение и условия функционирования «непосредственно рыночной» сферы, возникшей за последние двадцать лет в венгерской экономике наряду с чрезмерно централизованной структурой крупных предприятий. В эту сферу входят мелкое

производство и торговля, а также частично функционирующие в рамках крупных социалистических организаций мелкие и средние предпринимательства. При рассмотрении фактических данных бросается в глаза чрезвычайное распространение этой сферы. В ней непосредственно участвуют 4 миллиона человек, а выполняемая в этой сфере работа соответствует работе около 1,5 миллиона работников в полное рабочее время (численность активного самодельного населения в стране составляет неполных 5 миллионов). Затраты труда в менее контролируемой сфере экономики равняются 30 процентам затрат в социалистической промышленности. В строительстве она гораздо выше — около 75%, по отношению к деятельности крупных организаций. Автор подчеркивает сдержанность развития данной сферы, ее самоограничение. Это связано с ограничительными правилами, строгими налоговыми регуляторами, подчиненным по отношению к крупным предприятиям положением, а также тем, что мелкие организации не могут интегрироваться в экономику в целом. Эта сдержанность, отсутствие уверенности в будущем приводят к возникновению своеобразных монопольных положений и часто к авантюристическому поведению. Автор считает, что необходимо поддерживать развертывание мелкой хозяйственной деятельности, мелкие (и средние) предпринимательства и формулирует несколько предложений, направленных на это.

ECONOMIC OBSOLESCENCE AND EMPLOYMENT (A COMPARATIVE ANALYSIS OF THE HUNGARIAN AND DUTCH ECONOMIES)

J. RIMLER

The article is a comparative analysis of some problems related to the post-war industrial development and employment in the Netherlands and Hungary. The comparison relies on the vintage-model analysis relating to the Dutch economy and on Hungarian computations performed with the same Dutch model.

The analysis shows that industrial employment has changed in the Netherlands and in Hungary under the impact of different factors. The changes in staff in the Dutch industry have been motivated by efficiency viewpoints. Owing to rising labour costs the old vintages, engaging relatively much labour, have increasingly been substituted by new ones. In Hungary the reason was the exhaustion of labour supply. Owing to steadily increasing investment and slow scrapping, demand has exceeded employment possibilities beginning with the seventies—in spite of labour-saving technological development. The analysis convincingly proves that under unchanged conditions no industrial unemployment is menacing. In fact, changes in employment will continue to be regulated in all likelihood by the scarce labour supply at the expense of capacity exploitation.

The general characteristics of industrial employment in Hungary and the Netherlands after World War II were as follows: the number of workers in industry increased in Hungary till the end of the sixties. Growth changed from 1970 into stagnation and after the peak of 1974 there was even a slight decline. The growth in Holland turned into stagnation a decade earlier. The number of industrial employees began to decline definitely after a further 8—10 years. The former can be followed on *Fig. 1*. It should be observed: the industrial staff in Hungary showed a much quicker growth than that in the Netherlands because at the beginning of the period under survey the latter had already passed the extensive period of industrialization while Hungary just then started on this way.

This survey endeavours to clarify whether the stagnation in Hungary will also be followed by a decline similar to that in Holland. To answer this question we have to examine what kind of factors caused a fall of employment in Holland and its stagnation in Hungary. The survey will use a so-called vintage model.

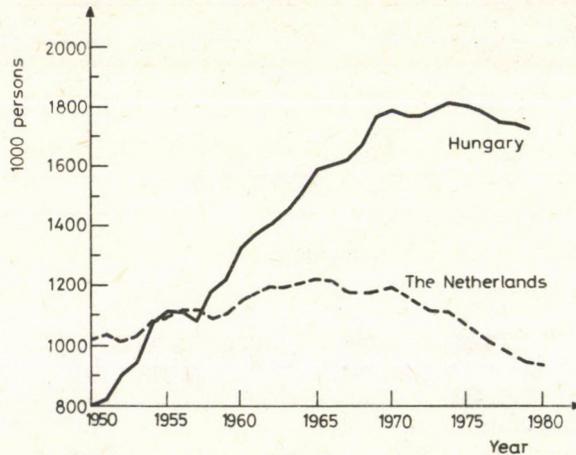


Fig. 1
Changes in employment

The vintage model in a nutshell

The substance of the model* is that the machines, equipments and vehicles (henceforth simply: machines) are registered separately (also in the computations) according to the year of their putting into operation.

So there is a possibility for a refined handling of productivity, of changes in the capital/labour ratio and technological development.

The productive capacity of a vintage depends on the machine investment put into operation in the year in question, on the worktime and the machine/output ratio, the so-called capital coefficient. The capital coefficients may differ from each other in each vintage. They can differ in fact if technological development or changes in structure are characterized by machine saving and/or consumption. Separate parameters serve to quantify modification in demand for machines connected with technological development and structural changes. The productive capacity of a vintage is determined from the side of labour by the number of employees, worktime and the productivity of labour. Separate parameters demonstrate the changes in productivity connected with the number of employees and independent of it.

The determination of productive capacity in each vintage renders it possible that even with the very strict conditions (homogeneous production, homogeneous demand for labour and Leontief-type production relations** the model is able to flexibly follow

*Experts elaborated many kinds of vintage models. We use in this survey the model of the Dutch economists *den Hartog* and *Tjan*. A detailed review of the model can be found in English in [1, 2], in Hungarian in the study of the author [3].

**The assumption of Leontief-type production relations means that the relative proportions of inputs are technologically determined and the workforce and equipment cannot substitute for each other from the moment of putting into operation.

the changes in productivity, capital intensity and factor proportions. Though factor proportions are fixed in each vintage, there is a possibility to substitute the factors for each other, regarding the full machine stock. Labour productivity and capital intensity are different by vintages, or rather labour productivity is growing and/or capital intensity is declining from one vintage to the other. In the case of a labour-saving technological development, when the labour intensity of production falls quicker than its capital intensity, factor proportions are changing with the putting into service of each new vintage and the scrapping of each outdated one: the share of labour declines and that of the machines grows. In the reverse case, when the capital intensity falls quicker, factor proportions change in favour of labour: more and more labour falls to a unit of machines.

Substitution among inputs ultimately depends in the model on the absolute and relative technological development embodied in labour and machines, and on the rate of investments and scrappings. While investment is an exogeneous variable, the model decides about the scrapping. According to the assumptions machines get worn out physically and become outdated economically. The former is expressed by the survival curve which, taking into consideration the maximum lifetime of the machines determines which part of the original stock can still be used in the first, second, etc. years after putting them into service.

There were two different survival curves in the Dutch and Hungarian computations: in the Dutch a so-called simple, in the Hungarian a weighted form. The simple survival function only shows the scrapping caused by physical wear and tear, the weighted one also calculates with a part of scrapping caused by technical-economic obsolescence.* It is worth to apply the weighted form if one can expect that the relationship established for demonstrating the effect of economic obsolescence on scrapping will not get across this way in reality. We were prepared precisely for that in the case of the Hungarian computations, supposing that the machines are not always sorted out when the income does not cover the labour costs any more, because of the possibility to shift the losses onto others.

There is a scrapping because of economic obsolescence if the income from production does not cover the labour costs. Thus a vintage stays as long in production as the value of output is not less than the sum to be directly paid during the operation of the vintage to workers plus the wage tax. Economic obsolescence depends on changes in labour productivity, labour costs and prices. It is ultimately determined by the share of labour costs within income. The bigger the share of labour costs the better method it is to save labour by withdrawing from production the low productivity machines of the old vintages and to put into service new, labour saving vintages instead of them, that is, to replace the more expensive labour by relatively cheaper capital. Taking into consideration the former interrelations, the model calculates for each year the oldest

*About the survival function see [3, 4]

vintage still economically kept in operation. The total capacity of that year can be determined on this basis: one has to add up, beginning with the oldest vintage, the capacity of the still working equipments of each vintage. The labour demand for the operation of the full capacity is the sum of employees working with the remaining equipment of the still working vintages.

The degree of capacity utilization is the rate of actual output to the full-capacity production determined by the model.

According to the assumptions of the model actual employment adjusts in the long run to the capacity utilization rate, so a longer-term under-utilization sooner or later leads to a decline in employment. There will be only partial or no adjustment in the short run. There is a separate parameter for the degree of adjustment.

There are altogether 15 variables, 7 parameters and 2 lags in the model. Among them there are 6 exogeneous and 9 endogeneous variables. We estimated and took into the model 2 of the 7 parameters independently of the computations. These are the flexibility of productive capacity with respect to changes in the weekly worktime of the machines and in the relationship expressing the manpower demand. Also the 2 time-lags, the one expressing the impact of investments on capacity growth and the other the delays in scrapping because of economic obsolescence are externally determined. We suppose that the capacity-increasing effect of investment put into operation in a given year appears with a half-year delay. There is a one-year delay in the case of the wage/income ratio regulating the scrapping of fixed assets.

Determination of the parameters happens in several steps through trial and error. The essence is that the algorithm chooses the parameter ensemble judged as most favourable with one or several objective functions from among the development paths determined by the different combinations of parameters moving within intervals given in advance. The objective functions show how the model fits to reality with the chosen parameters, how well the estimated productive capacity describes the actual production, and how the manpower demand calculated with or without adjustment, describes the actual employment.

Data

Den Hartog and Tjan examined with the vintage model the development of the Dutch industry between 1950–1980. The Hungarian computations span the period between 1950 and 1979. The computations required the time series of the following characteristic indicators: gross domestic product (GDP) showing the volume of output at constant prices; the deflator price index demonstrating the loss in the value of GDP; the number of employees; the annual costs of one person's employment (henceforth: labour costs); machines, equipments and vehicles put into operation (henceforth: machine investment); the index of changes in weekly worktime.

We took over GDP from [5], employment from [6], the machine investments

from [7] and [8]; the other data series were estimated. We arrived at the labour costs by raising the wages derived from [6] and [9] uniformly by 30 percent. 23 percent of the increase expresses the wage tax and 7 percent the individual incomes above wages. The deflator price indexes are also estimated. For lack of something better we supposed that the average change in producer's prices between 1968 and 1973 will suitably represent the real loss in the value of output during the whole period. The worktime did not change between 1950 and 1964 according to the assumptions, later it diminished by an annual 1 percent. This estimation relies on the data published in [10] and [11]. The details of the estimations are included in the study [3]. The Dutch data and data sources are published in [2].

Results

It is possible to follow the Dutch data with the vintage model somewhat more precisely than the Hungarian ones; the (average) difference between actual output and estimated capacity is in the Dutch case around 7 percent, in the Hungarian case 10 percent. The difference between actual and estimated employment is 1.5 percent and 4 percent and the average joint deviation of these two variables are 3 and 6 percent, respectively. The better approximation can partly be explained by the fact that the Dutch estimation here presented results from long experiments. This is up to now the best solution, while the Hungarian computations were the first ones about the Hungarian industry. Moreover, the period for which the Dutch parameters were estimated and the average deviation determined was by 6 years shorter than the Hungarian period. A better adjustment does not necessarily result from that. However, it is more probable that the temporal change of the macro-processes described with the model is the more uniform, the "smoother", the shorter the period examined. And, indeed, we get much smaller deviations by omitting the fifties from the Hungarian computations. Despite this, we do not analyse that computation. There are two reasons for it. On the one hand, by cutting the fifties we would have given up the analysis of an important period which determined later times. On the other hand the majority of the estimated parameters and variables did not deviate significantly from each other in the two computations. The deviations reacted more sensitively on the cutting of the period than the parameters and variables because, on account of well-known causes, the capacity utilization fluctuated in the fifties much more than later.

The stagnation and decline of employment can be brought into connection with changes in production possibilities. The contraction of productive capacity expresses in the model the reduction of employment possibilities. The second cause of declining employment might be a change in the labour intensity of production. Obviously, employment also diminishes with unchanged production possibilities if the productivity of labour increases and the production of a unit of output requires less labour input. A third factor may be the change in the rate of capacity utilization. Employment

can—*ceteris paribus*—diminish if the rate of utilization of available capacities declines. We can trace the shaping of these three factors on the basis of the results obtained from computations made with the vintage model. We can demonstrate their impact on changes in employment. Let us first have a look at the listed factors, one by one!

Changes in productive capacity

The model deduces the changes in productive capacity from changes in the machine stock and in the capital intensity of production (capital coefficient). Changes of the machine stock are determined by investments given from outside and by scrappings, partly also externally given, partly shaped by the other variables of the model.

The machine stock of Hungarian industry grew relatively quickly, by an annual 7 percent in the period under examination. Its rate accelerated over time (See *Table 1*).

Table 1
Average annual growth rates in Hungarian industry (percent)

Period*	1951-62	1962-73	1973-79	1951-79
Productive capacity	6.2	6.8	7.2	6.6
Machine stock	6.6	7.3	7.6	7.1
Investment	6.8	7.8	8.3	7.5
Scrapping	5.1	7.2	7.2	6.4

* The breakdown of the whole period examined to subperiods conforms to the turning points in the trend. These do not coincide in the two countries.

The machine stock could grow at an accelerating rate because, on the one hand, investments also changed this way, while, on the other hand, scrappings, far from exceeding this pace, did not even keep up with it.

Investments into machinery increased within the industry quickly, by an annual 7.5 percent. The rate of investment increased from period to period. It did not reach 7 percent in the first period and surpassed 8 percent in the last one. (See *Table 1* and *Fig. 2*.)

According to our computations the quantity of machines to be scrapped in 1979 was almost six times that at the beginning of the period, in 1951. The average yearly rate of scrapping was medium, 6.5 percent. Scrapping increased in the first third of the period more slowly than later. (See *Fig. 3*.)

Regarding the whole period, scrapping increased more slowly than the machine stock itself. Consequently, the scrapping percentage was higher at the beginning of the period than at its end. But its importance must not be overestimated because the scrapping percentages of the fifties are not reliable owing to the estimation method of

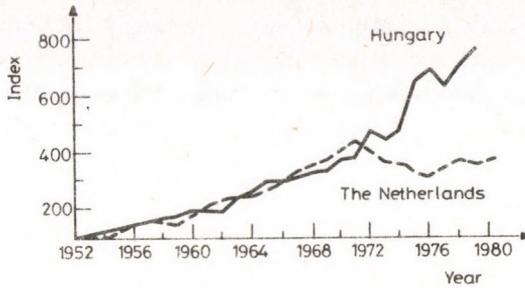


Fig. 2

Changes in machine investments

the machine stock and investment. As a matter of fact, one can take seriously the scrapping percentages and the related other results but from 1960. This period is, however, characterized by a roughly steady scrapping rate: 5.5 percent; approx. 2 percent of that is the part due to physical wear and tear. The rest is the scrapping because of technico-economic obsolescence which also falls into two parts: one is brought in from outside, the other is determined endogeneously. According to the results, the overwhelming part of economic scrappings was exogeneous. There was no endogeneous obsolescence in the sixties at all, it appeared in the seventies but its weight was not significant.

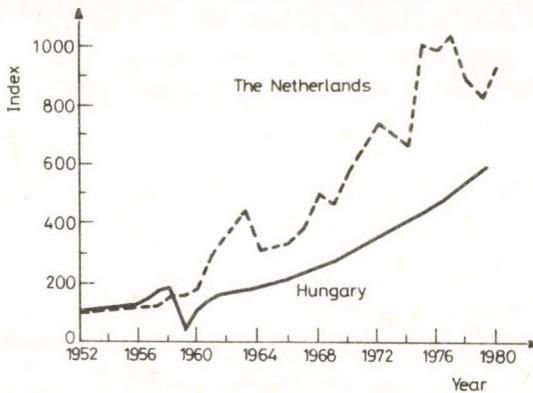


Fig. 3

Changes in scrappings

The scrapping percentage estimated with the vintage model of the Hungarian industry is high in comparison with the actual scrapping. The actual scrapping between 1960–1979 was scarcely half of that estimated with the model: a mere 2 percent, thus it moved on the level of physical wear and tear. The estimated scrapping is higher because, by using the weighted survival function, the model takes seriously the valid amortization rates, it scraps in accordance with them, while in reality an ever growing part of already depreciated machines was not withdrawn from production.

Thus, the percentage of scrapping scarcely changes. This stability is due to the slow modification of the stock's age structure, thus the scrapping imputable to physical wear and tear and exogenous economic obsolescence remained roughly on the same level, furthermore the endogeneous economic obsolescence affected just a few vintages. There was no need according to the model for machine scrapping in the sixties, and a relatively small quantity of machines had to be scrapped even in the seventies because of economic causes. There were just the vintages over 31 years, put into operation before 1948, which were sorted out of the machine stock according to the results.

The endogeneous economic obsolescence in the Hungarian industry was slow because the labour cost rate diminished. The labour cost reached the value of output merely in the case of few machines of the old low-productivity vintages. Labour costs still amounted to half of the value of output at the beginning of the period while in 1979 to only one third of it. (See *Table 2*.)

Table 2
*Changes in the rate of labour cost and its factors
in the Hungarian industry*

Period	Productivity	Labour cost	Labour cost rate (difference between growth rates)
	Rate of average annual change (percent)		
1951-1979	4.8	2.8	-1.5
1951-1962	4.0	2.9	-1.1
1962-1973	4.4	3.0	-1.4
1973-1979	4.6	2.5	-2.1

The decline of this rate is due to labour costs growing less slowly than productivity. One can read from *Table 2* that the difference between growth rates increased from period to period. The quick increase of productivity had at first a leading role in that, between the first and the second periods. Later, with the moderation of the productivity change the slow increase of labour costs (even if compared with that of the previous years) became decisive.

The productive capacity of industry increased together with the increase of the machine stock at an accelerated rate. The measure of capacity growth fell behind that of the machine stock by an average 0.5 percent. So the machine-intensity of production increased. The capital/output ratio is 0.9 at the beginning of the period, and 1.1 at its end. The increase of capital intensity is a consequence of structural changes in production.

The development of the Dutch industry is characterized by tendencies somewhat deviating from those of the Hungarian industry. The machine stock increased there a bit more slowly, at an annual average rate of 5.5 percent. The rate of increase declined from period to period. There is an extreme decline after 1973. (See *Table 3*.)

Table 3
Average annual growth rates in the Dutch industry (percent)

Period*	1952-65	1965-73	1973-80	1952-80
Production capacity	6.0	6.2	1.8	5.0
Machine stock	6.9	6.6	2.4	5.5
Investment	7.5	4.1	0.3	4.7
Scrapping	8.9	9.9	4.0	8.0

* See remark under *Table 1*.

The slowdown of the machine stocks' increase can be explained partly by the changes in investments and partly by scrappings. Investments increased at a decreasing rate, not too quickly, regarding the average of the whole period by less than 5 percent.

The upswing of Dutch machine investments lessened from the middle of the sixties and suffered a break at the beginning of the seventies. Investments still increased at the beginning of the period at an annual average rate of 7.5 percent, while just remaining on the same level during the last seven years. (See *Table 2*.) Scrapping increased quickly in the Dutch industry (See *Table 3* and *Fig. 3*). The scrapping rate surpassed the increase of the machine stock by 2.5 percentage points. Consequently, the 2.5 percent scrapping rate at the beginning of the period doubled by 1980.

The scrapping imputable to physical wear and tear is more or less steady in the Dutch industry: it moves around 2.5 percent. So, the increase of the scrapping percentage can undoubtedly be explained with the acceleration of economic obsolescence. Economic obsolescence still had no important effect on scrappings in the fifties, but almost 40 percent of scrapping in the sixties was already connected with economic obsolescence. This rate was round 50 percent in the last decade. Thirty vintages were sorted out from production between 1957 and 1980 because of economic obsolescence: the full stock put into operation before 1950, and even a large share of investments made in the fifties.

It was the rise in the labour cost rate that was responsible for this large economic obsolescence. The labour cost rate in the Dutch industry was 60 percent in 1950, after 30 years already 75. The rise in the labour cost rate accelerated especially after 1965, in spite of the productivity increase which was not slow, either. This was caused by a very quick rise in labour costs (7.5 percent p.a.). The labour cost rate continued to increase after 1973 because, although the increase was decelerating with both factors, the deceleration of labour cost was smaller.

The machine stock in the Dutch industry increased more and more slowly because, beside the drying up of investments, the scrappings caused by economic obsolescence became more important owing to the rising costs of labour inputs.

Production capacity, adjusting to the machine stock, increased till 1973 relatively quickly at an annual average rate of 6 percent. Afterwards the rate diminished significantly. The growth rates of the last seven years did not attain one

Table 4
Changes in the labour cost rate and its factors in the Dutch industry
 (percent)

Period	Productivity	Labour cost	Labour cost rate (difference between growth rates)
	Rate of average annual change (percent)		
1952-1980	5.0	5.9	0.9
1952-1965	4.8	5.3	0.5
1965-1973	5.8	7.3	1.5
1973-1980	4.4	6.0	1.6

third of the preceding long period's average. Productive capacity increased in the Netherlands more slowly than the machine stock, indicating a rising capital intensity of production. The capital coefficient increased from the starting 1 to 1.2 which corresponds to a 0.5 percent annual increase. Thus, productive capacities of the industry increased in both countries in the examined period. The rate of Hungarian growth was by 30 percent higher on average than that of the Netherlands. Yet the most remarkable difference between the changing of the two countries' industrial capacities is not this deviation in the rate of growth but the acceleration in Hungary and the decline in Holland at the end of the period. The difference can be well seen in *Fig. 4*: the curves running by and large together divide at the beginning of the seventies and get far from each other. The width of the gap is related to the already presented different development of investments and scrapping.

These results indicate that stagnation or decline of employment can not be brought into direct connection with the changes in productive capacities because

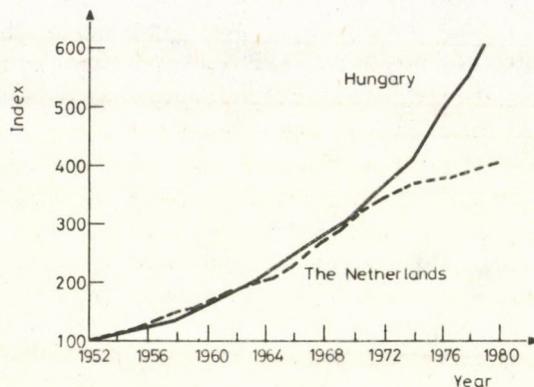


Fig. 4

Changes in productive capacities

capacities grew in both countries and so—*ceteris paribus*—also industrial employment ought to have grown. However, it is untenable to postulate here the constancy of all the other factors. The composition of productive capacities by vintages has namely changed because of the movement of investments and scrapping. As the specific labour demand of the vintages is different, employment is far from being independent of that structural regrouping, as we can see hereinafter.

Changes in labour requirements

According to our results the total demand for labour of the Hungarian industry increased in the examined period. For the full-capacity running of the available machines round 1 million persons were needed in 1951. The corresponding number was almost 2 million in 1979.

Demand for labour increased at an accelerating speed, in the first period just by an annual 2 percent, in the last by more than 2.5 percent (See *Table 9*).

The growth of total demand for labour indicates that more jobs came into being than ceased to exist. Investments created 137 thousand new jobs on annual average and 100 thousand ceased to exist according to our results, because of scrapping.* So the industry required each year 37 thousand more manpower on average. The net demand increased from period to period. It was 1.5 times bigger between 1973 and 1979 than in the first period (See *Table 5* and *Fig. 5*, where the values over the zero line show an increase in demand, those under the line a decline).

The rising demand can be explained by the following: the demand for labour of the vintages put into operation annually depends on the quantity of investment and the machine/labour ratio characterizing the vintage. The change of the machine/labour ratio (in other terms, the technological equipment of labour) is determined by the changes in labour productivity, worktime and capital intensity together. The labour productivity of Hungarian industry increased from vintage to vintage, by 5 percent. Since according to the assumptions the machine intensity of vintages did not change, the 5.2 percent rise in the vintage technological equipment of labour was shaped beside the change in labour productivity by the modification of worktime.

Investment increased within the examined period quickly, 7.5 percent p.a. The demand for labour of new machines could only grow by 2.3 percent because of the rise in the technological equipment of labour.** Investment increased not very quickly but also at an accelerating rate (See *Table 1*). Consequently, the number of new working places also increased at the end of the period more quickly than previously.

*Because of the further running of a part of the depreciated machines, in reality much fewer jobs ceased to exist (according to a rough estimation merely 35 thousand annually). The demand for labour of industry could thus grow in fact two or three times quicker than according to the model.

**The growth rate of demand for labour is the difference between the growth rates of investment and the technological equipment of labour.

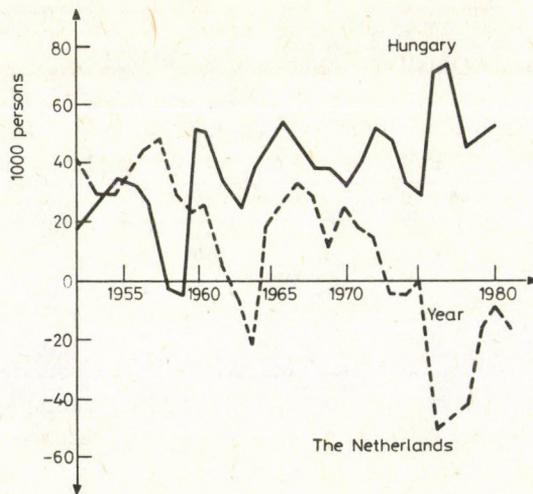


Fig. 5

Changes in net demand for labour

Table 5
Net demand for manpower and its factors in the Hungarian industry

Period	Demand for labour of investments newly put into service	Manpower released by scrapping	Net demand for manpower
	Average annual change (thousands)		
1951-79	137	100	37
1951-62	112	88	34
1962-73	141	101	40
1973-79	176	123	53

The rise of workforce released because of machines withdrawn from production depends on the quantity of scrapping and on the machine/labour ratio characterizing the vintages sorted out. The quantity of scrappings increased in the Hungarian industry by 6.4 percent p.a., the quantity of jobs lost because of scrappings (under the modifying effect of changes in the technological equipment of labour) by 1.9 percent.* Moreover, the rate of growth of scrappings did not increase. A smaller percentage of the stock came out of production at the end of the period than earlier, so the released labour was also growing more slowly.

*The difference between the rates expressing the lost jobs and the technological equipment of labour does not yield the rate of scrapping, because the scrapping expressed by the survival function affects several vintages with different technological equipment.

So more and more jobs came into being with the acceleration of the rate of investment. At the same time scrapping slackened, as relatively few people were released from the old vintages. Net demand increased as a result of these two movements. This demand can be interpreted as the change in total demand for labour from one year to the next.*

There was no change to be observed in the Netherlands regarding the demand for labour of the full capacity between the starting and the end points. There was a need both in 1952 and 1980 for round 1 million persons for full-capacity running. 87 thousand jobs were created in a year in the average of the whole period and 86 thousand ceased to exist because of scrapping.

There were quite important changes within the period. The total labour demand continued to grow till 1965 by 1.1 percent p.a. Investments created 13 thousand more jobs than the jobs lost. The growth of labour demand slackened between 1965 and 1973, its annual rate of growth did not reach even 0.5 percent. After that, demand for labour decreased quite quickly during the last 8 years, by more than 2.5 percent p.a. 30 thousand persons were released each year from the industry (See *Table 6* and *Fig. 5*.)

The decrease in net demand for labour is due to less jobs created by investments than the jobs lost because of physical wear and tear and economic obsolescence. The annual growth rate of investment was 4.7 percent regarding the whole period, during the last decade a mere 0.3 percent. The technological equipment of labour increased at the same time from period to period by 5.2 percent under the impact of labour productivity rising by 5.4 percent by vintages and capital intensity declining by 2 percent. The change in investment and technological equipment caused a decline of new jobs by 0.5 percent between 1952 and 1980 and by almost 5 percent p.a. during the last decade.

While the number of new jobs was decreasing, the number of lost jobs increased because of increasing economic obsolescence. The average annual rate of scrapping

Table 6
Net demand for manpower and its factors in the Dutch industry

Period	Demand for labour by new investments put into service	Manpower released by scrapping	Net demand for manpower
	Average annual change (thousand)		
1952-80	87	86	1
1952-65	82	69	13
1965-73	108	102	6
1973-80	71	101	-30

*Except for 1956 and 1957 when the model shows a net decline of demand because of the production shortfall.

was 8 percent. The number of lost jobs increased by 2.8 percent on annual average under the modifying influence of technological equipment. The gradual decline of demand for labour in the Dutch industry is due to the decline of investment at the end of the period, the technological equipment growing faster than investment and the scrapping caused by large-scale economic obsolescence.

Employment and demand for labour changed in the Hungarian industry in opposite direction. Had merely the demand for labour determined the shaping of employment, the latter would have grown even faster. We know that the opposite happened in reality.

There was quite another situation in the Dutch industry. Employment and demand for labour were changing there together, with some delay: both showed an accelerated decline after 1965.

Changes in the rate of capacity utilization

The average level of relative capacity utilization* in Hungarian industry is 94 percent according to our results. The rate of capacity utilization in the fifties was lower than the average and fluctuated strongly from year to year. Capacities were utilized on a very high level in the middle period: only 2.5 percent remained unutilized on average. The rate of capacity utilization was lower from 1973 than in the preceding period (See *Table 7*).

Table 7
The rate of capacity utilization in Hungarian industry (percent)

Period	Average level of capacity utilization
1951-1979	94.0
1961-1962	90.0
1962-1973	97.5
1973-1979	95.0

Capacity utilization increased during the first period, slightly declined in the second and decreased more strongly in the last one (See *Fig. 6*).

The average rate of capacity utilization in Holland was also 94 percent.** The industrial capacities were used most according to our results at the beginning of the period. The capacity utilization was low from the second half of the sixties, about 92 percent.

*Utilization was regarded 100 percent in the year when the least machines were used for the production of a unit product. Performance of the other years was compared with this best one.

**One cannot draw any conclusion concerning the absolute level of utilization in either country from the fact that, according to the above, the average utilization of industrial capacities fell in both countries behind the utilization measured in the best year to the same extent.

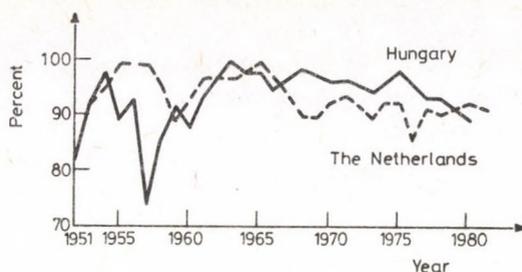


Fig. 6

The rate of capacity utilization

Table 8

The rate of capacity utilization in the Dutch industry (percent)

Period	Average level of capacity utilization
1962-1980	94.0
1952-1965	96.0
1965-1973	92.5
1973-1980	92.0

The rate of capacity utilization fluctuated in the Dutch industry. The level of the rate of utilization increased by an annual 0.5 percent in the first period and declined between 1965 and 1973. The pace of decline diminished in the last years.

Employment, labour requirement and capacity utilization

Changes in the scale of production do not furnish, according to the results, any satisfactory explanation for the decline of employment in either country. So the question, which factors caused a decline in industrial employment, can be answered by a joint analysis of changes in labour requirements and capacity utilization.

According to observations employment in Hungarian industry increased slower and slower in the course of time, while total demand for labour increased quicker and quicker. The growing distance between total demand and employment can be brought into connection with changes in capacity utilization. The steady and relatively significant growth of capacity utilization, which characterized the first period, led to an increase in employment exceeding the demand for labour. In the case of stagnating or slowly changing capacity utilization the two rates do not strongly differ from each other; this was characteristic of the middle period. After 1973, when the rise in employment stopped in spite of the further growing total labour requirement, utilization of capacities had to deteriorate. (See Table 9.)

Thus, the results show unambiguously that it was not the tightening of productive capacity nor the decline in total labour demand that were responsible for the slow

Table 9
*Changes in employment, total demand for labour and capacity utilization
 in the Hungarian industry (percent)*

Period	Employment	Total demand for labour	Capacity utilization
1951-1979	2.8	2.3	0.3
1951-1969	4.8	2.0	-1.7
1969-1973	2.3	2.4	-0.3
1973-1979	0.1	2.6	-1.3

increase of employment (or stagnation) in the Hungarian industry in the seventies. The number of jobs kept growing but fewer and fewer were filled. The under-utilization of capacities increased.

In the Netherlands, regarding the average of the whole period, total labour demand and capacity utilization remained unchanged, while employment slightly decreased. (See *Table 10*.)

Table 10
*Changes in employment, total demand for labour and capacity utilization
 in the Dutch industry (percent)*

Period	Employment	Total demand for labour	Capacity utilization
1952-1980	-0.3	0.0	0.0
1952-1965	1.4	1.1	0.5
1965-1973	-0.6	0.4	-0.7
1973-1980	-2.9	-2.6	-0.2

Though the extent of changes in employment and labour demand were different within the whole period because of the lags, their direction coincided. The total labour demand and employment also increased between 1952 and 1965; the latter somewhat quicker, because of the rising level of capacity utilization. The increase of both variables slowed down in the middle period. Although demand still slowly increased, employment already declined because of the quickly sinking capacity utilization. The rate of decline of labour requirement almost reached that of employment from 1973.

According to the results, the Dutch industrial employment declined together with the decline of labour demand. Capacity utilization fluctuated but did not show any trend. It only caused temporal shifts but did not influence the long-term change of employment.

Industrial employment thus changed in Holland and Hungary under the impact of different factors. The change in employment was led in the Dutch industry by economic points of view. The old vintages absorbing relatively much labour were substituted by new vintages because of rising labour costs. As the specific demand for

labour of the new vintages is lower because of labour saving technological development and the rate of investment also decreased, less jobs were created towards the end of the period than the lost jobs. Consequently, industrial unemployment assumed in the Netherlands ever bigger proportions because of the quick economic obsolescence of the machine stock.

The number of the industrial employees did not grow in Hungary, but not because of the decline in demand for labour but because of the shortage of manpower supply. Demands exceeded employment possibilities from the seventies because of the incessantly increasing investment and the slow scrapping, in spite of a labour saving technological development. The tension appearing as shortage of labour could only ease if the old vintages were withdrawn from production together with the curbing of investment. In the model a precondition of this is a rise in labour costs. The situation is, of course, not so simple in reality. If labour costs increased in the value of the product, scrapping connected with economic obsolescence would not even start if enterprises either did not perceive the losses or were not sufficiently interested in getting the income or could charge others with the rising costs. The analysis made with the vintage model, however, convincingly proves that there is no menace of industrial unemployment under unchanged conditions, the scarce supply of labour will in all probability continue to regulate the changes in employment at the expense of capacity utilization in Hungary.

References

1. Hartog, den H.—Tjan, H. S.: Investments, prices and demand for labour (A clay-clay vintage model for the Netherlands). *De Economist*, No. 124., 196.
2. Hartog, den H.—Tjan H. S.: A clay-clay vintage model approach for sectors of industry in the Netherlands, *De Economist*, No. 128, 1980.
3. Rimler, J.: Évjáratmodell makrofolyamatok elemzésére (A vintage model for the analysis of macro-processes). Manuscript. MTA Közgazdaságtudományi Intézete (Institute of Economics of the Hungarian Academy of Sciences), Budapest 1983.
4. Rimler, J.: Túlélési függvények — selejtezési tulajdonságok (Survival curves and scrapping). *Sigma*, 1983. No. 1–2.
5. Berend, I.: *Eszközintenzitás és fejlesztési politika* (Capital intensity and development policy). Akadémiai Kiadó, Budapest 1985.
6. *Ipari adattár* (Industrial data collection). 1966, 1972, 1978. Központi Statisztikai Hivatal (Central Statistical Office). Budapest 1967, 1973, 1978.
7. *A nemzeti vagyon és az állóeszközállomány, 1970–1980* (National wealth and fixed assets). 1979–1980, Központi Statisztikai Hivatal (Central Statistical Office), Budapest 1979.
8. *Népgazdasági mérlegek, 1960–1970* (Balances of national economy, 1960–1970). Központi Statisztikai Hivatal (Central Statistical Office), Budapest 1971.
9. *Statisztikai évkönyv, 1960–1979*. (Statistical Yearbook, 1960–1979). Központi Statisztikai Hivatal (Central Statistical Office), Budapest 1961–1980.
10. *A fizikai dolgozók életkörülményei* (Working conditions of manual workers). Statisztikai Időszaki Közlemények (Statistical Periodical Publications), Volume 436, Központi Statisztikai Hivatal (Central Statistical Office), Budapest 1978.

11. *Munkaidő és munkaidő-csökkenés az iparban* (Worktime and its reduction in the industry). Statisztikai Időszaki Közlemények (Statistical Periodical Publications), Vol. 141, Központi Statisztikai Hivatal (Central Statistical Office), Budapest 1969.

ЭКОНОМИЧЕСКОЕ УСТАРЕВАНИЕ И ЗАНЯТОСТЬ

Ю. РИМЛЕР

В статье приводится сравнительный анализ некоторых проблем занятости в процессе послевоенного развития промышленности в Голландии и Венгрии. Сравнение опирается, с одной стороны, на анализ модели ден Хартога и Тяна возрастных групп основных фондов голландской экономики, а с другой стороны, на проведенные с помощью этой же голландской модели венгерские расчеты.

Из исследования следует, что в Венгрии и Голландии занятость в промышленности менялась под воздействием разных факторов. В голландской промышленности изменение численности занятых было подчинено соображениям экономической эффективности. Вследствие роста затрат на рабочую силу старые, требующие относительно много рабочей силы поколения оборудования все больше заменялись новыми. Поскольку удельная потребность в рабочей силе новых поколений техники вследствие трудосберегающего технического прогресса ниже и поскольку темпы капиталовложений также понизились, в промышленности к концу периода создавалось меньше рабочих мест, чем ликвидировалось. Таким образом в Голландии безработица в промышленности принимала все большие размеры вследствие быстрого экономического устаревания оборудования.

В Венгрии число занятых в промышленности не возрастало не потому, что сократилась потребность в них, а потому, что иссякло предложение рабочей силы. Из-за постоянно возрастающих капиталовложений и медленного выбытия устаревшего оборудования начиная с 60-х годов потребности превысили ресурсы рабочей силы, несмотря на трудосберегающий технический прогресс. Проявляющаяся в форме дефицита рабочей силы диспропорция может быть ликвидирована лишь в том случае, если свертывание капиталовложения будет сопровождаться изъятием устаревших поколений оборудования. Условием этого в модели является повышение трудовых затрат. В действительности положение, конечно, не такое простое. Поскольку как бы ни возрастала доля трудовых затрат в стоимости продукции, замена устаревшего экономически оборудования не начнется, если предприятия не ощущают убытки или могут переложить на потребителя повышение затрат. Тем не менее анализ, проведенный с помощью модели возрастных групп, убедительно доказывает, что при неизменных условиях и в будущем не существует опасности безработицы в промышленности. Более того, и впредь занятость будет, по всей вероятности, регулироваться недостаточным предложением рабочей силы в ущерб использованию мощностей.

HUNGARY'S SOCIAL EXPENDITURES IN INTERNATIONAL COMPARISON

E. GÁCS

The study compares social expenditures in developed industrialized countries and in Hungary relying on the OECD data. Taking into account the limits of the international comparison the author points out that the relative level of social expenditure in Hungary is not high as compared either to the average or to the countries standing close to her geographically or in development level. The level and share of health expenditures is strikingly low in the country. The real increase of expenditures in Hungary was somewhat above the average of the developed countries during the 1960s and 1970s while the increase of the old-age pension fund was extremely fast. The factors of increase in individual periods are similar to those of the majority of the countries considered.

In recent years the issue of social benefits has come to the foreground of economic discussions in Hungary. Beside the slowdown of economic growth and the decline of real wages, the volume of social benefits continued to increase—even if at a decelerating rate—and represented a growing share within the income of the population. Many people raised the question whether we did not go too far in the development of benefit schemes, whether we did not spend disproportionately much on social purposes as compared to our possibilities, tightening the scope of incentives for higher performances in this way. Others, however, referring to the hard, and in many cases worsening, conditions of certain social groups—e.g. retired people with low pension, large families, those deprived for manifold reasons, etc.—, urged a further extension and increase of benefits.

In the course of discussions there were many references to international tendencies as well as to the practices of other countries. Monographies aimed at giving a picture on the social policy of certain countries were published. It seldom happens, however, that the level, increase, and inner proportions of Hungary's social benefits are compared with similar data of other—socialist and western—countries on an objective basis.

A recent publication of the Organization for Economic Cooperation and Development (OECD) on social expenditures provides a good opportunity for comparison with the developed industrialized countries. [1] The study presents detailed data for the years 1960, 1975, and 1981 as well as forecasts for 1990 covering 19 countries out of the organization's 24 members (as regards Iceland, Luxembourg, Portugal, Spain, and Turkey no consistent statistics were available). It discusses the magnitude of social expenditures, their ratio to the gross domestic product (GDP), their inner structure, their increase, and the components of increase in the years

concerned. The study applies interesting modern analytical methods from a methodological point of view as well.

The concept of social expenditure as used by the OECD has an extended coverage compared to the category of social security applied by other international organizations (e.g. the ILO). It covers the expenditures on social security, health, and education as well as the aids and welfare services granted by local state authorities. It does not comprise, however, the benefits provided by enterprises, churches, and welfare associations as well as pension, sick-pay, health and other services provided within the framework of private insurance schemes, which are widespread in some countries. These items are omitted not for theoretical reasons, but because no full information is available on them. This coverage (somewhat) deviates from the category of social benefits applied in Hungary. On the one hand, it includes not only the current expenditures, but welfare investments (except for housing) as well.* On the other hand, however, it only reckons with public expenditures financed out of the central or local government budgets as well as from social security funds.

For the sake of comparability the Hungarian data had to be adjusted.** I augmented the social benefits of each year with the health, educational, and social investments. At the same time, in order to avoid double-counting, I subtracted the annual depreciation of fixed welfare capital included in social benefits as well as the benefits financed by enterprises and cooperatives. The major items within the latter category are sick-payments by cooperatives and contributions to organized enterprise recreation and catering. As an inner re-classification, I transferred public infants' nursery expenditures from the health service to education, since in western countries public infants' nurseries, if any, mostly appear under the heading of education.

The balance of the effected corrections produced no significant modification in total expenditure, but its components deviate from the original values to lesser or greater extent. Of course, minor deviations between the two systems may have still remained which could not be recognized on the basis of the briefly published OECD methodology. Anyhow, these cannot cause disturbances in the comparison as regards orders of magnitude.

The amount of social expenditures, reduced to a common denominator in this way, does not cover all public allowances (benefits) in any of the countries. Beside limitation to state benefits, for instance, social allowances are provided in western countries through the system (to those with low income, to families with children etc.), the amount of which is significant and may exceed the direct support provided in the form of family allowances in some countries. These affect not the expenditure but the revenue side of the state budget, and thus are not recorded. At the same time, consumer

*In macroeconomic planning an indicator has recently come into use in Hungary as well, which characterizes the total share of the population in the domestic final consumption of GDP, i.e. beside current consumption it also comprises the infrastructural investments of the population.

**When computing the Hungarian data I relied upon the publications of the Central Statistical Office [2, 3, 4, 5, 6, 7, 8]. Additionally, I used computations on social expenditure by the Economics Department of the Central Statistical Office and the National Planning Office.

price subsidies are considerable in Hungary. A part of them has an expressly social purpose (e.g. the subsidy included in the price of articles used by children, medicaments, etc.), but the methodology in force does not regard them as social benefits either in the western countries or in Hungary.

In spite of these limitations, I think that the comparison, here presented, gives an approximately adequate picture of Hungary's position in this important sphere of social and economic development.

Owing to the well-known difficulties related to the conversion of currencies, the level of social provision is usually not directly compared in terms of absolute values.* Therefore, the OECD-study measures the development of social provision with the ratio of expenditures in terms of local currency to GDP. (See *Table 1*).

As can be seen in the table, social expenditures reached a high share in most developed industrialized countries, amounting on the average to about one-fourth of GDP. During the two decades examined the shares usually doubled. In his book [9] László Szamuely gives an exhaustive review of the relationship between levels of welfare expenditures and the stage of economic development as well as economic growth; therefore, this issue will not be discussed here.

Hungary's level cannot be regarded as a high one compared either to the average or to the countries close to it both geographically and as regards development level. It was characteristic of Hungary, too, that the share of social expenditure almost doubled during twenty-one years.

The relative position of countries can be better analyzed if we consider not the overall share but that of the main expenditure items. The OECD-study decomposes the data into five groups: education, health, pensions, unemployment compensation, and other social expenditures. This latter category includes all non-specific benefits in cash and in kind, such as sick-pay, maternity allowance, family allowance, personal aids, and welfare services. (See *Table 2*.)

Analyzing the share of the different groups in GDP, it can be found that the expenditures on education and health are dispersed to a relatively small extent in the OECD countries, thus their level is in a fairly strong correlation with the countries' development level. There are much bigger differences in the levels of pensions, unemployment compensations and, particularly, of other expenditures.

As for Hungary, the low level of expenditure on health is the most striking phenomenon (merely 3.2 percent even without subtracting public infants' nurseries). At the first glance this seems incomprehensible, since the state health service is available by citizenship right in Hungary, as for the (relative) number of physicians it is among the first all over the world, and in respect of hospital beds its position is not worse than the average, either. If, however, the weak equipment supply of the health service, the low catering norms and, particularly, the low salaries of the health staff are

*Although the International Comparison Project (ICP) of the UNO offers a global purchasing-power-parity between the individual currencies, it would not be expedient to use them because of the highly heterogeneous composition of social expenditures.

Table 1
Percentage share of social expenditure in GDP
 (at current prices)

Country (ranked on the basis of 1981 shares)	1960	1981
Belgium	17.4	37.6 ^a
Netherlands	16.2	36.1
Sweden	15.4	33.4
Denmark	...	33.3 ^b
Federal Republic of Germany	20.5	31.5
France	13.4 ^c	29.5
Italy	16.8	29.1
Ireland	11.7	28.4
Austria	17.9	27.7
Norway	11.7	27.1
Finland	15.4	25.9
United Kingdom	13.9	23.7
Canada	12.1	21.5
United States	10.9	20.8
Switzerland ^d	8.0	20.0 ^b
New Zealand	13.0	19.6
Australia	10.2	18.8
Japan	8.0	17.5
Greece	8.5	13.4 ^a
OECD unweighted average	13.1	25.6
Hungary	11.3	20.8

^a In 1980.

^b In 1979.

^c Without education.

^d On the basis of detailed data presented in the Annex of the study (1). The respective data in the next table, probably due to error in computation, are 7.7 and 14.9, which contradict other statistical publications as well.

taken into consideration, Hungary's last place among the examined countries becomes understandable. This latter factor must also play an important role in the—even if not so flagrantly—low level of expenditure on education, and provides a partial explanation for the lag of overall social expenditures as well. Health, education, and culture are extremely labour-intensive activities, where the share of wages (and salaries) is far above the average. The relatively low wages (salaries) of these sectors' employees thus devalue the Hungarian activities measured at cost level compared to other countries. Furthermore, taxes on wages (social security contributions) are also lower in these sectors than in the OECD countries.

Table 2
Percentage share of social expenditure programmes in GDP
 (at current prices)

Country (ranked on the basis of total expenditure share)	Education	Health	Pensions	Unemployment compensation	Other social expenditure	Total
Belgium (1980)	8.0	5.1	9.1	2.6	12.8	37.6
Netherlands	7.1	6.7	13.0	1.0	8.3	36.1
Sweden	6.6	8.9	11.8	0.5	5.6	33.4
Denmark (1979)	7.7	5.6	7.8	3.4	8.8	33.3
Federal Republic of Germany	5.2	6.5	12.5	1.4	5.9	31.5
France	5.7	6.5	11.9	1.9	3.5	29.5
Italy	6.4	6.0	13.2	0.7	2.8	29.1
Ireland	7.1	8.4	5.2	2.5	5.2	28.4
Austria	3.8	4.7	13.8	0.5	4.9	27.7
Norway	6.1	6.4	7.9	0.3	6.4	27.1
Finland	6.3	5.2	8.8	0.6	5.0	25.9
United Kingdom	5.8	5.4	7.4	1.4	3.7	23.7
Canada	6.2	5.6	4.6	2.3	2.8	21.5
United States	5.5	4.2	7.4	0.5	3.2	20.8
Switzerland (1979)	5.5	5.4	8.1	0.1	0.9	20.0
New Zealand	4.5	4.8	7.3	0.5	2.5	19.6
Australia	5.8	4.7	5.6	0.8	1.9	18.8
Japan	5.0	4.7	4.8	0.4	2.6	17.5
Greece (1980)	2.4	3.5	5.7	0.3	1.5	13.4
OECD unweighted average	5.7	5.6	8.6	1.1	4.6	25.6
Hungary	4.4	3.0	7.8	—	5.6	20.8

The relative level of pensions in Hungary is close to the average, which may be the result of two opposed factors. The age of retirement is lower (usually by five years) in Hungary than in most industrialized countries; consequently, the ratio of pensioners is higher in the population. This is offset by the relatively low average remuneration. The level of other expenditure can rather be viewed as high. The composition of other expenditure in other countries is not identified. In Hungary almost two-thirds of this item are benefits in cash provided through the social security (social insurance) system. In some western countries local supports granted on the basis of needs (means-test) presumably represent a higher weight. Owing to full employment, unemployment compensation does not exist in Hungary, which also has a decreasing impact on total expenditure. (In 1983 a so-called re-training allowance was introduced, but the amount distributed has so far been insignificant.)

Table 3 shows how and to what extent the inner structure of social expenditures changed on average in the OECD countries and in Hungary during the past two decades.

Table 3
The structure of social expenditure

Expenditure items	OECD unweighted average		Hungary	
	1960	1981	1960	1981
Education	27.3	22.7	28.1	21.1
Health	19.0	22.7	23.8	14.4
Pensions	32.0	33.8	22.4	37.7
Unemployment compensation	2.6	4.0	—	—
Other social expenditure	19.1	16.8	25.7	26.8
Total	100.0	100.0	100.0	100.0

On average no significant shifts can be experienced in the structure of expenditures in western countries. The decline in the share of education can be traced back to demographical reasons: the education of the populous age-groups (cohorts) born in the post-war period required relatively higher expenditures; later on the decreasing birth rate brought about moderation in these needs. The increase in the share of unemployment compensation was a consequence of the major unemployment caused by economic recession.

In Hungary, on the contrary, the inner proportions substantially changed. While in 1960 the four main items accounted for roughly equal shares, by 1981 the share of pensions considerably increased, at the same time that of the health service and education fell back. In other words, while in 1960 the expenditure on health somewhat exceeded that on pensions, in 1981 the amount of pensions was already more than two and a half-times as much as that of the health expenditure.

The OECD-study divides the development of the 1960–1981 period into two unequal parts: the period between 1960 and 1975 was characterized by a relatively fast economic and social development, while that between 1975 and 1981, following the oil shock, was burdened by recessions. In both periods it compares the economic growth rate, identified with the growth of GDP, to the increase in the volume (real value) of social expenditures. (This is obtained by deflating each expenditure item at current prices with its own price index.) (See *Table 4*.)

During the 1960s and the first half of the 1970s the rate of economic growth was high in most countries, and was accompanied by an even faster development of social expenditures. From the mid-1970s the growth rate of GDP as well as the dynamics of social expenditures slowed down, owing to well-known reasons, in all countries but Greece. In the first period the income elasticity of social expenditures was usually around two, but in all cases greater than one. In the second period elasticity continued to increase in seven countries, while it decreased in the others. In the case of five countries the indicator fell below one, that is, the dynamics of social expenditures was lower than that of economic growth. In this latter category there are countries, where

Table 4
Average annual growth rates of GDP and social expenditure
 (at constant prices)

Country	GDP		Social expenditure		Income elasticity	
	1960-1975	1975-1981	1960-1975	1975-1981	1960-1975	1975-1981
Australia	5.2	2.4	8.6	2.3	1.7	0.9
Austria	4.5	2.9	6.0	4.4	1.3	1.5
Belgium	4.5	2.2	9.1	4.4 ^a	2.0	2.0
Denmark	3.7	2.2	—	4.0 ^b	—	1.8
United States	3.4	3.2	7.7	2.8	2.3	0.9
United Kingdom	2.6	1.0	5.0	2.5	1.9	2.5
Finland	4.5	2.9	7.4	4.5	1.6	1.5
France	5.0	2.8	7.5 ^c	5.9	1.5	2.1
Greece	6.8	3.5	8.1	8.8	1.2	2.5
Netherlands	4.5	2.0	9.3	1.4	2.0	0.7
Ireland	4.3	3.5	8.2	6.0	1.9	1.7
Japan	8.6	4.7	9.7	7.3	1.1	1.6
Canada	5.1	3.3	9.5	2.7	1.9	0.8
Federal Republic of Germany	3.8	3.0	6.7	1.9	1.8	0.6
Norway	4.3	4.1	9.5	5.6	2.2	1.4
Italy	4.6	3.2	7.0	3.8	1.5	1.2
Switzerland	3.4	1.7	6.9	2.5 ^b	2.0	1.5
Sweden	4.0	1.0	8.0	4.0	2.0	4.0
New Zealand	4.0	0.4	4.4	3.7	1.1	9.3
OECD unweighted average	4.6	2.6	7.6	4.3	1.7	2.1
Hungary	5.7	3.2	8.1	5.2	1.4	1.6

^a In 1980.

^b In 1979.

^c Without education.

the share of social expenditure reached a very high level (the Netherlands, the Federal Republic of Germany), but also such countries, where this share can be regarded as low (Australia, United States, Canada).

Hungary's development fits well into the overall picture in both periods, although the periods applied are not the most adequate for it (since the breaking point in Hungary is rather 1978 than 1975). The growth rate of social expenditures exceeded the dynamics of economic growth in Hungary as well, but the income elasticity was slightly below the OECD average.

The study also indicates an increase of social expenditures in the case of 14 countries by taking into consideration the effects of the following three components:

– demographic effect, which indicates how the expenditures changed as a consequence of a change in the number of those belonging to the age-groups eligible for the benefits in question;

– coverage, which indicates the share of those actually availing themselves of the benefits in the given age-group;

– the real value of average benefits per user.

The analysis was performed for four programmes (education, health, pensions, and unemployment compensation). As unemployment compensation is not comparable from Hungary's point of view, I will only present the comparison for the first three programmes in *Tables 5, 6, and 7*.

Table 5
*Decomposition of the average annual growth rate of
education expenditure
(at constant prices)*

Country	Impact on expenditure of changes in							
	Demography		Coverage		Average real value of benefit		Total	
	1960– 1975	1975– 1981	1960– 1975	1975– 1981	1960– 1975	1975– 1981	1960– 1975	1975– 1981
Australia	2.1	0.2 ^b	-0.5	0.2 ^b	7.2	0.8	8.9	1.2
United States	1.1	-0.2 ^b	0.9	-1.3 ^b	4.0	1.9	6.1	0.4
United Kingdom	0.6	-0.4 ^b	1.1	-0.5 ^b	3.2	-1.1	5.0	-2.0
Finland	-0.6	-1.3 ^b	1.0	0.8	2.6	2.2	3.0	1.7
France	1.2	-0.6 ^b	0.7	-0.1 ^b	–	1.7	–	1.0
Netherlands	0.7	-0.5 ^b	1.2	0.3 ^b	2.3	1.3	4.3	1.1
Ireland	1.3 ^a	1.4	1.0 ^a	-0.2	5.0	3.3	7.4	4.5
Japan	-0.2	-0.3 ^b	0.4	2.4 ^b	5.5	2.0	5.7	4.1
Canada	1.3	-0.4 ^b	0.9	1.2 ^b	6.1	0.2	8.4	1.0
Federal Republic of Germany	0.6	-0.9 ^b	1.9	0.0	4.6	2.5	7.2	1.6
Norway	0.7	-0.5	0.6	2.3	5.5	1.8	6.9	3.6
Italy	0.3	-0.2 ^b	3.0	1.3 ^b	1.2	2.8	4.6	3.9
Sweden	0.2	-0.3	1.0	1.7	2.2	0.7	3.4	2.1
New Zealand	1.9	-0.8 ^b	-0.5	0.0	3.8	-0.1	5.2	-0.9
OECD unweighted average	0.8	-0.3	0.9	0.6	4.1	1.4	5.8	1.7
Hungary	-0.2	-0.4	0.8	2.6	6.6	1.2	7.2	3.4

^a In the period between 1965–1975

^b In the period between 1975–1980

Education expenditure rose dynamically in most countries between 1960 and 1975. In this period the school-age population as well as participation in education were still usually increasing. Between 1975 and 1981 it was education which was hit the most by austerity programmes. In two countries even the volume of expenditure declined. According to the cited study, investments into education rather than current expenditures were cut. In this period the population of the age-groups from 0 to 24 was

Table 6
*Decomposition of the average annual growth rate
of health expenditure
(at constant prices)*

Country	Impact on expenditure of changes in							
	Demography		Coverage		Average real value of benefit		Total	
	1960-1975	1975-1981	1960-1975	1975-1981	1960-1975	1975-1981	1960-1975	1975-1981
Australia	2.0	1.2	1.8	1.3	5.1	-2.9	9.1	-0.5
United States	1.2	1.0	4.1	0.0	4.7	2.8	10.3	3.8
United Kingdom	0.4	0.0	0.0	0.0	3.0	2.0	3.4	2.0
Finland	0.4	0.3	0.0	0.0	11.5	3.6	11.9	3.9
France	1.0	0.4	1.0	0.3	8.7	5.6	10.9	6.3
Netherlands	1.2	0.6	1.3	2.5	8.7	1.2	11.4	4.4
Ireland	0.9 ^a	1.4	7.2 ^a	2.7	-0.4	2.1	7.7	6.3
Japan	1.2	0.9	0.3	0.0	10.5	5.6	12.2	6.6
Canada	1.6	1.2	2.6	0.0	8.4	1.8	13.0	3.0
Federal Republic of Germany	1.0	0.0	0.5	0.0	5.0	2.1	6.6	2.1
Norway	0.7	0.4	0.0	0.0	8.2	4.8	9.0	5.2
Italy	0.6	0.4	0.9	0.2	5.1	-0.5	6.7	0.1
Sweden	0.6	0.3	0.0	0.0	10.6	3.1	11.3	3.4
New Zealand	1.8	0.3	0.0	0.0	1.7	0.6	3.5	0.9
OECD unweighted average	1.0	0.6	1.4	0.5	6.5	2.3	9.1	3.4
Hungary	0.4	0.3	1.1	0.0	3.4	4.9	4.9	5.2

^a In the period between 1961-1975.

already decreasing in most countries, and in several cases the participation rate fell back as well.

Hungarian data, in line with the OECD methodology, regard the numerical change in the age-groups from 0 to 24 as a demographic effect. Expenditure on education as well as the number of users include, however, the evening, correspondence, and supplementary courses as well, which causes some distortion in the separation of components, but hardly affects the overall tendencies.

As for Hungary, the demographic effect is negative all the time, since the total population of the age-groups from 0 to 24 declined in both periods. Between 1975 and 1981 the fast growing birth rate boosted considerably the population of the age-groups from 0 to 14, consequently, that of children attending public infants' nursery, kindergarten, and primary school, which is reflected by the component of coverage. As a result, although the increase of total education expenditure did not lag behind the international standards between 1975 and 1981, the expenditure per head rose only moderately owing to the increase in coverage.

Table 7
*Decomposition of the average annual growth rate
of pensions expenditure
(at constant prices)*

Country	Impact on expenditure of changes in							
	Demography		Coverage		Average real value of benefit		Total	
	1960–1975	1975–1981	1960–1975	1975–1981	1960–1975	1975–1981	1960–1975	1975–1981
Australia	2.2	3.1 ^a	2.6	-0.3 ^a	3.5	1.2	8.5	4.0
United States	1.2	2.5	2.9	0.7	2.0	1.1	7.2	4.4
United Kingdom	1.6	1.0	0.9	0.8	3.3	2.6	5.9	4.5
Finland	2.8	2.5	-0.04	-0.5	8.0	3.4	11.1	5.5
France	1.9	0.8 ^a	1.9	3.0 ^a	3.7	4.7	7.7	8.7
Netherlands	2.7	2.0 ^a	-0.2	0.4 ^a	7.6	2.7	10.3	5.2
Ireland	0.7 ^b	1.1	1.5 ^b	0.7	5.9	4.7	8.2	6.6
Japan	3.4	3.7	4.2	4.2	4.6	5.2	12.7	13.7
Canada	2.4	3.3	2.8	0.4	2.9	3.0	8.3	6.8
Federal Republic of Germany	3.1	0.9	-0.3	1.4	3.4	-0.2	6.3	2.1
Norway	2.1	1.9	2.8	0.4	6.8	2.2	12.1	4.6
Italy	2.6	2.5 ^a	0.3	-2.9 ^a	6.5	8.2	9.6	7.7
Sweden	2.3 ^c	1.7	0.2 ^c	2.7	6.0	2.3	8.7	6.9
New Zealand	1.9	2.5	0.7	3.6	2.5	1.4	5.2	7.7
OECD unweighted average	2.3	2.1	1.4	1.1	4.8	3.0	8.7	6.3
Hungary	1.7	0.4	4.1	2.5	5.2	5.0	11.4	8.1

^a In the period between 1975–1980

^b In the period between 1961–1975

^c In the period between 1963–1975

Health expenditure witnessed an extremely fast increase in the OECD countries between 1960 and 1975. Half of the countries concerned achieved a double-digit average annual growth rate. Although between 1975 and 1981 the growth rate was reduced, usually it was not so sharp as in the case of education. The majority of the increase appears in expenditure per head, since the other two components did not play an important role in most countries. In the first period the impact of the extension of eligibility could still be observed in some countries, but later on the coverage usually became full.

In Hungary, parallel to the collectivization of agriculture, social security was extended to the cooperative peasantry during the 1960s, then from 1975 on, the health service became a citizenship right. Between 1960 and 1975 the coverage of the health service increased by two million persons. Since then the number of those drawing on the health service has only been changing in line with demographic developments. The dynamics of expenditure strikingly differs from that of other countries. In the first

period it was significantly lower in Hungary than in most developed countries. In the second period, however, the growth rate was not decreasing any longer, moreover, it was slightly increasing. In spite of the mounting economic difficulties, Hungary strove for avoiding restrictions in the health service in order to prevent that its lag further increases.

In the *increase of pensions*, contrary to education and health expenditures, the demographic effect as well as the increase of coverage played important roles in the OECD countries. The ageing of the population, the numerical increase of those beyond retiring age can be experienced in all developed countries. The circle of those eligible for pension was gradually extended. The volume of pensions was increasing at a fast rate, and this expenditure item suffered the least during the lean years between 1975–1981.

In the case of Hungary I considered the numerical change of those beyond retiring age (60 and 55 for men and women, respectively) as the demographic effect, while the increase in the number of pensioners beyond this, as a change in coverage. This distinction is not entirely precise here either, as both the number of pensioners and expenditure also include those retiring below the age-limit because of disablement, age-limit allowance, or age-limit dispensation (the latter mainly in jobs detrimental to health).

In the first period, as a result of growing average lifetime, the number of those beyond retiring age was growing fast in Hungary as well. In the second period, unlike in other countries, this component played only a negligible role. During these six years the population over the age-limit increased by less than 60.000. Moreover, this increment took place in the female population, while the number of men over the age of 60 declined.

The increase of coverage had a prominent role in the first period, which partly stemmed from the considerable extension of social security and, particularly, of the eligibility for pension. In the second period this component was already less important, but still significant. (The lowering of the retiring age of cooperative members by five years fell on this period.)

In Hungary the average "real value" of benefit per pensioner was growing by an annual 5 percent in both periods, which may be deemed reasonable by international comparison. This picture is, however, misleading, since most of the increase was due to the well-known structural effect: the share of people with low pensions was relatively high, while those newly retired received a relatively higher remuneration. The purchasing power of individual pensions increased more slowly, and in the case of populous strata it even decreased. Unfortunately, on the basis of the OECD-study, it is not possible to evaluate what impact the change in the pensioner structure had in other countries.

As a joint result of the three components, Hungary's expenditure on pensions was growing faster than the OECD average in both periods.

Beside analyzing the past, the study presents forecasts on the development of

social expenditures in the period between 1981 and 1990 as well. The forecasts were based on three different hypotheses:

- the growth rate of average real benefit will be the same as between 1975 and 1981;
- the ratio of social expenditures to GDP will remain on the 1981 level;
- the average real benefit will not increase at all.

The second hypothesis is viewed as the most probable. This implies that social expenditures at current prices will grow at the same rate as GDP. Maintaining the ratio will necessitate certain restrictions, and no further extension of eligibility will be possible. On the basis of this hypothesis a pessimistic and an optimistic version were elaborated as a function of the growth rate of GDP.

The computations of social expenditure were only made for the seven major OECD countries (United States, United Kingdom, France, Japan, Canada, Federal Republic of Germany, and Italy) according to main expenditure items and components of growth. (See *Table 8*.)

In the case of the pessimistic version the average annual growth rate of GDP is 2.1 percent, and the volume of social expenditure, deflated with its own price index, increases by 1.4 percent. According to the optimistic version, the average annual growth rate of GDP is 3.1 percent, while that of social expenditure is 2.4 percent. (Between 1981 and 1984 the OECD countries' average annual GDP growth was actually 2.2 percent, thus developments in the first three years are close to the pessimistic version.) Coverage increases in neither case. The impact of demographic effects is the same in both versions, except for unemployment compensation, since it is assumed that with a more dynamic growth unemployment will decline.

I computed the data for Hungary on the basis of the 7th Five-Year Plan. Beyond the automatic increase it provides for the extension of childcare allowance* introduced in 1985 as well as for the maintenance of the real value of social benefits in cash in a wider circle than today. The 2.2 percent average annual growth rate of expenditures somewhat falls behind the dynamics of GDP (2.4 percent); accordingly, the elasticity indicator becomes less than one in Hungary, too. In spite of this, the ratio continues to increase slightly at current prices (from 20.8 percent in 1981 to 22.1 percent), because the price increase in this circle is faster in Hungary as well. The growth rate of expenditures is close to the optimistic version of the seven OECD countries under consideration.

Summing up the issues discussed above—taking into consideration the difficulties of comparison outlined in the introduction of this paper as well—we can say that, in respect of the relative level of social expenditures, Hungary can be ranked, in line with its development level, in the lower third part of the developed industrialized countries covered by the analysis, while it takes one of the last three places among the European

*Childcare allowance is granted to the mother, up to the age of one and a half year of the child, provided that she was previously employed and wishes to stay at home with the purpose of childcare. The amount equals that of the sick-pay, i.e. 75 percent of previous net earnings.

Table 8
Decomposition of the average annual growth rate of social expenditure between 1981 and 1990
 (at constant prices)

Expenditure items	Impact on expenditure of changes in			Total
	Demography	Coverage	Average real value of benefit	
The average of seven OECD countries, pessimistic version				
Education	-0.8	0.0	0.7	-0.1
Health	0.3	0.0	0.7	1.0
Pensions	1.4	0.0	0.7	2.1
Unemployment compensation	3.9	0.0	0.7	4.6
Total	0.7	0.0	0.7	1.4
The average of seven OECD countries, optimistic version				
Education	-0.8	0.0	1.9	1.1
Health	0.3	0.0	1.9	2.2
Pensions	1.4	0.0	1.9	3.3
Unemployment compensation ^a	-0.4	0.0	1.9	1.9
Total	0.5	0.0	1.9	2.4
Hungary, 7th Five-Year Plan (1986-1990)				
Education	-0.5	-0.2	2.4	1.7
Health	-0.2	0.0	2.4	2.2
Pensions	0.4	0.7	1.6	2.7
Other	-	-	-	1.7
Total	-	-	-	2.2

^a Includes some error since the product of components does not yield the total.

countries. If Spain and Portugal were also included in the analysis, Hungary's place would probably be more favourable. The level as well as the share of health expenditure are strikingly low in Hungary. In the 1960s and 1970s the real growth of social expenditures, similarly to that of the whole economy, slightly exceeded the average of the developed countries, and the dynamics of expenditure on pensions was especially fast. The expected growth rate of social expenditure in the 1980s is close to the more optimistic OECD forecasts. The components of growth in different periods are similar to those in the majority of other countries.

References

1. *Social expenditure 1960–1990. Problems of growth and control.* OECD, Paris 1985.
2. *Statisztikai évkönyv, 1960–1975, 1981* (Statistical yearbook, 1960, 1975, 1981) Központi Statisztikai Hivatal, Budapest.
3. *A lakosság jövedelme és fogyasztása, 1960–1983;* (Income and consumption of the population 1960–1983.) Központi Statisztikai Hivatal, Budapest.
4. *Népgazdasági mérlegek, 1960–1970, 1975–1982, 1983* (National accounts 1960–1970, 1975–1982, 1983.) KSH, Budapest.
5. *Ágazati kapcsolatok mérlege, 1976, 1981.* (Input-output tables 1976, 1981.) Központi Statisztikai Hivatal, Budapest.
6. *Demográfiai évkönyv, 1960, 1975, 1981* (Demographic yearbook 1960, 1975, 1981.) Központi Statisztikai Hivatal, Budapest.
7. *Beruházási statisztikai évkönyv, 1981* (Investment statistical yearbook 1981.) Központi Statisztikai Hivatal, Budapest.
8. *Beruházási adattár, 1950–1977* (Investment data bank 1950–1977.) Központi Statisztikai Hivatal, Budapest.
9. Szamuely, L.: *A jóléti állam ma* (The welfare state today). Magvető, Budapest 1985. 123 p.

СОЦИАЛЬНЫЕ РАСХОДЫ В ВЕНГРИИ В МЕЖДУНАРОДНОМ СОПОСТАВЛЕНИИ

Э. ГАЧ

Автор на основании вышедшей в свет в 1985 году публикации Организации экономического сотрудничества и развития (ОЭСР) сравнивает социальные расходы развитых капиталистических стран и Венгрии. Анализ охватывает отношение социальных расходов к валовому внутреннему продукту, их внутреннюю структуру, рост и его факторы в отдельные периоды. Сопоставляется достигнутое в 1960—1981 годах развитие с прогнозами на период с 1981 по 1990 год.

С учетом ограниченной возможности международных сравнений автор устанавливает, что относительный уровень социальных расходов в Венгрии не высок, ни по сравнению со средним уровнем, ни с уровнем стран, близких по степени развития и в географическом отношении. Особенно низкими являются уровень и доля расходов на здравоохранение. Реальный прирост расходов в 1960-ые и 1970-ые годы превысил среднюю величину по развитым странам, особенно быстрой была динамика расходов на пенсионное обеспечение. Факторы роста в Венгрии в отдельные периоды похожи на таковые в большинстве западных стран.

REVIEWS

RESULTS OF THE FIRST NATIONWIDE PRESTIGE SURVEY IN HUNGARY

R. KULCSÁR

In examining the structure of society and the changes in it, information, helping a better understanding of the subjective motives behind the trends that lead to structural changes, is indispensable. The first Hungarian nationwide prestige survey was carried out with an aim to analyse the changes in social mobility in more detail. People's appreciation of the different types of occupations, and the way they look at the relative positions of these occupations, i.e. their prestige, have an influence on social mobility processes, on one's choice of profession, or on the parents' guiding their children in one or another direction, i.e. on one's own or one's children's chances to enter another social group.

The first nationwide prestige survey was carried out by the Central Statistical Office in 1983. Small groups had already been questioned about their appreciation of certain occupations even earlier.* The 1983 survey was, however, the first representative nationwide investigation in Hungary to contain the individual opinion of persons covered by the sample about the prestige of a large number and wide range of jobs (occupations).

Therefore, little can be read on the subject in Hungarian literature. The book on prestige by Lajos *Leopold* Jr. [2] may be considered a forerunner. It is a theoretical work, not relying on survey data, yet an excellent collection of the factors influencing and shaping prestige. If we wish to learn about people's opinions, foreign literature must be resorted to. In Pál *Léderer's* edition an anthology was published in Hungarian which presents the results and methodology of important foreign prestige surveys [3]. There also are a few articles and books available which treat prestige surveys carried out in Europe and the United States. One of the best known is the international comparative analysis by D. *Treiman* [4], another one the British survey by J. H. *Goldthorpe* and K. *Hope* [5]. The latter served as an example of methodology. First, we adopted the technique of multidimensional questioning (questions were put not only about prestige itself, but also about the differences between prestige-influencing factors with different types of occupations), second, we also used fifteen, so-called *standard jobs* for comparing the individually different occupations selected at random.

*For example, the 1978 experimental survey of the Central Statistical Office to try the method of a subsequent national survey [1], or the questions about the prestige of certain occupations asked by the Mass Communication Research Centre within the framework of a workers' survey in County Komárom in 1974.

The concept of prestige

The prestige of occupations is the value judgement in people's minds, the reflexion in subjective opinions of the relative positions of different jobs (occupations). Prestige is also shaped by objective factors, since the actual, real characteristics of the occupations influence the individual opinions to some extent. Such characteristics are the money to be earned in a certain occupation, the power concomitant with it, the knowledge needed, the social usefulness of the job, etc. In forming the individual opinion, a number of immeasurable, often inexpressible feelings are added to the objective elements and, together with them, provide an individual, subjective picture of the prestige of a given occupation. That is why it is not always possible to state the reasons clearly why the prestige of one occupation is higher than that of another one, or what it is exactly that makes people rank one occupation higher than another one.

Although the prestige of a given occupation cannot be accounted for in each case, it is indispensable to be acquainted with the hierarchy of the different occupations. For the leaders of society it is important to know what the members of society think of certain occupations, where they place them in the social hierarchy, since these opinions are the source—though not the direct cause—of social movements (mobility). Namely, by the time an individual aspiration, for example, the choice of a profession, turns into reality, the result will not always be identical with the initial idea. As it is read in the book "The prestige" [6], "the economies of the division of labour and the psychological categories of the choice of profession" are different. A complete agreement cannot be expected, and is not necessary, either. The leadership knows the economic side and if it is also acquainted with the subjective side, at least on a certain level, it will be able to establish an optimum harmony between the two. A typical example was the location of industry in the provinces which coincided with the needs of the labour force released from agriculture, so that both society and the individual fared well.

The survey method

The data reflecting the prestige of certain jobs, adding up from individual opinions, thus expressing the social opinion were obtained from the above-mentioned prestige survey. About 7500 persons were questioned (a quarter of a nationwide representative sample) about the prestige of the selected jobs. As regards their number and "quality", the jobs (occupations) were selected so as to represent the existing job structure adequately and to be suitable for the formation of large enough social groups. The sample included 156 jobs.* Of these, every interviewed person ranked 30, in a way that 15 jobs were the same for everybody—they were called "firm" jobs—and

*They are listed on p. 17.

from the remaining 141 jobs 15 were selected at random for each person questioned. This was the method by which we tried to enlarge the list of occupations in order that an adequate number should be available for the formation of groups. The scores of prestige ranking had to be given between 01 and 30. The job ranked first was given 01, and the one ranked last received 30.

As a rule, it is rather difficult to present subjective opinions summed up in an objective index. The problem of comparability begins with who understands and what by prestige. "The word prestige is used by many, and even more have it lying hidden in their minds . . . It is unlikely that the diplomat and the country journalist think exactly of the same thing when uttering the word prestige . . ."—Lajos Leopold says [7]. This statement still holds, as we found in making our survey.

It is a disturbing factor that people of low education, performing simple jobs cannot easily abstract. They cannot, or hardly, disregard the agronomist, doctor, or foreman they actually know. In a small place, people know few physicians, engineers, motor car mechanics, etc. It is, therefore, difficult for them to form an opinion independent of the persons known. Yet it does not follow that the average obtained in the course of questioning a large population is false because of the subjectivity of opinions. Prestige is, in the last resort, the "subjective" opinion of society, with a lot of unconscious elements in it.

Being aware of the problems involved by the concept, we tried to apply a method by which the content of the notion of prestige could be approached. Summing up briefly, it was as follows:

Right at the beginning of the interview a general question was asked: how does the interviewed person appreciate the 30 jobs given, which one has a greater prestige for him? In order to control our assumption according to which prestige is the reflexion of a combination of the elements mentioned in the introduction (money, knowledge, power, usefulness), we asked to rank these, too. This means, that the questioned person had to rank the cards of the 30 occupations selected for him again, according to one of the four aspects following hereunder and according to his own opinion:

1. *money*: jobs had to be ranked according to the money earned,
2. *knowledge*: the ranking had to show, which jobs required more special knowledge,
3. *power*: the word was used to indicate not only political power, but in general, the extent of influence concomitant with certain jobs, or, how much the holders of certain jobs can intervene, helpfully or restrictively, in other people's life, how much they can influence other people's behaviour (this variable was thus used to find out the position of different jobs within a subordination hierarchy).
4. *usefulness*: jobs were to be ranked according to their usefulness for society.

Ranking of the elements influencing prestige

The analysis of the answers has shown that the ranking based on "prestige" and the rankings according to the variables (aspects) listed above largely coincide. At least, the differences between the rankings are not so large that, for example, a job placed within the upper third of the hierarchy set up according to prestige would be transferred to the lowest third when ranked according to power, money, or knowledge. This seems to confirm our idea that the four variables outside prestige are in fact elements in the judgement of prestige.

This was further controlled by the correlations between the hierarchies set up according to each aspect of evaluation, and these coefficients supported the initial assumption.

Intensity of correlation between aspects

Interrelation	Correlation coefficient
Prestige—money	0.7774
Prestige—knowledge	0.9767
Prestige—power	0.9479
Prestige—usefulness	0.8228

Among the objective qualities forming the prestige of an occupation the first place is held by the amount of knowledge concomitant with, i.e. necessary for, the occupation in question. This is closely followed by power as a prestige-determining factor. Correlation is, therefore, closest between prestige and knowledge, and then between prestige and power. The prospect of earning high income may render a trade or profession highly attractive in practice, yet this does not necessarily mean that the trade or profession in question is of higher prestige than other, financially less profitable, occupations.

Perceptible differences are found in the intensity of correlations between prestige and the different aspects of ranking, if those interviewed are grouped according to different characteristics.

Among the youngest and the oldest generation, money and power play a greater role in determining the prestige of a certain occupation, than among the middle-aged generation. The regional distribution shows a difference in opinions, too, depending on whether those interviewed live in Budapest, in a country town, or in a village. The correlations between the hierarchies established by the village-dwellers are closer in each variation, which is to say that the four elements are more determinant in the provinces, i.e. more sufficient for prestige evaluation, than among the people of

Table 1
Correlation coefficient values

	Correlation between prestige and			
	money	knowledge	power	usefulness
	According to sex			
Total	0.7774	0.9767	0.9479	0.8228
Of which:				
men	0.7756	0.9753	0.9427	0.8016
women	0.7750	0.9739	0.9463	0.8322
	According to region			
Budapest	0.6296	0.9469	0.8780	0.7833
Cities	0.7857	0.9715	0.9402	0.7840
Villages	0.8052	0.9793	0.9597	0.8407
	According to age			
14-29 years	0.7777	0.9672	0.9543	0.9219
30-49 years	0.7656	0.9745	0.9382	0.7999
50-69 years	0.7764	0.9719	0.9363	0.8213

Budapest where, the correlation between prestige and the four variables being looser, a number of other factors are also likely to influence opinions. The differentiating effect of sex is negligible.

Prestige of the groups of occupations composed of individual jobs

The results of the survey have demonstrated that intellectual and managerial jobs (i.e. jobs concomitant with knowledge and power) and, in general, non-manual occupations have in almost every respect higher prestige than manual jobs (which is general knowledge in Hungary, only lacking numerical support so far).

With the exception of the variable "money", intellectual and managerial jobs occupy the highest positions in the hierarchies set up according to different aspects. Prestige, knowledge, power and social usefulness are mainly represented by highly qualified intellectual and managerial positions, while to earn a high income and to be ranked high according to the variable of money becomes possible through the occupations of artisan and retailer, separated from other jobs mainly on the basis of ownership, i.e. through non-agricultural self-employed jobs. Semi-skilled and unskilled labour was evaluated in the same way in each variation. These occupations lacking qualification, power, and in most cases even an adequate income were placed lowest in the hierarchy in each variation.

If the different occupations are grouped according to the traditional social categories (managers, intellectuals, other non-manual jobs, skilled workers, semi-skilled workers, unskilled workers, non-agricultural self-employed, agricultural self-employed, agricultural manual workers), the following hierarchy is received.

Table 2
The average prestige scores of the social-occupational groups*

Social-occupational** group	Scores according to the evaluation aspects of				
	prestige	money	knowledge	power	usefulness
Managers (executives)	7.81	8.37	7.91	5.44	10.26
Intellectuals	7.93	10.47	6.37	8.60	10.30
Other non-manuals	13.37	16.65	13.90	12.20	16.11
Skilled workers	16.19	15.08	15.34	17.14	15.02
Non-agricultural self-employed	16.33	8.27	15.51	17.11	19.33
Agricultural self-employed	20.53	14.05	22.30	20.65	18.25
Semi-skilled workers	20.66	20.02	21.49	20.85	18.50
Agricultural manual workers	21.93	21.89	22.19	22.43	17.72
Unskilled workers	25.18	24.63	27.12	25.08	22.06

* The score of each group is the weighted arithmetical mean of the individual scores of the jobs belonging to it.

** Groups composed of 141 jobs.

The intellectual and managerial social groups possessing high qualifications and greater power usually take the two first positions. The group of skilled workers and that of the non-agricultural self-employed were ranked almost equally, except for "money". Their work is very much similar, and their training is also on the same level. In the evaluation according to the financial aspect, however, the ranking was much different. In the evaluation according to "which job can earn more money", the social group of artisans, retailers, and private servicing entrepreneurs jumped to the first place, while that of skilled workers fell back.

Differences of prestige by sex, age, and domicile

It is worth examining the occupational groups in a more detailed breakdown and by differentiating between the interviewed, too. It was found, namely, that prestige scores were different according to domicile and age. (The same thing was already found with the correlation coefficients.) With this in view, we examined the differences between the hierarchies set up by the Budapest, the country town, and the village inhabitants, respectively, and also the differences in opinion between young, middle-aged and elderly people. For this purpose, jobs were grouped so that manual work was

Table 3

Average prestige scores of the occupational groups composed of 141 jobs, according to domicile, sex and age

Sectorial-occupational group	Total	Of which:							
		by domicile			by sex		by age		
		Budapest	town	village	men	women	14-29	30-49	50-69
							years		
Managers (executives)	7.81	8.75	7.94	7.34	7.76	7.85	7.76	7.87	8.07
Intellectuals	7.93	8.36	8.05	7.62	7.95	7.87	7.21	8.12	7.97
Other non-manual jobs	13.37	13.94	13.44	13.03	13.43	13.34	12.81	13.47	13.76
Industry I	14.40	15.08	14.34	14.18	14.19	14.57	14.05	14.49	14.60
Transportation I	16.04	15.84	16.07	16.11	15.58	16.43	16.26	16.19	15.71
Mining and metallurgy	16.18	14.89	15.90	16.93	15.77	16.55	16.57	16.12	16.13
Artisans, retailers	16.33	16.94	15.89	16.38	16.30	16.33	16.18	16.07	16.75
Industry II	17.06	17.04	17.00	17.20	16.65	17.46	17.40	16.92	17.08
Trade and catering	17.33	18.02	17.44	16.93	17.37	17.29	16.93	17.20	17.80
Building industry	17.87	17.07	17.93	18.14	17.61	18.08	18.26	17.82	17.61
Public utilities, services I	18.21	18.27	18.47	17.98	18.45	18.03	18.35	18.52	17.73
Light industry	18.37	18.16	18.57	18.32	18.35	18.39	18.59	18.50	18.23
Agricultural mechanic	19.67	18.87	19.55	21.00	19.46	19.84	20.63	19.27	19.32
Non-agricultural mechanic	20.02	19.23	20.54	19.96	19.76	20.25	20.33	20.15	19.63
Agricultural skilled and semi-skilled workers	21.63	19.97	21.60	22.29	21.48	21.75	22.64	21.35	21.09
Transportation II	21.94	22.19	21.91	21.86	21.96	21.93	22.18	22.10	21.57
Building material industry, chemical industry	22.37	22.16	22.42	22.41	22.07	22.61	22.70	22.39	22.09
Agricultural self-employed	22.50	21.05	22.23	23.19	22.31	22.64	23.49	22.74	21.49
Agricultural unskilled workers	23.12	22.13	22.86	23.72	23.11	23.13	23.44	23.24	22.73
Public utilities and services II	23.95	23.30	23.93	24.22	23.98	23.93	24.43	23.87	23.66
Outworkers	24.14	23.32	24.44	24.20	24.39	23.96	24.12	24.13	24.18
Unskilled workers (helpers)	24.39	24.11	24.48	24.45	24.38	24.42	24.58	24.46	24.17

not broken down to skilled and unskilled levels (which cannot always be clearly decided, either), but independent of the level of training, the sector (branch of economy) was made into a differentiating factor. Thus the character of the job could be made more prominent.

Table 3 makes it clear that the power involved by managerial posts has a greater prestige for the village population. With the exception of the building manager, every occupation of a managerial position received higher score from village dwellers than from the inhabitants of Budapest or of country towns.

The individual jobs within the groups are the following:

<i>Group</i>	<i>Individual job</i>
Intellectuals	engineer, economist, foreign trade transactor, veterinary, agronomist, lawyer, district doctor, resident (hospital) physician, chemist, school-master, teacher, university professor, astronomer, sociologist, librarian, journalist, actor, sculptor, priest, army officer
Managers (executives)	factory manager, hospital director, chief accountant, building manager, head of department of stores, works manager, foreman, stock-breeding foreman, deputy minister, county party secretary, enterprise party secretary, county council chairman, village council chairman
Other non-manual jobs	designer, technician, personnel man, telegraphist, shop manager, receptionist, guide, ministerial official, council executive, nurse, infant health nurse, football player, pay-roll clerk, typist, policeman, head storekeeper
Mining, metallurgy	cutter, trammer, smith, smelter
Industry I	watchmaker, jeweller, dental mechanic, precision instrument maker, television mechanic, refrigerator mechanic, transmission line mechanic, electric motor reeler
Industry II	engine fitter, bodysmith, toolmaker, turner, welder, motor car mechanic, presser, metal varnisher
Light industry	joiner, sawing-machine operator, printer, bookbinder, weaver, stitcher, machine-sewing worker, tailor, butcher, baker, preserving factory worker
Building material industry, chemical industry	brick maker, rubber maker, cardboard box maker
Building industry	mason, carpenter, tinker, ferro-concrete fitter, electrician, plumber, navy

Trade and catering	salesman in a general store, salesman in a department store, cook, waiter, filling-station mechanic
Transportation I	engine driver, bus driver, lorry driver, motor car driver
Transportation II	conductor, pointsman
Public utilities and services I	Hairdresser, dry cleaner
Public utilities and services II	postman, electricity bill collector, dustman, drain-tank cleaner, dam-keeper
Non-agricultural mechanics	boiler-man, automatic grab operator, crane operator
Agricultural mechanics	tractor-mechanic, watering machine operator
Agricultural skilled and semi-skilled workers	vegetable grower, wine-grower, cowman, poultry keeper, wood-cutter
Agricultural unskilled workers	coachman, plant grower, ranger
Agricultural self-employed	independent farmer, family member helping in the household farming plot
Artisan, retailer	tomb-stone engraver, shoemaker, house-painter, toy-maker, furrier, independent carter, retailer, independent restaurant-keeper
Outworkers	outworker
Unskilled workers	transport worker, lorry guard, cleaner, kitchen-maid, factory labourer, street sweeper, packer, warehouseman, material handler

Let us take, for example, the factory manager. He scored 6.41 from the Budapest people and thus was put at the 9th place, while country people gave him 4.67 thus putting him at the 6th place. In Budapest there are a lot of small and big enterprises, the managing directors of which dispose of little or great power. The inhabitant of the capital city gives thus the factory manager the average of the prestige scores that can be theoretically given to factory managers. On the other hand, in a village, where there may be no factory near or far, people do not think, as it was found, of such differentiation, for them the factory manager is "the Manager".

Certainly, more thorough and more detailed explanations could have been given of differences between prestige scores, if in the course of making the survey, information had also been collected on the motives behind the evaluations. For lack of such information, beside establishing the fact of differences existing between the scores, we can make mention only of a few motives we know or assume to exist. One is, for example, that village dwellers have always been more conservative in regard of values, norms, and social relations, than the inhabitants of Budapest or in many cases even than those of provincial towns. The conservatism of village people in respect of

social relations shows in that power, i.e. a managerial post, is of a higher prestige for them than for city dwellers.

Grouping those interviewed according to age, it has been found that the jobs concomitant with executive posts were ranked highest by the youngest generation. The hospital director and the county council chairman excepted, each executive job received a higher prestige score from them than from the generation above 30 years.

The above statement is further supported by the *correlation coefficients*, which indicate that correlation between prestige and power is closest among the 14-29-year-old.

Intellectuals as a social group was also ranked highest among the young generation. However, looking at the individual jobs, a rather high fluctuation is found in scores between the different generations. As for the evaluation of university professorship, and of various physicians' jobs, opinions are more or less similar, but the veterinary was given a lower score by the young and the old, than by the middle-aged. The classical intellectual occupation in Hungary, that of the lawyer, is of a very high prestige for the youngest. Similarly, the youngest gave the highest score to the "mysterious" astronomer and to the fashionable job of sociologist. The priest, however, has a higher prestige for the elderly generation than for the young.

Differences in opinion by domicile are also interesting. Intellectual occupations scored the highest from people in the provinces. Except for the librarian and the economist, all the intellectual jobs were appreciated higher by village inhabitants than by city dwellers.

Also the differences by domicile and age between the administrative and office jobs, or "other non-manual" jobs are significant. The more comfortable and cleaner office work still represents a higher position for the village than for the city dweller. It is still the dream of many young people to go and live in big cities and, especially for girls, office work is a rise in comparison with the family background. The dental mechanic, the ministerial official, and the personnel man had high positions in the rankings by provincial people.

Although the job of a dental mechanic is listed in official statistics as a manual job, in this article I listed it with the other non-manual jobs, because of its outstandingly high ranking. This high ranking suggests that those questioned did not consider this job as a manual one (it is of a high position even among the intellectual jobs), but as something near to the dentist's job. This is not without reason, since, in villages and sometimes even in cities, dental mechanics often replace dentists with their work. Many seek them, instead of dentists, to have a prosthesis. Most of these people probably cannot feel the difference in qualification between a dentist and a dental mechanic.

Ministerial officials were listed deliberately under such name, since a well-known, traditional job is meant by the words. "Ministerial" and "official" exert their upgrading effect, without those questioned exactly knowing which kind or type of

work is meant, especially among the elderly. In the eyes of those questioned, this job is that of an educated man, a white-collar worker possessing considerable power.

The high position of the personnel man in the hierarchy is a further proof that power is very important for provincial people.

The differences in the prestige scores of the individual jobs make the differentiating effect of the sector (branch) unambiguous. Not considering the individual trades industry takes the first place in the sectorial ranking, and within it heavy industry. Since the latter is a heterogeneous national economic sector, the average prestige score is the result of a wide dispersion. In Budapest, the mining and metallurgical jobs were appreciated the highest. This is partly explained by the fact that there was one trade within this group, that of cutters, ranked extremely high in the Budapest sample, and this pulled up the group average. As opposed to this, in the provincial town and village sample the highest positions are taken by the so-called fashionable manual trades, such as watchmaker, jeweller, television mechanic and the precision instrument maker. Within the industrial sector, the worst scores were given to jobs of the building material, chemical, and paper industries, in both the city and the village samples. Among these jobs there are quite a number which require no skill, and this further contributed to their lower prestige than that of skilled work.

Heavy industrial jobs are not so much appreciated by the young generation, as by the middle-aged and elderly generations. They involve hard work, mostly under bad and unhealthy conditions, and are therefore not attractive for young people. On the other hand, the motor car mechanic and the rest of the fashionable trades were ranked highest by the young generation.

In the Budapest sample, the building industrial trades take the second place in the hierarchy of the sectors. Provincial town and village people appreciated these jobs somewhat less. This may partly be explained by the fact that many of those leaving behind agriculture find jobs in the building industry and are thus better acquainted with the seamy side of the trade and do not look up to it.

In the eyes of the young, these jobs are not very attractive, either; in most cases they gave them lower scores than the elderly generation.

Within the industrial sector, light industry was pushed rather far back. A high rate of female labour is found among these jobs and, since the kinds of job with a lot of female labour usually have a low prestige, they were also ranked lower in the appreciation of the light industrial trades. Within light industry, for example, weavers', machine-sewing workers' and preserving factory workers' jobs—usually accomplished by women—were put the lowest in the hierarchy. Whereas the trades of the joiner, the baker and the printer, all typical men's trades, took the highest positions of the category.

Several similar examples support the conclusion that the feminized, or originally female jobs have a lower prestige in public opinion than have male jobs.

Among the national economic sectors, agriculture and services were given the worst scores. From the group of services, only the hairdresser's trade belonging to

personal services is standing out with a higher score. And from agriculture, the plant grower's job and that of the separately treated agricultural self-employed (private farmer) can be mentioned to have reached better scores within their category.

According to Lajos Leopold, three factors are needed for somebody or something to have prestige: 1. interest, 2. values available with difficulty, 3. neither too big, nor too little distance.

Not even very long ago, a large part of the population had agricultural jobs; therefore, as for the hierarchy of jobs, society was divided into two clearly separated groups, not only "by trade", but also by region. It is not without reason that agriculture is still being handled as a special sector. The process of industrialization started a migration from agriculture to the non-agricultural sectors. This flow was, no doubt, mainly a necessary consequence of the transformation of economic structure. It is still undeniable that there always has been in agricultural workers, if not consciously, a kind of respect or secret admiration for those city trades of which they knew nothing and which seemed unattainable for them. It is the unattainable values that make people feel that those who possess such values are more than they are, and must therefore be looked up to, which is to say, they have prestige. This unattainability and the regional segregation kept a certain distance between the jobs in agriculture and those in other national economic sectors.

Undoubtedly, a certain distance is needed for the development of social prestige. However, if it is too big, so much that nothing is known of the other man or his occupation, no prestige can be formed, for lack of values. Whereas, if the distance is too small, it means being acquainted not only with the positive, but also with the negative qualities of the job in question, and this hinders people in forming an opinion.

Unskilled works, whichever the categorization, are at the bottom of the ranking. The transport worker, the factory labourer, the lorry guard, the cleaner, the kitchen-maid, the street sweeper and any types of unskilled or occasional labours have a low prestige in towns as well as in villages, both among the young and among the elderly.

The group of independent jobs (of the self-employed) had to be handled separately because of the special character of ownership; as for prestige, however, these jobs are near the skilled workers' jobs. This is explained, among other things, also by the fact that most of those pursuing independent manual occupations have got the necessary skilled worker's certificate.

The examples presented reflect that it is the intellectual and managerial jobs, i.e. those with the highest knowledge and power, that enjoy the highest prestige, even though in most cases they are not concomitant with high incomes and in practice, as is generally known, they do not always receive due respect. The medium-level intellectual and the qualified manual jobs take middle positions in the national hierarchy. At the bottom of the ranking, we find the semi-skilled and unskilled manual jobs requiring no training.

Such is then the prestige ranking of jobs in Hungary at present, and this job

hierarchy is in most points identical with the hierarchy of the categories which we have so far treated as social layers, strata, or groups. This may confirm the statement made in the introduction that it is worth-while—and even important—to become acquainted with the subjective opinion of society's members about social stratification.

*

A further analysis of the data enables us to find a relationship between social mobility processes and individual opinions on prestige. The development of individual careers and their relationship with the individual opinions, not always coinciding with practice, can be examined, i.e. the question, how much individual wishes and plans deviate from the careers realized. It can be further examined in which way the social hierarchy is reflected by the opinion of different social groups, whether the social position has an influence on the picture formed about the "order" of society. A lot of further useful information is latent in this new survey, the full exploitation of which may help us to draw up a more detailed picture of social mobility processes.

References

1. Hosszu, K.: Egy kísérleti presztízsvizsgálat tapasztalatai (Results of an experimental prestige survey). *Statisztikai Szemle*, 12. 1980. pp. 1202–1215.
2. Leopold, L., Jr.: *A presztízis* (The prestige). Athenaeum Irodalmi és Nyomdai Rt., Budapest 1912. 243 p.
3. Léderer, P. (ed.): *A foglalkozások presztízse* (The prestige of jobs). Gondolat, Budapest 1977. 268 p.
4. Treiman, D. J.: *Occupational prestige in comparative perspective*. Academic Press, New York 1977. 514. p.
5. Goldthorpe, J. H.—Hope, K.: *Occupational grading and occupational prestige*. *Social mobility. Methods and approaches*. Clarendon Press, Oxford 1973. 188 p.
6. Leopold, L., Jr.: op. cit., p. 149.
7. Leopold, L., Jr.: op. cit., p. 37.

BOOK REVIEWS

ANTAL, L.: *Gazdaságirányítás és pénzügyi rendszerünk a reform útján* (Economic control and management and the financial system of Hungary on the way of reforms). Közgazdasági és Jogi Könyvkiadó, Budapest 1985. 361 p.

The statement can be safely made that these last decades the most determinant experience of Hungarian economists has been the passionate debate accompanying the development, operation, and further development, of the reform, i.e. of the new economic control and management system. The reform has not only changed the armoury and style of the narrowly interpreted central control, but also the relations between economy and the whole of society, as well as economists' position in public life. The prestige of the profession has suddenly grown; the ingenious solutions of the new mechanism have aroused attention on an international scale. And in Hungary, the representatives of other social sciences have referred to the change in economic concepts, whereby the discipline could rise above the dogmatic thinking of the foregoing two decades, as an example for the renewal of their own disciplines.

It is all the more interesting that no comprehensive description and evaluation of the "new" economic mechanism has been so far given in Hungary. (Quotation marks are used because, if the preparation of the 1968 reform is also included, the period in question covers about twenty years: half of the economic history of socialist Hungary.)

That is why László Antal's book was received with a lively interest. Even in the dull season of the summer, the book was sold out in just a few days, so that it had to be reprinted. It was not only the subject of the book, but also its author, that attracted the reading public. Antal is a well-known participant of the reform processes, intellectually as well as emotionally committed to the reform. Having read the book, the reviewer has formed the

opinion that it is a remarkable and interesting scientific analysis of the reform—the existential experience of a generation. And it may not be an arbitrary interpretation, either, that the listing of mere facts suggests a certain disappointment on the part of the author: we have not arrived exactly where we wished to.

*

The book is composed of three parts. The first and longest depicts the various development ways of the socialist planned economy together with its ramifications, and places the Hungarian economic mechanism within this picture. Talking about mechanism, or the *functioning model* of economy, László Antal clearly states that it is a wider concept than the system of planning, incentives and financial regulation, i.e. *economic control and management* comprising enterprise organization and economic management institutions, since it includes the market, as well as relations within the enterprise. The distinction is important, since many interpret the change of the economic mechanism only as a modification of the factors under central control, whereas all actors of economy, their norms of behaviour, habits, and connections are to be interpreted as part of the concept of "mechanism" referring to the model. I must add right now that after that the book discusses the questions of evolution of the economic control and management, and even of the whole economic model, almost exclusively from the aspect of relations between control (state administration) and enterprise (management of state-owned enterprises). This methodological narrowing down will become, in my opinion, an important factor in the author's conclusions.

He puts, namely, the question: why is it that the conditions in Hungary after 1968 have kept so much of the characteristic features of the centralized

(directive) planning system? His answer: the overall system of *hierarchical relations* has remained unchanged, that is why the most important behavioural regularities are so much similar to the characteristic of the earlier period of planned economy, notwithstanding the increased importance of market relations.

In this way the dependence of enterprises on control authorities has remained after 1968, just as has the bargaining between the two levels, with the only change that the subject of bargaining is now not the plan targets in *physical terms* and the necessary resources, but the *financial conditions* of management. Therefore, the attribute "decentralized" is not applicable to this way of functioning: it may be called "indirect" at the most, and this is to be considered, so he says, as a continuation of economic control and management based on directive planning. In the indirect control system the main decision making power also belongs to the economic control centres (and not merely in questions of major portent), while the self-regulatory market mechanisms necessarily play a subordinate role. Although the main instrument of control are financial elements, they are inapt to start and keep in operation any kind of self-regulatory mechanism. It becomes inevitable to effectuate individual modifications in the regulators conceived to be uniform, and then the "modernization" of regulator becomes subject to a bargaining process between state administration, regional authorities and enterprises.

Yet control through financial means does leave a greater decision sphere to enterprise managers, and government intervention is less particular. László Antal sums up the practice as it is in the following: "Under an indirect mechanism, the probability of gross errors is lessened, but so is the chance of conceptions of a propelling force, capable of carrying out radical redistributions of resources and large-scale social changes within a short time. The control apparatuses become sooner aware of the conflicts and pitfalls of the objectives formulated (in comparison with the system based on directive planning). Planning becomes duller, but more realistic."

The second part of the book traces the development of the economic control management system in time from 1968 up to the late 1970s, and the third chapter discusses the first years of the

present decade. About the preliminaries and preparations of the 1968 reform several studies have been published in Hungary (I have Iván T. Berend's publications in mind first of all). László Antal's book completes previous information by pointing out the theoretical differences between the various reform proposals: *different economists had different reform conceptions*. It was not quite clear, whether regulation was to function as an element of the self-regulatory market or as one of indirect control. "Theoretical formulations were nearer self-regulation, while conceptions about the actual system of regulators were nearer the latter. Subsequent uncertainties are a consequence of this fact."

I should remark that it is not at all surprising that the theoretical preparation was not perfect, since there was no model adequate to the Hungarian economic development level, social conditions, and geopolitical situation. (The development of commodity markets did form a part of the conceptions, however, any serious conception of the market of production factors was missing.) Therefore, the summary does not quite convince me, according to which "the general principles of the reform were unambiguous, while various questions of the actual control methods and of the role of control authorities remained uncertain". There still are a number of general questions in which there is a higher degree of uncertainty than in the actual constructions. And the reason exactly is, as it was earlier, that different views simultaneously exist even in regard of narrowly interpreted economic questions.

László Antal takes in turn the events of the last two decades of Hungarian economic history, paying particular attention to the repeated modification of regulators which led to the established practice of bargaining about regulators in the mid-1970s: "Today's situation is that while care is taken to maintain the rules of the game of the decentralized economic control system, in fact a cumbersome system of distribution of tasks and resources is functioning, expressed in terms of profitability indicators, without, however, the unambiguous decision hierarchy of the system based on directive planning, and with an enlarged number of actors. These changes legalized and institutionalized the processes that had already started in the early 1970s (then not yet openly)."

The last part is an analysis of the "restriction period" beginning in 1979 and still lasting. László

Antal gives two evaluations: one judges the economic policy pursued on the basis of short-term aspects; the other judgement to a certain extent rises above the factors worrying economic managers today. His first judgement: it is a *half-success* because, while the external balance could be improved, not so the quality parameters. His second judgement is even more severe: not only was the cure merely a half-success, but it became itself a source of further troubles. The only solution can be if the direct dependence is abolished between control authorities and enterprises, and today's system of direct control grows into the decentralized mechanism under the 1968 principles.

*

I am sure the book's rich material will give rise to further debates in the profession, for example, the marked distinction between the "indirect" and the "decentralized" types. Although everyday experience speaks against rigid contraposition: the indirect economic control operating mainly through financial means leaves a much increased sphere of choice and decision to every economic actor, thus, expressly, not only to state-owned enterprises—one may say, it is decentralizing. And, in comparison with the period before 1968, the difference is not only quantitative in the domain of decisions in the hands of employees, small commodity producers, and entrepreneurs. The business values, the norms of consumption and the way of life, and also working habits have radically changed. Further, also the closeness of hierarchical dependence on the centre and its nature have changed, moreover, so has the economic nature of the "centre" itself. All the same, a reconsideration and redefinition of concepts may prove to be fruitful for economic theory.

The author centres attention on the relationship between state and enterprise, and thus leaves a

number of important developments out of consideration, though it would be interesting to become acquainted with his views regarding Hungarian economy having become *multisectoral*, which in this form had not been envisaged by the main reform principles. Also, I would like to know, whether—in László Antal's opinion—the formal change that is now taking place in enterprise management is a significant step towards a decentralized mechanism or not. (Formally it is, by all means, the question now only is, whether economic control will in fact be sufficiently "indirect"—to reverse Antal's theses.) One question then attracts another, which is all right as it is: we have not yet "invented" an adequate economic model. Of course, the book is not expected to discuss all the important questions, which the author himself did not intend to be a monograph. It is a volume composed of studies of a wide scope (with a few overlappings and some clumsiness in editing).

Finally, I should mention a fact which is unusual in Hungarian publishing. The book is introduced by a five-page foreword by Miklós Pulai. Pulai argues with the author in a few important questions, politely but definitely: he has succeeded in convincing me on most points. He is a no less committed and active contributor of the modernization process of the economic control and management system than the author of the book. Therefore, what he is doing is no "backbiting the mechanism", as people like to say in Budapest. It is simply that his appreciation of certain facts is different and that he experienced the same developments in another way. (And the reader's curiosity is aroused: what could be Miklós Pulai's own evaluation of the past two decades?) It is hoped that László Antal's book will encourage others to put their own experiences into writing together with the lessons to be drawn, arguing or agreeing with this book.

P. Á. BOD

Entwicklungen des Ost-West Handels unter erschweren weltwirtschaftlichen Bedingungen. Österreichisch-Französisches Zentrum für Begegnungen aus europäischen Ländern mit verschiedenen wirtschaftlichen und sozialen Systemen (ÖFZ), Wien 1984. 158 S.

Voraussetzungen für die Gründung von gemischten Unternehmen zwischen Ost und West: Erfahrungen und Aussichten. ÖFZ, Wien 1984. 145 S.

Moderne Methoden des Unternehmensmanagement in Ost und West. ÖFZ, Wien 1985. 111 S.

On the joint initiative of the Austrian and the French governments a Centre* was established in Vienna in 1978 for the development of relations between European countries with different socio-economic systems. Hungary and Poland joined the founding member states. The Centre organizes conferences and lectures and launches research projects with a view to deepen mutual understanding, and seeks practical ways for promoting economic relations.

For the development of relations between European countries the Centre has created two important conditions: a *forum* for personal relationships and another one for *publication* of the results of conferences and research activities, to be made available to an international audience. The high professional standards of the Centre are ensured by its Board of Directors and Programme Committee recruited from the best experts of European economy and politics from France, Austria, Hungary, and Poland.

Three volumes have so far come out in German and French—published by the Centre with the active contribution of the French Institute of International Relations (IFRI)—comprising the lectures read at seminars held in Vienna in 1983 and

* Austrian-French Centre for Meetings between European Countries with Different Socio-Economic Systems (Centre franco-àutrichien de rencontres entre des pays européens à systèmes économiques et sociaux différents; Österreichisch-Französisches Zentrum für Begegnungen aus europäischen Ländern mit verschiedenen wirtschaftlichen und sozialen Systemen—ÖFZ), 1010 Vienna, Wiplingerstrasse 4.

1984, and of those held in Budapest at the end of 1983.

It may be due to the well considered work programme of the Centre (or may be accidental) that with the three volumes placed in a row, a logical chain guides the reader from a high-level theoretical analysis to the practical activity of enterprises, thus treating the subject as an organic whole.

Reading through the three volumes, the interactions of the international economic and political environment, influencing enterprise activity, and enterprise interests, influencing the trade policies of governments, become clear. The three volumes are of a high practical value in revealing such prospects for reconciliation of interests and actions—confronted even in their interdependence—of which each party *makes a profit*, in the original sense of the word.

The title itself of *Vol. I*. ("The development of East-West trade in a difficult world economic environment") evokes as many associations in the European reader as would be enough for an extensive paraphrase. Instead, I would now only point to the essential feature of the volume's approach (which must be obviously that of the Centre), in which East-West trade is treated as a *section of world economy*—keeping, of course, in mind its specific political aspects while also abstracting from them in a sense.

An introduction, rich in ideas, summing up the papers as well as the debates, was written by Marie Lavigne, Professor of Université Paris I, an internationally renowned expert on East-West relations. Several of her works have been reviewed in this journal. The introductory lecture was also held by Marie Lavigne: she highlighted the global aspects of East-West relations as well as the conditions of their development—on the side of both Western and Eastern countries. She considers as such conditions the flow of credits into the socialist countries on the one hand, and an accelerated structural adaptation of these countries on the other. Her analysis is amply supported by statistics; her comparison, relying on a numerical analysis, between the competitiveness of the newly industrializing countries and that of the Eastern countries on the OECD markets must be instructive also for economists in Eastern countries.

The Polish economist Józef Soldaczk indicates that the success of efforts at structural

transformation is a condition of accelerating economic growth in Poland. He analyses the specific problems of Polish economy, the reform attempts to resolve them in detail, as well as the role of the different sectors in Polish economy.

Other lectures published in the volume (one by *Bohunovsky* of Austria, and another one by *Podobinski* of Poland) discuss the special forms of East-West trade, such as industrial cooperation, barter trade, leasing: the financing of East-West trade (which is most exposed to the global processes of world economy, as it was clear from the contributions of Eastern and Western bankers, among them Helmut *Haschek* of Austria and Sándor *Demcsák* of Hungary). Finally, a discussion of questions of tripartite industrial cooperation opened up European cooperation chances towards other regions of the world: in this field, Patrick *Gutman*, internationally renowned expert of the question (with his co-author Gérard *Ballot*) elaborated a number of case studies in detail and quantified the results of various research works to prove convincingly that European cooperation is of an importance going far beyond Europe, and that it is also related to the North-South complexity of problems.

The papers of the volume on the whole confirm the fact that the problems of economic relations between the two Europes can only be understood in a global approach, while they can only be resolved through the decisions of the nation states. The lesson Professor Marie Lavigne draws from the lectures is important as well as reassuring, namely, that the increasingly difficult conditions notwithstanding, East-West relations are developing, and that experience offers solutions even for the hardest problems. And that these possibilities in fact materialize to an increasing extent may be a more justified hope at the time of writing this review (at the end of 1985), than when the lectures were read in May 1983.

Vol. II. ("The preconditions of creating mixed companies between East and West: experiences and perspectives") publishing the lectures held in Budapest in December 1983 treats the preconditions for establishing mixed companies between East and West, and the related former experiences and future perspectives. That the subject treated was indeed a topical one is shown by the fact that in the ensuing years i.e. in 1984 and 1985 quite a number of mixed

companies with Western participation were formed in Hungary: by the end of 1985 their number approached fifty. Professor Michael *Hofmann* of the Vienna University of Economics wrote the introduction to the volume, explaining the various interpretations of the notion of "mixed company" and summing up the most important statements of the lectures. The French co-authors Claude *Lachaux* and Irene *Commeau-Rufin* presented an international survey based on questionnaires carried out by a research team of the Centre. The well-known methodological difficulties of such comparative analyses notwithstanding, the survey gives the clearest and most exact picture so far known of the motivations of establishing mixed companies, and of their distribution by sectors and size of capital in the four countries participating in the Centre's activities. Summing up the results of the examination, the authors claim that much more companies with capital participation of Eastern enterprises, or owned by Eastern enterprises are working in the West, than the other way round. This asymmetry can be eliminated if the Eastern countries create more favourable conditions for the operation of mixed companies with Western participation. The rest of the papers in the Volume analyse, relying on a number of case studies, the scope of action of mixed companies, the legal and financial conditions of their foundation the problems and possible solutions. The appendix of the volume contains Hungarian and Polish legal regulations concerning mixed companies.

Vol. III. ("Modern methods of company management in East and West") contains the lectures organized by the Centre in Vienna in November 1984 on the subject. The introduction was written by Peter *Jankowitsch*, secretary general of the Centre, a noted Austrian expert of international relations.

The introductory lecture of Professor Michael *Hofmann* of the Vienna University of Economics establishes a remarkable truth already in the title of the paper, also confirmed by the ensuing debate: that enterprise management functions are of a character independent of economic system. The statement the author makes at the end of his analysis, namely, that "the fundamental problems of developing and practising enterprise management functions are similar in East and West" is also

a proof that an intensification of East-West relations within the enterprise sphere has no obstacle in this respect.

Of course, the scope of action of the socialist enterprise is limited or influenced—to an extent different in each country—by the plan, and the environment in general. Yet, for example, the Hungarian system of regulators destined to orientate enterprise behaviour is no more complicated than the tax regulations influencing the Western companies' decision-making. What is more, are the affiliates of multinational companies not bound to the same extent (or even more) by the strategy and business policy interventions of their parent company, than socialist enterprises are by the national economic plan of their government?

That not only the possibility of but also a motivation for East-West cooperation exists is demonstrated by the fact that the papers of economists and managers included in the volume analyse similarities, and different ways of ironing out difficulties mostly from the angle of foreign-trade-oriented management activities. One of the similarities: the foreign trade orientation of management is a source of permanent conflict within the enterprise between technology and production on the one side, and commercial functions on the other. This is also confirmed by the experience of Hungary, where today hundreds of industrial and agricultural enterprises and cooperatives take directly part in the international trade and division of labour.

"In the final account, the measure of success is profit"—writes Robert *Traindl*, managing director of an Austrian company of chemical industrial technology, drawing the final conclusion of his paper. The system-independent validity of, this axiom is the most important link between Eastern

and Western firms, for the difference in social systems is not manifest in the aim of the enterprise to earn profit nor in the organization methods destined to achieve this aim, but in the right of disposal of the profit, and in the way of spending it.

Although the name of the Centre refers to *European* meetings, it is self-evident that the statements emerging from its work are also valid beyond the bounds of Europe. On reading the three volumes, the reader, clearly perceiving the interaction of world economic and world political factors, can draw the conclusion, too, that if the prospects discussed in the volume become a reality, this could release quite an amount of economic energy for national and international purposes. Today the great powers strive after maximum security at the cost of maximum economic sacrifices. Could the perils to security not be minimized, instead, at the cost of a minimum economic sacrifice?

From a more closely European aspect, what calls forth positive associations in the Central European (and especially in the Hungarian) reader is that the Centre's activities are supported on the French side by the French Institute of International Relations (IFRI), which is an internationally recognized workshop of analysis and preparation of decision-making of French foreign policy. And this may justify the assumption that, after decades of failures and disappointments in its Central European efforts, French foreign policy has finally found that new scope of action in which the common interests of France and the Central European countries can be asserted in a constructive manner.

E. KEMENES

BOOKS RECEIVED*

- BARDMANN, M.: Die Preistypdebatte, ihre Grundlagen und ihr Einfluss auf die praktische Ausgestaltung des Preissystems der DDR. Berlin Verlag Arno Spitz, Berlin 1968. 99 S.
- BURGER, A.: Food economics. Akadémiai Kiadó, Budapest 1985. 236 p.
- CSÁKI, CS.: Simulation and systems analysis in agriculture. Akadémiai Kiadó, Budapest 1985. 262 p.
- DAHLBERG, A. O.: How to reduce interest rates and poverty. Devin—Adair Publishers, Greenwich, Connecticut 1985. XX + 149 p.
- Economic evaluation in the health field. World Health Statistics, Vol. 38, No. 4, 1985. Geneva.
- GINZBERG, E.—VOJTA, G.: Beyond human scale. The large corporation at risk. Basic Books Inc. Publishers, New York 1985. 242 p.
- GROOTINGS, P.—GUSTAVSEN, B.—HÉTHY, L. (eds): New forms of work organization and their social and economic environment. Vienna Centre and Institute of Labour Research, Budapest 1986. 297 p.
- GUBCSI, L.—TARAFÁS, I.: Das unsichtbare Geld. Akadémiai Kiadó, Budapest 1985. 387 S.
- HAWAWINI, G.: European equity markets: price behavior and efficiency. Monograph Series in Finance and Economics, Monograph 1984/4—5. 180 p.
- HÉTHY, L.: Gestion économique en Hongrie au début des années 1980. Études sociologiques. Munkaügyi Kutatóintézet kiadványai, Budapest 1985. 194 p.
- HICKS, J.: Methods of dynamic economics. Clarendon Press, Oxford 1985. 173 p.
- KLECZKOWSKI, B. M.—MONTROYA-AGUILAR, C.—NILSSON, N. O. (eds): Approaches to planning and design of health care facilities in developing areas. Vol. 5. WHO Offset Publication No. 91. WHO, Geneva 1985. 106 p.
- KORNAI, J.: Contradictions and dilemmas. Corvina, Budapest 1985. 165 p.
- LOPEZ, A. D.—CLIQUET, R. L. (eds): Demographic trends in the European region. Health and social implications. WHO Regional Publications, European Series No. 17. Copenhagen 1984. 188 p.
- Main directions of agricultural development in Hungary. (Papers) Research Institute for Agricultural Economics, Budapest 1985. Bulletin No. 61. 77 p.
- MÁTYÁS, A.: History of modern non-marxian economics. Akadémiai Kiadó, Budapest 1985. 618 p.
- MEI, A.: Quaderni di Economia Tropicale. 1. 1984. Ministero degli affari esteri, Firenze. 123 p.
- NØRGAARD, O.: Politik og reformer i Sovjetunionen, Sydjysk Universitetsforlag, Esbjerg 1985. 340 p.
- OAKLEY, A.: Marx's critique of political economy. Intellectual sources and evolution. Vol. 2: 1861 to 1863. Routledge and Kegan Paul. London, Boston, Melbourne and Henley 1985. 342 p.
- Papers published in foreign languages between 1954 and 1984 by authors working in the Institute (Bibliography). Research Institute for Agricultural Economics, Budapest 1985. Bulletin No. 60.
- PEÁK, I.—SZÉP, J.: Conference on automata, languages and mathematical systems. Karl Marx University of Economics, Budapest 1984. 249 p.
- PROUT, C.: Market socialism in Yugoslavia. Oxford University Press, Oxford 1985. 259 p.
- RITTER, L. S.—URICH, T. J.: The role of gold in consumer investment portfolios. Monograph Series in Finance and Economics, Monograph 1984/3. 69 p.

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

- RODE, R.— JACOBSEN, H. D. (Hg.): *Wirtschaftskrieg oder Entspannung? Eine politische Bilanz der Ost–West Wirtschaftsbeziehungen*. Verlag Neue Gesellschaft. Bonn 1984. 328 S.
- SCHMIDT, P.-G.: *Internationale Währungspolitik im sozialistischen Staat. Theoretische Grundlegung und empirische Überprüfung am Beispiel der DDR*. Gustav Fischer Verlag. Stuttgart–New York 1985. 447 S.
- SEGERT, K.: *Der Aussenhandel Finnlands mit der Sowjetunion*. Peter Lang, Frankfurt am Main–Bern–New York 1985. 290 S.
- Stability and flexibility in Hungarian food economy (National Conference on Agricultural Economics). Research Institute for Agricultural Economics, Budapest 1985. Bulletin No. 59. 191 p.
- SZÉKELY, I.: *A lakáspolitikai és lakásgazdálkodás pénzügyi feltételeinek továbbfejlesztése (The further development of the financial conditions of housing policy and housing economy.)* Pénzügykutatói Intézet, Budapest 1985/2. 150 p.
- SZURKOS, M.: *Takarékoskodási szokások az 1980-as évek elején (How have people been saving in the beginning of the 1980ies?)* Tömegkommunikációs Kutatóközpont, Budapest 1985. 74 p.
- VINCZE, I.: *The international payments and monetary system in the integration of the socialist countries*. Akadémiai Kiadó, Budapest 1984. 185 p.

AUTHORS

- Dr. Lajos FALUVÉGI, see Vol. 33, Nos 3–4.
- Dr. Iván ILLÉS, b. 1942. Doct. of Econ. Sci., Deputy Director of the Institute of Economic Planning of the Hungarian National Planning Office. Author of "State planning and market economy: Hungary in the year 2000" (Zürich 1985) and "Hungarian economy in the world" (Budapest 1985) "Regional economics" (Budapest 1975)—the latter two in Hungarian.
- Dr. András KÖVES, see Vol. 35, Nos 3–4.
- Dr. László SZAMUELY, see Vol. 33, Nos 1–2.
- Dr. Márton TARDOS, see Vol. 35, Nos 1–2.
- Dr. Katalin FALUS-SZIKRA, see Vol. 34, Nos 1–2.
- Dr. Gábor RÉVÉSZ, see Vol. 33, Nos 3–4.
- Dr. Judit RIMLER, b. 1937. Cand. of Econ. Sci., senior research worker at the Institute of Economics, Hung. Acad. Sci. Author of "Economic obsolescence and economic growth: a comparative analysis with vintage model" (Institute of Economics, HAS, Studies 26. Budapest 1985) "A principal components analysis of growth" (Institute of Economics, HAS, Studies 3. Budapest 1971) "An international comparison of industrial capacity utilization: on Dutch, Austrian and Hungarian examples" (The Vienna Institute for Comparative Economic Studies, Wien 1985) and several studies and a book in Hungarian and Russian.
- Endre GÁCS, b. 1935. Deputy head of department at the Hungarian National Planning Office, formerly working at the CMEA Secretariat in Moscow (1963–1966). Author of "Changes in the living conditions of the population from 1971 to 1975" (A. Oec. Vol. 6, No. 3 (1971) and several studies on the social benefits in Great Britain (1979), on the retired (1981), on social policy in England (1983) and on inflation and wages in the Western countries (1983) in Hungarian and Polish.
- Dr. Rózsa KULCSÁR, b. 1945. Deputy head of department at the Central Statistical Office. Author of "The social mobility of the women in Hungary" (Sociological Microjournal, 9. 1975) "Marriage and social mobility" (The New Hungarian Quarterly, 1978. No. 72) and studies and a book in Hungarian on the social mobility of women.

TO BE PUBLISHED IN OUR NEXT ISSUE

- A. RÁBA: Hungarian Development—with Bottlenecks
J. KÖLLŐ: The Impact of the Labour Market on the Employment Structure in Hungary
B. KÁDÁR: Hungary's External Economic Strategy in the Second Half of the 1980s
J. GÁCS: A Gradual Liberalization of the Hungarian Import: Conditions, Chances and Consequences
J. SUBA-VARGA: "Foreign Trade Constraint" and Cyclical Development
I. SALGÓ: Economic Mechanism and Foreign Trade Organization in Hungary
J. KORNAI-ZS. DÁNIEL: The Chinese Economic Reform—as Seen by Hungarian Economists
A. INOTAI: Economic Relations Between the CMEA and the EEC: Facts, Trends, Prospects

COMMENTS AND CRITICISM

- L. SZAMUELY: G. H. Popov: Efficient Control and Management

REVIEWS

- A. DUKÁSZ: Trade in Securities in Hungary
Á. MAJOR: The First Year of the Use of the Bill of Exchange

BOOK REVIEWS

BOOKS RECEIVED

PRINTED IN HUNGARY

Akadémiai Kiadó és Nyomda, Budapest

Journal of Consumer Policy

Editors

FOLKE ÖLANDER, Århus, Norway; **NORBERT REICH**, Hamburg, F.R.G.; **GERHARD SCHERHORN**, Stuttgart, F.R.G.

Journal of Consumer Policy is an international scholarly journal which encompasses a diverse range of issues to do with consumer affairs. It analyses the consumer's dependence upon existing social and economic structures, it seeks to define the consumer's interest, and to discuss the ways in which this interest can be fostered – or restrained – through actions and policies of consumers, industry, organisations, government, educational institutions, and mass media.

The journal publishes empirical research on consumer and producer conduct, such research being chiefly committed to the consumer's perspective. However, the producer's perspective is far from neglected in the *Journal of Consumer Policy*, with its pages being open to contributions on controversial issues that explain the producer's viewpoint. One of the aims of the journal is to increase communication between the parties in the marketplace.

Here, too, the scope of the journal is consciously broad: not only consumer problems with private producers are scrutinised but also problems to do with the handling of goods and services in the public sector. Public policy in the consumer sphere and its social and economic consequences are regularly examined. Also studies on the interaction between consumption and associated forms of behaviour such as work and leisure are encouraged.

As from Volume 6, No. 2, the *Journal of Consumer Policy* includes a separate section devoted to consumer law. This section reports regularly on developments in legal policy with a bearing on consumer issues.

Subscription Information

ISSN 0342-5843

1986, Vol. 9 (4 issues)

Institutional rate: Dfl. 186.00/US\$67.00 incl. postage/handling

Private rate: Dfl. 82.00/US\$29.00 incl. postage/handling

Private subscriptions should be sent direct to the publishers.

D. REIDEL PUBLISHING COMPANY

A Member of the Kluwer Academic Publishers Group



P.O. Box 17, 3300 AA Dordrecht, The Netherlands
190 Old Derby Street, Hingham MA 02043, U.S.A.
Falcon House, Queen Square, Lancaster LA1 1RN, U.K.



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

GLOBAL, 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 třída 22
115 66 Praha
PNS DOVOZ TISKU, Vinohradská 46, Praha 2
PNS DOVOZ TLACE, 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 Kommune 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 Wellingbo-
rough, Northants NN8 2QT
WM. DAWSON AND SONS LTD., Cannon House Folkstone,
Kent CT19 5EE
H. K. LEWIS AND CO., 136 Gower Street
London WC1E 6BS

GREECE

KOSTARAKIS BROTHERS INTERNATIONAL
BOOKSELLERS, 2 Hippokratous Street, Athens-143

HOLLAND

MEULENHOF-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 Mazzè 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, Marszałkowska 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 Goteborg 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

ACTA

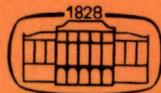
OECONOMICA

PERIODICAL OF THE
HUNGARIAN ACADEMY OF
SCIENCES

EDITORIAL BOARD

M. SIMAI (Chairman)
M. AUGUSZTINOVICS
T. BECK
A. BRÓDY
CS. CSÁKI
B. CSIKÓS-NAGY
P. ERDŐS
T. ERDŐS
F. FEKETE
J. FEKETE
I. HETÉNYI
R. HOCH
J. HOÓS
I. HUSZÁR
B. KÁDÁR
J. KORNAI
F. KOZMA
A. NAGY
V. NYITRAI
Z. ROMÁN
M. TIMÁR

EDITOR
T. FÖLDI



AKADÉMIAI KIADÓ, BUDAPEST

VOLUME 36
NUMBERS 3-4
1986

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

A. RÁBA: Hungarian Development—with Bottlenecks	181
J. KÖLLŐ: The Impact of the Labour Market on the Employment Structure in Hungary	197
B. KÁDÁR: Hungary's External Economic Strategy in the Second Half of the 1980s	209
J. GÁCS: A Gradual Liberalization of the Hungarian Import: Conditions, Chances and Consequences	231
J. SUBA-VARGA: "Foreign Trade Constraint" and Cyclical Development	251
I. SALGÓ: Economic Mechanism and Foreign Trade Organization in Hungary	271
J. KORNAI-ZS. DÁNIEL: The Chinese Economic Reform—as Seen by Hungarian Economists ..	289
A. INOTAI: Economic Relations Between the CMEA and the EEC: Facts, Trends, Prospects ..	307

COMMENTS AND CRITICISM

L. SZAMUELY: G. H. Popov: Efficient Control and Management	329
--	-----

REVIEWS

A. DUKÁSZ: Trade in Securities in Hungary	339
Á. MAJOR: The First Year of the Use of the Bill of Exchange	343

BOOK REVIEWS

I. PETŐ-S. SZAKÁCS: Forty Years of Hungarian Economy 1945–1985 (<i>Á. Török</i>)	349
E. BAGÓ: Diversification in Industry (<i>M. Laki</i>)	351
A. INOTAI: The European Economic Community at the Crossroads (<i>L. Csaba</i>)	355

BOOKS RECEIVED

Acta Oeconomica is abstracted/indexed in Geological Abstracts, Key to Economic Science, Public Affairs Information Service, Social Sciences Citation Index, Referativni Zhurnal, Rural Recreation and Tourism Abstracts, World Agricultural Economics and Rural Sociology Abstracts

HUNGARIAN DEVELOPMENT — WITH BOTTLENECKS

A. RÁBA

The author discusses some factors causing delays in modernization and in accommodation to world market demand of the Hungarian economy. The infrastructure constitutes a bottleneck. The present practice of economic control and management is too much centred on the short term. Beside other things rationalization of labour management, competition between sellers, and somewhat different priorities in central planning would be required.

The halt in Hungarian economic development is not a short-term phenomenon. It cannot primarily be attributed to external, i.e. world economic factors. Undoubtedly, the two explosions in the oil market, the intensive inflation process, and the necessarily concomitant demand restriction have caused serious tensions these last years or decades in many places of the world: in the United States, in Western Europe, in the developing world. Many developing countries still suffer under the burden of debts. At the same time, however, in the critical decade, following 1973, the forces of production have been growing fast all over the world. Per unit energy and material consumption considerably decreased. New products, new ranges of products, new procedures, and always new generations of equipments, embodying modern technology, have been introduced not only into production, but into end use as well, and have become and are becoming instruments in transforming consumption and the way of life.

International economic relations have also changed. Autarkic attitudes or policies—here and there still surviving—have lost credit, even on the regional scale. The forced import substitution, whether in fulfilment of, or in opposition to, the targets of a policy, hinders development, since it leads to a distorted and wasteful allocation of resources. The diversified channels of the international division of labour reach far beyond the simple export and import transactions, still important themselves. Complex conceptions combining production factors internationally (labour, capital, technology, education, scientific results) have come to the foreground, such as cooperation schemes, associations for production, development, sales, and risk sharing. Banking operations, insurance, transport, telecommunication, tourism, and in general the export and import of services, and the resulting circulation of foreign exchange come close to the total value of world trade in goods. The international flow of technology is largely linked to foreign investment and to cooperation with the transnational companies.

To join these flows is enabled through the institutionalization of “open economy” and by economic development policy based on the international division of labour. The degree of openness cannot be adequately measured by the rate of exports

(or of imports) to national income. This in itself does not reveal whether profitable operations are carried out through the channels of foreign trade, and how much the realized trade contributes to the national income. An economy is to be considered as open, if its economic units are functioning on the basis of internationally comparable criteria and if in their development, purchase and sales decisions they have a freedom of choice to consider all the international combinations and if all this is promoted by central regulation, and only constrained to the necessary extent. It is openness in this sense that can orientate economic policy makers where the strong and weak points in the functioning of economy, and the limits to competitiveness are to be found. This is what enables economic policy to drive enterprises onto the forced path of survival, growth, and profitability, so that some of them prosper well and are growing, while others are left behind, suffer a transformation or are wound up. At the same time the state regularly concentrates the redistribution of a necessarily great part of the national income on raising the productive and human infrastructure to up-to-date levels, on the maintenance of law and order, and on the financing of welfare policy. It is this type of economic environment in which economic policy can get into a position in which it can set realistic targets; also, the targets can be achieved with a higher degree of efficiency.

Loss of position and its handling

Against the background of world development the unfavourable position of Hungary becomes conspicuous. The technological gap separating it from the advanced countries is not diminishing, but growing.* Several countries on the same or lower development levels than Hungary in the middle of the century: Spain, Greece, Finland, several Latin-American and South-East Asian countries have left Hungary behind in various respects of technology, industry, and international competitiveness. This does not, of course, diminish the value of the epoch-making social achievements which are due to the decades of socialist development. Yet it would be equal to disarming ourselves, if we ignored the challenge of the world changing around us.

In which way is Hungary's world economic position developing? Ever since the early 1970s, its share in world trade has been decreasing. In its exports to the non-socialist market the share of up-to-date products of the manufacturing industries—a dynamical sector all over the world—has diminished, while that of material-like products with little value added has grown. In the exports of manufactures, *the less up-to-date products of the declining or degrading sectors are predominant*. This is reflected in Hungary's terms of trade and in the unfavourable relative prices in the export and import of identical groups of manufactured goods. By the end of the 1970s Hungary had become one of the seriously indebted countries—not independently of the consequences of the economic policy practice in the preceding years.

* Various analyses have been published on the factors and conditions of the technological gap. From the latest literature, see. [1, 2].

At the turn of the 1970s and 1980s and up to now, no little efforts have been made on the government's part to mitigate the damaging effects of these processes. Priority has been given to the restriction of consumption, even more to that of investment activity and of imports. The continuation of the reform process has again been put on the agenda. As a result of encouraging entrepreneurship, new small organizations were allowed to be established. In certain fields there were growing endeavours to eliminate monopolistic positions and strengthen market relations. Hungary has joined the IMF and the World Bank which, together with the previously mentioned factors, has improved the country's creditworthiness.

Nevertheless, the fundamental causes of Hungary's weakening international competitiveness have remained. Its share in the international flow of capital, in the imports of direct investment, and in the adaptation of foreign technologies is still peripheral, not only in relation to the country's needs, but in respect of its size as well. In Hungarian imports, there is little place (convertible foreign exchange) for purchasing up-to-date technologies, to renew production equipment and to introduce more modern lines of manufacture. A relatively large part of Hungarian imports to be paid for in convertible currencies—but still insufficient to cover needs—must be used for materials, semi-finished products, components and parts for current production, and this is so because of the shortages prevailing on the domestic market, and the deficiencies in the interfirm cooperation between socialist countries. Similarly to Hungary, other European—and non-European—countries were compelled in the early 1980s to resort to strict demand curbing measures. In a different economic environment, however, these restrictions have led in several countries to decreasing inflation, and to restoring the balance of payments. Also, considerable progress has been made in the renewal and modernization of capital equipment, in renewing domestic and export supply, in adaptation to the world market requirements, and in per unit energy and material saving. In Hungary, the period of severe restrictions has indefinitely been prolonged, against original intentions, while inflation and shortage have not sufficiently decreased in spite of using a great amount of foreign resources. The transformation of the economy in adjustment to world market demands is delayed, capital equipment is fast depreciating, and the input-output ratio develops unfavourably.* Obviously, a turnabout has to be made, even if the time lost and its consequences cannot be recovered.

With this in view, a clear distinction must be made between the emergency measures serving survival and the desirable steps that have to be taken in order to prepare and lay firm foundations for economic recovery and growth. Troubleshooting or substitute actions**—even though apparently inevitable at the given

* See [2, 3, 4].

** Such are, among other things, the persuasion of enterprises to act contrary to their own interests, or the incalculable taxing away of income from profit-making enterprises in order to cover the losses of other enterprises with low-efficiency activities and management, or the rewarding of enterprises even when they export uneconomical products.

moment—will lose credit if repeated and becoming characteristic through a very long period. Further, they can only lead to temporary and partial results, and later on will by all means cause damage, since the disequilibrium of economy, if its underlying cause is not eliminated, will in the best of cases only shift from one affected sphere to another one, momentarily of higher tolerance. This is what is happening in Hungary. The maintenance of the country's solvency—beyond doubt, a result achieved through the most serious efforts—has been only possible at the expense of investments and real wages. Therefore, emergency measures should be considered what they really are: they are inapt to bring about the conditions of improvement, what is more, if they become preponderant and prolonged over time, they render the starting of a consolidation process much more difficult later on.

Infrastructure

National economic growth is hindered by the backwardness of *infrastructure* and the failure to eliminate the *sources of losses* that are recurring in the functioning of economy.

The neglect of productive and human infrastructure is rooted in the long-prevailing ideology according to which only material production can increase national income. Although the untenability of this idea had become quite obvious by the early 1970s, because of habit and of efforts to eliminate repeated shortages in production, infrastructure has remained—in spite of its backwardness—one of the last in the order of development objectives.*

This is, however, not at all merely a question of allocation of resources, or of priorities. Most branches of infrastructure can be developed through construction- and cooperation-intensive investments. In Hungary, construction activities have been through long decades and still are pursued, to no small extent, within an overcentralized organization. There is an insufficient number of small enterprises and cooperative units, the fixed terms are almost permanently prolonged and all that in an atmosphere of inflation much higher than the average, encouraging and even rewarding cost increases. Therefore, in the planning period and even more so in the implementation phase, the construction of infrastructure has included—and still includes—the risk, or often even the certainty, of prolongation over time and of overspending, as well as the danger that projects and equipments would become obsolete before time. During the last 6–7 years, in a period of particular scarcity of resources, this experience has had its repercussion on allocation, so that several projects planned or recognized as necessary have been struck from the plans and their implementation has been postponed, or they have been replaced by projects of smaller dimensions.

* See [5, 6].

What is involved is the situation of the railways, public roads, inland navigation, transportation, the telephone network, telecommunications, drinking water supply, environmental protection. These branches of "productive" infrastructure i.e. their operation constitute the public services, the existence, condition, up-to-dateness and development standards of which basically determine within certain limits the performance of enterprises and the country's international competitiveness. They exert an important, sometimes decisive, influence on the time needed for and the costs of development, production and sales, the flexibility of business connexions between enterprises, the terms of business transactions with foreign partners, or, the conditions of fulfilling the obligations undertaken. They enlarge or lessen the enterprises' possibility of choice among business transactions.

In Hungary, the maintenance and development of energy supply and the related mining sector engage a considerable part of industrial investment funds and thus reduce the share of the manufacturing industry. Among the underlying causes must be the conception according to which even the most costly and least profitable domestic production is better in this sector than increasing dependence on imports. Another cause may be that planners do not trust that the Hungarian economy can recover its lag and improve its competitiveness on the world market, which would be the condition allowing Hungary to consider various possibilities of imports for energy supply. A role may also be played in this by the fear that the world market of energy might become again a "sellers' market". It should be noted that, except for the variant of an extreme sharpening of international tensions, neither foreign, nor Hungarian experts and forecasters see any such chance.

It is beyond doubt that the tensions of the energy sector can only be resolved, and the related input-output ratio improved, by a gradual process. It is all the more pressing to further develop and put into practice the necessary action programme. This does not only demand a centrally planned rationalization of energy production and consumption, more widely encouraged than today, which is in itself no little thing. The success of a programme of this kind is largely dependent on whether we can carry out, and at what rate, the demand- and cost-oriented structural transformation of the national economy, respectively whether we can increase national economic performance at an adequate rate. This is what can enlarge the range of choice among the sources of and different solutions to energy supply.

In other branches of the productive infrastructure Hungary's lag is large or increasing, in spite of serious efforts by maintainers and operators made under adverse circumstances. The ensuing damage is suffered by the whole of national economy, it directly affects enterprise activity and supply to the population, and disadvantageously influences the public atmosphere. Infrastructure is, namely, the economic sector the state maintains and develops—also in capitalist countries and even more so in socialist states—in order to undertake (at the taxpayers' costs), on behalf of enterprises and households, the operation of those indispensable services of modern society, which are "only profitable" for the whole of society, while they could not be established,

maintained, and developed individually (by enterprises or by citizens). The usefulness of these services is indicated by the term "externality": it is not present in the economy of the operating institutions, but appears with the users.* If enterprises lack up-to-date infrastructural services, their production costs will grow, their flexible market behavior will be hindered, and their competitiveness will decrease.

As it has been indicated, the productivity of the construction activity, the time needed for and the costs of constructions and renovations, and the quality of buildings are all below the standards acceptable in Hungarian conditions, and even more below international ones. This puts Hungary in a very bad position in the fields of development, renewal, and competitiveness.

Let us mention in this respect a most widespread form of shortage phenomena: the lack of premises. Most of the factory buildings and workshops, warehouses and office buildings were built decades ago, at the standards that were required or possible at the time. Because of lack of premises, the tools, work-pieces and finished products cannot be stored adequately; a very important—though not the only—unused potential of rationalizing working operations and organization is better storage—for which more room is needed in most of the cases: for example, store-rooms. As a consequence of the lack of room, certain buildings or sections of buildings are used for other purposes than what they were designed for. They are transformed, for example, a large room is partitioned into several small ones; thereby crowdedness grows even worse. Or, not for the sake of expediency, but out of necessity, different sections of enterprises are often located at far-lying places, which leads to an internal disintegration of the enterprises' activities, increased costs, and deteriorating efficiency.

Together with other factors, crowdedness and the insufficient equipment of working places play a not negligible role in that productivity standards in Hungary are very low by international comparison.

Lack of rooms is a problem not only of the producer or trading organizations. It also brakes the activities of health, educational and cultural institutions.

We shall only briefly discuss the open issue of the housing question. As for quantity and equipment with modern conveniences, the results of mass housing construction are spectacular. However, in addition to the deterioration of the neglected old buildings and the small dimensions and quality defects of the new houses (and not independent of these), the main problem lies in that those without a dwelling, or living under bad circumstances, or wishing to change their living conditions cannot expect to receive state-owned housing (the quasi-gratuitousness of the latter has ceased, in the meantime). They can only rely on their own financial resources, while the Hungarian wage system was founded on the principle thirty-five years ago—and has

* Some partial fields profitable in themselves are conceivable: in the Western countries, a few branches of transportation, postal services, etc. are also operated as private enterprises. In these countries there are, however, price and income relations quite different from those of Hungary.

changed little since then from this aspect—that wages should only cover the (then) low rent of state-owned tenement flats. The long-term bank credit granted for home building cannot mitigate the difficulties of acquiring the financial resources for the constantly rising costs of housing.

Housing shortage and the trials of home building are, as it is generally known, a grave burden on those affected and their family. Beside the consequences known from sociological surveys, they reduce the performance of the labour force, the most important element in production. We shall only refer to two related phenomena. The overlarge rate of commuters within the total number of workers is not only a consequence of the extreme—today already diminishing—unevenness in the regional distribution of economic development in general, but also that of the serious lag in infrastructural supply in provincial settlements. Although the costs of housing are lower in the provinces than in big cities, there are no dwellings to let, and the health service, education, cultural services, transportation, drinking-water supply and drainage are all lagging behind. That makes it difficult for qualified labour (teachers, doctors, engineers, skilled workers, etc.) to move from cities to the provinces, even if they are offered good jobs; there is shortage in the provinces or emergency solutions undermine good results. In cities and villages as well as on the national scale, this largely hinders the healthy and necessary mobility of labour, while there is a massive labour fluctuation taking place on other grounds: on personal motivations, often contrary to the national economic interests.

To finance the development of various infrastructural branches, medium- or less developed countries regularly use the long-term, preferential loans of international financial institutions. Such credits have been granted, in a wide field and in a considerable volume, among others by the World Bank, or, among the regional institutions, by the European Investment Bank of the Common Market. The CMEA does not pursue such activity. For Hungary, however, World Bank credits are accessible. Is it proper to miss such opportunity when experience shows that, because of shortage of capital of the country, infrastructure is always pushed to the background in the order of investments, and the resulting lag already has a paralyzing effect on the functioning of the entire national economy?

Sources of losses

The cause number one of the accumulated difficulties of the country is the failure to eliminate the sources of losses that have been there for decades. And the losses related to the functional disturbances of the Hungarian economy are not to be considered as necessary concomitants of the system. We assume that it is possible to establish the conditions of rational economy under the conditions of socialism and to develop such institutional solutions and stimulative powers encouraging continuous renewal, which may help the country's adjustment to the worldwide revolutionary

technological transformation and halt the process of increasing lag in productivity. And, in a good case, they may lead to a gradual process of recovery.

Since the long drawn-out period of restrictions has not been accompanied by the modernization of production capacities, the introduction of new technologies in a wide sphere, the winding up of non-profitable activities, the reduction of per unit costs, and the establishment of conditions of competitiveness—the policy of “small steps” has now a much smaller chance of success. All the more so as beside other things, the existing practice of economic control and management is engaged in symptomatic treatment.

If attention is directed at superficial phenomena, the underlying causes will be neglected. If attempts are made to ease tensions by taking measures at the point where they become manifest, while not considering the chain of *indirect* factors, the desired result will not be achieved. It leads to loss if resources are allocated to such field where the return of investments is prevented by bottlenecks of other vertical stages. A genuine improvement of export performance can hardly be achieved by granting special rewards to the workers of enterprises manufacturing the final products for exports. Exports are, namely, a process, the results of complicated mutual relations among those sharing in the social division of labour. No “expectations” can prompt enterprises to carry on successful marketing activities, if their risk taking capacity is a minimum. It is, however, another mistake if allocation is conditioned on a direct, short-term pay-off, for example, on exports at all costs, even if indirect effects, such as technical progress, or learning process, promise to be much more useful on the national economic level, including the establishment of conditions of exportability in other, or related, fields. The growth of national income necessarily slows down, if loss-making enterprises are free to shift their increased costs onto the buyers dependent on them, or if enterprises in trouble can always count on the state’s charity.

All these considerations and the conclusions deriving from them—known today to many—cannot find their way into practical application. The central planners and managers feel themselves to be on a “forced path”, while the enterprises’ experience is that the authorities’ steps are incalculable. No doubt, the centrally declared targets are mostly forward-pointing: the primary aim is to increase efficiency, and the primary means is to extend the sphere of action and autonomy of enterprises; while the everyday problems induce central management worrying about equilibrium to improvisations and measures contrary to the declared targets. Meanwhile, the elaboration of a comprehensive economic and socio-political programme, which would stimulate the structural transformation of production and consumption through economic coercion and could give new impulse to development, suffers delay.

It is on this point that the formal separation, habitual in Hungary, of the notion and scope of action of economic policy from those of the economic mechanism becomes indefensible. This is not a question of terminology, but a practice that breaks up the unity of central control and management, thus weakening its efficiency. To separate the questions of “what” and “how” and the definitions of “targets” and

“instruments”, further enhanced by the sharing of work and responsibilities according to ministries within the government, artificially creates positional conflicts between the institutions bearing partial responsibilities, and blurs vision. To set “appropriate targets” and to establish and continuously provide for the necessary conditions is a homogenous economic policy task. If central planning, the supporting pillar of economic policy, is confined to summing up the desirable targets and the results to be achieved (relying on computations and balances) and to the related information and control, while the institutions and their functioning, as well as the interest relations are regulated *elsewhere* or at *another time*, the main advantage of planned economy, i.e. the systematic control surveying changes in the entire society is at risk.*

If, for example, the statement and modification of taxes, tax rates, subsidies and preferences are referred to the category of “regulators” degraded into instruments to serve the targets, this is in itself a temptation to change the methods and rates of taxation all too often and overlook the harmony of changes with the main targets, which undermines the enterprising spirit of firms, already weak for other reasons, or may even elicit withholding of performance.

On the way to recovery

The present difficult economic situation, and the lack of capital and resources are often referred to as “given conditions” to which we have to resign. This is suggested by a great number of declarations, documents, and mass communication media. This starting-point is wrong because it is static, and it is harmful because the causes behind the existing situation are not analysed, and thus they can reproduce themselves.

* The organic link between “targets” and “instruments” is easy to see. Progressing downwards in the hierarchy of targets, an increasing number of them serve as instruments, and progressing upwards, an increasing number of instruments are formulated as independent targets. For example, improvement of the population’s living conditions, i.e. a continuous raising of living standards is a long-term target. A primary means of this and, at the same time, a superior target is to raise the national income at an optimum rate and in an optimum structure. To achieve this, the means to be used is an adequate improvement of labour productivity. The latter is also a priority target which can be achieved, among other things, by means of modernizing capital equipments, differentiated payment adjusted to performance, and a desirable mobility of labour. The latter, i.e. labour mobility of an economically rational rate and direction is itself an important economic- and socio-political target, for the realization of which infrastructure has to be developed more intensively and be more evenly distributed over the country. Infrastructural development is again a priority target with a view to modern economic development, current production, and improvement of living conditions. For that purpose, an appropriate allocation of investments is needed, and investment projects must be implemented with higher efficiency. To increase investment efficiency is an important target, which can be achieved by means of creating adequate price proportions, price mechanism, and competitive conditions. Establishment of competitive conditions is a target of major importance: its attainment requires the deployment of a great many different instruments. One of them is the mechanism stimulating the springing up and growth of enterprises, and the reduction and winding up of others, depending on profitability as the central criterion in determining the business policy of enterprises. And so on . . .

It should be clear that the motive powers and the hindering factors of economic development are in close interaction. A previous consideration of spillover effects can never be perfect. Central economic control and management could, however, be made more efficient, if the different elements of the “regulators” were modified in consideration of harmony or disharmony with higher targets, and this promises better results only in the case of a single center of economic policy decision making.

While critical analyses and results of social science research work are widely available, it is quite obvious that the road to recovery does not lead through individual ideas and disintegrated experimentations. A condition of recovery is to work out, proclaim and launch a comprehensive—courageous as well as realistic—economic and social development programme on the part of the government authorities, relying on extensive social control and deserving the confidence of society. The establishment of institutional social control is particularly important, since decisions made without social control—or decisions not made—may prove wrong or at least non-optimal in a much greater number than decisions made by relying on the motive powers of society. It belongs to the democratization process that budgetary and other public expenses should be made public, and the usefulness of spendings can be judged by the citizens.

The lessons taught by experience as well as research concerning the direction and motive powers of economic development are to be learnt.

When in the following we shall refer to necessary changes, now sounding almost as commonplaces, we do not underestimate the difficulties of making the way from the necessary decisions to implementation. It has been found that it is the changes that are simple, obvious and rational that meet with the hardest resistance; it is shown exactly by the rarity and slowness of changes recognized to be rational that countervailing interests are strong. We take it upon ourselves to reformulate some of these, by far not new, ideas. We do not think the question is about forcing an open gate. The gate must be helped to open.

It should be noted that the trouble is not that the control authorities ignore the signals of research workers, or those of enterprises and households. The crux of the matter is that purely economic-financial measures are not sufficient for recognized requirements of economic recovery to become a practical programme. What is needed is political decisions and the overcoming of rigid habits and institutional resistance, acting today as brakes. This is one of the reasons why the reform measures must by all means clearly orientate and win the public.

Let us take the “commonplaces” in turn:

1. It is of outstanding importance that labour, as the most important production factor, should be managed much more rationally than it is now. The reserve resources inherent in the “human factor” would be hard to mobilize without easing the rigidities of the social hierarchy (including the lower levels). This demands the linking of social mobility to the weakening of the close relationship between success and position, and to a considerable enhancing of institutional and enterprise interest in a rational labour management.

It is a natural concomitant of rational economic management that unnecessary, formal, or useless jobs shall not be created, or cease to exist. This equally applies to state administration, and to enterprises having the largest labour reserves. The rationalization of employment does not only release wage funds, but it may also promote the rationalization of working processes, the elimination of superfluous bureaucratic proceedings, shorten the production process, and improve the efficiency

of control and management. Another important requirement, related to the former one, is that no wage should be paid for work that has not been accomplished. And, if performance is much lower than what can be expected under the given conditions, the wage should be also much lower than the average.

Why are such self-evident things to be said, and even emphasized? Because we have been and still are deceived by the illusion that it would not be fair, under the circumstances, to assert the proudly confessed principle of "to everybody according to his work". This is because to many this brings to mind the worst pictures of capitalism: mass unemployment and mass poverty. Whereas it is exactly the insufficient utilization of labour, i.e. the non-efficient employment of the labour potential of a nation that can lead to mass poverty. Is it really so difficult to separate payment according to work done from the welfare aid given to those in a disadvantageous position through no fault of their own, and to transform full employment gradually into efficient employment? Or, perhaps, are we afraid of the political consequences of unpopular measures? Is the political risk not greater if the present tendencies continued (among them the increasingly conspicuous lag of productivity behind the international average)? So far, we have not even elaborated the institutional order—adequately controlled and encouraged by the state—of releasing, regrouping, and retraining labour, and of filling the great number of vacancies.

It can hardly be doubted that efforts towards the above requirements may release quite an amount of creative energy and mobilize hidden reserves. They can considerably improve the working morale and lead to higher productivity. Also, they may bring about additional funds to raise wages and salaries, and to differentiate according to performance.

2. It is inevitable to gradually and considerably increase the real wages of qualified specialists, on the basis of the high-level performance expected of them and which they in fact have accomplished. "Only as much can be distributed as has been produced"—says the fully justified formula. Another, neglected, aspect of the matter is that the "devaluation" of Hungarian labour on the world market is closely related to its "devaluation" on the domestic market. Of course, it is out of question that the raising, for example, by 50 percent of the salaries of the technical intelligentsia and of other qualified labour doing creative work would shortly lead to a rise in performances at the same rate, since the latter depends on a number of other circumstances as well. Such factor is, for example, that skilled workers and intellectuals be allowed to display their capacities (this being an "internal" incentive), and that the efficient organization of input supply and of work could serve as an "external" incentive; that for those in managerial positions the scope of action, i.e. of directive function may be an attraction, etc. Further, the majority of workers, qualified and non-qualified, are willing or able to work intensively even at the present level of real wages. If, however, the "guaranteed" job and the "guaranteed" average wage even for insufficient performance—providing a security that encourages the withholding of performance—cease to exist, and if real wages especially honour the special, innovative, and progressive activities, this may

drive both the already "forward-pushing" and the "indifferent" or dispirited workers to the wide path where it is "worth creating", "worth innovating", and "worth risking". This path does not lead to increasing inflation but, on the contrary, to moderating it, since it can help to boost supply and performance, contrary to the existing situation in which the "fight against inflation" is mainly confined to curbing demand (which is not always effective, yet it can put a restraint on performance, in several respects).

We can take the road to a differentiated raising of the real wage level as an economic policy target (as well as an instrument), if wage policy, and in a broader sense income policy, are not merely conceived and treated as an instrument for restricting purchasing power, but mainly as one for increasing performance.

A gradual and considerable raising of real wages that can be earned in the "main job" may open or broaden the way to quite a number of socially desirable processes. It may diminish the existential necessity for women, wives and mothers, to do "double shifts" of work. It may help in that women—depending on individual choice, i.e. on personal or family situation—may suspend their full-time work temporarily or permanently, and devote their time and energy on their family and children.

A considerable raising of the wage level could improve the existing distorted proportions between the costs of live and embodied labour and, instead of wasting labour (redundant labour and underemployment), it could help—together with other factors—substitute labour by machinery and thereby significantly improve productivity.

3. A "lever" of economic development of primary importance is the division of labour between those participating in the production process. The division of labour is of a global—worldwide—scale, and increasingly so; however, its most natural and widest domain is domestic economy, i.e. the business relations between domestic enterprises. This is one of the sore spots of Hungarian economy.

It is still the sellers' superiority and the buyers' dependence that is characteristic of Hungarian interfirm relations. This is a symptom of the shortage economy and has its well-known consequences: the buyer can do little if the supplier refuses delivery (whether it is construction, machinery, raw materials, parts, assembly, services), or is late, or supplies something else than what has been ordered, or deteriorates quality, or raises the price. This state of things is a hotbed of the reproduction of shortage, of the halting of technological development, inflation, corruption, stagnation or decline of living standards, and is destructing the morale of society. Legal regulation is almost helpless: it cannot neutralize the effects of power relations between seller and buyer.

Neither theory, nor practice have so far found any more effective method to change this situation or to prevent its development, than what is promised by competition between economic units, by economic constraints working towards fulfilling the customers' needs, or, in the absence of this: risking profitability and even survival. In a channel regulated by central control competition would cover the sectors and activities the products and services of which can satisfy the needs of masses of

buyers on a higher level and more efficiently from the national economic aspect, if there are several, competing sellers. Such sectors are the manufacturing, food processing and building industries, repair and installation work, trade, and the majority of services.

This is no new knowledge in Hungary.* The creation of the necessary conditions is, however, a slow process. Although measures have been taken to weaken the monopolistic position of producers and traders, and a "strict" (though not coherent and, under the prevailing circumstances, not always effective) financial policy has also gained ground, further, the legal frameworks of enterprise autonomy are being remarkably widened, no essential change has taken place on the "sellers' market". The "supply responsibility" of enterprises is still extensive, the forced paths in purchasing or selling are difficult to change, the conditions of import competition are missing. The situation is not likely to improve if the importance of "discipline of delivery" or of the "background industry" is emphasized, or if the authorities persuade enterprises to do something they otherwise would not, or if special grants are given to enterprises so that they undertake the business transactions considered to be of utmost importance at the time.

It could work towards approaching market equilibrium, if the biggest customer: the state were much more demanding in regard of the performance of its suppliers, i.e. those who carry out public orders, whether they are state-owned enterprises or not. For example, it would not accept buildings, equipments, or services, if these do not correspond to the quality, terms, and costs as specified in the contract. Payment would also be made dependent on fulfilment according to contract. If non-profit (public) institutions do not set an example in this field, it can be even less expected of enterprises in buyers' position, and the front-line maintaining the suppliers' superiority cannot be broken.

It would promote the gradual emergence of competition if that line were consistently pursued and strengthened which creates equal chances of competition, without any discrimination, for the different sectors: state-owned, cooperative, private enterprises, whether large, medium, or small size. The socio-economic environment in which entrepreneurship, innovation, risk-taking, foundation and winding up of enterprises can emerge as an organic process could be created by giving much stronger impulse than before to new initiatives, by extending them, and providing a programme for them. A part of this process is that large enterprises should also be given an impetus: they should be compelled as well as able to venture upon new undertakings. The feeling of security of small entrepreneurs should also grow: they must feel that if, within legal limits, they undertake risks, they are not carrying on temporarily tolerated, but rather socially useful and honoured activities. Otherwise many of them are tempted to make a fortune as fast as possible. Further, a lack of enterprises and monopolistic positions would be created in this small-enterprise sphere, too. And this

* Márton Tardos was the first to set forth his ideas about a regulated competition, and the preconditions of a socialist competitive system, already in consideration of the experiences of the reform introduced in 1968.

would make doubtful exactly the achievement of the desired objective: the improvement of supply and equilibrium.

4. The efficiency of Hungarian participation in the international division of labour is influenced by world economic and world market processes, as well as by domestic processes and factors. Hungary cannot influence world economic and foreign market tendencies, it is however, in its primary interest to know and analyse them, forecast them, as well as to adjust them. What it can shape and change and influence is the efficiency and competitiveness of its own society and economy.

The rate of economic growth, the pattern of production, modernization of the forces of production and competitiveness are strongly affected by the questions related to foreign economic orientation. Its commodity pattern and market aspects are equally important. The principle and practice, having grown into an unshakable tradition over the years, seem to be still predominating according to which the starting-point of national economic planning and strategy is to secure the imports of necessary raw materials and fuels. This is by all means a cardinal question of economic policy not only in Hungary, but in every country needing imports of these products. But, on the other hand, to make the imports of raw materials and fuels into *the* central question implies that resource allocation and trade policy are largely adjusted to them. Such an economic policy approach does not reflect international realities.

Primary energies are not in short supply on the world market. Raw materials are appreciated as soft goods; in the long run, their price level rises more slowly than that of manufactured goods. All countries try to diversify their energy and primary energy imports by sources of procurement. Deviating from world market tendencies, in the Soviet Union the increase of primary energy production is running into physical obstacles. Therefore, the costs of production are rising sharply, and the maintenance of total exports (for the time being this does not concern natural gas), and their allocation among potential importers presents a tense, problematic task. Both Hungary and the Soviet Union make efforts, within the framework of their mutual cooperation, also for economic strategy reasons, to keep up the existing level of energy imports. Yet Hungary must prepare for a diversification of its raw material and energy imports by trade sources, while it also has to transform its economic structure, production processes and consumption in a way that opportunities for saving in per unit energy and raw material consumption can be better exploited. The sector of raw materials and fuels can be reduced to the role which is its due in the Hungarian economic policy, i.e. to one less determinant than today, at the rate the international competitiveness of the Hungarian national economy will be improving, and thereby the range of choice among trade sources will be widening.

The other aspect of foreign economic orientation concerns the market distribution of Hungarian foreign trade. Economic cooperation with the socialist countries has various advantages and quite a few good traditions. The maintenance and development of these, the possible elimination of bottlenecks, and of elements proved useless by practice: these are Hungary's political and economic interests. These

relations should not be maximized, but rather optimized. Economic cooperation between the CMEA countries is much more important than that it could be qualified by volumes or rates; its measuring rod is rather the contribution to the income producing capacity of the member countries.

Examining foreign economic relations from the aspect of their influence on the development of the forces of production, the importance of the standards of requirements of foreign markets and foreign partners should be recognized. The more the country has to export to demanding competitive markets, the more it will become its vital interest to create the conditions of competitiveness. Export-capacity is not a question of momentary successes earned in *ad hoc* transactions. This is on what depends, in the first place, whether Hungarian economic development will be oriented towards the demands of the world market and sound customers. Further, it depends on whether the domestic economic environment stimulates enterprises for performances satisfying the world market level of demands. Much depends also on whether Hungary succeeds in establishing a system of incentives promoting the division of labour with the CMEA countries, a system of the related decision mechanism, interest relations and methods of accounting, which represents mutual interests, while also promoting modernization of the country's market-oriented planned economy, or at least does not hinder it. The foreign economic orientation must force the Hungarian national economy to approach the European standards of demand and performance.

References

1. Vajda, Gy.: Iparunk negyvenéves fejlődése (Forty years' development of Hungarian industry). *Közgazdasági Szemle*, 4. 1985.
2. Vámos, T.: Problems and responses in the mirror of technical progress in Hungary during the last forty years. *Acta Oeconomica*, Vol. 34. Nos 3-4 (1985), pp. 219-240.
3. Barát, M.-Kardos, P.: Beruházáspolitikai elgondolások a VII. ötéves tervidőszakra (Investment policy considerations for the 7th five-year plan period). *Gazdaság*, 2. 1985.
4. Rába, A.: Restriction and adjustment. *Acta Oeconomica*, Vol. 33. Nos 1-2 (1984).
5. Major, I.: Tévhitek az infrastruktúráról (Misconceptions about infrastructure). *Közgazdasági Szemle*, 9. 1984.
6. Interjú Ehrlich Évával (An interview with Éva Ehrlich). *Világgazdaság*, 5. 1985.
7. Tardos, M.: A gazdasági verseny problémái hazánkban (Problems of economic competition in Hungary). *Közgazdasági Szemle*, 7-8. 1972.

РАЗВИТИЕ ПРИ НАЛИЧИИ УЗКИХ МЕСТ В ВЕНГРИИ

А. РАБА

Вследствие замедления экономического развития доля Венгрии в мировой торговле сократилась. Проводимая с конца 70-х годов политика «жестких мер» улучшила платежный баланс страны, однако наблюдается опоздание в обновлении и модернизации основного капитала, а также приспособлении к спросу мирового рынка. Узким местом является инфраструктура. Достижению подлинной самостоятельности предприятий мешает то, что нынешняя практика руководства экономикой занята краткосрочными, направленными на сохранение равновесия решениями. Совершенствование и изменение отдельных элементов хозяйственного механизма должны быть согласованы с целями экономической политики. Для подъема, в частности, необходимы рационализация использования рабочей силы, дифференцированное повышение уровня реальных заработков в зависимости от производительности. В широких областях экономики может быть создана конкуренция продавцов, а также такая экономическая среда, в которой государственные предприятия были бы вынуждены и способны идти на риск и налаживать новые формы предпринимательства. Импорт сырья и энергоносителей является важным, однако не определяющим элементом центрального планирования, распределения ресурсов и торговой политики. Экономическая политика должна разрабатываться так, чтобы постепенно, но как можно скорее были созданы и укреплены условия, рычаги международной конкурентоспособности.

THE IMPACT OF THE LABOUR MARKET ON THE EMPLOYMENT STRUCTURE IN HUNGARY*

J. KÖLLŐ

The article discusses the functional properties of the Hungarian labour market and the nature of labour shortage. Its main findings are: 1. The forces are weak on the Hungarian labour market which could squeeze out manpower from the activities that have lost their perspective. 2. Where the main cause of narrowing business perspectives is the rising supply price of labour, pressing forces do not at all appear. 3. Owing to the above, as well as under the conditions of excess aggregate demand even pulling forces do not necessarily assert themselves. 4. The supply of labour is little influenced by business perspectives and the corresponding creation of jobs nor by the development of wages. Labour supply and its supply price depend on exogeneous, extra-economic factors to relatively great extent. 5. It follows that, however much labour allocation is of a market nature in Hungary, it cannot contribute to bringing about the conditions for economic growth to the same extent as could be expected on the basis of experiences in market economies.

The labour market is the most "market-like" market of the socialist economy, which not even the strictest directive central planning system could fully replace by another type of allocating institution. Whenever, nevertheless, rarely and temporarily, some kind of administrative labour allocation was attempted, it soon turned out that this endeavour was neither realizable nor expedient. But can the labour market itself work in a rational way at all under such circumstances, when it is embedded in the environment of "quasi-markets" strongly influenced by the state?

The allocation of labour may be considered rational if it brings about an increase of employment in activities which can be economically expanded, while reducing it where no economical expansion is possible; and if, by the restructuring of employment and education, the skills needed by prosperous activities are expanding while those used in declining activities disappear from the vocational** structure.

However, as easy it is to set criteria of rationality, just as difficult is to judge it in practice. We fully agree with many others in that the perspective of any specific economic activity cannot be judged from any office or research institute.

Nevertheless, in order to be able to draw some conclusions as regards the rationality of labour mobility among economic sectors, vocations (trades, occupations), or enterprises, we assume that there *are* economically expandable activities as well as some without perspective, and that the *conditions* which promote the gaining ground of the former and enforce the falling of the latter into the background can be

* Excerpts from a longer study, not yet published, made in collaboration with Károly Fazekas.

** The term is used in the sense defined by Jánosy in [1]—Ed. note.

clarified. After this, it is enough to examine to what an extent these conditions are characteristic of the situation in Hungary.

Fortunately, we can build our ideas on a stable foundation: on an exhaustive analysis of an ideal-typical model abstracted from the reality of capitalist economy, which Ferenc Jánossy presented in his book [1]. We hardly have to do more than to apply it to the Hungarian conditions.

On "push" and "pull" on the labour market

According to Jánossy, if the vocational structure has to change, sooner or later it does. If, owing to technical progress, technical obsolescence, or other changes, the workplace structure alters, it "pushes" or "pulls" with itself the employment structure, and then—with much greater difficulty—the vocational structure as well. Both, particularly the latter one, possess significant *inertia* or *resistance*, however, this is the only factor which hinders its adjustment to the changes occurring in the job structure. The labour market itself correctly, unambiguously, and rudely informs employees on what they should do. As Jánossy writes: "There is a shortage in workplaces for the performances of occupations already superseded by progress, and gradually being pushed out; and there is excess of workplaces for tasks that still have to be mastered. Change in vocational structure is thus both pushed and pulled ahead by tension: pushed by the shortage and pulled by the excess of workplaces." ([1] p. 234).

Shareholders, banks, and customers turn away from the activities unprofitable now or expected to become such in the near future, business begins to decline, workers quit or are dismissed, while in the corresponding vocations education is gradually driven back and finally ceases. In the advancing sectors, just on the contrary, labour shortage can be experienced, while vacant workplaces, secure employment, good prospects for a career, maybe fast increasing wages as well as a presumably high prestige attract employees.

It is important to note that when we speak about "industries", "sectors", "enterprises" or branches of business we always think of economic activities producing definite products by using definite technologies and definite human skills. The distinction is crucial, as e.g. the expansion of an industry in terms of production or market share does not, of course, necessarily go hand in hand with the expansion of employment. On the contrary, expansion is often associated with a loss of jobs on the industry level. But this process is in fact combined of two sub-processes of opposite direction. With the introduction of a new product or of a new technology a new economic activity is started and then expanded while some obsolete products or technologies are dropped from the industries' scope of activity. The former will attract capital and labour in the above-mentioned way while with the latter not only production but also employment will decline. Whether the industry or the firm as a whole will expand employment mostly depends on the nature of technological change,

a problem far beyond the scope of this study. Here, for the sake of simplicity, we shall not distinguish between "economic activities" in the above-mentioned sense and industries or firms. Such a distinction seems indifferent from the point of view of systems comparison, as the difference between the two systems is found in the aftermaths that come after an *activity* lost its competitiveness on the product market. Whether the process was initiated by price movements, by the introduction of new technologies or by the entry of a new competitor is of no significance for the problem discussed here; whether the declining activity is part of an expanding industry or firm, or of declining ones, will be ignored in this paper. The author is ready to admit, however, that a cross-industry analysis of labour market dynamics may not leave these factors out of consideration.

Defining the unit of observation in this way, it seems justified to say that in the declining fields an excess supply of labour emerges, and the conditions of employment deteriorate; in prosperous activities an excess demand for labour develops, and the conditions of employment improve. This is why we can say that the labour market provides a correct orientation for employees.

But the matter is not that simple. In fact, the perspective of a given activity can alter not only according to this scheme, that is, in a way that, through the appearance and spillover effect of technical and organizational innovations as well as subsequent price developments, progress makes certain activities, professions, and vocations out of date, while opening up perspectives to others, which then appear in the judgement of the labour market as well. It may also happen that employees "turn away" from one or an other trade or vocation.* When does this happen?

Every vocation is built on a definite social basis, on certain social groups. This basis may be exhausted by economic development, rising living standards, an extension of public education, a change in the dominant living patterns, or a modification of the prestige-hierarchy, and the supply of reproduction of the given vocation may run out. Similarly to technical progress or the appearance of a new machine or material, this kind of social *rootlessness* may cast a shadow over the future of a sector or an enterprise just as well. It is interesting, however, that such a kind of decline, and its logical consequence, a chronic labour shortage can hardly be experienced in capitalist countries. This might be the cause why we cannot meet this problem in Ferenc Jánossy's book either.

Translating it into the language of the labour market, "rootlessness" means that in the case of a given type of work the curve of labour supply (S) shifts upwards to the left: with unchanged wages supply declines, or its previous level can only be maintained by raising the relative wages. (See *Fig. 1*). This can also be interpreted so that the *supply wage* of the given type of work increases (from w_1 to w_2). Since this phenomenon is brought about by social changes, the level of employment can only be maintained by a very significant rise in wages or other benefits. Granting this, under the

* The significance of this fact is underlined, for instance, in the study of Gábor Révész [2].

conditions of capitalist economies *a*) it is improbable that such an *exogenous* increase of supply wages may often happen; *b*) if it still happened, actual wages could hardly keep pace with this increase because, among other things, *c*) this could seriously jeopardize the international competitiveness of the activity in question.

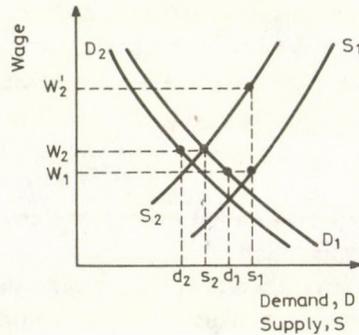


Figure 1

The decline of labour supply and its impact on the normal state of labour market in a market economy

ad *a*) Under the conditions of a capitalist economy, the supply of one or another type of work cannot be regarded independent from its demand. Workers may not find a job, particularly a secure job, in every sector. These factors alone create supply to some extent. It is relatively rare that workers “turn away” from a type of work promising employment, moreover, steady employment. Under the conditions of a general excess demand for labour and general job security it may, however, fortwith happen, and it really does happen.

ad *b*) The expected increase of labour costs as well as of losses stemming from a weaker labour supply may discourage the entrepreneur and may prompt him respond to the given situation with reducing demand instead of (or beside) increasing wages. The entrepreneur must take this into consideration all the more because any substantial change in relative wages developing in the course of collective bargaining may meet with strong resistance. The most probable consequence is that—owing to the expected losses of *predictable labour shortage* with wages lower than the supply wage level—the equilibrium (or the disequilibrium characteristic of the initial situation) will be achieved along a lower demand curve (D_2), although with higher wages than before. (This is shown by the points $[S_2; W_2]$ and $[d_2; w_2]$ in the figure.) In order to understand why a declining labour supply leads to a fast drop in demand, we must take into consideration additional factors.

ad *c*) While in more developed countries the process of becoming rootless has already started, elsewhere the cultural and social conditions for the expansion of the respective industry, technology or trade are just now beginning to be formed. An upswinging industry can often successfully compete with that of a richer country—

especially in capital-intensive sectors, where the poorer country can actually import the high productivity in addition to the existing cheap workforce. The more developed countries cut down the capacities losing their competitiveness in this way, and partly export them to poorer countries. Thus, parallel to the process of becoming rootless, the demand for labour also declines, moreover, generally—although not necessarily—faster than its supply, resulting in dismissals or in the closing down of factories. Besides, the fast tightening of the potential labour basis of a trade (vocation) can partly or fully be offset if the given sector moves to a poorer region within the country itself, or if guest workers or immigrants take the place of the “natives”. And although this might further reduce the attraction of the given vocation in the eyes of the genuine domestic workers, it may be enough for the labour supply to exceed demand during the entire process of its losing ground. A good example for this is the fate of several industries which are being moved to the Third World, like the steel industry, the textile and clothing industries, and some engineering sectors using mass production technologies.

Nevertheless, it may happen, and it really does happen in several servicing trades, that a chronic labour shortage emerges, since “natives” are reluctant to undertake the given work while the possibility for substituting labour is limited and the operation of capacities abroad cannot be considered. (See the shortage of conductors and the introduction of one man operation in public transport; or “the shortage of servants” and the resulting transformation of middle class households, then the development of industries producing household devices). In most cases, however, this type of losing perspective remains hidden: the immediate reason for the crisis will be the decline of demand and, particularly, the inefficiency caused by import competition, rather than the turning away of the workforce. The process of being squeezed out can be described hereafter by means of Jánosy's scheme, even without taking into consideration the underlying process. Still, we should keep in our mind this second type of losing perspective, since—as can be seen below—this will facilitate to understand one of the most characteristic features of the socialist countries' labour market.

After partially recalling and completing Ferenc Jánosy's concepts, let us turn to the key question of this paper: what kind of forces do push and pull the employment and vocational structures under the Hungarian conditions? Of course, “Hungarian conditions” is a rather dim category, that is why we must emphasize some features particularly important in the given context.

a) There is full employment, and in several types of work excess demand for labour can be experienced.

b) While in a capitalist country similar in size tens of thousands of workers are dismissed in a year even with a virtually full employment, in Hungary (non-disciplinary) dismissals were only exceptional until recently and are infrequent today as well. Jobs are equally secure in any field of the economy.

c) The pressure for a profitable operation asserts itself weakly and unevenly, which offers a large scope for enterprise efforts at expansion in the commodity, capital, and labour markets as well.

d) The economy is "half open": the effects of world market developments are sooner or later felt, but import competition is restricted and also investment abroad and labour import scarcely occur.

What are the forces pulling and pushing the employment structure under such conditions? Let us start with the pushing forces, which virtually "squeeze out" the workforce from declining fields.

The first type of losing perspective

It is a trivial statement that in Hungary, first, it is pretty hard to recognize if one or another activity is inefficient. Second, this fact rarely means that these activities are driven back by "leaps and bounds", that the enterprises concerned close down their factories, dismiss their workers, reduce wages at least relatively, and stop training. Even if it sometimes happens in the framework of a campaign (as was the closing down of some coal mines in the early 1970s), it cannot be regarded typical. The most probable consequence is rather the appearance of "indoor" unemployment, a reduction of overtime, renouncing replacement of natural loss in staff, and—quite rarely—intra-enterprise re-training and re-grouping. Though such signs of stagnation may urge a few ambitious workers or managers to leave, the repelling power of this depression cannot be compared with that of measures like plant-closings or dismissals. Accordingly, if perspectives of a given activity narrow down in the commodity market, only *weak* repelling or pushing forces can be expected under the Hungarian conditions.

The second type of losing perspective

Not even this happens in the second case. Those industries which are moving to the poorer part of the world sooner or later get into crisis in the more developed and more open socialist countries, too. This follows if only from the in-between position of these countries as well, namely, from the summation of the lower-than-western technological development level and the higher-than-"southern" labour costs. However, a specific feature of this crisis is that the turning away of the workforce is mostly faster here than the process of closing down. The reason for this is that the process of *turning away* is not restrained by the fear of unemployment but is encouraged by the overall abundance of jobs. On the other hand, the process of *closing down* is hindered by the restricted import competition, the manifold subsidization, the lack of capacity and capital exports as well as by the practical absence of guest workers. Consequently, in a typical case the immediate reason for the losing of perspective in Hungary is the turning away of employees, the decline of the labour basis, the shortage of labour. A good example for this is the substantially different labour supply situation of some sectors declining both in the developed capitalist countries and in Hungary for

the same reason (as e.g. of the textile industry, the steel industry, some subsectors of machine building).

As can be seen, the deterioration of the perspectives for additional labour supply leads in a market economy to a narrowing down of commodity market perspectives so that the workers have to leave, after all, quicker from these activities than they would like to. In Hungary, on the contrary, measures are taken to slow down the process of outflows, and thus, finally workers leave more slowly than they would like to. Hungarian enterprises try to block the process of this flow, and to their efforts they may also find allies in the economic control apparatus. They increase wages and other benefits either from their own funds or by extorting subsidies, insist on measures restricting labour mobility, and try to ensure as many young would-be employees for themselves through the vocational training system as possible.

This phenomenon is illustrated by a table below that contains data on some occupations which play a role mostly in declining sectors and, at the same time, are highly unpopular among young people, essentially because their traditional supply basis (the group of first-generation commuting workers coming from the peasantry)* has extremely narrowed. As shown in the table, in these declining trades relative wages do not decrease—as was assumed by Jánosy ([1] p. 235)—but increase. Though it is true, as he points out, "... only a few or, in extreme cases, none choose—to learn a dying vocation", the number of those actually entering the given trade does not drop to

Relative wages of selected occupations, Hungary, 1960, 1976
Data on recruitment into these occupations,
Győr-Sopron County, 1979

Occupation	Hourly earnings in May, 1960	Average wages in September 1976	Admitted in percent of those	
			applying	preparing
	in percent of the industrial average		for the trade in the 1979/1980 schoolyear	
Blacksmith	121	129	133	200
Moulder	129	135	—	—
Welder	115	119	130	103
Cold rollerman	115	136	—	—
Turner	117	119	194	218
Weaver	91	101	165	118
Spinner	86	107	218	600

^{a)} The number of those choosing the given trade in the first place in the course of the career-orientation inquiry at the end of the eight school-form (at the age of 14)

Sources: [4] pp. 145–148, 149, 159, 191; [5] p. 135; and information provided by the Institute for Advising in the Choice of Career, Győr.

* See the study of István Kemény [3].

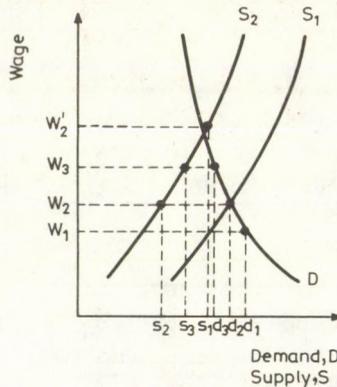


Figure 2

The decline of labour supply and its impact on the normal state of the labour market in the Hungarian economy

such an extent because even such young people are enrolled in training who have not chosen the occupation themselves.

The characteristic features of the Hungarian market are summarized in *Figure 2* where, by the considerable distance between the curves s_1 and s_2 , we want to illustrate that—owing to the lack of damping forces—the narrowing of a given trade's social basis may be very fast and, accordingly, the supply wage may radically step up. Furthermore, the demand for labour is hardly responsive to wages, and the predictable labour shortage does not really curb the inclination of enterprises to the "business": in the figure this is shown by the steep slope and constancy of the demand curve.

Finally, the figure presents the case of the purely expansive adjustment to shortages,* where enterprises, trying to keep pace with the suddenly and rapidly increasing supply wage, increase actual wages more and more (by "wage" we mean here other kinds of benefits, too, such as early retirement, indoor supermarkets run by the enterprise, organized transportation of workers or the founding of enterprise nurseries, etc.) It is difficult to hinder this process even in such a way; the shortage gets extremely sharp at the beginning, then it only slowly slackens to the normal level of the system.** (This is illustrated by the first increasing then decreasing distance between the points assigned to the w_1 , w_2 , and w_3 coordinates.) A good example for the adjustment in question is the case of occupations mentioned in *Table 1* the reproduction bases of which collapsed with lightning speed in Hungary at the end of the 1960s and the beginning of the 1970s. First it was accompanied by the extreme strengthening of shortage then, owing to the slowly tightening demand and the gradual deceleration of decline in supply, the shortage eased with a very fast wage increase.*** It is not

* Expansive adjustment means that the enterprise only adjusts itself to the labour shortage by drawing in additional resources and by stirring up the supply. (See also [6].)

** Following János Kornai [7], in both figures we set out from a normal state of disequilibrium.

*** In case of weavers this is evidenced with data by [8].

accidental, either, that the sharpest struggle for obtaining labour by non-market means was going on just parallel to this process, at the beginning and in the middle of the 1970s. Through amalgamation of small-scale enterprises, by admitting non-volunteers into the apprenticeship scheme, by employing those brought up in state care establishments, or those released from prisons, etc. it could be over the level of supply.

When Hungarian enterprises do not forestall the process of "rootlessness" but try to delay, to damp, or to neutralize it by non-market means, they are guided not only by power or prestige considerations, or just by the inherent interests attached to their survival and expansion. It must be taken into account that the products of the activities in question are well in demand, and the meeting of this demand is only threatened by the narrowing labour basis as well as the increasing labour costs. In an open economy, given a strong import competition, demand can be met through imports; in a "half open" economy, however, this possibility is not always available. The most probable consequence is that either the burdens of the "supply responsibility" are eased by wage subsidies, a better position in the system of "rationing" apprentices and amalgamations (the paternalist version), or the price of the given product goes up or a shortage appears (the market version). Shortage as a sign of the "importance" of a given product may then urge authorities to counteract the social developments threatening the "otherwise promising" position of the enterprise. The situation is quite similar if the labour shortage hits an enterprise which, though unprofitable, produces for export that is "important for national balance-of-payments reasons".

Beside the firms' interests and political considerations this also plays a role in that preventive actions (the cutting down of capacities, dismissals, capital export), are *exceptions* in Hungary; the "choice" of the long agony under the *double* pressure of labour shortage and deteriorating world market competitiveness, is the *rule*.

Summarizing the facts described about the losing of perspective as well as the pushing forces, it can be seen that the forces which could squeeze labour out of the perspectiveless activities are either *weak* (first type), or *do not function* at all (second type). They do not encourage workers to leave these areas or, if workers turned away by themselves, they make efforts to hinder their outflow by all means.

On the pulling forces

The weakness of *pushing* forces is coupled with the sluggishness of *pulling* forces. In a market economy—and in Ferenc Jánosy's model—a prosperous sector attracts employees because its prosperity creates vacancies (while elsewhere it is difficult to get a job): because it provides job stability; because through the extension of its supervisory staff, management, and research apparatus it offers more and more promising prospects for a career; because it breathes confidence, security, self-assurance, and success under the circumstances of a culture which highly appreciates things like these. Wages may increase as well.

In Hungary job offers are not concentrated into potentially prosperous sectors, and there is no difference in the security of jobs either. Since there are no spectacularly collapsing sectors or enterprises, the contrast which could emphasize the benefits of expanding ones is fainter. The scope of wage movements is narrow in Hungary (as well as in West-European countries, or even more so), and, as was pointed out, earnings can hardly increase faster in the prosperous sectors than in the declining ones. Consequently, the pulling force is not strong enough to break the employees' possible reluctance. We virtually cannot reckon with a causal relationship between business perspectives and the "pull-effect" on the labour market. This implies that the favourable labour market judgement becomes one of the hardly changeable *preconditions* of prospects for expansion.

The fact that under the conditions characterizing Hungary in the 1970s and practically in the 1980s, too, the pushing forces influencing the employment structure in a rational direction only exert a weak effect or *no* effect at all, while the pulling forces do *not necessarily* have any effect, means no less than that the existence of the labour market is not accompanied by the benefits expectable of a market. Its functioning is sluggish, and it is a poor consolation that its repression, on the other hand, is expressively damaging (and, fortunately, practically impossible, too).

Before resigning ourselves to this sad conclusion, we must face a counter-argument which seems to be strong. Is it not possible that if not demand, then supply should show the way, namely, to that employees, motivated by their own interests, recognize the economy's opening perspectives and adjust at least their choice of vocation to it? This idea seems to be supported by the fact that those activities, in which Hungary is lagging behind the developed countries (services, commerce), are more popular than others, while those in which Hungary is dominant (large-scale industries) are usually less popular. And is the case not the same, when the extraprofit to be realized in some fields of the second economy is, at the same time, a factor attracting labour too?

No, in all probability the point is not that. This reasoning leaves out of consideration that young people reckon with occupations, or even with more aggregated groups of occupations deciding on the choice of career;* the commodity market ultimately determining the demand for labour is, however, segmented by *enterprises, products, and technologies*. Wherever the unpopularity of a trade (vocation) sets limits to employment, this may hit promising just as well as ailing ventures: neither of them can practically obtain labour with the given wages, and if wages increased to the "equilibrium" level, this would perhaps undermine the competitiveness of the promising venture as well.** (For example, the fact that people are averse to the *trade* of turners deprives such *ventures* of survival, too, which could

* See the analysis of Mihály Csákó, and Ilona Liskó [9] on the industrial apprentices' choice of trade groups (i.e. career).

** The promising enterprise can also be supported, of course, by administrative measures as, for example, by "commanding" their workforce, i.e. without a cost increase. The analysis of such methods is, however, beyond the competence of economics.

otherwise—assuming a labour market functioning in another way—be prosperous.)

On the other hand, as for the undoubted coincidence of extraprofit and labour attraction in several trades in the second economy, it should be clearly seen that this phenomenon is limited to a narrow segment of the economy. It can be met with mostly where the profit of the *venture* and the entrepreneur's *personal* income are not detached, that is, outside the world of wage labour. The free inflow of labour into such activities certainly pushes the economy forward; nevertheless, for the *first* economy—which, beyond the name, hints at the order of importance, too—it cannot do much.

Concluding remarks

1. According to the hypothesis of Ferenc Jánossy, the speed at which the vocational structure is transformed is the most important limiting factor (his critics also acknowledge it as one of the most important factors) of economic growth rate. This process cannot be too fast in any economy owing to the inertia as well as resistance of the vocational structure. At the same time, it should also be recognized that the market economy sets a very effective and strong, moreover, an aggressive mechanism against these hindering and preserving forces: the employment structure as well as the educational structure quickly adjust themselves to the changes in the workplace structure creating the best possible conditions for a rational transformation of the vocational structure.* The Hungarian economic mechanism of the recent past as well as of today, does not, however, mobilize effective forces to perform these functions. And it is the capability of the economy to grow that ultimately suffers on this account.

2. While in respect of market economies it is fairly true that the good commodity market perspectives of an activity represent a source of labour market attraction even with not necessarily higher-than-average wages, this relationship hardly exists, if it at all, in Hungary. As a consequence, the development paths opening before the *economy* do not, or only to some degree, get into the focus of *personal* human endeavours. The tension between the economic perspectives, recognized necessarily imperfectly by the macro-economic leadership, and the judgements of workers contradicting it lead in turn to an administrative restriction of the free choice of a career, and, in some cases, to that of spontaneous mobility.

* It should be noted that in market economies, owing to the greater mobility of capital, automatically a smaller burden falls on the inter-enterprise flow of labour while re-training and re-grouping within the enterprise play greater roles than in Hungary, where the flow of capital is pretty sluggish and, owing to the constraints on the line of production, the transformation of the manpower structure entails high fluctuation. It must also be added, however, that in the contemporary capitalist economy—which, after all, cannot be identified with the model referred to here as "market economy"—the functioning of the mechanism outlined above is considerably damped by the inelasticity of labour supply, and the resistance of trade unions.

References

1. Jánossy, F.: *The end of the economic miracle*. International Arts and Sciences Press Inc., White Plains, N.V. 1971. 269 p.
2. Révész, G.: Béralkító tényezők, bérarányok (Wage-forming factors, wage proportions). *Közgazdasági Szemle*, 3. 1980.
3. Kemény, I.: Munkásosztályunk rétegződése (Stratification of the Hungarian working class). *Szociológia*, 1. 1972.
4. Foglalkoztatottság és kereseti arányok (Employment and earnings proportions). Központi Statisztikai Hivatal (Central Statistical Office), Budapest 1979.
5. *Statisztikai zsebkönyv* (Statistical pocketbook). Központi Statisztikai Hivatal (Central Statistical Office), 1971.
6. Fazekas, K.—Köllő, J.: Fluctuations of labour shortage and the intervention after 1968. In: Galasi, P.—Sziráczy, Gy. (eds): *Labour market and second economy in Hungary*. Campus, Frankfurt—New York 1985. pp. 42—69.
7. Kornai, J.: *Economics of shortage*. North Holland Publishing Co., Amsterdam, New York, Oxford, 1980. 631 p.
8. Köllő, J.: A külső és belső munkaerőpiac kapcsolata egy pamutzövedében (The relationship between the external and internal labour markets in a cotton-mill). In: Galasi, P. (ed.): *A munkapiac szerkezete és működése Magyarországon* (The structure and functioning of the labour market in Hungary). Közgazdasági és Jogi Könyvkiadó, Budapest 1982. pp. 277—318.
9. Csákó, M.—Liskó, I.: A magyar szakmunkásképzés rendszere és társadalmi meghatározói (The system and social determinants of the Hungarian skilled worker training). *Medvetánc*, 2—3. 1982.

ВОЗДЕЙСТВИЕ РЫНКА РАБОЧЕЙ СИЛЫ НА СТРУКТУРУ ЗАНЯТОСТИ В ВЕНГРИИ

Я. КЁЛЛЁ

В статье анализируется процесс изменения структуры занятости в своеобразных условиях венгерского рынка рабочей силы. Автор констатирует, что: а) при ухудшении перспектив экономического развития какой-либо хозяйственной деятельности в венгерских условиях возникают лишь слабые отталкивающие силы; б) если перспективы какой-либо хозяйственной деятельности ухудшаются в результате значительного роста — как отражение стоящих за этим общественных изменений — цены предложения применяемого вида рабочей силы, то таких отталкивающих сил не возникает вообще, мало того: предприятия и органы управления принимают меры, препятствующие и тормозящие отлив рабочей силы; в) деятельности, имеющие возможность экономического расширения, почти не оказывают притягательного воздействия на рабочую силу. По этим принципам занятость не следует — или очень медленно следует — за изменениями структуры развития экономики, и это неблагоприятно воздействует на способность экономики к росту.

HUNGARY'S EXTERNAL ECONOMIC STRATEGY IN THE SECOND HALF OF THE 1980s

B. KÁDÁR

The Hungarian economy has been continuously losing ground in world economy ever since the early seventies. This fact as well as a general deterioration in the external conditions of Hungarian economic development make it imperative to reformulate the country's strategy of adjustment to objective international changes and of establishing economic relations with foreign countries. The article examines the most important tasks of an expedient Hungarian external economic strategy in the second half of the eighties in the fields of production policy, development of trade on different markets and economic diplomacy.

The extension and intensification of international economic cooperation are steady concomitants of long-term world economic growth. It is especially the smaller countries characterized by a relatively small domestic market, scarce resources, and few possibilities for an internal division of labour, whose socio-economic development is more and more influenced and determined by the quantitative and qualitative features of integration into the international division of labour. The intensification of the division of labour among national economies requires, and the development of economic power as well as the set of policy instruments of individual nations make possible, to influence and manage various types of external economic relations in the framework of comprehensive national external economic strategies.

The significance and role of external economic strategies in socio-economic development are underlined by several worldwide processes of the past 10-15 years:

— while there is a strategic *balance of military power*, the conflicts of interest among different social systems and nations tend to shift into the economic sphere much more than before;

— the *new long-term tendencies* in world economic growth as well as the new forces and conditions reshape the system of international relations, the international balance of powers, the external scope, of manoeuvring, interest relations and—as a consequence—also the external economic strategy and foreign policy of the individual nations;

— the increased sensitivity of the political sphere to the economy in the last decade all over the world stems in part from the fact that it is in this field that unstable situations appear the most quickly and in the most spectacular form; owing to the post-war spread of 'consumers' scale of values, social consciousness also reacts on changes in the economic situation much stronger than before, and it tends to judge governments and political cycles by their economic performance. In foreign-trade-

sensitive small countries this further strengthens the sensitivity of the political sphere to the external economy, i.e. to foreign trade.

Further on we will try to point out the strategic challenges that derive from the changing world economic tendencies and the external economic strategic requirements following from the medium-term Hungarian socio-economic objectives.

Direct challenges

Losing of positions in the world economy

Hungary's economic growth in the longer run has been developing in the framework of the international division of labour, and it has become "export-driven", that is, dependent on export performance. The Hungarian economy's new development stage as well as its problems appearing during the last decade stemmed to a considerable extent precisely from the external economic performance unfavourable by international comparison. The development of the world economic positions can, of course, be measured from several interrelated aspects. The rate of economic growth is a less suitable measuring rod in a period of structural changes. Hungary's economic growth slowed down in the past decade, its average rate lagged not only behind the Far-Eastern countries, but in the first half of the 1980s it belonged to the "rear-guards" in Europe, too. World economic performance could be well characterized by the up-to-dateness of the prevailing means of production from a technical-structural point of view, the available pieces of information, however, are not suitable for an international comparison.

a) Statistically, it is the relative market shares in the international trade that characterize the development of relative world economic significance and, particularly in foreign-trade-sensitive small countries, of competitiveness the best. In the case of Hungary, the significant quantitative development and structural changes have been accompanied in the longer run by our *losing positions in the world economy*, by a steady and wide-range deterioration of relative shares in external markets. While Hungary's share in world trade amounted to 0.65 percent in 1938, 0.7 percent in 1970, 0.5 percent in 1980, it hardly achieved 0.4 percent in 1985. [1] The losing of ground is especially extensive and fast in the international industrial division of labour decisively important for the future. Hungary's share in world industrial exports still was 0.9 percent in 1960, 0.8 percent in 1970, 0.5 percent in 1980, and only 0.4 percent in 1985. The country's capacity to absorb imports of manufactures decreased similarly.

The *losing of market positions* can be experienced in the longer run in the trade in manufactures with all country groups. 7.6 percent and only 4 percent of the manufacture imports of the CMEA originated from Hungary in 1965 and 1984, respectively. Hungary's supplier role in the imports of the developing countries

reached its maximum in 1960 with a weight of 0.45 percent, decreasing to 0.31 percent by 1984. As for the imports of the developed industrial countries, Hungary's share totalled 0.27 percent in 1955, 0.30 percent in 1970, 0.23 percent in 1980, and 0.19 percent in 1983.

b) Unfavourable phenomena can be experienced in other spheres of the international division of labour, too. During the past 25 years, parallel to the increasing economic significance of the servicing sector, the international division of labour extended to an ever greater part of *services*. By the mid-1980s the export ratio of services relative to that of goods already reached 25 percent on the world average. It is especially the developed and semi-developed small countries with relatively scarce resources and a narrow domestic market that are characterized by a very high—even over 50 percent—share of foreign exchange receipts stemming from the export of services (tourism, transportation, intellectual export, etc.). As a consequence of earlier development policy decisions, the development of Hungary's servicing sector has not kept pace with either domestic or international requirements. In spite of a considerable development in tourism in recent years, the ratio of hard currency receipts from the export of services does not reach even 10 percent of the total in Hungary, that is, it hardly attains one third of the world average despite the fact that the country has a small economy. Thus the export of goods is excessively burdened with the earning of foreign exchange resources necessary for expanded reproduction. From another aspect, merely 1 thousandth of the 500-billion-dollar aggregate world export of services falls on Hungary, which is much less even than with the export of goods.

c) By international comparison, the situation regarding the *financial division of labour* is not favourable, either. The international banking activity, perhaps the most efficient sphere of the Hungarian economy, has been highly successful in widening the country's external financial scope of manoeuvring. In the market of medium and long-term loans Hungary is viewed as a better-than-average debtor, and during the last two years it absorbed some 0.5 percent of the supply of the international capital market. A critical lag has emerged, however, in direct long-term *capital flows*, which internationally play a great and increasing role in the financing of the accelerated international structural transformation, technological modernization, and export-oriented growth. Though from the early 1970s Hungary has continuously, step by step, modified the regulation system concerning cooperation with foreign capital in direct investment as well as in the establishment of joint ventures, the present regulation system and economic environment—although providing much more advantageous conditions than before—are still not attractive enough for foreign investors who compare investment opportunities internationally and dispose of increased bargaining power. In the first half of the 1980s the stock of foreign direct capital investments in the Hungarian joint ventures rose to about 40 million dollars, but this amount could not play a great role in the structural modernization of the Hungarian economy if only because of its modest magnitude. In the average of 1983–1985 merely somewhat more than 1 ten-thousandth of the international direct capital flows fell on the Hungarian

economy. As a resultant of the new interest relations as well as directions of flows following the changes in world economy and of the features of Hungarian economic policy and economic environment, the carriers as well as the commercial, financial and technological flows of the renewed world economic growth keep away from Hungary—since the adequate countervailing forces are missing. However, in a foreign-trade-sensitive small country a steady decline or marginalization of its relative world economic significance leads to its being pushed to the periphery, to the emergence of crisis zones for the long-term growth. The wide-range weakening of positions experienced so far indicates that the export performance of the Hungarian economy has been improving, in spite of its dynamization, to lesser extent and at a slower rate than the world average or that of the major competitors.

Areas of deteriorating external conditions

The developments in world economy do not necessarily affect the Hungarian economy to a uniform extent or in a uniform direction, while it is true that not only the developments of international importance shape the external conditions. From an international aspect, the development possibilities of the foreign-trade-sensitive Hungary are indirectly influenced in a favourable way by a slight dynamization of the world economic environment in the 1980s, and especially by the falling relative prices of raw materials and energy as well as by the improbability of international supply problems. As opposed to these two favourable effects in several areas of world economic growth and international relations such developments and situations can be expected, which may pose serious challenges and difficulties as well as cause—without adequate countervailing-forces—considerable losses in economic growth to the Hungarian economy. It is easily comprehensible that among the global developments the international excess supply of labour as well as the emergence of structural unemployment create, contrary to the earlier period, disadvantageous conditions for the Hungarian exports, only based on comparative wage advantages. The excess supply of agricultural products affects the sale and profitability of agricultural mass products; and the increase of capital and technological rents deteriorates the situation of Hungary, having a tighter technological and financial basis from the import side. However, beyond the global developments several specific phenomena also play role.

a) It is an unfavourable change from the point of view of *dynamics* that the economic dynamism of Hungary's traditional partners, i.e. the East and West-European countries as well as of the Middle-Eastern oil-exporting countries, increasingly important in the last decade, has lagged behind the world average in the 1980s. The foreign trade dynamics of Hungary's present major partners is much lower than the world average, amounting to 50–70 percent of the expected growth rates of world trade. The decelerating economic and foreign trade growth means, at the same time, a weakening of the impulses to technical-structural transformation, and also a

relatively strong limit to financial and technical transfers and to more up-to-date forms of cooperation. In this situation the dynamization of Hungary's domestic and external economy is only realizable through increasing the country's competitiveness and its market share, by squeezing out other competitors, that is, by stronger-than-average efforts and performances.

b) From the aspect of *equilibrium*, the relative tightening of foreign-exchange-earning possibilities so far available creates a new situation. The balancing of the long-term structural deficit with the OECD countries, the achievement of a favourable balance in convertible currencies, that is, the implementation of the main objective of half a decade's Hungarian economic policy have so far been made possible mainly through the export surplus in the Hungarian-Soviet trade, accounted in convertible currencies, as well as in the trade with the Middle-Eastern oil-exporting countries. With a view to a large-scale increase of the export surplus, moreover, even its maintenance, it has to be taken into consideration that

- the foreign trade and foreign exchange positions of oil-exporting countries are getting weaker, while their export expansion and efforts at balancing are getting stronger;
- the foreign exchange receipts of the Soviet Union from the export of energy are declining, while its efforts at an agricultural self-sufficiency are getting more intensive.

The efforts of the partner countries which have so far had a primary role in Hungary's foreign exchange earnings (both through including Hungarian supplies in a clearing scheme and by increasing the ratio of purchases) will expectedly curb the recent magnitude of the Hungarian export surplus. The restoration of the external equilibrium conditions for economic growth makes it necessary to explore new foreign exchange resources as well as additional export possibilities to the convertible currency area.

c) The shift of the geographical gravity centres of dynamics as well as the shaking of the hitherto prevailing balance conditions of growth create a new situation also for the present Hungarian *production structure* in many respects.

— The relative tightening of foreign-exchange-earning possibilities of the Soviet Union essentially influences the Hungarian agricultural development based on the export of agricultural mass products, i.e. meat and cereals. The re-allocation of the Hungarian agricultural surplus hitherto sold in the Soviet market to Western Europe is not possible, failing agreement with the EEC, while to distant markets it is not profitable.

— The expansion and maintenance of Hungarian exports to the Middle-Eastern countries are increasingly linked to the purchase of, primarily, crude oil and other products. This situation may necessitate a modification of present bilateral connections which also implies significant spill-over effects.

— The shift in world trade dynamism to geographically distant countries automatically creates disadvantageous conditions for the sale of "transport-intensive"

mass products, materials, and semi-finished products having a considerable weight in Hungarian exports.

— The permanent high level of international capital costs as well as the hardening of material purchases from the CMEA countries and the application of world market prices in this trade urge a more selective production policy with a view to cost-benefit ratios and comparative advantages. It is imperative that the economic policy revise the capital-, energy-, material-, and transport-intensive export-oriented activities encountering steady difficulties in entering the market, and, if necessary, restrict them radically.

Modifications in the relative international significance and role of the resources of growth bring about changes in the priorities of strategic objectives too, as compared to the previous period. In a period when military conflicts are more frequent and political tensions are getting sharper, it is understandable that the military-political dimension appreciates within the target system of the national security strategies. If the inter-state conflicts crystallize around economic problems, it is natural that the economic security issues deserve emphasized attention in shaping the national target system. The direction and character of the economic security strategies are, however, also highly influenced by the nature of the world economic challenges. In the international situation developed in the 1970s the theoretical schemes and practical programs, setting out from the repeated oil shocks as well as from the shortage and exhaustion of natural resources, mainly pushed *supply-security-centric* approaches to the fore in most countries over the world. Supply-security priorities, however,—though not necessarily yet at least in the short run—lead to defensive strategies along the line of least resistance.

In the 1980s, however, the general economic security which strives for undisturbed external relations and smooth expanded reproduction, is primarily related to the development and effective utilization of new techniques and structures as well as to the establishment of strong exporter positions and the new types of cooperation forms required by technology-intensive growth. This is a consequence of the exhaustion of major reserves of the restrictive economic policies and of the worldwide excess supply of raw materials, energy, and agricultural products. With the changed world economic realities, economic security cannot be based on a supply-security-centric defensive strategy even in large countries, but on an *offensive* external economic strategy, which serves the strengthening of export and world economic positions, and a more intensive flow of financial and technological resources.

Major components of the target system of the Hungarian external economic strategy

The external economic strategy has manifold direct and indirect social functions in each country. It is an important element of social and national security, particularly

in small countries and in periods when competition among countries is concentrated on the economic sphere. Though indirectly, it is of vital importance in the acceleration of adjustment to world economic changes and of the technical-structural modernization, and in the formation of the international competitiveness, equilibrium conditions, and management system of the countries. Its direct role is most visible in influencing the concrete external economic flows, in the creation of conditions for successful operations in the world market, in the harmonization of foreign policy with external economic interests, and in external economic diplomacy.

Openness of the strategy

One of the most important and most hotly debated issues of the general socio-economic and the external economic strategy is the *degree of openness* of the economy. It is obvious that the sensitivity and vulnerability to international processes of countries less in need of the international division of labour are smaller, and their national decision autonomy is thus greater. In Hungary, too, there still are such hopes that the speeding up of economic growth without any significant increase of import is conceivable also in the second half of the 1980s.

Small countries with a tight domestic market and limited resources could not produce a dynamic growth by relying on a domestic division of labour either in the past or in the 1980s. Particularly in the stage of technology-intensive growth, technological development on a domestic technical basis is costly and, in the longer run, impossible in small countries. In the case of Hungary not only the internationally outstanding import-sensitivity and the debt service burdens of loans raised in the 1970s, but also the requirements of the technical-structural closing up undoubtedly result in a widening of the structural openness of the economy. Owing to earlier mistakes in the formation of the development policy goals, the share of the technologically and structurally out-of-date, inefficient or loss-making, lagging activities is—with the given development and income level—by international comparison above the average in the Hungarian economy.

The key question of accelerating Hungary's growth is in part the rate, at which it is possible to replace the out-of-date products produced at a high cost with cheaper imported goods. Another source of accelerating growth is, however, the expansion of such competitive production and service structures, which represent the most up-to-date technical and quality levels and can, therefore, make possible to exploit the technical and quality rents. The development of these structures is, in turn, inseparable from stepping-up technological imports from the developed industrial countries.

From the aspect of growth, it is unambiguous that the maintenance, and particularly the dynamization, of the present situation makes it necessary to expand external economic relations at a faster rate than domestic production, and to further increase the economy's structural openness and foreign trade sensitivity.

Both historical experiences and rational thinking warn, on the other hand, that the increase of the economy's structural openness requires a greater openness of economic strategy and our being aware of its relationship with the system of goals, the management system, the social environment, and external relations. In the essential objectives of the Hungarian external economic strategy taking shape by the second half of the 1980s the efforts that the improvement of external equilibrium be accompanied by a faster expansion of external-economic relations than economic growth are well reflected.

Equilibrium constraints

In the mid-1980s it can be recognized that several countries, which have run into debt earlier and can poorly adjust economically, while also their foreign trade performance, or their political leadership is weak, try to revive their external economic relations and economic growth as well as to subordinate the requirements of external equilibrium to short-term domestic political considerations through an import expansion financed by further borrowing. International experiences indicate that such endeavours are not given a too warm reception by creditors even with a more favourable capital market liquidity. It is another problem that in the period of high legal interest rates the use of loans is expensive, for both enterprises and the national economy, in countries which do not have clear development conceptions or strategies and whose income-generating potential is weak. For indebted countries the drawing on external financial resources is expedient if, instead of borrowing, it can be managed to create attractive cooperation conditions for the direct investments of *foreign capital* interested in the efficiency of the financed project.

The emphasized requirements of the safeguarding of external equilibrium, the improvement of international financial positions, and the maintenance of surplus in the trade settled in convertible currencies are well in consistence with the long-term national economic interests in Hungary. International experiences indicate that the easing of these strict requirements cannot be justified by any point of view that would seemingly exonerate the economic policy in the short run. This is because, as for the maintenance or even a tightening of the external equilibrium requirements, the Hungarian economic policy has to take into consideration that

- the former favourable *international value judgements* regarding the success of Hungary's adjustment policy started at the end-1970s may markedly change, as the international economic reputation of Hungary is increasingly linked to its capability to produce a convertible currency surplus as well as to the reduction of indebtedness;
- should international or regional financial tensions, economic shocks appear, or should a politically motivated deterioration of Hungary's international reputation, or a decline of interest in Hungary's socio-economic development

stemming from international or regional reasons occur, the significant surplus or the reduced debt essentially serves the maintenance of security as well as the ability to manoeuvre.

Under the given circumstances the maintenance of external equilibrium is an essential strategic interest, and its easing cannot be placed, in the longer run, at the service of improving the domestic equilibrium, since a conflict of goals may emerge if a parallel improvement of the external and the domestic equilibrium is attempted.

International experiences otherwise call attention to the fact as well that in semi-developed countries, which implement radical corrections of their growth path and are forced to consider external equilibrium requirements, increasing tensions in the domestic equilibrium or their high level can usually not be avoided, yet this fact is still compatible with the process of dynamic growth and structural development. In the case of decreasing or low international inflation the danger of internal disequilibrium is less, too.

The development of export dynamics

Under the circumstances of a sharp international competition the improvement of external equilibrium through *export expansion* is neither easy nor popular in any country. A relatively low export dynamics obviously puts a smaller burden of adjustment on the economy and society. In the case of Hungary, however, it has to be taken into consideration that

- a Hungarian export expansion at a rate below the dynamics of world trade, expected to be around 4–5 percent in the second half of the 1980s, would make the world economic “peripherization” process of Hungary started in the early 1970s permanent;
- the modern market-building strategies, tested and widely applied in the non-socialist world, attribute decisive significance and inter-enterprise and inter-country differences in terms of relative market shares. On the basis of the scale of values as well as the practical implementation of the new strategies the recent product, technology, and capital flows, connection-building inputs and efforts keep away from those countries, economic unities, or market segments, whose relative market significance is apparently low and declining;
- owing to the outstanding foreign trade sensitivity and vulnerability of Hungary’s economy as well as to the close relationship between structural adjustment and the intensification of international cooperation, the low foreign trade dynamics would not create adequate preconditions for either a “breakthrough” in the long run or a “recovery” to be launched in the medium run, if only for quantitative reasons.

A comparison of possibilities with requirements in both domestic and international markets indicates that the halting and reversal of the earlier un-

favourable tendencies as well as the modernization and dynamization of the Hungarian economy will continue to depend in the second half of the 1980s primarily on the improvement of export performance, on the elaboration of a development strategy to mobilize and reallocate the existing resources according to the interests of exports, and on the development of an offensive external economic strategy.

Market orientations

Under normal circumstances, the development of relations with one or another group of countries can never be an autonomous goal and interest for a nation. The requirements, as regards the development of Hungary's relations with its partners, are not of an autonomous character either, but derive from the national objectives, possibilities, and constraints on the Hungarian socio-economic development in the 1980s. Owing to reasons of historical and economic policy nature, the foreign trade of Hungary with the three major groups of partners, i.e. the CMEA, the OECD and the developing countries, is characterized by substantially different commodity structures, quality and modernization levels, organizational forms, and mechanisms. As a consequence of the different properties, Hungary has to create different forms, specialization patterns, and formulate strategic conceptions in the development of cooperation with these groups of countries. Military strategy would call this situation a three-front warfare. It is obvious that the integration of these three types of requirements and scopes into a uniform strategy is far more difficult than the development of a single-market strategy (moreover, in the case of Hungary the domestic market also means a separate economic environment and strategic dimension). The difficulties in formulating a strategic conception are aggravated by the features of the Hungarian specialization, the frequent cross-dependence of markets in several foreign-trade-oriented activities. Many products exported to the convertible currency area (metallurgical, and the petrochemical products) are based on the import of energy and raw materials from the CMEA. At the same time, the direct or indirect convertible currency content (in terms of technologies, component parts, and materials) of machines, light industrial, moreover, agricultural products exported to the CMEA countries is fairly high. As a result, a change of import conditions, for instance, in one of the groups of countries immediately leads to export problems in the other main market. The interests of economic unities also strongly differ on the export and import sides; thus a uniform enterprise strategy, adjustment to the requirements of cooperation and on the main markets can only be developed with more difficulty. Finally, the three-front situation sets limits to, and hinders, the occasionally expedient resource-reallocation among individual markets on a national economic level as well and, in this sense, it is closely related to the structural and management rigidities of the Hungarian economy.

Cooperation with the CMEA countries

On the basis of the magnitude as well as of the intensity of changes in the conditions of cooperation and interestedness elements, the medium-term chances of Hungary's economic development are essentially affected by the features of relations with the *CMEA countries*.

a) The terms of cooperation with the CMEA countries were already *modified* under the impact of regional and world economic developments in several steps during the past decade. In the post-war 30-year period Hungary, similarly to other small CMEA countries, pursued a forced, basically raw-material-processing, raw material and energy-intensive industrialization primarily based on Soviet imports. Beginning with the mid-1970s, the 30-year-long expansive model of regional cooperation encountered more and more limits to development. Stemming from the beginning exhaustion of natural resources as well as from the lack of consistence between the growth rates of manufacturing and extractive industries, an increasing regional excess demand for materials and energy emerged. Parallel to switching over to world market price basis, the profitability of material and energy-intensive industries in raw-material-importer countries deteriorated. Following the development programs of the engineering industry in the former raw-material-exporter countries as well as owing to the post-1980 decline of economic growth rates, the engineering exporters' regional market position, i.e. the balancing of raw materials with engineering products became increasingly difficult. Following the directions of repayment of debts accumulated by most CMEA countries during the 1970s, a considerable share of "hard" exports of these countries, competitive in the world market as well, was re-allocated to the markets of developed or developing countries, which also contributed to the difficulties of purchasing in member-countries. Settlement in convertible currencies, introduced to provide incentives for stepping up the regional trade in so-called "hard" commodities, influenced the current account very favourably in countries which achieved a surplus—especially in Hungary. At the same time, it made this sector and its production background highly sensitive to the actual position, demand, and trade-related cyclical effects of the partner-countries.

The most recent and important element in the continuous change of the economic environment of regional conception is the *drop of crude oil prices*, accompanied by world economic movements. The drop of the world price of crude oil is, of course, favourable for the oil-importer countries, but exerts an adverse impact on the leading economy of CMEA cooperation, i.e. the Soviet Union. Soviet oil production has already shown a declining trend in the last few years, but the fall of prices already raises its efficiency problems in the case of the high-cost Siberian deposits drawn into production in the previous decade. Under such circumstances it is reasonable to reckon with the possibility that the Soviet Union will not be able to maintain the present quantity of crude oil exports. Crude oil, oil-industrial products, and natural gas account for a round three-quarters of the Soviet Union's export to the

West. The price drop and the massive shortfall of foreign exchange receipts will therefore strongly hit the financial manoeuvring ability of the Soviet economy as well as the volume of imports from the West mainly consisting of investment goods and agricultural products. Of course, the production, technical, and scientific potential of the Soviet Union would theoretically make possible to transform the commodity structure of export supply, to boost industrial exports. Nevertheless, it is well-known that transformation of the commodity structure needs time and industrial exports require skills, organizations, and forms, which are different from those of energy exports. Since the changes in the world market are still going on, today it is still impossible to judge whether the Soviet economic policy responds to the deteriorating situation and to the threat of import-tightening with an increase of exports to the West, involving price losses, or with import substitution, or with a shift of trade. In the formulation of variants of the Hungarian external economic strategy, however, it is inevitably necessary to reckon with the consequences of a tightening of convertible-currency-earning possibilities in the regional trade, with the higher-than-world-average import price level of crude oil in the medium run, and with a possible further tightening of crude oil supplies.

The different kinds of changes in conditions affect the dynamics of economic cooperation to be established with the CMEA countries in a wide range. At the same time, they require a significant shift of emphasis in terms of the structure, activities, and organization of the Hungarian economy. Partly the nature of the arising new problems, partly the environment of the CMEA cooperation (as regards their management systems) explain that responsibility for the development of relations primarily falls on the macro-economic management system. In the treatment of the new problems it is not the regulation of the growth rate or proportions of foreign trade with the CMEA countries, but the improvement of the efficiency, structure, and profitability of the hitherto prevailing cooperation that may be considered as strategic goals.

b) Hungary, of course, cannot counterbalance such unfavourable factors in the cooperation, by any internal or interstate policy action, which stem from changes in the conditions of domestic or external development, or from various hindrances to supply capacity in the CMEA member-countries. Nevertheless, the *restructuring of goals and instruments of the Hungarian development and external economic strategy* can widely ease or modify the tensions caused by the present structure and state of relations.

Improving the efficiency of cooperation as well as easing the pressure on the overburdened infrastructures demand the rationalization and streamlining of cooperation, which at present is fairly material-intensive, moreover, inflated by mutual supplies of non-essential products as well. In respect of production policy and external economic policy considerations, and an appropriate integration of these requirements, the following aspects should be considered:

— Instead of investment contributions and special-purpose-supplies aimed at

easing the constraints of supply, it is expedient to reallocate the scarce Hungarian resources in order to transform the present material-intensive production structure and to increase the degree of processing of regional material supplies (such as metallurgical products, crude oil and natural gas-intensive chemical basic materials, etc.). Beyond improving the efficiency of the regional cooperation, the reforming of the Hungarian structure, the *streamlining* of metallurgical and heavy chemical industries and the import of more processed primary products amount together to the easing of trade and offsetting tasks, too.

- The losing of dynamics as well as a “softening” of the relative bargaining power and import compensation ability of the Hungarian engineering exports can hardly be damped in the regional cooperation. Nevertheless, this process can be slowed down by exploring new fields of *specialization* and cooperation.
- With the foreseeable medium-term excess supply of agricultural products in the world market, not much success can be expected of efforts aimed at raising the export price level of Hungarian agricultural products.

The global requirements concerning structural changes in the Hungarian agriculture, and especially in livestock breeding, make it expedient to take preparatory steps in order to create an adequate “receiving inclination” in the interstate relations for the Hungarian food exports representing a *higher unit value*.

c) On the basis of experiences so far, cooperation with the CMEA region is mainly determined by the possibilities of *import expansion*. Consequently, the main tasks of the external economic strategy relate to the exploration of new possibilities and new forms of import expansion. For the sake of preserving the positions in the accelerating international technical competition as well as of reducing the undesirable technological dependence, the extraordinary session of the CMEA held in December, 1985 adopted a program for accelerating technological progress in the region. This decision in itself will modify the hitherto prevailing centres of specialization within the CMEA. Following the restructuring of goals of the regional cooperation strategy, the cooperation, hitherto concentrated mainly on natural-resource-intensive traditional sectors, raw materials, and semi-finished products, may now increasingly shift towards a division of labour among the technically up-to-date sectors in the future. The new import and growth-stimulating effects, strongly depend of course on how well the restructuring of goals is brought into conformity with the further improvement of the mechanism, methods, and organizational frameworks of regional cooperation.

*The strategic components of cooperation with the
OECD countries*

The strategic requirements concerning the development of the Hungarian economy exert a manifold influence on the development of cooperation with the *developed industrial countries*. On the export side, the determining factor is the situation that the international *comparative advantages* of Hungary are at present concentrated on certain natural-geographically determined agricultural activities, and on the internationally low cost level of the skilled workforce. On the basis of the country's special climatic and soil conditions and production culture, such plant-cultivating and livestock-breeding activities have been or can be developed, which are theoretically suitable for meeting a demand of special quality level as well as for realizing a "delicacy rent" (government rent). However, the demand for special food, satisfying needs of high quality, is dynamic in countries with a high income level, where the demand of high-income groups actually shifts to special products of foreign countries. Taking into consideration the income level and income structure, the natural-geographically determined comparative advantages can primarily be realized in the OECD markets. It is also the OECD markets, which can naturally absorb the additional output produced as a result of the complex value-increasing and quality-centred development of the agricultural and food industrial sector.

For asserting the comparative advantages inherent in the skilfulness of the workforce, up to now there have been better chances in the developing countries as regards proportions, and in the socialist countries—as regards magnitudes.

Experience of the past 10–15 years has, however, shown that the higher modernization level in terms of quality and technology based on a higher level of skilfulness can only be realized to a limited extent in the prices attainable on the present major markets. The conditions inherent in the highly qualified part of the Hungarian workforce can be utilized not in price-sensitive markets, but in the "quality-sensitive" ones through building out adequate cooperation relations. This is also urged by the fact that reliance on less qualified workforce is a source of permanent loss in both the terms of trade and economic growth, owing to the worldwide structural excess supply of labour. If, however, the Hungarian development policy is not able to mobilize energies for growth and additional foreign exchange receipts by drawing on the prevailing and potential advantages, then the essential instrument for maintaining the export potential will rather be a wage reduction, facing competition on part of the developing countries and leading to increasing domestic political tensions, unsustainable both economically and politically in a longer run.

b) The intensification of cooperation with the OECD countries is urged not merely by the conditions of growth that can be realized through exports. The *import requirements* of the transition to a new growth path as well as of an accelerated structural adjustment are determined rather unambiguously. A breakout towards a higher quality level presumes the elimination of causes contributing to the weak

quality of Hungarian products, which otherwise rely on a favourable domestic basis. In many cases the comparative advantages inherent in the domestic natural-geographical basis and the low wage cost of processing are reduced to nil by the low quality of auxiliary materials, component parts, packing and presentation, etc. representing a minor share in the value of the end product. Organizational steps and the rationalization of interest relations may eliminate the majority of these shortcomings in the longer run. The time-sensitivity of the adjustment process, requires, however, an immediate liberalization of imports, necessary for the improvement of quality, and the elimination of import-substitution, where it threatens the increase of foreign exchange yields. The improvement of quality is inseparable from the import-pressures of *technical modernization*. By no means independent from the quality requirements of domestic demand, the machines and technologies that are able to meet high-quality demands were historically developed in the OECD countries. Thus, in this respect, the CMEA countries or the semi-industrialized developing countries do not represent an adequate alternative for procurement in the medium run. Technologies for material and energy savings, of vital importance for the improvement of both the specific use of material and the Hungarian economy's competitiveness in a structural sense, can only be imported from the OECD countries. Similarly, the OECD countries are considered as the exclusive source of procurement for technological development and improvement of competitiveness in several export-oriented Hungarian economic sectors (agriculture and food processing, machine-tool building, pharmaceutical industry, production of light-sources, special clothing articles). The restriction of imports from the OECD, the weakening of business connections from the import side, or even their stagnation directly hinder the performance in several exporting sectors—with a negligible time-lag.

c) The expansion of imports from the OECD countries is increasingly important for the further development of the *economic control and incentive system*. The strengthening of competitive mechanisms in the domestic division of labour, the increasing role of competitive prices and of resource-allocation, improvement of enterprise performances, and the curbing of shortages in the domestic economy are all inseparable from the development of import competition. Experiences of the period between 1979–1984 well highlight the strong relationship between import restrictions and the sluggishness of the structural adjustment. The significance of imports from the OECD in the *current operation* of the Hungarian economy has been rapidly increasing from the early 1970s. In overcoming the internal or external obstacles of procurement hindering the current functioning of the Hungarian economic unities, in easing the tensions arising in the supply of the population especially with high-quality products, the expansion of import from the OECD countries will continue to play an increasing role. The more pronounced stimulation-for-performance and income differentiation inevitable in the 1980s necessarily assume increasing import supplies from the OECD, at least until the development of a sufficient domestic competition.

d) The social costs of the change of growth path and of structural modernization

of the Hungarian economy strongly depend on *foreign borrowing* possibilities. A long-lasting restriction of investment would paralyze the process of long-term economic development and speed up the process of "peripherization". An animating investment activity at the expense of a further decline in the level of consumption would, in the present situation, be strongly limited by the tolerance of the population. The relationship between the utilization of foreign resources and the scope of manoeuvring in internal politics is getting stronger in the 1980s. On the basis of the liquidity positions of both the CMEA and the OPEC countries, foreign resources can only be drawn in from the OECD countries. This is also supported by the fact that long-term financial resources necessary for structural modernization and the development of infrastructure are only available from the international financial institutions and the major western countries. The market aspects of drawing on foreign resources are, at the same time, not independent from the present and expected foreign exchange balance constraints of the Hungarian economy.

A rather critical field of balance-determined relation-building expediencies is the repayment of earlier loans and their interests, i.e. the *debt service*. The burden on exports in the treatment of balance problems is much smaller in several other indebted countries. Considerable exports of services, remittances of those working abroad, receipts from long-term direct investments appearing in capital accounts, or significant gold and foreign exchange reserves strongly widen the scope of manoeuvring of countries in foreign exchange management, and highly influence their effective solvency and the international manoeuvring ability, too. Owing to structural and institutional factors, and to those of the system of goals, in Hungary the circle and relative importance of foreign-exchange-earning and balancing items other than trade are very narrow by international comparison. In a relatively short run this situation cannot really be changed. Thus, the essential non-trade instrument of the "balance therapy" remains reliance on foreign resources. The accession of Hungary to the international financial institutions as well as a change in the situation prevailing in the international capital markets between 1979 and late-1983 undoubtedly improve the financial manoeuvring possibilities of Hungary.

The mobilization of growth reserves inherent in international credit relations as well as the increase of convertible foreign exchange receipts are in Hungary's essential interest, going beyond the sphere of economy. Exploitation of the borrowing possibilities, assumes, however, the expansion of imports, too. With a stagnation or very slowly increasing imports the possibility of relying on export interests and suppliers' credits is very limited. Hungary's positions in the international division of labour as well as its economic significance from the aspect of suppliers are not considerable, and an incidental international interest in financing is primarily attached, from the economic aspect, to the expansion of the Hungarian import capacity.

Consequently, a substantial improvement of Hungary's solvency necessitates not simply a growing surplus in foreign trade for meeting the debt service obligations,

but a surplus that is accompanied by increased imports. Experiences of the commodity and capital flows in the past decade have shown that, as a resultant of various expediencies and compulsions, the exports of indebted countries have been rapidly growing towards the creditor countries. Both the concentration of Hungary's debt in convertible currencies to the OECD countries, and the determination of the country's future borrowings in respect of possible markets urge the increase of Hungary's exports to the developed industrial countries.

The role of developing countries in the external economic strategy

In the period between 1973 and 1983 Hungarian external economic relations developed the most dynamically with the *developing countries*. However, the analyses exploring the medium-term economic development of the developing countries and the future of cooperation between Hungary and these countries have drawn attention to the facts that

- in the second half of the 1980s, unlike in the previous decade, the economic growth rate will be slower in the developing countries, and their significance as markets will decline;
- within the developing world the trend has changed the strongest in the group of Middle-Eastern OPEC countries, whose importance became decisive in the past decade for Hungarian exports to the developing world;
- the deterioration of the Middle-Eastern oil-producing countries' trade balance and of their economic dynamics tighten Hungary's foreign-exchange earning possibilities and influence its external equilibrium conditions unfavourably;
- economic dynamism is concentrated within the developing world to the Far-Eastern countries (and China), where the scope of manoeuvring of the Hungarian economy is limited by the lack of traditions as well as by the geographical and cultural distance.

On the one hand, the new conditions and tasks of economic cooperation with the developing countries are much more difficult than in the preceding decade, while, on the other hand, this region is unable to bear *a major burden in the dynamization of the Hungarian economic development*, if only because of its moderate weight.

In spite of the hardening relation-building conditions, the Hungarian external economic strategy will insist on cooperation with the developing countries in the forthcoming years, too. From the aspect of specialization it is obvious that for exports of high technology, complex economic-technical systems and subsystems against hard currency the developing countries anyway offer better possibilities than the more developed industrialized countries. At the same time, the building of relations requires a much more consistent strategic attitude, complexity, and flexibility than what has prevailed until now.

The deterioration in the relative international positions of this group of countries is by no means characteristic of each developing country. The shift of market centres towards countries having a better position, and towards small markets, disregarded until now because of the negligible volume of trade, may in part counter-balance the serious problems arising in the present main markets. The strategic complexity urges a stronger coordination among the various forms of maintaining connections, a better utilization of the Hungarian imports as well as of technical and scientific cooperation in the development of exports, and a better embedding of cooperation with the developing countries into the system of goals of Hungary's development strategy and its general external economic strategy. The medium-term prospects for the expansion of Hungary's domestic market do not seem favourable for increasing the purchases from developing countries. However, the reduction of inefficient activities in production as well as the implementation of a strategy based on the combination of selective production policy with external economic policy may rather increase Hungary's imports of metallurgical products, metal mass products, construction materials, leather, and textile goods from the developing world. Depending on the implementation of a selective production policy, the volume of Hungarian purchases from the developing countries can already expand in a medium run.

The increase in Hungarian purchases may create better positions in such cases, too, when the demand for certain Hungarian exports unexpectedly drops in the present main markets, and a rapid shift of exports as well as the establishment of new markets become necessary. The tensions arising in material and energy purchases within the CMEA may also be eased by the *shift* of a certain part of oil purchases. For the development of cooperation with the CMEA countries, and especially for the maintenance or, maybe, increase of Hungarian exports of machinery to the CMEA, the expansion of imports of materials and sources of energy from this region is an essential interest of Hungary. Nevertheless, the changed economic position and interestedness of the CMEA partners may, already in the medium run, necessitate to increase the developing countries' share in the Hungarian material and energy imports. It should not be left out of consideration either, that in the new international oil market situation, evolving from late 1985, the oil-exporting countries whose bargaining power has suddenly weakened, exert a far stronger pressure than before for establishing a direct link between their purchases and oil exports in order to moderate their price losses and sales difficulties. Thus, from the point of view of Hungary's export to the oil-exporting countries, the purchase of oil will become an increasingly important condition for sales.

A general implication of the world economic restructuring, characteristic of the 1980s, is that the countries which became indebted earlier and are forced to increase their export, increase their efforts to make the most of the export-stimulating effect of their purchases. The combination of these efforts with an active Hungarian structural policy can make a virtue of this necessity as well. A small group of developing

countries, such as Brasil, Argentina, Mexico, South-Korea, Taiwan, and India have not only successfully adopted the most up-to-date achievements of technical progress in a wide circle of industry by the mid-1980s, but also established export-oriented activities on their technical basis in certain sectors (computer-controlled metal-working, vehicle-building industry, electronics). Cooperation of a structural policy character with the developing countries, or their sectors, that belong to the vanguard of industrial development may create a new relation-building dimension, and, as a consequence of the strong political influence the successful and modern sectors exert in these countries, it may have a positive effect on inter-state relations in a wider sense, too.

External economic cooperation and specialization of a structural policy character raises, of course, new requirements not only towards inter-state relations, but also towards the forms and organizational frameworks of enterprise cooperation, and demands the mobilization of new relation-building forces. Up to now, the utilization of possibilities inherent in trilateral or multilateral cooperation among the enterprises of Hungary, the CMEA, and the OECD has not even started yet. The possibilities of jobwork arrangements are insufficiently exploited as well.

The Hungarian resource-reallocation process may necessitate a planned location of certain Hungarian industrial activities abroad, with regard to supply security considerations. An extension of the Hungarian economic basis (through joint companies) established in the developing countries is very important, particularly from the point of view of the Hungarian exports of engineering products. It is because the industrial division of labour in engineering requires a steady and close cooperation, usually involving an organizational interpretation, too, between the seller and buyer enterprises. This may be attributed to its "confidence-intensity", complexity, and after-sale "connection-intensity". This is supported by the fact that at the end of the 1960s almost 30 percent, while in the mid-1980s—according to reasonable estimates—some 50 percent of the international trade in machines was transacted among different units of the same enterprise organization. Of course, it is possible to trade in raw materials, agricultural products, and consumer goods as an outsider exporter but, on the basis of several decades' international experience, the trade in investment goods as well as the division of labour based on the flow of up-to-date technologies are inseparable from organizational interpretation. A more extended application of foreign trade "constructions" promoting a better link between the interests attached to exports and imports, as well as of trading houses, and other organizational forms may represent an important potential motive power. One of the main tasks of market development policy is just the embedding of the different markets into the system of goals of the Hungarian economic and external economic policies, and the development of a set of instruments for achieving these goals taking into consideration the specific features of each partner-country and of cooperation with them.

The choice of the subject as well as the limitations to the size of this study do not make it possible, of course, to examine the question whether the Hungarian economy, moreover, the society can meet or not, and if so to what extent, the above outlined requirements of the external economic strategy. The external economic strategy is an organic part of the Hungarian socio-economic strategy, a part, which in this decade has become particularly important and moulds the national social strategy much more intensively than before. Also the author of this study has so far expressed his opinion about the direction of the improvement of the Hungarian development policy in several publications. [2] It would be an exaggeration to assume that the necessary conditions for the implementation of this strategy already exist today. The reality of the strategy, stems, however, not only from the imperative character of responses to be given to the external challenges that affect the Hungarian society and economy, but from the potential ability to respond as well. This ability as well as the necessary conditions for the implementation of the strategy can be brought about, though not at the price of small sacrifices, but through a substantial turn in performances throughout the economy, moreover, in every field of society.

References

1. On the basis of the *Yearbook of International Trade Statistics* and *Monthly Bulletin of Statistics*.
2. Kádár, B.: *A nemzetközi fejlődés és munkamegosztás új irányzatai* (New tendencies in the international industrial development and division of labour). Közgazdasági és Jogi Könyvkiadó, Budapest 1984.

ВЕНГЕРСКАЯ ВНЕШНЕЭКОНОМИЧЕСКАЯ СТРАТЕГИЯ ВО ВТОРОЙ ПОЛОВИНЕ 80-Х ГОДОВ

В. КАДАР

Пересмотр целей венгерской внешнеэкономической стратегии необходим ввиду ухудшения внешних условий роста венгерской экономики. В прошедшее десятилетие мирохозяйственная среда сложилась для Венгрии неблагоприятно, изменения, которые произошли в международных условиях спроса-предложения, в ценностном мирохозяйственном порядке, в географических центрах роста, в системе условий сотрудничества предприятий, в значительной степени ослабили прежние относительные позиции Венгрии в мировой торговле. Ухудшение позиций и новые неблагоприятные изменения произошли в торговых связях как со странами СЭВ, так и странами ОЭСР, так и развивающимися странами.

Автор подчеркивает, что успешное выступление в изменяющейся мировой экономике предполагает целесообразное разделение труда между сферами правительственных органов и предприятий. Остановить ухудшение позиций, дать соответствующий ответ на вызов мировой экономики, формировать направления, пропорции, общественно-экономическую среду венгерского экономического развития — это задача комплексной, разработанной на основе перспективного

подхода стратегии, а тактические задачи хозяйственной деятельности относятся к сфере предприятий, компетенции хозяйственных единиц.

В статье анализируются требования развития и специализации производства с точки зрения приспособления к мирохозяйственным изменениям и на этой основе предлагается развивать области, лучше отвечающие особенностям роста венгерской экономики. Автор анализирует по основным группам стран условия, целесообразные направления и формы внешнеэкономического сотрудничества, а затем указывает на важнейшие задачи экономической дипломатии в двусторонних связях, в сотрудничестве с региональными организациями, а также с крупнейшими фирмами.

THE CONDITIONS, CHANCES AND PREDICTABLE CONSEQUENCES OF IMPLEMENTING A STEP-BY-STEP LIBERALIZATION OF IMPORTS IN THE HUNGARIAN ECONOMY*

J. GÁCS

The often unfounded fears from import liberalization are not sufficient reason for depriving the Hungarian economy forever of the advantages offered by more liberal import purchases of the economic unities and a real import competition. In fact, many aspects of the actual system of economy, institutions and regulations would obstruct the assertion of the favourable effects of import liberalization. Therefore, it is necessary to draw up a long-term concept of import liberalization. This concept should contain, among other things, the kind of changes in institutions and control mechanisms which are supposed to promote, parallel to import liberalization, the restriction of demand for imports, the introduction of a differentiated protectionism, as well as an appropriate shaping of the domestic price level and price proportions. Plans have to be worked out also for giving more freedom to the domestic enterprises facing import competition so that they can readjust their resources and that they be freer from the present restrictions of sales.

Since the 1968 reform of the Hungarian economic control and management system there has been no comprehensive analysis conducted by scientific researchers or government agencies regarding the experiences with the regulation of imports settled in convertible currencies and of the possible or desirable ways of their promotion and liberalization. This is only partly justified by the reason usually given, namely, that during the last decade the deteriorating situation of the balance of payments repeatedly imposed import restrictions on Hungary that had to be implemented with the given system of regulation. It is not a convincing explanation either that the discussing of import regulations would have raised difficulties in international presentation.

It has often been asked whether it is possible in Hungary here and now (in 1984, at the end of 1985, at the beginning of 1986) to speak about a comforting state of the balance of payments with which the liberalization of import regulations is a realistic chance? In our opinion reasoning, the outlining of possible alternatives and their comparison must certainly not be subject to the actual tensions of a given month or

* In outlining the train of thoughts of this study the author greatly benefited from published and shorter internal papers of his colleagues János *Deák*, Judit *Hamar*, Kamilla *Lányi* and Gábor *Oblath*. The formulation of the final text of this study was enormously helped by discussions with Kamilla *Lányi* and Gábor *Oblath*. The topicality of import liberalization is indicated by the fact that at the time of writing the first version of this study but absolutely independently of it, the work of Werner *Riecke* [1] was published in which consonant interferences are made in connection with the analysis of relationships between devaluation and inflation in a train of thoughts similar to that presented here.

quarter. At the same time theoretical considerations as well as the experiences with import liberalization in several developing countries indicate that the knocking down of import restrictions can be and is reasonable to be started not necessarily with an extremely advantageous state of the balance of payments. Liberalization does not imply an explosion of imports by all means, since import growth resulting from partial liberalization can be curbed in the short run by other, more market-like instruments, like devaluation of the currency, a temporary customs levy or other duties, and by curbing import demand through general economic policy instruments.*

By the liberalization of imports, transacted in convertible currencies, we mean a series of steps affecting the institutional system and economic policy, at the end of which each economic entity will be able to decide alone how to allocate its own income on purchases, i.e., to buy any commodity or service—except for a closely defined range—actually from any country and any supplier and in any volume it decides to get, only considering a few trade policy viewpoints.

Setting out from the present situation this liberal import procurement system cannot be built up in Hungary but gradually, because of several reasons. Firstly, it takes a longer time to bring about the conditions under which the import competition could provoke mostly healthy impacts in the Hungarian economy. (These conditions are scrutinized in Section Four of the article.) At the same time, it is necessary to reckon with a stage of transition in the course of which the Hungarian enterprises should adjust their purchasing behaviour and their related business activities to the new situation. The firms also need some time to shape their commercial, production, etc. strategies with a view to such imports as are likely to become a menace to their own sales markets in future.

The invigoration of import competition would not only profoundly transform the present system of procurement and sales but it would also rearrange the enterprise positions, the order by efficiency of their respective activities and products and their sales chances. Thus, even if enterprises were quite prepared for the new situation, a period of transition would nevertheless be necessary, since the inevitable tensions brought about by import liberalization (ceasing of certain activities, bankruptcy of enterprises, price rises) should be prevented from accumulating on the macro-level least they cause serious disequilibrium problems.

It is well known that the success of reforms to be implemented by stages faces specific dangers. Partially implemented reform measures might lose effect in a conservative medium or might produce unexpected by-effects. At the same time it might easily happen that the reform is blamed for unfavourable initial experiences and also for negative economic and social developments completely unrelated to the reform, and this might lead to the postponement or discarding of its planned implementation.

* See the comprehensive studies of *Bhagwati* [2] and *Krueger* [3].

Despite the said hazards, we still recommend a *first partial and then gradually accomplished import liberalization*. When making this recommendation we take into account that under the actual conditions (to be analysed in detail hereinafter) a complete liberalization would have been destructive to the economy, but by a further postponement of liberalization on such grounds the Hungarian economy would be deprived of crucial efficiency advantages and incentives. It will be stated in Section Five of this paper that the partial liberalization of imports is only reasonable when it is matched to an elaborated, declared long-term concept of complete import liberalization, approved on the highest policy-making level. We believe that such a long-term concept is necessary not only in order to establish the consistency of partial measures, but also in order to provide for a kind of a guarantee that liberalization will not be frozen after the initial steps.

As already noted, a sudden steep growth of imports is not considered to be a symptom that should accompany a step-by-step import liberalization by necessity. Such a surge of imports can also happen in the most restrictive, overregulated systems which fail to make use of enterprise decisions based on economic calculations. In an adequately constructed system of import regulation, applying economic constraints, the growing freedom of import purchases does not necessarily result in unlimited purchases. At the same time a good many of the favourable impacts of liberalization can assert themselves even if liberalization does not manifest itself in an immediate growth of imports. More realistic price conditions reflecting the scarcity of commodities, an increasing freedom of decision of enterprises concerning purchases, a realistic economic assessment of import substitution could (along with satisfactory export incentives) initiate significant structural transformations. These will comprise the omission of inefficient import purchases, a more effective utilization of imports, the expansion of production for really economical import substitution and for export. Thus precisely this starting structural transformation will make it possible to gradually lift the restrictions and to make a fuller use of the chances of more liberal importing.

In the following the conditions and opportunities of a first partial and then a gradually accomplished liberalization will be studied. Such an analysis must, naturally, reckon with the various predictable advantages to show sooner or later on the one hand and with the predictable short and long-range disadvantages of liberalization on the other. (This will be done in Section Three of this paper.) Nobody considers import liberalization an end or means in itself; the objectives hoped to reach through more liberal import regulations also require other institutional and regulatory changes. At the same time the success of import liberalization itself is also a condition of carrying out other changes. (These connexions are analysed in detail in Section Four.)

If we wish to make sound and valid statements about the chances and conditions of a step-by-step import liberalization then we first need to outline the rather seldom analysed characteristics of the starting situation and, in particular, the traits that now determine the demand for western imports and the functioning of the import procurement system. Sections One and Two of the paper are devoted to these problems.

1. Characteristics of demand for Western imports

Although in Hungary on January 1st 1968, and ever since that time, numerous organizational changes and amendments of regulations have served the increasing of enterprise autonomy, profit incentive and cost-sensitivity, demand for Western imports has, let us adapt the statements of *Kornai* [4], proven to be almost unlimited, almost insatiable, something whose magnitude is hardly, if at all, affected by import prices, exchange rates, customs duties and other costs.

The reasons could be analysed at length, however, only two groups of causes will be indicated here. First: the general overheated state of the economy (even if its influence is temporarily not so apparent in periods of macroeconomic restrictions), its resource-constrained nature, the high ratio of secure delivery and supply tasks determining enterprise activities and qualified by national economic considerations. The second cause is not quite independent of the aforesaid, namely, that the characteristics of Western import products (quality, dependability, terms of delivery, accompanying services) are usually far more favourable than the characteristics of products available in the domestic and the socialist markets, and the user companies can sooner or later, compensate for price differences, if any.

Beside other factors it is the enterprise insensitiveness to costs, related to the institutional system, that necessitate the strict central regulation of Western imports. The regulation of the volume of imports would undoubtedly play a smaller role if the country were not indebted and could "afford" the same value of imports as exports: if a more realistic exchange rate rendered imports more expensive and exports more profitable, if enterprises were, as a rule, more powerfully encouraged to export for convertible currency, and if the conditions of enhancing the export activity were better. However, even all the above together could not bring the total import demand of enterprises and the volume of imports and defined by balance-of-payments considerations to the same level.

Many recent changes in Hungary have increased the role of the import purchase price for enterprises: the disposable forint amount available to enterprises was limited through general macroeconomic restrictions. Through devaluations the import purchase prices—that had become relatively cheaper owing to a higher domestic rate of inflation than the external one—were increased, even if only temporarily. At the same time, procurement costs were also increased by the duty on imported spare parts that was in force for two years.

As a consequence of the rigorous import restriction procedures of 1982–84, the characteristics of import purchases also deteriorated: the purchasing time was prolonged, the accomplishment of the purchase became uncertain, and imports became more expensive because of the longer engagement of the sum allocated for purchase.

The companies using imports in addition to the effect of import restrictions reduced their import demand under the impact of rising prices, diminishing income

and deteriorating characteristics of import purchases, and sought for other sources to satisfy many of their previous import requirements. However, this change must not be overestimated. The enterprises know only too well that it was not the original parameters of imports that changed, but these parameters deteriorated as a result of mediation (licensing, the activity of foreign trade companies and those trading in the means of production, the activity of the National Bank of Hungary). If imports became liberalized, the user enterprises will certainly take this into account and their demands will also increase because in the years of restriction they renounced the satisfaction of numerous import needs which they would have maintained despite the worse characteristics—if they could have done so. Such demands of enterprises might have accumulated during the past years or might have become more intensive after bad experiences with the alternative sources of purchase.

A precise estimation of the impacts on the demand for imports of changing purchase prices and of the restriction of disposable enterprise incomes is difficult. At any rate it is probable that the characteristic feature of import demand has not been fundamentally modified by the changes in recent years.

2. Characteristic features of the Hungarian system of import regulation

The history and present-day practice of the advanced and developing market economies have demonstrated an extremely broad scale and many methods of quantitative import restriction. It will not be entirely without interest to outline the class of the various methods where the Hungarian practice of control belongs to. This survey will be useful because it can show what advantages (disadvantages) the different subjects were given, under the control system applied in Hungary, how the position of different groups of enterprises and spheres of use would change in the case of a possible partial liberalization, and it can identify the methods and their timing that can result in an effective liberalization.

Since 1968 the regulation of the volume of imports has been carried out in Hungary basically not through declared quotas, nor by negative or positive lists, nor by the formal instruments of licensing. The period between September 1982 and June 1984 is an exception.*

*In the 1970s a practice of import regulation mainly consisting of informal elements was established and many of its characteristics have been preserved till now through various changes. This regulation may be called *regulation based on consensus*.*

* Here and hereinafter our attention will primarily be concentrated on the purchasing of current inputs used in production. The purchases of investment equipment, the import of consumer goods and the imports of public authorities are also cardinal from the point of view of liberalization, but their present system of procurement is profoundly different from the import purchase system of current inputs. These will certainly require a separate investigation in a later, detailed analysis.

Its major characteristic feature is that the foreign trade control authorities informally delegate a good part of the task of import regulation to the foreign trade firms and the companies trading in the means of production. These trading companies, enjoying a monopoly position, have a fairly good insight into the import use of their respective fields and, owing to their position, they are more or less capable of assessing the import requirements and of influencing the importing behaviour of the user industrial enterprises which place the orders. Beside the task of import restriction, however, they also are informally responsible for the smooth supply of materials and parts in their respective fields. The user enterprises and the monopolist trading companies carry on a nonstop bargaining for imported materials and parts. These arguments did not turn into a struggle because the industrial enterprises are interested in maintaining cordial relations with the monopolist trading companies and, therefore, they show considerable self-restraint in forming their import requirements.

Lately, however, also government bodies that coordinate interests of different ministries have attained a significant role in the regulation of imports.

Both before and after the year of the strictest import restrictions, i.e. 1982, the Hungarian system of import regulation depended mainly on the concept of use in the base period: the distribution of imports among companies was strongly determined by the past uses of these user companies. Each year the major part of western imports has been allocated according to the base concept. The distribution of imports above this level has been influenced by different factors: the bargaining power of the user companies, the actual strains justifying the need to use import, the declared national economic priorities, the personal relations between experts of the user enterprise and the competent trading companies etc.*

The "base-related system", along with its numerous advantages, has also had the negative consequence of making the structure of import use rigid. Whenever a company has wanted to change the pattern or volume of the purchased inputs, it has had very little chance of an abrupt and instant change in its import purchases. Moreover, even slow and step-by-step changes have necessitated the collecting of convincing reasons, attachment to actual priorities, and mobilizing of influential supporters. If a company wished to purchase more imported materials and parts only in pursuance of good business it would not have been given the opportunity to do so.

Allocation above the "base" is done with a view to actual priorities which, however, are often not defined satisfactorily and are running wild. But even in cases of a consistent enforcement of a priority, like enhancing the efficient exports to the West, no such system has developed which would be suitable for serving that objective in indirect ways, i.e. by "supporting" suppliers, sub-contractors as well as the infrastructure of exports etc.

The "base-related system" and the prohibition of buying and selling import licences after their original allocation necessarily also stiffened the use of imports from another aspect. Those user companies which, for one reason or another, (say, because they found a more or less convenient substitute) were no longer in need of Western

* For a detailed presentation of the above see previous papers of the author. [5, 6].

imports were very reluctant to waive the buying of the given input from the West because the opportunity of import was considered an "established right" in the "base-related system" which would have been a blunder to give up, keeping the future of the enterprise in mind.

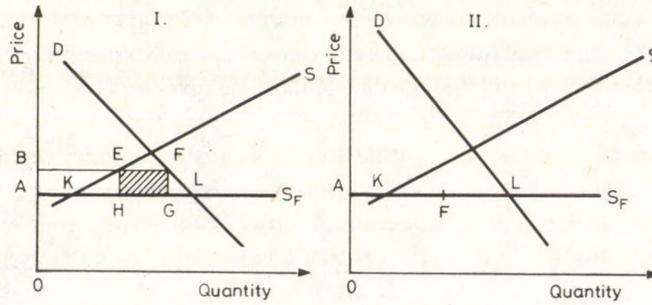
In a market economy and with a free price system import regulation through quantitative restrictions can offer definite advantages to the business units which have access to import licenses. The allocation of import of a quality that can not, or only partly, be substituted offers a special (exclusive) opportunity to the user to process the input further on, and to make an easily marketable, probably highly profitable product or to resell the imported good as a sole supplier, consequently at high profit. If the import is relatively easy to substitute but domestic demand is not covered by the combined supply of import and domestic production, then this excess demand will again guarantee substantial returns to the holders of the licenses.

It is a special feature of the interrelations between the Hungarian quantitative regulation and the price system that the chance for exclusive production or sale as well as the conditions of excess demand are not directly reflected in the price formation of the imported and the substituting domestic products. Consequently, the advantages originating from the licence are not directly manifested in the form of additional profit or rent to the enterprises holding the import licence. The attached figure illustrates the differences between the systems allowing or excluding the rent to show up.

Thus, in the Hungarian system prices do not rise under the impact of excess demand or do only occasionally so and thus there is nothing to restrict demand for the given commodity, nor is there anything to enhance the profitability of production for the substitution of imports and, as a consequence, equilibrium does not develop with the import restriction.* We cannot state that the holders of licences enjoy no advantage here, we can only say that this advantage is disproportionate to the domestic scarcity of the imported commodity and that in most cases it is not directly embodied in the rent originating from price differences. The advantages originating from the licence are realized by their holders indirectly: mainly through the easy selling of the import product or of the product turned out with its aid, or by selling the products manufactured by using the import at relatively good prices.

The shortage is thus sustained in the Hungarian system of quantitative regulation of imports. This excess demand guarantees the monopoly position of the importers of both unsubstitutable and substitutable products, and in the course of sales helps them maintain a dictating position which they can exploit not primarily for gaining profit. The advantages originating from the licences can only indirectly be asserted and enjoyed by the holders, and these advantages do not correspond in form and degree to the rents formed in the market system. As the domestic scarcity of imported goods is not shown by the domestic prices, neither the manufacturers of

* See Oblath's paper [7].



*Systems with or without rent, accruing on
import licences*

Notations:

I. The case of a developing country, applying quantitative restrictions (market economy)

D and S are curves of domestic demand for and supply of the given product. S_F is the curve of foreign supply. In the case of import of volume KL, the domestic supply AK and the import KL would meet the domestic demand determined by the international price level. The government, however, does not allow imports but of volume EF which it allocates to the holders of licences. Under the mutual impacts of supply and demand and price, the domestic price increases to BO, domestic supply will be BE, and those getting the licences for the EF amount of import gain a rent of a volume EHFG (of the rate BA/AO expressed in terms of import price. (On the basis of the figure 2.1 by Bhagwati [8]).

II. The case showing some features of the Hungarian regulation.

(Quantitative regulation and domestic price formation corresponding to the concept of import price ceiling.)

Here, too, the government only allows an EF amount of import (here: KF), but in the case of a difference between demand and supply there is normally no way to increase prices, the price remains on the level AO and a shortage of the volume FL develops. Holders of import licences do not gain a rent, demand does not diminish, and import substituting supply does not grow.

Remark:

— The figure is extremely abstract, it is only valid in the case of a partial equilibrium (the market of a single product), assuming perfect competition (freedom of monopolies). Scheme II does not show the almost insatiable demand for import.

— Part of the rent from import licences may be drawn away by the state through appropriate customs duties or taxation, moreover, customs duties of appropriate amounts may, in principle, take over the role of quantitative restriction and may entail identical real effects.

domestic substitutive products are given such incentives for the expansion of their activities that would be proportionate to the scarcity of goods. It may be assumed that in many cases these manufacturers are forced to expand their activities also in lack of proper incentive, under central influence, for the purpose of diminishing the shortage.

Beside the special features of the Hungarian regulation of the import volume it will be convenient to indicate also the disadvantages, necessarily entailed by any kind of system of quantitative restrictions. The quantitative restriction of imports develops

a price structure with which the enterprise incomes are by necessity formed irrespective of efficiency, and the encouragement of exports is pushed to the background by import substitution. In lack of import competition (or with an import competition rigorously determined by the authorities) the extent of economic competition is limited and the scarce resources (capital, labour, foreign currency) are allocated inefficiently from the point of view of national welfare. The rigidities of the commodity pattern of imports and the specific price structure prevent the local enterprises from quickly responding to world market changes.

3. The expectable favourable and unfavourable effects of import liberalization

There exists a simplified, textbook description of the liberal system of import regulation, and there is an image of it emerging from the daily routine of the functioning of world economy. These two images are strongly different from one another. According to its traditions, structure, employment policy, and its actual bilateral and multilateral commitments, almost every country applies restrictive measures in the regulation of imports. The pure liberal model is departed from not only by states facing balance of payments problems or those being at the beginning of economic development and having to protect their entire economy. Economies as advanced, integrated and diversified as the United States of America also deviate from the liberal principle when so required by protection against dumping, maintaining of traditional key industries or the temporary protection of infant industries.

When we study the possibility of gradual import liberalization we mean the step-by-step introduction of a liberalized system similar to actually existing ones, i.e., one where the basically liberal importing opportunities are complemented by temporarily applied restrictions corresponding to the country's conditions and main economic policy line.

It is extremely difficult to estimate the consequences of a future step-by-step import liberalization. The disadvantageous features of the Hungarian system of quantitative restrictions have been shown above and it seems to be logical that the lifting of these limitations would lead to the disappearance of just these disadvantages and only these ones, along with a few awkward by-effects. In fact, the formula is not as simple as that because the predictable effects of import liberalization are determined not only by the way of import regulation but also by a number of other factors. These factors are the following: the degree of monopolization of the domestic market, the chances of regrouping resources, the system of domestic price formation, the incentives that promote the boosting of exports, the cost sensitivity of enterprises, the probabilities of enterprise bankruptcy and the degree of state sponsorship, the degree and nature of restrictions of production and shipment, the institutional system and

regulations of trade with the socialist economies, the international relations, cooperations, the possibility of the flow of capital and labour mobility, etc.

In the following we review the positive and negative implications which might be entailed in the short and long run by a step-by-step import liberalization setting out from the present economic circumstances. This brief survey does not claim completeness. The advantageous, resp., disadvantageous consequences to be listed here would occur under certain conditions that are often different from one another. It follows that the advantages cannot be summed up mechanically, because in the case of some given economic condition the development of an advantageous consequence would at the same time mean that some other disadvantage would not assert itself (or vice versa).

*The presumable impacts of gradual import liberalization
in the short run*

Advantageous consequences

— Those enterprises which have not had access till now to inputs of higher technical standards and of better terms of purchase and have faced problems of cooperation on the domestic market could get them now. As a consequence, they could change the pattern of their sales, they could perhaps increase their production, and new opportunities of exports for convertible currency would be opened to them.

— In the case of products where Western goods are considerably cheaper than those identical from other points of view which were purchased earlier, expensive domestic or socialist commodities would soon be replaced by the western import freed from restrictions. This would result in price decrease and improve the competitiveness of Hungarian exporters who use cheaper inputs.

Disadvantageous consequences

— The conditional used above implies that the liberalized import inputs could contribute not only to the development of western exports but also to the increase of domestic sales and of those to socialist countries (a less desired economic policy goal in the liberalization of western imports). At the same time, owing to relatively unlimited import demand, even the cheaper domestic products may be displaced by the more expensive western import and this may result in a rising price level.

— Economic difficulties may emerge with manufactures whose products turn out to be unsaleable as a consequence of relatively high price and poorer characteristics compared to the Western imports. The alleviation of these tensions as well as the problems due to the same reasons of contracts signed with socialist partners, may already become pressing in the short run.

*The presumable impacts of gradual import liberalization
in the long run*

Advantageous consequences

— Those manufacturers which could earlier come into monopoly positions in the domestic market—in lack of any competitor—may lose their dominance under import competition and may be forced to change their enterprise behaviour. It will similarly lead to a weakening of monopoly positions if the chances of access to imports get levelled following import liberalization.

— The incentive of producing companies will increase for technical development, cost reduction, reduction of profit gained from previous monopoly position, adjustment to buyers' demands and development of producers' and commercial services.

— The terms of increasing exports for convertible currency will improve (owing to better input supply and internal competition).

— It will become possible to meet previously unprofitable domestic supply obligations (and perhaps shipments to socialist countries) by means of cheaper imports. The capacities, to be relieved in this way may be shifted to more profitable production, perhaps for the purpose of western exports (in the case of greater freedom of changing product lines).

— There will be greater chances for enterprise incomes to be formed according to enterprise efficiency.

— Monopoly positions will be expectably suppressed, a production pattern better taking into account the scarcity of resources and the comparative advantages of the economy will lead through diminishing of inputs to a lower and more realistic price level actually limited by the import prices.

— Import regulation will be simplified.

Disadvantageous consequences

— Without effective protectionistic measures strategic and infant industries may become bankrupt or eliminated under the influence of imports, and so may branches which enjoy protection all over the world (meaning here internationally acknowledged measures for the protection of industry).

— Domestic enterprises forced to competition by imports could only adapt themselves to the competitive situation very slowly or not at all because of the prevailing limitations (expectations towards sales, barriers to capital flows and to access to capital, restrictions on the management of stocks, rigid wage and price regulations). In the absence of flexible adaptation to the new circumstances the rate of bankruptcies (and the number of central emergency actions thus necessitated) would be very high.

4. Problems to be solved along with import liberalization

It has been shown above that several other problems must be resolved, or at least deliberate steps must be taken towards that end, in order to guarantee that the advantages of a partial import liberalization for the national economy should overrule the possible negative implications. These problems are the following:

- restriction of demand for import;
- introducing a differentiated protectionism;
- providing opportunity for the rearrangement of resource;
- lifting the restrictions sales;
- appropriate formation of the domestic price level and the prices.

The said subjects will be reviewed in more detail hereunder.

Restriction demand for import

Import liberalization, unless accompanied by measures towards the curbing of import demand, leads to a substantial increase of imports. Developing countries that decide to liberalize imports often finance this increase through additional foreign credits raised for the above purpose. In the present situation Hungary hardly has the opportunity to do the same and, therefore, the task of curbing the demand for import becomes even more emphatical. In the economies of developing countries, i.e., where the import decisions of enterprises and entrepreneurs are influenced by the cost of the goods to be purchased more sensitively than in the case of the Hungarian enterprises, the most usual way of reducing import demand is to make imports more costly, either by devaluation of the local currency or levying additional customs duties and other charges. Restricting aggregate demand through restrictive economic policy has also been frequently applied as a method to curb the demand for imports.

Before studying the said instruments of restricting the demand a digression is necessary to mention the most striking difference between enterprises of developing countries and the Hungarian ones from the point of view of import purchases. This difference is the already quoted, nearly unlimited import demand of the Hungarian enterprises. The symptom itself is very intricate and it will probably take a long time to eliminate it. Any change aimed at encouraging the companies to make autonomous decisions on production and business management, at their getting the necessary resources free from administrative restrictions, at applying market prices influenced by demand and supply, at allowing them to realize most of the results of their business by themselves as well as to bear the consequences of their losses themselves—all such changes would bring nearer the situation where the price will also be an important consideration when making decisions on purchasing.

It was noted earlier that, owing to other factors and the general restriction, the pressure on demand for western imports was somewhat alleviated in Hungary in the past years. At the same time it could also be seen how import demands increased in

1985 under the influence of the declared central intentions related to "acceleration". It would need a thorough study of the correlations between restriction and import demand in the Hungarian economy to be able to prognosticate the behaviour of import demand more safely in a more liberal system of import regulations. In lack of a deeper analysis it can only be presumed that a restrictive economic policy alone would not be sufficient to prevent an as steep surge of import purchases following import liberalization of a given partial area as to totally squeeze out the competing domestic and socialist products.*

If that degree of import increase is not tolerable, then, along with the said raising of the cost sensitivity of enterprises, also western imports should be made more expensive, at least in those fields where imported commodities will be available in a more liberalized manner. As already mentioned, it is a special characteristic of the Hungarian import regulation system that, owing to the rigidity of the domestic price system, the domestic market prices of products imported in limited quantities do not rise to a level where demand and supply would be in equilibrium. It follows that there weighs a double pressure of demand on imports, not only because demand for a commodity is higher when the price is kept low, but also because this low price is not a sufficient incentive for the domestic industry to substitute for the import.

Therefore, more expensive imports would serve two purposes: the curbing of import demand and the encouraging of domestic production for import substitution.

Devaluation of the domestic currency is the simplest way to make imports more expensive, although this affects various other economic interrelations as well. Its application might be considered in every stage of a step-by-step import liberalization. Another possible way is to increase the purchase price of liberalized import items by levying special customs duties or charges, at least temporarily. The introducing of new customs duties would obviously come up to trade policy obstacles. The applying of various charges (say, by means of "funds" set up with foreign trade companies or wholesale companies for means of production) would be less difficult. It would, however, imply the risk of turning the system chaotic very soon, and the "fund" system could also be used for other purposes, which it was originally not supposed to serve.

For a commodity group of not insignificant volume, a way of temporary import limitation offers itself quite obviously. In a rather broad range of commodities the price of the western commodity computed at the actual rate of exchange and increased by customs duty and other commercial costs is much less than the domestic purchase price of commodities of domestic or socialist origin. Should the initial partial liberalization cover such products as well it is imaginable to centrally prescribe the adjustment of the domestic price of imported goods to the higher domestic price, at

* In the course of import liberalization carried out in a broader sphere it would already be felt that, following the drawing away of purchasing power through import, total import demand would diminish. Namely, the aggregate of the high individual import demands of each company would be impossible to realize, because the purchasing power drawn away from the domestic market products and, consequently, also the income of enterprises turning out those products and, finally, also the total amount of money available for the purpose of import purchases. See Riecke's article [9].

least for a certain period of time, and thus to control import demand. The premium that would arise as a consequence of this price deflection would be collected by the state budget. This solution would clearly imply that, at least for a while, the domestic manufacturers of these respective commodities would not have to face a real price competition. Only for a while, because the price authority could state in advance the duration of the central price deflection and it could also declare the timetable of removing the price deflection beforehand. Domestic manufacturers would thus have enough time to prepare for the changes to be caused by the price deflection forecast for the future. In the meantime, provided that they want to keep their domestic markets, they would be encouraged to compete with western suppliers in terms of delivery and supply services.

Considering that the domestic purchasing market is very complex, any change, even if not quite general, as is also the one recommended above, may have quite different implications in the different partial areas. Thus, for example when liberalization is carried out—along with the assertion of the domestic price—in a field where absolute shortage used to prevail, then the impacts of liberalization will not be diminished by the artificially high price and, therefore, a substantial import surplus might develop. On the other hand in areas where part of the domestic demands was earlier met from cheaper imports, together with more expensive domestic supply and imports from socialist economies, the adjustment of the import price to the domestic price along with liberalization might produce an increasing price level beside restricting demand.

Another point to consider is the following: though making cheap import items temporarily expensive may entail the advantage of helping to curb import demand, it will naturally extinguish the short-term benefit of liberalization that through cheaper import inputs the Hungarian exporters could improve competitiveness in external markets.

With products where the cost price of western imports is higher than the price of commodities manufactured at home or of socialist origin, this price difference is, in principle, enough to result in a more contained import demand. When, however, the higher price does not deter users from making the fullest possible use of the greater freedom of importing offered by liberalization, then not only the import volume will increase but so will the predictable price level of the given commodity group, too.

Assuming all other conditions to remain unchanged, in a market economy the growing share of import purchases has inflationary effects through reducing the purchasing power spent in the domestic market. It is uncertain how far this relationship will assert itself in the Hungarian economy, how far the supply by domestic manufacturers will adapt to the changing total demand. It is also doubtful how far the state is able to abstain from helping enterprises that fare badly and drop out in the process of adjustment, helping them through monetary or fiscal or other ways (budgetary allocations, credit facilities, state orders, permission of socialist export, etc.). Here we come back to the host of problems treated in this part. The

institutional and economic policy changes that contribute to increasing enterprise cost sensitivity are necessary not only for controlling import demand but also for the unfolding of the said deflationary impacts of import liberalization.

Introducing a differentiated protectionism

Import liberalization and thus the introducing of import competition require that the economic central management formulate its concept of differentiated protectionism. This must specify the sectors and activities which the government intends to defend in a protectionist way in the long run (such as a considerable part of agriculture and food production). In the course of drawing up the concept the developing sectors the administration wishes to give special preference must be stated, and the duration, degree and way of their protection must be defined. At the same time it must be stated as an objective that the administration will, if it finds necessary, assist crisis-sectors in their rehabilitation also throughout protectionist measures (naturally, it may set conditions in return, like modernization and/or partial reduction of capacities). [10]

We will later revert to more sophisticated elements of the concept of industrial protectionism, related to the place and stages of partial import liberalization.

When the restriction of the import volume ceases at a place, then the importance of tariffs and duties will increase in the protection of industry. For this reason any future enforcement of prices different from the import price and the introduction of additional import duties (as recommended above for the purpose of curbing the demand for import) must also be concerted, among others, with the principles of industrial protection.

Providing opportunity for the rearrangement of resources

A partial import liberalization will already lead to a partial import competition in which the domestic manufacturers must certainly be given the chance to stand fast. The present conditions of access to and reallocation of capital, wage payment, material and parts purchases, inventory management, purchasing of licences, etc. are not suitable for that purpose in a longer run.

Typically, the efforts of domestic manufacturers challenged to compete by already liberalized imports would be strongly handicapped by the rigid "base-related system" of the not yet liberalized import purchases, because these enterprises would not be able to purchase from a convenient source a good many of the inputs and machines regularly used. The right solution to this problem is not the simple simultaneous liberalization of entire vertical production sectors since in this case decision on the liberalization of the processed commodity would automatically expose all the lower domestic phases to import competition for which they may not be ready as yet. Instead, the liberalization of different phases of production should be timed and concerted—as far as it is possible—on the basis of studying the structures of use and

supply so as to somewhat diminish the tensions produced by necessity at the junctions of liberalized and non-liberalized spheres.

It should also be considered if it could not be made possible, in principle, for every enterprise simultaneously with the first steps of liberalization, to have more flexible, less bureaucratic access through horizontal relations to a certain part of the total imports. The experiences with the cession of "reference" import funds* between enterprises in the years 1983-84 should be studied and, on that basis, perhaps each enterprise should be allowed to cede a definite part of the import which it is "entitled" to in the current system of import allocation to another party or to sell it at a price it can achieve.

Lifting the restrictions on sales

Standing fast in the import competition requires a larger scope of movement not only in the access to resources, in their combination, but also in the sales of products and services.

The enterprises facing growing import competition should be allowed to refuse tasks of domestic supply or socialist shipments when they are convinced of their poor efficiency and obstructive nature from the point of view of the enterprise product policy and market strategy. The abandoning of these tasks could be facilitated by import liberalization itself. There are numerous mass products in the light industry and in other branches that cannot be efficiently manufactured along the total vertical line of production. Here the survival of complete domestic supply and big volumes of socialist exports are only rooted in petrified traditions (and to a fairly big extent in the quantitative limitation of western imports) and not in any efficiency considerations on the enterprise level. Companies turning out such products ought to be given the opportunity, by also using import liberalization, to get rid of their rigid limits, and to decide, also bearing in mind phase-efficiency, which are the products, parts, or operations, that are not worth the investment of further resources, but demand for them should be satisfied rather from imports, foreign work or by organizing cooperations in production. [11, 12.]

The appropriate formation of the domestic price level and the prices

The price problems emerging in connection with import liberalization were repeatedly referred to above. It is presumable in the long run that a relatively lower price level and more realistic prices will develop in the domestic market as well as between local and world market prices following import liberalization. At the same

* In the years 1983-84 the amount of future Western imports of each company and cooperative using sizable volume of imports was fixed in relation to their respective imports in 1981. This ratio has been referred to as the "reference percentage". Within the limit calculated by this ratio imports were at the free disposal of the companies provided the time breakdown communicated by the centre was adhered to. In these years bargaining for more imports was replaced by bargaining of the companies for imports above the "reference" limit and obtaining some reference funds from other companies.

time, in the short run liberalization might entail a rising price level, because it would be associated with a gradual removal of the artificial barriers now characteristic of the system of price formation. It has been shown that higher cost prices would better serve the curbing of import demand in the initial period. However, it should be also taken into consideration that, in principle, the high import price level and the unnecessarily high effective exchange rate concerning imports may discourage enterprise efforts at western exports through the too powerful encouraging of import substitution (and this might endanger the proper development of the balance of payments, an ultimate aim and a condition of continuing import liberalization). It seems that there is no way in which the system of prices could proceed towards so many kinds of objectives. To tell anything about that for sure needs profound analysis and a compromising system also comprising the possibility of further development can only then be formulated. This analysis will by all means have to cover the actual present relations between import price and domestic price, the possibilities of monetary and fiscal policy to regulate demand, the effective and internationally accepted methods of export stimulation and, last but not least, the devising of a price system on less artificial grounds than the present one.

5. Step-by-step liberalization and a long-term concept

It was inferred earlier concerning the course in time of import liberalization that first it would be a partial then a gradually accomplished import liberalization that could assure the assertion of the short as well as long range advantages deriving from liberalization. That is, liberalization is not a single act. It must start a process which, going on in time, allows an ever broader sphere of the economy to import freely, only influenced by the economic environment and by enterprise decisions. A corresponding long-term concept of import liberalization must be drawn up, and the first steps of partial import liberalization must already be fitted in that.

This long-term concept must by all means contain the contemplated changes through which the economic leadership hopes to help solving the problems reviewed in the previous part, problems that profoundly affect the success of liberalization. That is, import liberalization will not be an internal affair of foreign trade policy: the financial authorities, price policy and industrial policy must also take their part in outlining the concept. The success of import liberalization also necessitates that the comprehensive long-term program be passed on the highest level of decision making and widely declared.

An especially important role would be cast to the industrial policy in the elaboration of the stages and timing of liberalization. It is absolutely necessary for the selection of some fields to be gradually liberalized that the Hungarian industrial control agencies should have a realistic idea about the efficiency of the current production of main commodity groups and products, as well as of their international

competitiveness and future chances. We must not have any illusion about how complete and dependable this assessment will be, because the objectivity of such an assessment is confined by basic limits to appreciation and cognition, in addition to the necessary appearance of various partial interests. Such a competitiveness scale is nevertheless necessary in the course of liberalization to prevent the involving of such products and activities in the competition that are bound to fail in the beginning but could run successfully after a few years of protection and stimulation. At the same time, in lack of an order of competitiveness, it might easily happen that lasting careful protection would be given to products and activities which no effort could qualify for import competition even in the distant future.

Considering the limited validity of the industrial policy ideas and assessments it also seems to be an adequate way to let the first steps of liberalization mainly aim at the extremities, the clear cases. Imports should be liberalized in the case of those, strategically unimportant products which were manufactured for a long time at especially high costs and in extremely inefficient ways. The industrial policy would thereby give a hand to the narrowing of the unnecessarily broad range of products manufactured by industrial enterprises, i.e. to the dropping of products and phases of production they have had to maintain owing to the inertia of their role as supplier. On the other hand the state could deliberately assist the development and strengthening of the new production lines replacing the old ones with its protectionistic measures.

The other extremity from the point of view of efficiency and competitiveness is represented by the narrow group of actually competitive products. In this sphere, too, import could be liberalized already in the initial stage. Although in the case of some products this would not result in any change in the domestic market, yet in the case of other products the assortment of domestic supply would be increased, and the attention of otherwise efficient domestic enterprises would be drawn to the business policy aspects of specialization, and of the development of a complete range of product family.

The concept of liberalization of imports for convertible currency will surely cast an important role to preparing for competition the areas selected for liberalization well in advance, if it is reasonable.* We mean here first that the authorities should indicate in advance in which part of the economy they would liberalize imports, so that the domestic enterprises, preparing for competition and struggle, should not be deprived of the opportunity of gathering ammunition. It may well happen that promising the liberalization of imports at a future date will not be of sufficient warning power for enterprises. It should therefore also be considered whether it was not a still more emphatical cautioning if liberalization were carried out in the given fields in stages with regard to quantity and/or price (letting in more products from one period to another, at prices nearer and nearer to the world market price).

* Deák [13] outlines a detailed program of import liberalization. Only a few elements are adopted here.

For bracing their strength for the import competition, enterprises will most probably ask for direct and indirect central support. When the control authorities will be deciding on the degree of that help they will also have to take into account how the help thus given compares to the advantages provided for export promotion. This relationship is important, since assisting the preparation for import competition is still closer to the subventioning of import substitution than of export promotion, because the commodity that will be successful in the import competition will probably be up-to-date and adjusted to the international cost relations, however, it will not necessarily be a successful export item as well.

References

1. Riecke, W.: Árfolyam és áralakulás (Rate of exchange and price trends). *Figyelő*, June 27, 1985.
2. Bhagwati, J. N.: *Anatomy and consequences of exchange control regimes*. Ballinger, Cambridge, Mass. 1978.
3. Krueger, A. O.: *Liberalization attempts and consequences*. Ballinger, Cambridge, Mass. 1978.
4. Kornai, J.: *Economics of shortage*. North-Holland Publishing Co., Amsterdam–New York–Oxford 1980.
5. Gács, J.: *Importkorlátok, hiányjelenségek és a vállalati alkalmazkodás* (Import constraints, shortage phenomena and enterprise adaptation). Konjunktúra- és Piackutató Intézet, Budapest 1980.
6. Gács, J.: *Importszabályozás és vállalati viselkedés* (Import regulation and enterprise conduct). Konjunktúra- és Piackutató Intézet, Budapest 1980.
7. Oblath, G.: *Árrendszer és importverseny* (Price system and import competition). (Manuscript) Konjunktúra- és Piackutató Intézet, Budapest 1985.
8. Bhagwati, J. N.: op.cit.
9. Riecke, W.: op.cit.
10. Lányi, K.: *Az exportösztönzés, az importpolitika és a strukturális alkalmazkodás néhány problémája a mai magyar gazdaságban* (Some problems of export incentive, import policy and structural adjustment in the contemporary Hungarian economy). (Manuscript) Konjunktúra- és Piackutató Intézet, Budapest 1983.
11. Hamar, J.: *A gazdaságtalan termelés importtal való kiváltásának feltételei és lehetőségei a könnyűiparban, mint a gazdaságos termelés feltétele* (The conditions and chances of replacing uneconomical production by imports in the light industry, as a condition of economical production). (Manuscript) Konjunktúra- és Piackutató Intézet, Budapest 1983.
12. Hamar, J.: *Tézisek az új KGST-egyezmény várható hatásairól a magyar textil- és ruházati iparok alkalmazkodóképességére* (Theses on the predictable impacts of the new CMEA agreement on the adaptivity of the Hungarian textile and garment industries). (Manuscript) Konjunktúra- és Piackutató Intézet, Budapest 1984.
13. Deák, J.: *A külgazdasági egyensúly és az export-import szabályozás* (External economic equilibrium and export-import regulation). *Külgazdaság*, 9. 1983.

УСЛОВИЯ, ВОЗМОЖНОСТИ И ОЖИДАЕМЫЕ ПОСЛЕДСТВИЯ ПОСТЕПЕННОЙ ЛИБЕРАЛИЗАЦИИ ИМПОРТА В ВЕНГЕРСКОЙ ЭКОНОМИКЕ

Я. ГАЧ

Боязнь — часто необоснованная — либерализации импорта не может являться причиной того, чтобы венгерская экономика навсегда отказалась от преимуществ, связанных с более свободным доступом к импорту хозяйственных единиц и конкуренцией импортных товаров. В условиях искаженной системы цен нынешней венгерской системы импорта, при почти безграничном спросе на импорт из развитых капиталистических стран, замена импорта не получает достаточного стимула, а жесткие условия доступа к импорту затрудняют приспособление венгерских предприятий к мирохозяйственным изменениям. Следует изучить, при каких условиях возможен успех сначала частичной, а постепенно и полной либерализации импорта из капиталистических стран. Очевидно, что многие особенности нынешней институциональной системы управления экономикой и системы регулирования препятствовали бы развертыванию положительного эффекта либерализации импорта. Поэтому необходимо разработать долгосрочную концепцию либерализации импорта. Эта концепция должна, в частности, указать на то, какие изменения институций и хозяйственного механизма должны параллельно с либерализацией импорта способствовать ограничению спроса на импорт, введению дифференцированного протекционизма, а также соответственного формирования уровня пропорций отечественных цен.

Следует также разработать планы по предоставлению предприятиями большей свободы в перегруппировке своих ресурсов в условиях конкуренции с импортными товарами и снятию с них нынешних ограничений в связи со сбытом. Либерализация импорта, таким образом, требует всеохватывающей концепции, в разработке которой наряду с органами управления внешней торговлей должны, по всей вероятности, участвовать органы финансового управления, разработки ценовой и промышленной политики.

“FOREIGN TRADE CONSTRAINT” AND CYCLICAL DEVELOPMENT

J. SUBA-VARGA

The article examines the theoretical concept that foreign trade may be a constraint on growth. The concept has appeared in the growth theories of both the developing and the socialist countries, and in both cases a connection can be found between the cyclical development of these countries and the concept of such constraint: Cyclical development of Hungarian foreign trade shows that the difficulties in balancing trade which regularly proved to put a ceiling on the expansion of investment activity were only characteristic in the trade with Western countries. The inclination to deficit on this market is an aspect of the chronic shortage economy and of the traditional mechanism of directive planning conforming to the former. According to the experiences of economic history, autarchy and seclusion from the world market did not abolish the “foreign trade constraint”, on the contrary: as a rule, it aggravated the latter.

From as early as the 1950s, periodical fluctuations have been found in Hungarian foreign trade, apparently closely related to the short-term fluctuations in the real processes of the Hungarian national economy. The fact of this foreign trade periodicity rooted in the domestic processes* is well known from the Hungarian literature on investment and stockpiling cycles, as well as from practical experience. In the literature, the idea of an interaction between the cyclicity of domestic real processes and foreign trade has long settled. In this representation, foreign trade processes are automatic consequences of investment demand. The underlying cause of the phenomenon is that operative management reacts on the deterioration of the balance of trade by restricting investment and, when the trade balance improves, it again lets investment activities speed up. In the overheated periods of the investment cycle tensions usually also arise in the foreign trade sphere which, however, soon abate as a result of the general restrictive measures. In the case of Hungary, this outstanding role of foreign trade was first presented by Júlia Zala [2], then Tamás Bauer generalized the Hungarian phenomenon in the concept of the so-called foreign-trade-symmetrical investment cycle, applying it to the socialist economies.** Starting from the empirical

* The interrelations between periodical fluctuations in the domestic and external real processes have so far been represented in the understanding that it is the suction effect of domestic demand that primarily shapes Hungarian foreign trade. Lately, a contrary position has been taken by György Szakolczai who has drawn the conclusion that the periodicity found in the Hungarian national economy is rooted in world market fluctuations which spill over here through exports [1].

** A characteristic feature of the so-called foreign-trade-symmetrical investment cycle is that “the acceleration of the growth of investment spills over to the growth rate of consumption and imports, leading to a deterioration of the balance of trade . . . the rate of accumulation grows at the expense of the ratio of the national income used abroad.” [3]

experience of the "foreign-trade-symmetrical investment cycles", and relying on other research works on cyclicity, Bauer has come to the conclusion that, if the restriction of investment is a regular reaction of central management on foreign trade tensions, it is in fact the foreign trade constraint that asserts itself. Using this concept in the analysis of investment tensions, he operates with a concept belonging to the scope of ideas about long-term growth.*

The "foreign trade constraint" in growth theory

Economists investigating fluctuations in the macrolevel real processes of socialist countries understand by foreign trade constraint Kalecki's growth constraint in his growth theory, modelling the socialist economy. The "foreign trade constraint" as an issue of economic growth is present not only in the socialist growth theory, but in the literature of the underdeveloped countries as well: its most advanced form is the so-called *two-gap model*. Obviously, different growth models are needed to represent the development of different types of economies. These growth models of the socialist and the developing countries also represent the assertion of the foreign trade constraint in different ways. And yet, already at first approximation, it is possible to find a common definition of these concepts of foreign trade constraint formed independently of each other. By foreign trade constraint on growth these theories mean that economic growth is delimited in the long run by the perspectives of foreign trade, since the balance of trade must be kept in equilibrium.

"Foreign trade constraint" in the growth concept of developing countries

The view has spread in the literature discussing the economic growth of underdeveloped countries that, in the said countries, trade presents a specific constraint on growth. This conception was reflected, for example, in the development strategy of the second five-year plan of India, which took into account from the outset that the import needs of the industries producing investment goods would exceed the proceeds of the stagnating export sector. Chenery's programming models are considered as one of the sources that greatly contributed to the spreading of this conception. These models treat the shortage of foreign exchange (for example, in the case of India, Israel, Argentina) as an explicit constraint on growth. The oldest and fundamental source of the conception goes back to the Latin-American, so-called

* Bauer examined the role of the foreign trade constraint in the socialist countries' short-term investment cycles within the framework of the directive planning mechanism.

*structuralist school** of the 1950s; its hypothesis was developed by *Rosenstein-Rodan, Nurkse, Lewis, Prebisch, Singer* and *Myrdal*. The structuralists examine the specific rigidities, lags, and functional disturbances in the economic structure of the underdeveloped countries and explain the behaviour of these economies, and the applied economic policies, with these factors. As for the subject of our examination, one element of this hypothesis is the adverse balance of payments, the interpretation of which is based on a kind of "export pessimism". The relatively low level of exports attainable by the underdeveloped countries (low level in comparison with the desirable growth rate set as a target) is accepted as a fact, which is traced back to the deteriorating terms of trade in the long run.

Attempts have been made in literature to represent this conception, considering foreign trade as an independent constraint on growth,** by means of the traditional analytical methods of the equilibrium growth models. In formalization, the starting-point has been that the conception may be interpreted as a modified version of the Harrod-Domar model. In the traditional approach, the fundamental constraint on growth is saving. With a given capital efficiency, the growth rate depends to some extent on the *saving propensity* of society, i.e. its propensity for withholding consumption. As against this, representatives of the developing countries, starting from their own experience of economic development, argue for another constraint, that on *foreign trade*, asserting that the growth of the saving rate has in many cases failed to accelerate growth in these economies, according to them the growth rate has been basically determined by the availability of foreign exchange. This conception postulating the existence of these two kinds of constraints is known in the growth literature as the *two-gap model*. *Findlay* drew up a simple figure to present the most important statements of the model and the initial assumptions upon which the conception relies. [6] In the following, I shall draw on this description. (See *Figure 1*.)

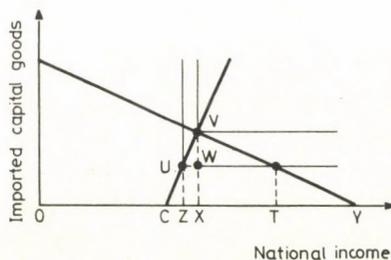


Figure 1

Foreign trade constraint in the two-gap model

* The development of the "structuralist" school is presented in [4]. The world economic crisis of our age is also reflected in theories: the school has revived.

** Listing in their growth model the elements determining the level of growth, *Chenery* and *Bruno* separately treat the group which are relatively unimportant for developed countries, but often represent a fundamental growth constraint for the developing countries. [5]

Investment levels are represented in the Figure, by an L-shaped isoquant curve family with an origin C. The given saving propensity is CY/OY . This determines VX , the quantity of imports needed for growth and XY , exports to counterbalance the former as well as X , the domestic component of investment. So far the figure is an application of the Harrod-Domar model to an open economy, where saving represents the only constraint on growth. However, foreign exchange will become the critical constraint on growth, if it is assumed that the maximum level of available imports is UZ . This condition reduces the potential level of investment from curve V to U . Since the exports belonging to these imports are TY , the section ZT of domestic production will be unnecessary in the sense that it cannot serve growth objectives, either directly (through investment), or indirectly (through exports). The "foreign trade gap" VW (the difference between VX and UZ) is the quantity of foreign exchange the lack of which impedes the rising of the investment level (the potential "saving gap" is ZT).

One of the fundamental conclusions drawn from the *two-gap* model is that the "foreign trade gap" must be filled by foreign aid; on the other hand, the model also provides ground for arguments emphasizing the advantages of import-substituting industrialization. The wider interpretation of the foreign trade constraint conception, i.e. the "trade pessimism" that has taken shape in the developing world has indeed produced this reaction in practice, orienting economic policy towards import substituting industrialization. The correlation is logical: this instrument seems to secure a high growth rate over every time horizon, since in the short run it is exactly investments into the import substituting industries that can maintain fast growth. Later, when investments are put into operation, it will be the import substituting effect of the new capacities that will enable fast growth also in the long run, lifting the foreign trade constraint on growth.

Experience has shown, however, that this reaction has reproduced the foreign trade constraint, at least in one period of the history of the developing countries. Investments into the import substituting industries usually attracted more net imports than what had originally been calculated. Economic policy makers left in most cases out of consideration that the domestic production of previously imported finished products is concomitant with considerable raw material and semi-finished goods. Nor was it considered that such investments would necessitate considerably increased machinery imports, since the domestic engineering industry is not yet sufficiently advanced and is incapable of satisfying such needs [7, 8].

The model has been criticized from several viewpoints, which I shall not set forth here. Obviously, the statements of the model as well as the conclusions to be drawn therefrom can only hold if the initial assumptions reflect reality.*

* The model assumes, for example, that consumption has no import demand. From the aspect of a possible mitigation or elimination of the "foreign trade constraint", it is, however, not indifferent, whether consumption has an import content of an extent to ensure that sufficient sources of foreign exchange be released through increased savings in order to achieve the desired level of investment. It is no less important how flexible the domestic production of export goods is.

The foreign trade constraint in Kalecki's model

In his examination of the constraints impeding acceleration of the growth of national income in an open socialist economy, *Kalecki* concentrated on the conditions to be taken into consideration in planning, when determining the growth rate of the national income. Between 1957 and 1964 Kalecki was president of the Investment Efficiency Committee working beside the Polish Planning Commission. The Committee had to find solution to the basic problem, how the national income could be increased at a certain rate with a minimum investment input, with the constraint that employment could not be further enlarged, while the balance of payments had to be maintained. In his studies, Kalecki tried at the time to have a new approach accepted in planning: the growth rate of production should not be an end in itself.

As for the "foreign trade constraint"*¹, his basic assumptions were as follows: 1. The country does not raise loans from, nor does it grant credit to, other countries. 2. Export products are difficult to place, as foreign demand for the country's products is limited. 3. Within the economy there exist, from the outset, bottlenecks growing into effective constraints at a certain level of the growth rate. Therefore, supply of the commodity market remains below demand, so that more imports are needed and/or exports decrease. 4. The country pursues trade based on the utilization of comparative advantages.**

Kalecki stressed the importance of keeping a "realistic" growth of the national income in view. Although in defining national income he calculated at constant prices with the *domestic* components of trade, in respect of the *foreign trade* components he took into account the changes in the terms of trade. According to him: "...if the volume of the national output remains unchanged, but there is a deterioration in the terms of trade, the national income decreases" [10]. That is to say, Kalecki measures national income by the value of the volume of products usable and realized in the domestic market.

Kalecki describes the assertion of the foreign trade constraint as follows. In the course of economic development import needs are growing. (In Kalecki's model economic development is concomitant with accelerating growth.) As a consequence, in compliance with the requirement of a balanced foreign trade, exports must be increasing, too. However, because of accelerating growth, export products are increasingly difficult to sell. The higher growth rate will therefore necessitate greater efforts at subsidizing exports or restricting imports with reductions in export prices for certain goods in certain markets, and with the inclusion of less profitable items in the

* This is, of course, not the only constraint on growth in this model, either: the government also has to take into account the effect of accelerated growth exerted on consumption.

** This is implied by his statements according to which the changes in the production structure necessary to restore equilibrium of the balance of trade, i.e. changes in the export pattern and import substitution, lead to such additional inputs as will cause, in the end, a deterioration of the terms of trade [9].

list of exportable goods..." "...in the circumstances attained above the outlays necessary to obtain certain commodities will increase—because the imports of these goods will either be paid for by a larger volume of exports, or by exports of a different structure, requiring higher outlays, or because the outlays necessary to produce at home the commodities formerly imported will be higher than those for producing the exports by means of which they were produced.

As a result, efforts to maintain the rate of growth at a higher level will reduce the increment in the national income corresponding to given outlays and this reduction is the greater the higher the level attained." [11] That is to say, efforts at maintaining the equilibrium of foreign trade (forced exports and import substituting investments) increase capital and labour inputs per a unit increment of national income. After some time, it is not worth further increasing the growth rate of the national income since, because of the decreasing export prices, the value of exports expressed in foreign exchange does not increase any more, only their volume does. The forcing of import substitution may lead to similar results. This is how foreign trading difficulties determine the upper limit to the growth rate in this model.

It seems that Kalecki holds this foreign trade constraint to be specifically a problem of the socialist type of economy. He stresses the point that no "general" growth theory can help understand the true nature of the different social systems, there being important differences between the growth problems of the socialist, the capitalist, and of the mixed economies. Speaking about the growth models elaborated in the Western countries, he states that they are not suited for analysing the problems of the socialist system, "...do not frequently concentrate on essential problems rooted in the realities of socialist economies." He also considers the limits to growth as such essential problems: "The contradiction between consumption in the short run and in the long run, and the long-run bottlenecks appearing under the guise of the difficulties in balancing foreign trade, are in fact the central problems of a realistic theory of growth in a socialist economy.* [12]

Being acquainted with economic development in the underdeveloped countries, we can today make the statement that a similar problem—with a similar acuteness—is characteristic of their growth.** Having presented the two models, in the second phase the common features of the "foreign trade constraint" to be considered as valid in both types of economy can be formulated in the following. The foreign trade constraint asserts itself in an economy if growth is impeded in general because the given economy is unable, beyond a certain growth rate, to realize an export revenue sufficient to cover

* A reasoning similar from a certain aspect is found in *Hirschman's* analysis of the nature of balance-of-payment difficulties accompanying the progress of underdeveloped countries [13]. He thinks that this pressure of the balance of payments cannot be eased by means traditionally applied in the developed countries, since it is not a consequence of an overvalued currency, or of inflation. In his opinion, the chronic deficit is a form of appearance of the domestic *imbalances* concomitant with the state of underdevelopment.

** The fact has to be stressed once more that we are discussing growth problems emerging in a long perspective, not to be identified with the economic difficulties these countries are facing because of the present world economic situation, though, of course, they are not entirely independent of the latter, either.

the volume of imports required by that growth level. The essential point of the foreign trade constraint is thus not simply that equilibrium must be maintained, but that it is a problem to maintain it for the given economy, or it can only be achieved if growth is slowed down. The growth restricting effect is rooted in the fact that the acceleration of growth is only possible at the expense of deteriorating terms of trade. This trade pessimism infers exports passivity in the sense that export growth remains in its tendency by all means below the growth of the internal real processes of economy, including the growth of imports.

To assume such lagging character of exports* means to assume that the modelled external and internal conditions elicit an inclination towards deficit in the economy's foreign trade. And, if such inclination exists, it can lead—apart from the fact that the economy may receive foreign credit and aid—through balance-of-payments difficulties to reduced growth and, if the economy remains expansive, to cyclical growth. Obviously, it is not accidental that the conception of foreign trade constraint and the cyclical development of economy have been linked up in descriptive theories in both the socialist and the underdeveloped countries.

The "foreign trade constraint" in the explanations of the periodicity of growth

In the case of underdeveloped countries, this linking up took place on the grounds that the foreign trade constraint conception, and within it the development of the *two-gap* model, were empirically based on the *simultaneous experience* of cyclical growth and chronic foreign exchange shortage [15], [16].**

In the growth dynamics of the socialist countries there have also been periodical fluctuations accompanied by sharpening foreign trade tensions [18, 19, 20]. This general experience, characteristic of several small countries, have caused that Kalecki's notion of foreign trade constraint and the periodicity of economy have also been linked up in the works analysing the socialist economy. In their analysis of the period between 1950 and 1966, *Goldmann* and *Kouba* used Kalecki's model as a starting-point for their explanation of the "fluctuation mechanism of the growth rate" (within it, of foreign trade phenomena). In their discussion they mainly stressed the bottlenecks which grow worse in the raw material conditions of the economy in consequence of accelerated growth. "The high growth rate is also manifest in the increasingly strong effects of the

* From the point of view of the impact of trade on growth, *Kindleberger* [14] distinguishes three types of growth schemes: 1. In the "export-led" model growth receives impetus from abroad, the process is guided by exports; 2. In the "lagging" model growth receives impetus from the home economy, and trade may slow down growth; 3. In the "balancing" model the adjustment of trade keeps pace with the domestic transformation.

** There is also a more direct line through which to connect the constraint conception with the explanation of the developing countries' cyclical growth. In his analysis of the impacts of import substituting industrialization on the foreign exchange situation, *Diaz-Alejandre* provided an explanation of cyclicity connected with this economic policy. [17]

foreign trade constraints on the entire national economy. In the first place, the demand of production for raw materials, basic materials, etc. is growing, while its satisfaction from domestic resources is increasingly difficult, which raises demand for imports. Another import increasing factor is the consumers' higher purchasing power, taking into consideration that income elasticity is rather high in respect of certain imported foodstuffs and other consumer goods. This further decreases the potential imports of raw and other materials." And, referring to Kalecki, the following is added in a footnote: "The demand for export goods is also growing, and therefore, exports are decreasing" [21].

The substance of the question is *why* additional efforts must be made in such a situation to maintain the foreign trade equilibrium. As a consequence of a faster-than-optimum growth, such shortage situations develop within the economy which, without increased resort to foreign trade (expansion of imports and reduction of exports), would finally render such growth impossible. This increases the deficit of the balance of trade. The additional efforts, however, can bring no success, the restoration of equilibrium comes up against insurmountable difficulties in the sense of the foreign trade constraint. Material shortages cannot be eliminated in this way, more exactly, no such volume of raw materials can be acquired through imports as could secure the attainment of the growth targets set. In vain is the plan fulfilled in manufacturing, the value of the additional exports thus realized is not sufficient to cover the additional imports needed for growth. In the external market conditions always develop in a way, at least in the case of the products concerned, that the deficit caused by the volume processes cannot be counterbalanced by prices. Kalecki's argumentation is repeated: ". . . subsequent exports, the same as subsequent imports, are effectuated in the world market on less favourable terms." [22]

In the explanations of cycles, the *mechanism* through which the foreign trade constraint asserts itself is already different from what is modelled by Kalecki.

Kalecki's conception of this constraint may be interpreted as an *ex ante* model insofar as he holds the foreign trade constraint to be such as can be planned in a long perspective.

If planning takes into account the probable difficulties of maintaining equilibrium and therefore envisages a relatively low growth of national income from the outset, it might be said that it deliberately asserts the foreign trade constraint. In that case, of course, growth would be free from recessions, since shortage situations arising from bottlenecks would not become acute, either. From Kalecki's model, therefore, the cyclicity of economic growth does not follow.

The analyses of cyclical fluctuations in the growth of the socialist economy are in controversy on several points. As for our subject, however, the descriptions that include into their analysis the concept of foreign trade constraint agree in that, contrary to Kalecki, they present the *subsequent* assertion of the constraint. According to explanations of cyclicity, the mechanism of the foreign trade constraint asserts itself in a way that economic policy perceives economic tensions and imbalances that

have become acute, and it reacts by braking growth, and usually through *operative* measures and *short-term* plans.

As compared with researchers of similar subjects in other socialist countries, Hungarian researchers of periodicity have paid more attention to the role of foreign trade—and not accidentally. Beside investment, namely, foreign trade was the sphere in Hungary where fluctuations have been the highest, and reactions on tensions in the balance of trade played an outstanding role in the emergence of investment cycles.

Does the fact that reaction on tensions in the balance of trade has played an outstanding role in the course of investment cycles mean that the growth constraining effect of foreign trade has asserted itself?

Accepting the common element of the foreign trade constraint conceptions set forth above (that when talking of growth or growth constraint, it is always interpreted as growth of the *national income*, and constraints on the creation of national income), it is obvious that the knowledge of only the investment and foreign trade processes would not be enough for an answer. The results of a research project in progress (see in the following) indicate that, at least in the case of the CMEA countries, not only the changes in *production* must be taken into consideration when examining this question, but the development of trade with the socialist and with the advanced capitalist countries must be analysed separately. The well-known problem that the contents and mechanism of the socialist economies' foreign trade are basically different, depending on the type of economy with which trade is transacted, cannot be circumvented. The nature of the foreign trade constraint is different in the case of trade with the developed countries.

Periodical fluctuations of foreign trade turnover in Hungary

(A few results of a breakdown by markets)*

There was a period in the history of Hungarian economy in respect of which it seems justified to describe the endogenous periodical fluctuations found in foreign trade by starting from the tendencies of total turnover. This was the period from the mid-1960s to the mid-1970s. In those years, in both the socialist and the Western trade of Hungary, the upswing of investment activity entailed a slowing down of exports and acceleration of imports; its halt and decline entailed an acceleration of exports and a slowing down of imports.

Extending, however, our investigations so as to cover also an earlier period of economic history, and analysing exports and imports in a breakdown by markets, we can arrive at new conclusions as to the role of foreign trade played in the short-term fluctuations of the macroprocesses of Hungarian economy. In the period under

* The study [23] serving as a basis for this part of the present article analysed Hungary's trade with the socialist and the developed capitalist markets between 1950 and 1975 in a breakdown by groups of products.

examination, the fast increasing investment volumes did not cause, as a rule, such tension in the balance of trade with socialist countries, as would have made it necessary to intervene into foreign trading processes, to restrict imports or/and to force exports. The situation was different in the trade accounted in convertible currencies, in which the turning of the balance cycle (the deterioration process turning into improvement) was, as a rule, to be attributed to the central management's effort at improvement, always a reaction to tensions [23]. This difference does not mean, however, that the investment cycle did not affect the trade accounted in roubles. What is more, from a certain point of view the investment cycle was even more closely related to Hungarian trade with the socialist countries than to that with the Western countries.

Relationship between the investment cycle and trade with the socialist countries

It was characteristic of the 1960s and 1970s that the acceleration (deceleration) of investment volumes usually entailed an acceleration (deceleration) of imports from the socialist countries. A close correlation, of the opposite sign, is found between the corresponding elements of the time series of investment volumes and socialist exports. Obviously, in the years when changes brought about by investment expansion in the whole economy rather strongly affected socialist exports and imports, a clear change was bound to take place in the balance: in such years, the upswing of the balance, and their halt was followed by an improvement.* (See *Figure 2*.)

Thus the investment cycle gave rise to a kind of cyclicity also in the socialist trade. Between 1961 and 1978 five "balance cycles" of four years on average ran their

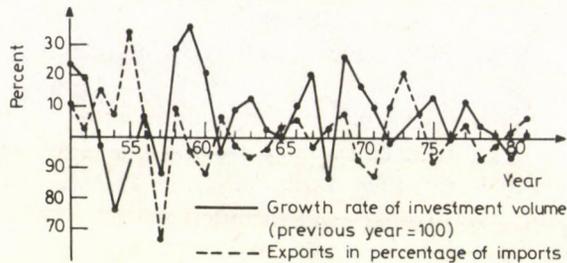


Fig. 2

Investment dynamics and changes in the balance of trade with the socialist countries

* There are specific constraints also in this relation on trade, preventing it from growing fast through two or three years in a way that the growth rates of exports and imports should be different. The physical nature of the socialist trade, and the volume-limiting effect of bilateralism must always be taken into account in the plan. For our subject, these characteristics have the meaning that the growth constraining effect of foreign trade can also assert itself in this field, insofar as here, too, the elimination of shortages created by accelerated growth can come up against difficulties.

course. These cycles showed most clearly in the years from the early 1960s up to the mid-1970s; it was then that the relationship between the investment cycle and foreign trade was least exposed to "disturbing effects".* The dependence of the trade accounted in non-convertible currencies on the current state of the investment cycle proved to be strong in some years, and somewhat less strong in others. In the years when the deterioration of the balance turned into an improvement (1961, 1964, 1968, 1972, 1976, 1980), the increase of the investment volume usually slowed down to a large extent, or even its absolute value decreased. Approaching the question from the aspect of investment cycle, the relationship can be formulated in the following: whenever the increase of the investment volume largely slowed down in comparison with the previous year, the balance of trade with the socialist countries immediately stopped deteriorating. This is to say that the investment cycle did affect also imports from the socialist countries: as investment activities speeded up, efforts were regularly made also to increase, at a higher rate, imports from the socialist countries in order to eliminate (or prevent) the resulting product imbalances. This fluctuation of socialist imports was determined by the changes in imports for production purposes. The always unexpected sudden rise of import material needs did not hit procurement constraints, which enabled a relatively fast and even production increase. (See *Figure 3*.)

The investment cycle largely influenced not only imports, but also exports: the influence proved to be strongest in machinery exports. In the said years of the period up to the mid-1970s (1961, 1964, 1968, 1972), of the groups of products under examination within the socialist trade, it was the increase of machinery exports that

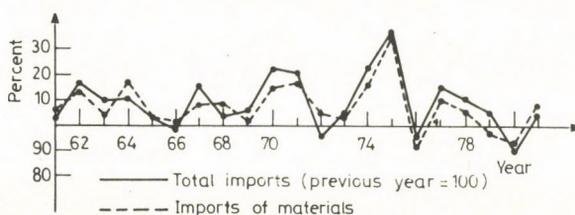


Fig. 3

Growth rate of the value of Hungarian imports from the socialist countries, and within it of materials

* In the given period, these changes in foreign trade allowed a relatively fast and even *production* growth in the economy. However, there were hard *external* conditions of the fast and relatively even production increase, and, formulating it from the aspect of cyclicality, of the development of the above described close relationship, between the investment cycle and trade accounted in non-convertible currencies. No such close relationship could have developed between the spheres of investment and foreign trade, and no such dynamical growth could have taken place, had it not been for a dynamically increasing world trade, both in the East and the West. The relatively high regularity in the fluctuations of Hungary's trade with the socialist countries reflected that ample (material) imports flowed into the Hungarian economy when it was necessary, and the country could place its relative production surpluses, coming about at the time of investment demand, on the socialist markets without difficulty. (András Kőves called my attention to this external factor.)

most frequently showed an accelerating rate. With investment recessions, the domestic use of investment goods fell, and a relative surplus of engineering products was created which "took flight" to the socialist markets. In this case, it was the producer enterprises' interest to increase exports. And when the investment sphere was strongly restricted,—at such times, total consumption was also curbed—,a situation came about in the engineering industry in which the relatively fast and even development of production was endangered from the marketing side. Data make it evident that foreign trade accounted in non-convertible currencies regularly eliminated such tensions. Whereas in the same years an upswing of exports did not automatically follow in the trade with the West. In 1964 and 1968 the growth rate of machinery exports was not rising, it even decreased in absolute terms in comparison with earlier years.

Thus the changes coming about in the short-term development of domestic real processes were enough to accelerate socialist exports. And the slowing down of imports and acceleration of exports concomitant with the curbing of domestic absorption always turned the tendency in the development of the balance: an improvement followed. In fact, the trade with the socialist countries quite automatically followed the changes in the investment cycle when domestic real processes were slowed down and absorption was curbed. The measures brought at the time of such restrictions were enough not only to stop the deterioration of the balance, but also to start a process leading to a surplus. In this market, alternations of surpluses and deficits were characteristic in the balance of trade—as against the Western trade where the balance showed a deficit throughout the period under investigation, with the exception of only one year. (See *Figure 4*.) The situation was different in the trade with Western countries. In this section of the Hungarian foreign trade, the periodicity of the balance—and, closely related to it, of exports and imports—and its correlation with the short-term changes of the domestic real processes showed a few specific features in various respects.

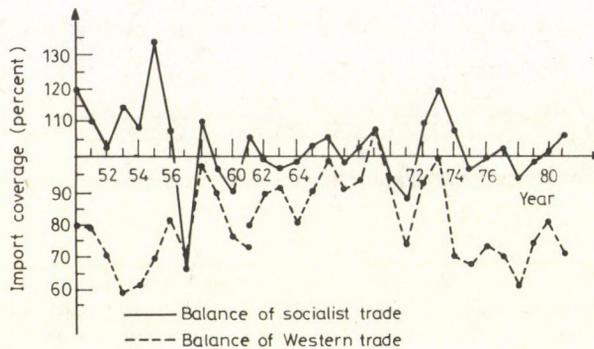


Fig. 4

Export coverage of Hungarian imports from the socialist and from the Western countries
(Exports in percentage of imports)

Specific features of the periodicity of trade accounted in convertible currencies

The periodicity of trade with the West showed specific features from two aspects. On the one hand, such regularities (demonstrable in the trade with socialist countries), were lacking there, which caused periodical fluctuations in the real processes of foreign trade according to the conventional representation.* On the other hand, such regularities causing periodicity came to the surface, which were not found in the trade with socialist countries. The "reproduction of trade cycles" showed different mechanisms in the two different markets. In the Western trade, neither the periodicity of the balance, nor that of exports and imports showed such close correlation with the "corresponding" phases of the investment cycle, as did those of the socialist trade. The short-term changes of the trade accounted in convertible currencies usually followed the development of the investment activity less "automatically". (See *Figure 5*.)

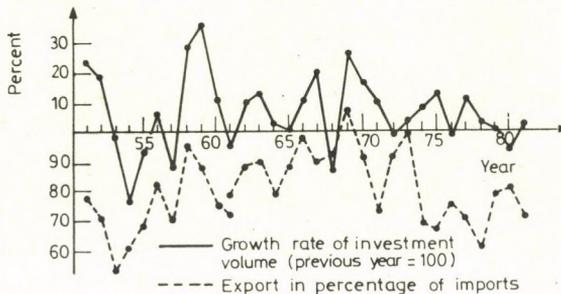


Fig. 5
Changes in investment and in the balance
of Western trade

From this aspect, the behaviour of exports deserves particular attention. Although in the time series of the exports accounted in convertible currencies a highly regular periodicity is found, the two-year acceleration and deceleration periods did not coincide with the halt and recession, or upswing and acceleration phases of the investment cycle. For the period under examination, no such simultaneous correlation could be demonstrated between exports to the West and the volume of investment, as was found between socialist exports and the latter. Whereas in Western trade—as distinct from socialist trade—a correlation was found between the growth rate of exports and the balance position. With a strong simplification, the two phases of the

* In the conventional representation, the mechanism of balance cycles is first based on the simple regularity that the growth rates of exports and imports move in opposite directions: as imports accelerate, exports decelerate, and conversely. The second essential picture drawn of trade periodicity is that it is linked to the investment cycle. Upswing and acceleration of investment activity are concomitant with a deceleration of exports and an acceleration of imports; its halt and recession entail an acceleration of exports and a deceleration of imports.

regularity may be formulated in the following: 1. The growth rate of exports was relatively high in two consecutive years, if previously the balance had shown a strong deterioration, and in these two years the balance was continuously improving. (In *Table 1* this correlation is represented by the arrows pointing towards the export time series.) 2. When exports had reached a relatively high growth rate, the balance was continuously deteriorating in the following two years, while the growth rate of exports slowed down or was fluctuating at a relatively low level.

Table 1

Independence of export growth rate with the balance position in Hungarian foreign trade accounted in convertible currencies

Year	Balance	Exports
1961	(72.4)	102.5
1962	88.9	109.4
1963	91.5	(130.3)
1964	(79.5)	107.7
1965	89.4	113.3
1966	98.9	(118.2)
1967	(90.5)	103.1
1968	92.6	98.8
1969	108.2	(125.6)
1970	92.8	121.6
1971	(73.8)	98.6
1972	92.5	122.9
1973	100.0	(127.5)
1974	69.3	109.8
1975	(67.5)	91.2
1976	76.6	(111.1)
1977	70.1	108.6
1978	(61.4)	104.3

a. Balance; exports in percentage of imports

b. In exports: percentage change over the previous year

Source: Külkereskedelmi Statisztikai Évkönyv 1975, 1977, 1980 (Foreign Trade Statistical Yearbook).

The correlation between export growth and the balance position at any time shows that operative management regularly found tensions in this field of foreign trade and, therefore, it regularly interfered with the export (and import) processes.

However, in order to stop the deterioration of the balance of trade, accounted in convertible currencies, intervention was necessary in several fields of the macroprocesses. Thus curbing of investment and stockpiling activities, import restriction and the redirection of some of the domestic commodity stocks all took place at the same time.

In this market, however, differently from the socialist trade, these short-term operative measures often failed to produce the desired result: the curbing of domestic absorption did not "automatically" stop the deterioration process. Also the relationship between the balance and the investment cycle developed in this market otherwise than in the socialist one. An investment boom rarely leads to an immediate deterioration in the balance in the trade with the West, and a restriction of the former rarely leads to an immediate improvement.

Reduction of imports, the forcing of exports through two years, the curbing of investments and stockpiling are not enough to ward off the threat of indebtedness, if industrial production is growing relatively fast at the same time. Up to 1965 the planned growth rate of industry had been gradually decreasing, while it still proved to be too high to secure equilibrium of the balance of payments in the long run.* This correlation showed in the indicators used here in a way that up to 1965 it could not be found that the reduced growth rate of the investment volume led to an immediate improvement of the balance, whereas this had been the case in the socialist trade.

However, even from 1965, the balance of trade accounted in convertible currencies has usually been only improving when the growth of industrial production slows down. Relatively low growth rates of industrial output are found in the years 1954, 1956, 1969, 1972, 1975–1976 and 1979–1980. *Table 2* shows that in these years the balance of trade always improved. This also implied that in the period under examination the largest falls in the growth rate of industrial production usually coincided with an improvement of the balance of trade accounted in convertible currencies.

This statistical relationship indicates a real causal relationship. The existence of this independence is today almost a commonplace. The dependence is based on the fact that the input demand of industrial production has a strong influence on the balance of trade accounted in convertible currencies (even its slight increase immediately changes the balance), while the output side i.e. the exports of manufacturers cannot affect the balance in this market. Thus a fast increase in industrial production shifts the balance of trade accounted in convertible currencies towards a deficit. This interdependence asserts itself the more, the higher the growth rate of production. On the other hand, a decreasing growth rate of production entails a perceptible improvement in external equilibrium. The "property" of industrial production that its export potential is relatively low "could be used" to improve equilibrium. Namely, if the growth rate of production lowers, the pressure for imports immediately eases, without exports falling. From the supply side, therefore, no such tendencies emerge as would threaten the improvement of the balance, a decreasing growth rate of production notwithstanding, since the exports of manufactures are usually not of a determining importance from the aspect of the equilibrium position.

In the growth rate of industrial production, the periodicity of falling dynamics is of a type different from that in investment and imports. It is because the phenomenon is not produced, as a rule, by the operative management's reaction on the balance position by reducing the growth rate of production (in the short-term plans). Planning only considers the slowing down of industrial production when tensions are sharp in foreign trade and indebtedness seems to be imminent. (This was the case in the 1950s,

* Up to the mid-1960s, economic policy had been reluctant to renounce a fast increase of industrial development [24]; it did not take into account the foreign trade constraint. It was assumed that industrialization had brought about an export potential which allowed to maintain the growth rate of industrial production on the level of the preceding period.

Table 2
Interdependence of the balance of trade accounted in convertible currencies with industrial production

Year	Balance cycle	Industrial production (previous year = 100%)
1951	Deterioration	23.0
1952	Deterioration	21.0
1953	Deterioration	12.0
1954 ^b	Improvement	2.0
1955	Improvement	9.0
1956	Improvement	0.9
1957	Deterioration	16.0
1958	Improvement	11.0
1959	Deterioration	9.0
1960	Deterioration	12.0
1961	Deterioration	11.0
1962	Improvement	7.5
1963	Improvement	6.6
1964	Deterioration	8.0
1965 ^b	Improvement	3.6
1966	Improvement	6.0
1967	Deterioration	7.0
1968	Improvement	5.2
1969 ^b	Improvement	3.0
1970	Deterioration	7.2
1971	Deterioration	5.0
1972 ^b	Improvement	3.2
1973	Improvement	6.8
1974 ^b	Deterioration	7.0
1975 ^b	Deterioration	4.2
1976	Improvement	4.8
1977	Deterioration	5.2
1978	Deterioration	5.3
1979 ^b	Improvement	1.3
1980	Improvement	1.0
1981	Deterioration	2.9

a) Until 1961: gross output index; from 1961: index of product series or calculated by some other methods

b) In these years, a considerable decrease in the growth rate of industrial production, and an improvement in the balance of trade accounted in convertible currencies came about simultaneously.

Source: Statistical Yearbook 1962, 1982.

in 1965, and, as it is known, this is the case today.) However, as long as there is no emergency, an even growth of production is envisaged in the plans, assuming that the pattern of supply, and within it the pattern of export supply, can grow in adjustment to the pattern of import demand. But this is exactly what has never happened, in any of the investment cycles. In this market, this "property" of the economy has appeared as *the* "foreign trade constraint".

Interpretation of the trade cycles

In this field of foreign trade, operative management has regularly received a "potential foreign trade constraint". In the period up to the mid-1960s, when economic policy forced fast growth, the foreign trade constraint also showed more clearly, as a balance-of-payments problem. By 1965, balance-of-payments problems had intensified in both markets. This is indicated by the taut targets laid down in 1965 for foreign trade accounted in convertible currencies and by the fact that economic policy expected, even in the case of reaching the targets, no more than a diminishing deficit. At the same time, in the socialist market, nothing more was set as a target, but the balance position considered as "normal" since the 1960s, i.e. a "bookkeeping" balance of accounts. [25]

Sudden and drastic restrictions in several fields, and the forcing of exports are, however, unjustified, if there is no real danger of indebtedness, if there are no payment difficulties. This was the situation in Hungary after 1965 up to the mid-1970s. Despite this fact, such measures were repeatedly resorted to. The question arises: in which form could the central control and management still perceive the "foreign trade constraint?"

The "fire extinguishing" measures may be somewhat better understood, if the different experiences of the two foreign markets are taken into consideration. Central control and management must have experienced that it could not keep in hand (shape according to the plan) the volume processes of foreign trade accounted in convertible currencies. The deficits growing in both markets at the time of investment expansions came about in the Western trade without the central control agencies previously accepting their actual dimensions. Increasing investment activity set off similar volume processes in both markets; however, in the socialist trade these generally did not lead to external tensions, while in the trade accounted in convertible currencies they threatened to upset the balance of payments. After a time, it must have appeared in the case of each investment upswing that, without central measures, the acceleration of Western imports would not stop and that forcible central measures were needed to produce as much exports as were necessary to achieve the desired external balance position.

On the macro level, the inclination of the balance of trade to deficit on this market was not perceived only at times of intensifying domestic tensions, but in the

stagnation and recession phases of the investment cycle as well. In this market, the central control agencies could always feel that the faster the growth rate of production, the more difficult it is to maintain equilibrium. Such a constraint could not be perceived in the trade with socialist countries, at least not in the period from 1960 to the mid-1970s. Therefore, the periodical changes that came about in the Western trade can be interpreted in a manner different from those found in the socialist trade. The changing intensity of the inclination towards deficit was manifest in the fluctuations of the Western trade from those of the socialist trade. The changing intensity of the inclination towards deficit was manifest in the fluctuations of the trade accounted in convertible currencies, i.e. in the regularities that deflected the fluctuations of the Western trade. The short-term development of imports was determined by two factors: by changes in the shortage situation of the country and by the changing intensity in perceiving the inclination towards deficit.

Comment on the "foreign trade constraint" asserting itself in the socialist economy

Kalecki's model of the "foreign trade constraint" ignores, from the outset, the possibility that export supply may successfully adjust to the demand of foreign markets. This "trade pessimistic" spirit of the model reflects, in fact, Kalecki's distrust of the absorptive market, *impossible to plan*.* The same approach is apparent in his indicating foreign market uncertainty as one of the causes of the "bottlenecks" in the economy. This one-sidedly negative evaluation of the role of the world market** may be compared to the approach of the underdeveloped countries, though, at least as far as theories are concerned, it is increasingly recognized in those regions, too, that the roots of their chronic balance-of-payments troubles are to be sought at home.

Kalecki's highly abstract reasoning reflected, however, the real problems of the socialist countries, which still are there.

In the 1950s and even in the early 1960s one factor (among others) behind these problems was that economic policy forced growth, planning a higher growth rate of the national income than what would have been the optimum with a view to maintaining equilibrium. As the explicit forcing of growth stopped, this source of the "constraint" dried up. Nevertheless, the urge to maintain equilibrium at the price of slowing down the increase of national income remained.

* "... in long-term plans the estimation of the impact of foreign trade on the increment in national income which corresponds to given outlays is always very hypothetical in character. This uncertainty will lead... ultimately to the choice of a relatively low rate of growth, therefore *the elimination of this uncertainty by long-term trade agreements*, such as are concluded within the socialist camp, favours a high rate of growth of national income." (Emphasis by the author.) [26]

** A sense of reality shines through, however, in his explanation of the question why these problems would not disappear in the closed economy of an autarkic country. As against the majority of the conceptions of the "foreign trade constraint" spread in the underdeveloped countries, Kalecki's economic policy conclusion drawn from the phenomenon does not suggest seclusion.

The problems presented in the model as "foreign trade constraint" were based on experiences of economic development in an economy of the *traditional mechanism of mandatory plans and excess demand*.* I attribute the survival of the "foreign trade constraint" to this state of the economy. Insofar as the difficulties of maintaining equilibrium in foreign trade are attached to such internal properties of the functioning of economy, the notion "foreign trade constraint" seems to be expressly misleading, since its elimination *cannot be expected from the lifting of external constraints, but from the abolition of the wrongly functioning internal mechanism of the economy*.

References

1. Szokolczai, Gy.-Bagdy, G.-Vindics, J.: Dependence of the Hungarian economic performance on the world economy. Facts and economic policy inferences. *Acta Oeconomica*, Vol. 35. Nos 3-4 (1985).
2. Zala, J.: 1958-1967: The trends of a decade. *Acta Oeconomica*, Vol. 3. No. 2 (1968) and *Gazdasági fejlődésünk egyenetlenségeiről* (Unevenness in Hungarian economic development). Manuscript. Gazdaságkutató Intézet, Budapest 1974.
3. Bauer, T.: *Tervgazdaság, beruházás, ciklusok* (Planned economy, investment, cycles). Közgazdasági és Jogi Könyvkiadó, Budapest 1981. p. 19. (Forthcoming in English).
4. Chenery, H. B.: The structuralist approach to development policy. *The American Economic Review*, May, 1975.
5. Chenery, H. B.-Bruno, M.: Development alternatives in an open economy: the case of Israel. *The Economic Journal*, Vol. XII. March, 1962. pp. 79-103.
6. Findlay, R.: The "foreign exchange gap" and growth in developing economies. In: Bhagwati, J.-Jones, R.-Mundell, R. A.-Vanek, J. (eds.): *Trade, balance of payments and growth*. North-Holland Publishing Company, Amsterdam 1971.
7. Diaz-Alejandro, C. V.: On the import intensity of import substitution. *Kyklos*, 3. 1965.
8. McKinnon, R. J.: Foreign exchange constraints in development and efficient aid allocation. *The Economic Journal*, June, 1964.
9. Kalecki, M.: *Selected essays in the economic growth of the socialist and the mixed economy*. Cambridge University Press, 1972. p. 42.
10. *ibid.* p. 8.
11. *ibid.* pp. 42-43.
12. Kalecki, M.: Theories of growth in different social systems. *Monthly Review*, New York, 1971, No. 5. pp. 75-76.
13. Hirschman, A. O.: *The strategy of economic development*. Yale University Press, New Haven 1958.
14. Kindleberger, Ch.: *Foreign trade and the national economy*. Yale University Press, New Haven 1963.
15. Chenery, H. B.-Bruno, M.: *op. cit.*
16. Krueger, A.: Trade policies in developing countries. In: *Handbook of international economics*. Vol. I. North-Holland Publishing Company, Amsterdam 1984.
17. Diaz-Alejandro, C. V.: *op. cit.*
18. Bauer, T.: *op. cit.*

* I interpret this concept as a synonym for the concepts of chronic shortage economy, and of buyers' market.

19. Goldmann, J.: Fluctuations and trend in the rate of economic growth in some socialist countries. *Economics of Planning*, 2, 1964.
20. Zala, J.: op. cit.
21. Goldmann, J.—Kouba, R.: *Hospodárský růst v ČSSR. Úvod do teorie ekonomického růstu za socialismu a experimentální pokus o aplikaci modelu Kaleckého na statistická data*. 1967.
22. Goldmann, J.—Kouba, R.: op. cit.
23. Zala, J.: op. cit.
24. Berend, T. I.: *Gazdasági útkeresés: 1956–1965* (Research for economic solutions, 1956–1965), Magvető, Budapest 1983.
25. *Az MSZMP határozatai és dokumentumai 1963–1966* (Resolutions and documents of the Hungarian Socialist Workers' Party 1963–1966). Kossuth, Budapest 1968.
26. Kalecki, M.: *Selected essays in the economic growth of the socialist and the mixed economy*. Cambridge University Press, 1972.

«ВНЕШНЕТОРГОВОЕ ОГРАНИЧЕНИЕ» И ЦИКЛИЧНЫЙ РОСТ

Ю. ШУБА-ВАРГА

В статье исследуется теоретическая концепция, согласно которой внешняя торговля может стать ограничением роста. Концепция проявляется как в теории роста развивающихся, так и социалистических стран, и в обоих случаях можно найти взаимосвязь между цикличностью развития и концепцией ограничения. Анализируя цикличность венгерской внешней торговли, автор показывает, что трудности балансирования внешней торговли, которые в исследуемый период регулярно проявлялись в качестве потока роста инвестиций, были характерны только для одной реляции — торговли с развитыми капиталистическими странами. Необходимость поддержания равновесия торгового баланса на этом рынке, действительно, регулярно приводило к форсированию экспорта и замене импорта в такой мере, которая уменьшала приращение национального дохода, достижимое при данных затратах. Склонность к дебалансу на этом рынке — это характерная черта экономики хронического дефицита и связанного с ней традиционного механизма плановых директив, т. е. ее можно свести, таким образом, к внутренним причинам. Понятие внешнеторгового ограничения поэтому может породить заблуждения, так как позволяет делать выводы об экономической политике, ведущей в сторону автаркии. Согласно опыту экономической истории, изолированность от мирового рынка не снимает «внешнеторгового ограничения», напротив, как правило усиливает его. Вариант этой концепции, касающийся социалистическую экономику, подразумевает механизм директивного планирования и основывается на практике превышения спроса над предложением. Поэтому эта концепция может быть встроена в эту модель. Однако один из факторов не является ограничительной чертой роста социалистического типа, и поэтому внешнеторговое ограничение не может рассматриваться как специфическая черта системы.

ECONOMIC MECHANISM AND FOREIGN TRADE ORGANIZATION IN HUNGARY

I. SALGÓ

The enterprise organization for exercising the state monopoly of foreign trade had been originally created to isolate—together with other instruments—the domestic firms from the external world. Although this isolation ceased with the reform of 1968, the organizational separation of producers from the external market still persists. In this situation, beyond transacting foreign trade, the firms in monopolistic position also got a role in mediating central targets toward producers. Their hierarchical superordination to producers also becomes manifest in the fact that they represent the interests of producers towards the control agencies in harmony with their own independent management interests.

Efficient activity on the world market depends, even if other conditions are equal, on the degree to which Hungarian economy is able to integrate into the world economy, and on the closeness of relations the Hungarian producers and users establish with their foreign economic partners. If we centre our investigation on the latter, the question arises to what extent the economic or, more closely, the foreign trade system allows world economy to be “integrated” into the Hungarian economy, or how the domestic economy adjusts itself to the norms of world economy.

From this aspect our starting-point may be the simple fact that, even though the Hungarian foreign trade organization is wider today than the sphere of *specialized foreign trading enterprises*, nevertheless, the latter *still transact three-quarters of the foreign trade turnover*. The question often arises, that they are not economic organizations oriented towards market enterprising according to the norms of foreign markets. Although in today's Hungarian economy such qualification is appropriate not only in respect of the foreign trading enterprises, it does give food for thought, why exactly foreign trade transactors and foreign trading enterprises are so often branded “*bureaucrats*” and “*bureaus*”.* The examples cited are, of course, not valid in an absolute sense, yet facts indicate that there indeed are elements of behaviour and efforts present in the foreign trading enterprises' attitude suppressing the business spirit and thereby the efficient solutions. Thus, while world economic experience shows that in exploiting the advantages of the international division of labour the sphere of trade plays an important, sometimes even decisive, role, it seems that export of

* Cf. for example, the statement of Tamás Poros, late managing director of the Budapest Chemical Works, made in an all-round interview: “. . . foreign trading enterprises are . . . consignees on the one hand, and civil servants of the state foreign trade monopoly on the other.” [1]

Hungarian products and the import of foreign goods are transacted by a foreign trade organization which, together with other factors, does not only renders it impossible to maximize the advantages offered by the commercial sphere, but even contributes to the weakening of relations between Hungary and the world economy.

Historical background

The history of Hungarian economy is inseparable from relations with foreign markets; they even played an important role in industrialization, similarly to other countries, stepping rather late on the road of industrialization. However, the modern history of Hungarian economy has not yet had a foreign trade policy that could be truly called liberal. Under such circumstances, the organizational conditions of the Hungarian economy have always been limited, for being integrated into world economy, and the existing conditions were at times drastically reduced.* Especially the defensive adjustment following the 1929–1933 Great Depression favoured organizational solutions preparing the ground for a strong centralization after World War II, also affecting the foreign trade commodity and market patterns.

In the past, however, not only the germs of a later practice may be found, but also conditions which ought to have been strengthened, but have withered instead. This also holds for the foreign trading organization; the spreading of monopolies and state intervention notwithstanding, before the late 1940s trade organizations had remained diversified and, in spite of a number of limitations, business considerations prevailed in foreign trade decisions made on the enterprise level. Then, in 1948–1949, a new organization was established which did not make use of the good solutions of such a past.

In trying to find an answer to the question for what purpose the new, centralized foreign trade organization was established, and what its tasks were to be, it has to be made clear that, in general, this solution was chosen by countries which—while wishing to provide for the imports of indispensable goods as well as for the counterbalancing exports, either wanted to shield themselves against all influences of more advanced countries, qualifying them to be harmful, or, though intending to catch up with these countries, avoided any adjustment to the world economy. It was on the basis of this demand and against the views of the English classical economy proclaiming free trade that the German philosopher Fichte outlined the theoretical scheme of the state monopoly of foreign trade in “Der Geschlossene Handelstaat” (The closed trade state) in 1800.** Then, in practice, to no little extent because of the necessities raised by the situation, the Soviet Union was the first to introduce this

*For more on the question, see [2].

** In practice, Germany did not step on to the road of insulation, but on that of catching up, and it applied appropriate means for the purpose (protective tariffs). [3]

monopoly with the strictest consistence, to serve the security aims of its war economy. The example was later on followed by the Central-East-European countries adopting the socialist system.

In Hungary, the demand for a foreign trade organization to be centrally managed was formulated after 1945. For the fulfilment of this demand, favourable conditions were created by the nature of the foreign trade tasks of the reconstruction, i.e. the circumstances of their implementation. It also worked towards organizational changes that, especially before the stabilization,* the widely spread special kinds of foreign trade transactions (such as war damage compensations) contributed to the organizational separation of foreign trade activities from the production and consumption sphere (often to their delegation to banks), and to the widening of government control. Foreign trade centralization was further promoted by the stabilization of currency and the introduction of central planning.

First of all the new price system introduced on August 1, 1946 together with the new currency, the forint, has to be mentioned. It had fundamentally separated foreign from domestic prices, while the already not too significant role of tariffs was further decreased.** In this way, it became extremely difficult to measure comparative advantages and disadvantages realistically. Such institutions (state organs) had a say in judging the advantages or disadvantages of business decisions, whose considerations were not always in harmony with the private enterprises' profit maximizing efforts, based on efficiency. Beside foreign exchange monopoly, the licensing system and other related decrees played the most important roles in the direct control of foreign trade.

The licensing of foreign trade transactions was within the competence of the Hungarian Foreign Trade Directorate. The basis of the system was, however, the control of those transacting foreign trade activities. For this purpose an official list was drawn up of the foreign trade actors. After the currency stabilization, all importers and exporters had to fill in the Directorate's questionnaires till August 15, 1946. Had someone failed to do so, he could not be granted an export or import licence. [5].

The purpose of the regulation as outlined above was not simply to eliminate private foreign trading activities but, in more general terms, to hinder that the volume, structure and directions of foreign trade should develop according to enterprise profit motives. Also, it wished to encompass foreign trade within an organizational framework in which incentive enables to reach the central targets of foreign trade on the enterprise level.

In this way, the number of private foreign trade transactors, producers and consumers, banks and forwarding agents was gradually decreasing, while up to 1948 the state-owned foreign trading enterprises (Hungarian Foreign Trade Corp., Centre

* i.e. of the currency, in Autumn 1946—Ed. note.

** For more on the question, i.e. on its relations with the then prevailing conceptions of integration, see [4].

of Heavy Industry) had still been functioning according to the earlier criteria. After the nationalization of banks and of industrial firms with more than 100 employees, on the basis of the resolution of February 12, 1948 of the Political Committee of the Hungarian Communist Party, foreign trade was entrusted to *seven specialized foreign trading enterprises* almost in its totality in that same year. The Yearbook of Hungarian Exports had still listed *2300 exporting firms in the previous year*. [6]

The essential point of the change in the institutional system of foreign trade was not simply to increase the role of the state, but that, on this basis, the relationship between state and enterprises had changed. As a part of this and in accordance with the requirements of the hierarchical control and management, the different partial functions of the reproduction process were concentrated into organizations artificially separated from each other.* Thus it happened that the foreign trading sections of earlier nationalized enterprises were separated and turned over to enterprises that had been founded with the exclusive aim of carrying out foreign trade transactions. This detachment process made it into a general phenomenon that enterprise and central functions became also organizationally mixed and that a kind of hierarchical relationship developed even among various organizations theoretically fulfilling microeconomic functions.** The aspects of this separation of foreign trading activity and its "settlement" into the hierarchy are well reflected by the opinion prevailing in those times, according to which "the nationalized organization of foreign trade, if left with the industrial enterprises, would have preserved the anarchy of capitalist production", and "the individual enterprise manager would have been just as incapable of organizing foreign trade in the country's interest, as the capitalists." [10]

Relationship to world economy and the framework of foreign trade before the 1968 reform

Parallel to the changes in the functioning and world economic orientation of economy, the economic policy also underwent changes. All this contributed to preserving the function of foreign trade that had still developed in the reconstruction period: the elimination of shortages through imports, and the counterbalancing of imports by exports. In its wake, an economic and development policy was outlined,

* "With the establishment of the directive planning system, economic control and management required that an economic organization should only have one function (production, trading, etc.), and within it only one or few kinds of activities, i.e. one "clean" line. . . The specialized trading enterprise were formed by the same need as the industrial enterprises with a single production line, and it is not accidental that they, too, have grown enormous." [7]

** Already from 1946-1947 "authorities replaced enterprises functioning on state commission, state-owned enterprises could become authorities, sometimes the same institution acted now as an enterprise, now as an authority." [8] "Thus the functions which . . .", within the independent organizational framework "were raised into the hierarchy above the enterprise. . . became the means of preserving dependence." [9]

which refused to follow the general development path of world economy and wished to put an end to the country's backwardness by development based on criteria not in harmony with the country's economic potential.

The initial condition of putting this "autonomous" development into practice was that Hungarian economy should be insulated not only from world market effects, rather slight in consideration of turnover data, but from foreign market effects in general. Thus negation of the principle of advantages offered by the international division of labour, as well as of the usefulness of taking part in it can be interpreted as a characteristic feature of the original target system of economic policy, not independent of the international political conditions of the period. Behind the slogans proclaiming the necessarily self-sufficient nature of socialism and the obvious disadvantage of winning foreign markets there was the hidden will to keep everything under central control. And the attempt to keep under central control even the smallest economic and social processes infers that the spheres unsuited for the purpose should be excluded.

Practical experience shows, however, that the central authority is incapable of holding in hand the totality of social and economic processes even in a perfectly closed economy. An illusion was fostered at the time that all that happened in the country was to become increasingly controllable. In respect of foreign trade, however, and especially of trade with the West, such illusion could not be upheld: "the foreign trade plan may fail if the goods intended for exports are not purchased on the foreign markets, or not in the planned volume, at the desired prices, and at the required time and terms of delivery." [11] This was one of the reasons why the central control and management of foreign trade were strengthened and why the conception was formed that foreign trade can be perfectly insulated within the economy.

However, according to the same conception, the long-range objective of gradually reducing foreign trade necessitated, in order to end the backward situation of the country, the purchase of products which could not be produced in Hungary, or not in the required quantity. As sources of purchase, an outstanding role was played by the CMEA countries treating foreign trade in a similar way, using in their international exchange such goods the shortages and surplus of which were shown in their material balances.

Meanwhile, the principle relating to the necessity of foreign trade was somewhat refined in practice and, among the demands made on it, it was increasingly stressed that trade should help in eliminating the small or big disproportions of the production process, bottlenecks, tensions and functional disturbances of the economy.* In other words, foreign trade grew increasingly—and especially after 1956—into an outlet for the difficulties and tensions of the domestic economy, a *stabilizer of the practical functioning of economy*, and thereby of its given method. Owing to the duality outlined in the preceding, while foreign trade could not be driven out of the economy, its active role was repressed by economic policy, making quantitative demands, and by

*This important aspect is called attention to in [12].

insulation from foreign market effects. In its relation to the domestic reproduction process, *foreign trade was forced into a subordinate role, enjoying little freedom*, which determined and distorted the system of interactions between foreign trade and domestic economic processes in a peculiar way. Under such circumstances, the joining into the international division of labour was the resultant of decisions affecting foreign trade, but made with other objectives in view.

In the real processes, the price to be paid for this subordinate role of foreign trade was that, whereas the suppression of foreign trade was laid down as an explicit target in the early 1950s, foreign trade turnover was growing at a rate higher than that of economic growth, clearly proving the inaptitude of Hungarian economy for autarky.

Since the beginning of planning, however, the fundamental judgement of participation in the international division of labour considerably changed. Already in the 1950s, development policy began to pay attention to the international processes of industrial development, and later on the idea of joining into world economy, and in the late 1970s even that of export orientation was officially formulated.

All this notwithstanding, the role of foreign trade has not changed substantially: its subordination has basically remained. The roots of the trouble have been lying, right from the beginning, somewhere else: in the way the economy functions. Within this, it is not simply the system of mandatory plans, but, relying on Hungarian experience, the system of economy organized within a hierarchical framework *the immanent autarkic inclination* of which represents the source of the existing problems.* In this system, namely, the external market effects do not reach, or not directly, the economic units, "protected" from the consequences of market adjustment, but through the medium of the mechanism of upper-level reconciliation of interests, thus necessarily in a distorted manner.

Therefore, what Sándor Ausch said about the foreign trade of the mandatory planning system is essentially of a more general validity; it can be said of an economy repressing market relations and competition that "... domestic economic control... determined by centrally prescribed exchanges of physical quantities of use values... will necessarily appear also in the sphere of foreign trade and other international relations, because the system of domestic economic control prevents international relationships of a different nature from being fitted in." [14]

Thus, it is clear on the basis of the abovesaid that the direct advantages of foreign trade and the indirect ones of improved economic efficiency do not appear, or only accidentally, but not in an unambiguously identifiable (quantifiable) way. This is not to say that foreign trade could not be advantageous for a non-market economy, but that *the utilization of advantages lags far behind the possibilities*. Under such economic conditions the secondary advantages of foreign trade are upgraded, such as are related to efficiency, but not always coinciding with it, and which are physically accessible, first of all in eliminating shortages, and those inherent in economies of scale.

*This is explained in more detail in [13].

The protection of the economy from foreign markets, and the "securing", through foreign trade, of goods not available from domestic production have called into being specific instruments and institutions.

As we could see, however, this requirement could not be fulfilled in the desired simple manner, i.e. through total insulation, since even the not exactly smooth functioning of economy relied partly on planned and partly on unplanned imports (or their counterbalancing). This contradictory task was assured by means of a mechanism which neutralized the effects of the external world in a way that it "stripped" external market relations of their commodity character, at least in the non-CMEA trade—then playing a much less important role than today—where there was in fact something to "strip off". This was, namely, the only way to suppress efficiency considerations, i.e. the value judgement of the external market and enforce the selection criteria of the domestic economy, based on a different logic. In the practice of that period, therefore, the economic policy, concerned with physical processes and constrained (or intended to be constrained) by mandatory plans, was combined with insulation from all external impulses that could affect domestic production and consumption. Within the given economic mechanism, based on mandatory plans, this amounted to insulation from all external effects, which was further promoted by the CMEA cooperation mechanism based on physical considerations.* Of the elements of the mechanism that were to provide for the above-mentioned duality: separation and linking up, first of all the automatic price levelling system, designed to preserve the autarkic price system, and the closely related conversion coefficients of foreign exchange, necessary because of the inconvertibility of the national currency, must be mentioned.** Also, the organizational system of foreign trade, bearing the marks of duality, is to be listed here.

Originally, *the state monopoly of foreign trade* implied the following: on the one hand, the establishment of an enterprise sphere in which, in the beginning, only state-owned enterprises found their place; on the other hand, foreign trading activities were assigned to enterprises vested with exclusive foreign trading rights, separated from economic units that had earlier also pursued foreign trading activities. Also, the said enterprises were further specialized through an administrative distribution of the various groups of products among them.*** Finally, as these enterprises were organically built into the hierarchical system, they got into a special situation as for enterprise relations, especially after 1968.

In the initial period this was manifest in that the foreign trading enterprises tried to transact the exports and imports of products in their line—determined by mandatory plans—insulating domestic economy from all

*For more detail see [14, 15].

**For more detail see [16].

***On these three aspects see [17].

kinds of foreign market impulse.* This was a special function in that the execution of instructions regarding the trade in specific goods was to provide for a smooth functioning of the economy. All this showed in the elimination of bottlenecks jeopardizing the functioning of the system (also relying on instructions), as well as in the neutralization of market effects. The "maximal assertion" of the central will required, namely, that the domestic economy should be isolated from any external impulse that could influence the manufacturing or consumption of the products. This involved that as export goods left the factory, the producer was not to have any information about the further destination of his products, or on those he was using for input. It would be, however, wrong to believe that the combination was based on economic considerations, since it had to be done in terms of volume, without market prices, and efficiency considerations could not be asserted.

In a situation in which every economic unit was interested in the execution of instructions issued by superiors, the foreign trading enterprises did not yet enjoy any special status in inter-enterprise relations. What is more, initially they even tried to exclude the smallest chance of infiltration of disturbing external effects by increasing the separation of foreign trade from production. In the early 1950s such types of control organs were interposed between the producer and the foreign trading enterprises (industrial centres, ministry) through which enterprises had to conclude their purchase-contracts, and by means of which the role of trade in determining questions of quantity and quality was to be curbed [19].

Characteristics of the situation after 1968

In the course of the two decades following the establishment of the state monopoly of foreign trade in Hungary, a number of changes, not all formal, had taken place in the terms of foreign trade. The tensions that had accumulated in the economy had been slowly easing, similarly to other fields, the administrative restrictions on foreign trade, particularly when such ideas could again be given publicity as proclaimed the necessity of thorough and comprehensive changes. Parallel to condemning "the harmful tendencies of exaggerated autarkic orientation", after 1956 practical measures were also taken to consider the profitability aspects of foreign trade tasks. This showed mainly in the easing of the rigid price levelling system, in the introduction of the so-called price-levelling incentive, and in making it obligatory to compute the efficiency indicators of export goods.

Also, in 1956–1957 eight producer units of the engineering industry were granted foreign trading right. However, with an economic environment basically unchanged, this brought no substantial change in their adjustment to foreign markets.

* The Central Economic Arbitration Committee ruled that delivery contracts had to be signed with the domestic partners even if the foreign trading enterprise did not yet know the terms of the contract to be concluded with the foreign partners. [18]

The tensions present in the economy, i.e. in its relations with foreign markets could not be changed by an easing of the system of mandatory plans. By the mid-1960s it became clear that the difficulties in the various fields of economy could not be handled in isolation from one another.

The new economic mechanism introduced in 1968 set the objective to establish, by changing the rules of game of the functioning of the economy, favourable conditions for easing tensions. In this sense, foreign trade was not just a "cause" of the reform, but also one of its "target" fields. While, however, reform measures envisaged to put an end to the isolation from foreign market influence in the fields of production and consumption,* and were successful to some extent, the intention of establishing direct contact between foreign and domestic market did not amount, even in the declared principles, to recognizing foreign economic relations as factors actively shaping domestic processes on a large scale. Parallel to formulating the need for putting an end to "exaggerated" protection, the extent of exaggeration was defined, too. It was thought, namely, that "domestic production and domestic market must, of course, not be exposed to the whim of world market forces, and foreign trade activity must fit into the complex process of development, coordinated by the national economic plan." [21]** This is a clear picture: by participation in the international division of labour, "advantages" beneficially affecting the microsphere must be exploited, while possibly arising disadvantages must be eliminated by means of central control.

But: what is advantageous, and what is disadvantageous? Or, more exactly: what (or who) decides the nature of world market effects? Relying on the above-said, as well as on experience, it is clear that this is to be decided by the central control and management organs, as it is their duty to take care that "foreign trade activity . . . fits into the complex process of development coordinated by the national economic plan." [23] Therefore, what promotes the objectives of the hierarchical control is to be considered advantageous, and what jeopardizes the stability of the system is disadvantageous. Therefore, also the effect of foreign trade on the microsphere could only assert itself through the medium of the central management and control organs, much weakened and increasingly so in the course of the 1970s. Therefore, the trouble is not only that the system is isolated also from such foreign market effects from which—in principle—it should not be, but also that the given selection mechanism—necessarily subject to partial interests—completely distorts "good" and "bad" impulses.

In spite of the substantial changes in the economic mechanism that took place in 1968, the continued selection of external relations through hierarchical administration

* "It is an important objective of the reform that foreign and domestic market come into a close contact, that increased foreign market impulses should affect domestic production, sales, and consumption; that the over-protection of domestic production should be abolished, thus putting an end to the resulting indolence . . ." [20]

** As against this, the idea—not justified in the end—of an increased adjustment to foreign markets is characteristic of Sándor Czeizler's work published at the time [22].

instead of market automatism largely contributes to the separation of the different markets (domestic, CMEA, Western) and to their separate and mostly administrative handling. This has become especially marked after 1979: it was through such measures that equilibrium could be—seemingly—restored in the market where tensions were the greatest.

The preceding are closely—though not exclusively—also related to the system of foreign trade established in 1968. It was an entirely new trait in comparison with the earlier period that external market effects now had not to be totally excluded, but only selected, so that the target of “*separation-linking up*” was filled with a new content. The earlier mechanism was transgressed in that, with a view to a differentiated approximation to each other of the foreign and domestic markets, price levelling was abolished, while market price fluctuations were neutralized within the country. Price multipliers were introduced to link foreign and domestic prices, though not on the level of the marginal cost of “producing” foreign exchange, but below the level of the average cost. Although profit earned through world market prices could be realized, the system did not tolerate rents which could, in principle, be efficiently incorporated into the economy through the capital market, though by all means having a differentiating effect; and also losses were compensated by subsidies, on the basis of similar principles.

All this notwithstanding, it was a genuine change that, as *financial links were established*, producer firms were no longer isolated from foreign markets, and they could, if not yet clearly, perceive external market effects. At the same time, the emergence of the new mechanism and the exploitation of the potential advantages of the financial links were hindered by *the practical survival of the earlier organizational system of foreign trade*. Although a number of producer firms were granted independent foreign trading right, decentralization took place on the basis of the strict “production line” logic, and only affected a small share of trade. Therefore, while regulation enabled domestic producers to perceive foreign market effects, their overwhelming majority was still organizationally unable to establish direct relations with its markets. This is true even if it is taken into consideration that, as a part of the regulation introduced in 1968, the contractual and accounting (settlement) relations changed so as to delimit the scope of action of foreign trading enterprises.*

The fact that the foreign trading enterprise organization inherited from the past, based on specialized foreign trading enterprises, came into conflict with the foreign trade regulations after 1968 is not to be simply ascribed to the narrow scope of action and organizational forced path of producers. With the limited prospects of independence and the exclusion of competition (clearly so at least up to the early 1980s), the foreign trading enterprise system has continued, up to the present day, to be

* After 1968, conflicts between foreign trade and industry always emerged about contractual relations. For a description of the forms of contractual relations, see among others, [24].

organized not according to ability to respond to market, but upon the principle of controllability. [25]

Controllability is, of course, by no means a specific feature of the foreign trading organization. Yet it must be noted that "the foreign trading organization as a whole constitutes a relatively closed system attending to a rather well defined sphere of tasks. . . its activities cover most of the economic processes recorded in the balance of trade, and the balance of payments of the country." [26]

This system is, however, not simply a sector of the national economy, but *an economic function placed on the border between autonomous development and controllability*, exercised by organizations separated from the other spheres of economy. In this sense, the controllability of foreign trading enterprises amounts to more than the mere fact that they are under central control. Namely, after the 1968 reform, control tasks going beyond the enterprise level have been assigned to the foreign trading enterprises enjoying monopolistic position, both in the transaction of foreign trade, and in the direct implementation of the foreign trade targets of economic policy. Thus, the centralization to be found in foreign trade not only offers advantages on the sectoral level, but it also contributes to the achievement of a specific system of goals of economic policy.* And this consideration can help us to see more clearly the relations implied by the concept of the state monopoly of foreign trade by no means exhibiting a large number of distinctive marks in comparison with other sectors, as was already pointed out by Sándor *Ausch*. [28]

The "centre" attends to the set of foreign trading tasks of "linking up—separation" by means of the different elements and levels of the multichannel control and management, some of which play a more important role than the foreign trade organization. What is, however, characteristic of this sphere is that inter-enterprise relations are also used in asserting the central will. Since enterprise decisions concerning foreign trade are not exclusively made upon economic considerations, and there is no such mechanism asserting itself through enterprise interest as could secure in itself external equilibrium, the role of *behaviour-forming informal relations* between non-equal organizations grows, and it turns out that not even the consensus-based regulation comes about between equal, coordinate partners.**

Within this framework, the centre applies not only direct instruments to constrain the producer and user enterprises' natural efforts, not always coinciding with the central targets. In order to reduce its own uncertainty, it develops through the foreign trading enterprise such inter-enterprise relations as are its own relations with the enterprises. It is in this sense that foreign trading enterprises are sometimes described as having the nature of a public authority, which, however, should not be mistaken for a right of authority, as the foreign trading enterprise has no formal right

* This idea is formulated by József Köbli [27] in connection with enterprise trading in means of production, having a similar character.

** A highly interesting description of the regulation based on consensus is found in [29].

to act as an authority. This implies not only an informal sharing in the central bodies' proceedings with licences and refusals but, in general, the mediation of central objectives concerned with foreign trade to the producer and user sphere, independent of the tendencies deriving from the natural efforts of the latter.

Actions in conformity with the central targets have several aspects. First, they appear in the two directions of foreign trade, and mainly in imports. However, the foreign trading enterprise establishes the order of importance according to its own considerations, if several producers export their products through it, what is more, in certain cases this is institutionally expected of it. Another aspect is the policy toward different markets. Foreign trading enterprises play an important role not only in channelling Western imports towards CMEA markets, but, participating in the so-called economic organizational activity, also in the substitution of domestic production for Western imports. It has to be accentuated that, watching the bilateral trade balances of the CMEA member countries, the foreign trading enterprises take part in implementing the central decisions aimed at compensation, mainly in the sphere of trade.

Finally, not as an element of central expectations, such type of behaviour of the foreign trading enterprises related to their monopolistic position is to be mentioned, when they act, without being asked by their superiors, as if they had the right to issue or refuse licences. Such trait of behaviour is the foreign trading enterprises' selection in mediating foreign information. Because of the general excess demand on the domestic market, the foreign market signal is in many cases unnecessary for the domestic producers.* It is on account of this situation, and not independent of the forms of accounting between producers and foreign trade that an element of selection becomes part of the foreign trading enterprise's attitude which has, in most cases, nothing to do with central expectations, but only with the especially favoured position of the foreign trading enterprise.

The "authority attitude" is, however, in a great part expected by the superior organs. In order that the foreign trading enterprise should act accordingly, enterprise framework and incentives are needed to provide a guarantee for the centre that its intentions are carried out. This objective is achieved, beside the earlier full-scope practice of specialization, by lines of production, by the strongly limited financial interest of the foreign trading enterprises, *entirely independent of efficiency*, as compared with industrial enterprises. Thus the foreign trading enterprise is refunded for its non-enterprise tasks.

In spite of the above-said, the foreign trading enterprise is still basically an organization interested in the result of operative actions. But, though it cannot fully satisfy business considerations within this framework, it can by no means be stated

* An instructive example of this is a story from the 1970s, when the manager of an industrial enterprise made inquiries with a foreign trading enterprise about the price of the copper tubes his enterprise was using and got the following answer: "Why do you care about the import price—you get the tubes at the domestic accounting price, anyway." [30]

that foreign trade in itself deteriorates the competitiveness of Hungarian products. The fact is that the reason why production is not market-oriented is not foreign trade—at the most, it only further strengthens this feature. Thus the tensions between production and foreign trade cannot be clearly ascribed to the conflict between market undertaking and the nature of a public authority. What is more, practical experience shows that it is the foreign trading enterprise that feels to be subordinated to the will of producers and users, i.e. to be in a dependent situation. In consideration also of the monopolistic nature of the production background, the statement seems to be justified that “a balance of power . . . is rather an exception in the relations among Hungarian enterprises (not independent of the size of the enterprises—I. S.) . . . the distribution of power is asymmetrical, either the one or the other enterprise is stronger.” [31] It is, however, even more important that, as a result of the special situation of the foreign trading enterprises, the behaviour based on monopolistic position and economic superiority is mingled with features of hierarchic superiority arising from the public authority nature. At the same time, even in the position of hierarchic superiority, an organization may feel defenceless against endeavours coming from below, even if it can exert effective public authority rights over the lower levels.

In this respect, an important feature of the functioning of foreign trade—inseparable from the so-called public authority nature—must be called to attention. The foreign trading enterprise, with a view to fulfilling its most important task i.e. the trade plan, does not only sign a contract with the domestic partner, but also helps it, if necessary, or intercedes for it with the authorities. Of course, in case of trouble, the producer gives signals through other channels as well. As for its foreign trading affairs, it can expect the foreign trading enterprise to support its efforts. Thus, while the foreign trading enterprise is expected from above to “help” the authorities, it will also take contrary measures on account of the pressure coming from below, and on account of its own trading interests.

From this aspect, the contradiction inherent in treating the foreign trading function as a sector becomes obvious. More is involved than just the question that often actions opposed to each other are expected of foreign trading enterprises from above and from below. Namely, while foreign trading enterprises are under the supervision of the central organ of the foreign trading sector, their special line ties them to other sectors of the economy. Therefore, while representing the central interests of foreign trade towards the given sector, they are also “incorporated” in this sector and mediate (not alone) their foreign trading ambitions towards the central organs.

This attitude is similar to what is found with the medium-level organs of sectoral control and management. The practical attitude of these organs exhibits a certain duality: “. . . the ‘classical’ administrative and control functions of the medium-level management organ are now complemented with a kind of shared interest with the subordinated firms.” [32] Relying on this statement, it is not so much the public authority nature of the foreign trading enterprises, but rather that of a medium-level control organ that has to be underlined. And only its nature because, as compared with

the classical medium-level management organs, today's Hungarian foreign trading enterprises have the essential property that they are organizations with their own specific economic interest. In their actions taken in the name of national economy, but based on their own enterprise interests, and beyond the natural incentive to this effect arising from internal hierarchical conditions,—in spite of any control—, it also plays a role that these enterprises have always been *present on the "real" market* which cannot be instructed, or made to fulfil expectations. Even though playing an important role in protecting the domestic market, and even though, beyond their privileges, their domestic interests have not forced on them a market behaviour, the knowledge of foreign market prospects and demands have become part of their way of thinking. They are also prompted to behave according to their own interests by the internal links, and the rules of the game layed down to bear the "forced marriage".

At the same time, the specialized foreign trading enterprises have so far represented "national economic" interests in a different way than producer enterprises. The 1968 reform of the control and economic management system recognized the enterprise's specific interest (group interest) only within the country's frontiers. As for foreign relations, the foreign trading enterprises were considered officially as representatives of the national economic interest. This, together with the efforts of the central administration, made its effect felt also in the domestic functioning of the foreign trading enterprises; *the informal control assigned them a "superior" role in comparison with the producer and user enterprises*. But the effort at quantitative central control, to be realized also through enterprise frameworks, does not simply derive from the implementation of various tasks of "authority" nature assigned to it. Even without it, and not necessarily coinciding with the former, its functioning is concomitant with the behaviour of a "superior".

On the basis of the foregoing, it is to be challenged, whether foreign trading enterprises really only act in fulfilment of central expectations. This is also indicated by András Köves: "it has always been a fallacy to believe that the state monopoly of foreign trade makes an optional cutback of imports possible, in accordance with the requirements of the balance of trades. [33] It could not be explained, either, why central intervention was necessary *in the early 1980s*, in the interest of foreign trade equilibrium, i.e. an intervention above the enterprise level, though also trying to use the latter. Nor can it be said that a market-oriented, commercial attitude is characteristic of these enterprises.

As economic tensions concentrated in foreign trade from the late 1970s, criticism of the almost unchanged Hungarian foreign trading organization became stronger—not independent of the efforts of some other sectors of the economy at holding or strengthening their positions. The necessity of Western exports loosened up earlier rigid frameworks, allowed a greater independence of producers, the emergence of competition, and facilitated the modernization of the internal structure of foreign trading enterprises. Beyond the fact, however, that the results of decentralization have so far been rather contradictory, it has to be pointed out that, parallel to this, the

centralized elements were strengthened in the functioning of foreign trade, especially in 1982 (for similar reasons, with a view to securing foreign economic equilibrium).*

In order, however, that the foreign trading organization can hold fast in the international competition, further steps are to be made in addition to the decentralization measures that have been taken so far.** Namely, integration of the domestic economy and that of the foreign market are two aspects of one and the same process. First, starting from the point that (foreign) trading is a function of market enterprise, and not necessarily a detached organization, it seems important to lift the still existing administrative restrictions of foreign trading activities, and to strengthen the organizational framework of an efficient foreign trading competition. Second, with a view to strengthening market conditions and to monetizing the economy, and in the interest of an efficient use of the amounts of capital present in foreign trade, and, of satisfying the capital needs of foreign trade, not only financial means—such as to be allotted to foreign trading enterprises in their quality of trading (merchant) houses—are needed, but also money market institutions, first of all commercial banks, guided by business considerations. In order, however, that foreign trading activities should also be organized upon such principles, real (not autarkic) prices are needed, and such rates of exchange, at which the independent decisions of foreign trading enterprises are in harmony with the general objectives of the national economy. It is only with these conditions that the dual expectation raised towards foreign trading enterprises can be dispensed with, and efficient integration into the world market becomes possible. This demands, further, that foreign markets of a non-market character, i.e. the CMEA relations showing extremely slow changes should be treated organizationally in a different way, so that they should promote attainment of the former objective. The practical steps to be taken in this matter are now not only urged by their recognized necessity, but by the organizational changes of trade with Western countries as well. And this holds true even if we are aware that necessities do not always become sources of action.

* For the last years: organizational changes in Hungary see Péter *Pete's* article [34] and various issues of *Külgazdaság* for the ensuing debate.

** In Hungary, foreign trading enterprises—with only nine excepted—have been reorganized in the new form of enterprise management by enterprise councils (in two phases, till December 30, 1985 and till July 30, 1986.) And, from January 1, 1986, summing up the partial decentralization measures of earlier years, and going beyond them, the legal regulation of foreign trading rights has considerably changed. Although these measures leave wide opportunities for further forward steps, a further easing of the administrative constraints of the foreign trading organization is a necessary, but not sufficient, condition of creating domestic competition indispensable for adjustment to world market conditions.

References

1. Csath, M.–Ferenczi, T.: A gazdasági egyensúly irányítási rendszere felé (Towards a control system of economic equilibrium). *Egyetemi Szemle*, 1. 1980.
2. Kepecs, Gy.: Szervezeti eredet és múltkutatás a külkereskedelemben (Research of organizational origin of the past of foreign trade). Doctoral dissertation, Karl Marx University of Economics, March 1983.
3. Berend, T. I.: *Válságos évtizedek* (Critical decades). Gondolat, Budapest 1982. pp. 170–172.
4. Salgó, I.: A kelet-európai tervgazdaságok kiépülésének külgazdasági vonatkozásai és a regionális gazdasági együttműködés (The foreign economic aspects of the development of Eastern European planned economies, and regional economic cooperation). *Közgazdasági Szemle*, 6. 1982.
5. *Közgazdaság*, August 11. 1946.
6. *L'annuaire de l'exportation hongroise*. Budapest, 1947, p. 13.
7. Inzelt, A.: Eltűnt vállalatok, elveszett funkciók (Disappearing enterprises, lost functions). *Valóság*, 9. 1985, p. 59.
8. Pető, I.–Szakács, S.: *A hazai gazdaság négy évtizedének története. 1945–1985* (History of four decades of Hungarian economy 1945–1985). Vol. 1. Közgazdasági és Jogi Könyvkiadó, Budapest 1985. p. 100.
9. Inzelt, A.: op. cit., p. 60.
10. Kereskedelmi alapfogalmak (Basic notions of trade). *Népszava*, Budapest 1949, p. 27–28.
11. Oblath, Gy.: Külkereskedelmünk negyven éve (Forty years of Hungarian foreign trade). *Külgazdaság*, 4. 1985, p. 7.
12. Vajda, I.: *Szocialista külkereskedelem* (Socialist foreign trade). Közgazdasági és Jogi Könyvkiadó, Budapest 1963, p. 26.
13. Antal, L.: *Gazdaságirányítási és pénzügyi rendszerünk a reform útján* (The economic control and financial systems of Hungary on the way of reform). Közgazdasági és Jogi Könyvkiadó, 1985, p. 65.
14. Ausch, S.: *Theory and practice of CMEA cooperation*. Akadémiai Kiadó, Budapest 1972. p. 69.
15. Csaba, L.: *Kelet-Európa a világ gazdaságában. Alkalmazkodás és gazdasági mechanizmus* (Eastern-Europe in world economy. Adaptation and economic mechanism.) Közgazdasági és Jogi Könyvkiadó, Budapest, 1984. (forthcoming in English)
16. Csikós-Nagy, B.: *A szocialista árképzés* (Socialist price formation). Közgazdasági és Jogi Könyvkiadó, Budapest, 1961. pp. 740–770.
17. Salgó, I.: A monopolpozíciók oldódása és a verseny (The loosening of monopolistic positions, and competition). *Külgazdaság*, 4. 1985.
18. Náray, P.: A külkereskedelem belföldi szerződéses kapcsolatainak néhány aktuális kérdése. (A few topical questions of the domestic contractual relations of foreign trade). *Külgazdaság*, 6. 1975.
19. Kepecs, Gy.: op. cit., p. 128.
20. *Economic reform in Hungary. Twenty-five questions and twenty-five answers. An interview with Rezső Nyers, Secretary of the Central Committee of the Hungarian Socialist Workers Party*. Cont.: Bagota, B.–Garam, G. Pannonia Press, Budapest 1969. 64 p.
21. Tallós, Gy.: *A gazdaságirányítási reform a külkereskedelemben* (Economic control and management reform in foreign trade). Közgazdasági és Jogi Könyvkiadó, Budapest, 1968, p. 31.
22. Czeitler, S.: *Az új gazdasági mechanizmus bevezetésének tapasztalatai a külkereskedelemben* (Experiences with the introduction of the new economic mechanism in foreign trade). Kossuth, Budapest 1969.
23. A külkereskedelem központi irányításának rendszere (The system of the central control of foreign trade.) Manuscript. Budapest, May 16, 1967, p. 16.
24. Hegyi, A.–Törzsök, É.–Gulyás, J.: *A külkereskedelem technikája és szervezése* (Technics and organization of foreign trade). Közgazdasági és Jogi Könyvkiadó, Budapest 1981, pp. 163–181.
25. Balázs, P.: A konvertibilis export bővítése és a külkereskedelmi szervezet (Expansion of exports against convertible currency and foreign trade organization). *Külgazdaság*, 2. 1985, p. 8.
26. Sugár, T.: *A külkereskedelem népgazdasági szintű tervezése* (Foreign trade planning on the national

- economic level). Karl Marx University of Economics, lecture notes, manuscript. Tankönyvkiadó, Budapest, 1981, p. 12.
27. Köbli, J.: Központosítási törekvések és a vállalati tagozódás folyamatai a termékforgalmazásban (Centralization efforts, processes of enterprise structure in the trade in means of production). Institute of Economics of the Hungarian Academy of Sciences, manuscript, 1984, p. 12.
 28. Auch, S.: op. cit., p. 103.
 29. Gács, J.: Importkorlátozások, hiányjelenségek és a vállalati alkalmazkodás. Kandidátusi értekezés (Import restrictions, shortage phenomena and enterprise adaptation. Candidate's thesis). Manuscript, Budapest 1982.
 30. Erdélyi, S.: Külkereskedelem—egy beruházó mérnök szemével (Foreign trade—seen by an investor engineer). *Valóság*, 1. 1977, p. 50.
 31. Törzsök, É.: *Exporthatékonyság és értékesítési utak* (Export efficiency and sales channels). Közgazdasági és Jogi Könyvkiadó, Budapest 1983, p. 165.
 32. Bauer, T.—Szamuely, L.: The structure of industrial administration in the European CMEA countries: change and continuity. *Acta Oeconomica*, Vol. 20, No. 4 (1978), p. 382.
 33. Köves, A.: Alternative foreign economic strategies for the CMEA countries. *Konjunkturpolitik*, 28. Jahrgang, Heft 5, 1982.
 34. Pete, P.: Verseny a külkereskedelemben (Competition in foreign trade). *Külgazdaság*, 9. 1984.

ХОЗЯЙСТВЕННЫЙ МЕХАНИЗМ И ОРГАНИЗАЦИЯ ВНЕШНЕЙ ТОРГОВЛИ В ВЕНГРИИ

И. ШАЛГО

Неудовлетворительные результаты венгерской экономики на мировом рынке могут быть отчасти объяснены слабой деловой заинтересованностью внешнеторговых организаций. В первую очередь это объясняется тем, что организационная структура государственной монополии внешней торговли в свое время была создана в духе как можно более детального государственного управления для того, чтобы — вместе с другими средствами — изолировать производственные предприятия от внешнего мира. Хотя реформа 1968 г. в Венгрии и ликвидировала эту изоляцию, организационное отделение производителей от внешних рынков сохранилось. При таком положении находящиеся в монопольном положении внешнеторговые предприятия кроме реализации товарооборота, выполняли роль проводников центральных целевых установок производителям. В то же время их иерархическое превосходство, по сравнению с производителями, выражается также в том, что они представляют интересы производителей перед высшими органами управления в соответствии со своими собственными хозяйственными интересами. Помимо последовательного проведения организационной либерализации внешней торговли тесно связанные между собой задачи реформы и интенсификации мирохозяйственных связей требуют монетаризации внешнеторговых связей и особого организационного решения внешней торговли со странами СЭВ.

THE CHINESE ECONOMIC REFORM—AS SEEN BY HUNGARIAN ECONOMISTS (Marginal notes to our travel diary)

J. KORNAI—ZS. DÁNIEL

The article first reviews the successes of China in agriculture. The so-called "responsibility system" entailing a strong and direct interest of peasant families has lent a great impetus to production. In the state sector there exists a "double regulation": the old one, based on directive planning and the new one relying on enterprise autonomy. The symbiosis of the two involves several kinds of inconsistency. The budget constraint of state enterprises is soft: the profit to be retained, the survival and growth of the enterprise all depend on negotiations with superior authorities. Finally, the article discusses the problems of disharmony accompanying shortage, inflation and forced growth. In spite of these contradictions and tensions there is an atmosphere of optimism in the wake of the first successes of the reform.

On the invitation of the Chinese Academy of Sciences, we spent four weeks in China in 1985. Although we have read a great deal of studies about China, by no means do we pretend to be experts on the subject. We have been studying the economy of Hungary—our own country—of ten million inhabitants for long decades, and we still feel we do not know it enough. How could we understand China—with a population a hundred times as large as Hungary's—with a desirable degree of thoroughness only relying on a few books, several conversations, and a visit of four weeks? All we can undertake is to record first impressions.

Several interesting books and articles have been published treating these last years' changes in China. [1, 2, 3] We shall not try to make a summary review of this rich literature. Such a review may perhaps provide the reader with more information than can personal impressions. In the present paper, however, we shall content ourselves with reporting on what we saw with our own eyes, or what Chinese economic managers or researchers said in our presence—and all this as reflected by our own way of thinking (obviously biased by economic prejudices). We met a lot of people. We attended two scientific conferences, one discussing the reform, the other the state-owned enterprise. In the company of the participants of the first conference we met and talked two hours with Zhao Ziyang, Prime Minister of the People's Republic of China and, together with the participants of the second conference, we had a several hours' talk with Zhang Jinfu, State Councilor, a top leader of Chinese economy. We had talks with members of the Reform Committee, university professors, enterprise managers, journalists, majors of big cities and of villages, with peasants and workers. We had long conversations, drawn out late into the night, with young economists. We made visits organized by our hosts to factories, villages, and markets, and we also had

opportunities for improvised, spontaneous encounters: we could enter homes, or talk to a young man who knew English and came over to our table in a restaurant. On the basis of the above-said, we must make it clear in advance that, though we did our best to check the correctness of our statements against the available literature, we are aware of the subjective character of the picture we are drawing about China.

The factors shaping Chinese economy

The large number of factors shaping Chinese economy can be divided into four major groups.

1. In China, a *socialist political, social and economic system* exists. The character of the political structure is determined by the fact that power is held by the Chinese Communist Party and it does not share this power with any other organized body. Numerous key positions of the economy are held by the state; economic regulation is largely centralized.

In this respect, China belongs to the same "system-family" as do the Soviet Union, the Eastern European, Asian, African and Latin-American socialist countries. True, for a long period China had political, strategic and ideological controversies, in some cases growing into veritable conflicts, with other socialist countries. This fact, however, does not change the essential similarities between the members of this system-family; quite a number of their essential features are identical. Consequently, similarities are also found in their economic mechanism, as well as in the behaviour of the economic units. It is our conviction that one of the keys to understanding China is the recognition of these system-specific identical or, at least, closely similar, features.

2. After Mao's death, a *reform process* began in China. Before discussing it, let us say a few words about pre-reform China. Notwithstanding numerous differences, the mechanism of Eastern Europe under the Stalinist era and Mao's Chinese mechanism display essentially similar features. Both are specific historical manifestations of a general type: the "traditional" or "classical" socialist economic mechanism. The major characteristics of this type are generally known: preponderance of state and collective ownership, strongly centralized bureaucratic-hierarchic regulation, the decisive role of instructions, repression of price signals in the state-owned and collective sectors, chronic shortage, etc.

The word "reform" is used in different senses. We wish to make a distinction between more or less important modifications of the traditional old mechanism, and the radical changes which deeply affect social conditions, property rights, and the power relations between economic actors, and which considerably diminish the scope of bureaucracy, while essentially increasing that of the market. We only apply the word "reform" to the latter thorough changes. In this sense, a genuine reform process is taking place in China. After Yugoslavia and Hungary, China is the third country to step on the road of reform. The analysis of the reform is another key to understanding today's China.

3. China is a *developing* country. This is in fact an euphemism to say it is underdeveloped and poor. Per capita output in advanced industrial countries was 10 to 30-fold of that of China in the 1980s.* A number of characteristics of the Chinese economy are not system-specific but follow from the circumstance that, its fast growth notwithstanding, it is still a country on a low development level.

4. Finally, Chinese economy is shaped by a number of factors which are *unique* and make this country different from all the others. This uniqueness is in fact a broad, collective category which could be further divided according to several viewpoints. Among other things, the following conditions can be listed here: the huge dimensions of the country and its immense population; a cultural heritage going back to many thousands of years; the historical tradition of centralization; etc. And, of course, it is not only the distant past that shapes the present, but also the recent past of almost four decades of socialism does. The specific features of the latter, different from those of all the other socialist countries, are well known, they are the dramatically changing phases of the Maoist era: "let all flowers bloom", the "big leap" and, finally, the "cultural revolution". And then today's political situation is added: the effect of the existing political and social power.

Certain anthropological-sociological and historical schools hold that the history of a nation and its culture can only be understood in its uniqueness, while it is in vain to look for common regularities connecting it with other nations. This approach would start in its examination of China from the analysis of factors mentioned under para 4, or from similar ones. Others, especially some economists studying the developing countries, would be disposed towards viewing China as just one of the many developing countries.

Our philosophy is, however, different from the two above-mentioned approaches which we feel to be somewhat one-sided. We hold all four viewpoints to be equally important. We would not even attempt to "weight" them (the serial numbers do not imply any order of importance). It is impossible to determine any general "weight" for the explanatory power of the four different groups of factors.

We willingly admit at the same time that we delimited the subject of our article with a certain arbitrariness. We are Hungarian economists with our interest focussed on the cause of the Hungarian reform, or, putting it more broadly, on the question, to what extent the socialist system can reform itself. Therefore, in China, those phenomena caught our attention in the first place which come into the categories 1 and 2 of the above-listed factors. As tourists we admired the several thousand-year-old statues and the Beijing Opera: as sympathetic human beings we were shocked by the miserable housing conditions in big cities. As researcher-economists, however, what intrigued us most was the question, in what respect China resembles the socialist

* Measured at current prices and exchange rates the ratio is about 1 to 30. Certain careful comparative analyses attempt, however, to circumvent as well as to correct exchange rates and prices to a certain degree, and they demonstrate a much lower ratio: 1 to 10. See [4].

systems we have known so far. Wherein is the Chinese reform similar to the Hungarian one? How far do the two reforms deviate and why? Many thousand miles away from our own country, in a civilization built on a different historical past, we encountered strikingly familiar phenomena again and again. In our article, we shall discuss these familiar phenomena in the first place, the common problems of *all* socialist countries, or at least of all those that *stepped on the road of reform*. First we shall treat the reform in villages and cities, agricultural and industrial production, and then the problems of shortage, inflation, and forced growth. Finally, certain contradictions in the Chinese economy and society will be examined.

Reform in villages: the peasant farm

Although the international press reported on, and also scientific works dealt with, the Chinese agricultural reform,* it may not be unnecessary to sum up the major characteristics of the changes.

In pre-reform China, a collective agricultural organization was functioning which, as for the degree of collectivization, outvied even the Soviet form of agriculture. The "commune" united the functions of state authority ("council") and those of economic organization ("agricultural cooperative"). All kinds of commodity producing activities attempted outside the communal framework were prosecuted.**

After the reform, the land has remained the legal property of the communes, whereas practically it has been handed over to the peasant families. They do not cultivate just a small part of the land as "household farming plots", but the *entire* land was transferred to them—except for a small part left for state-owned farms and collective cultivation. The official term for the present state of affairs is *production responsibility system*. As for the real content of social conditions, this means that the peasant is a permanent leaseholder of the land which he cultivates individually. The term of the leasehold is ever longer: today 10–15-year contracts are the most typical ones, while some are made out for 30–35 years. The farming lease is heritable. Although legally it is possible to take back the land from the leaseholding family, the change practically amounted to distributing the land among the peasant families.

Mandatory product delivery was abolished. The forms of sale are not uniform. As a rule, the peasant pays the rent in kind and freely disposes of the rest. He can sell it by contract to central procurement agencies, to cooperative or private food traders, or he can sell it directly on the urban free market.

*An excellent review can be found in [3].

** In the new wave of literature after the Maoist era a soul-stirring short story was published about a peasant who undertook, after finishing his daily toils in the fields, to skin dead animals and prepare leather against a small compensation. This man, who did a heavy and dirty, and certainly socially useful, work was qualified a "capitalist" at a public meeting, humiliated and even physically maltreated for his sin.

This change was not carried out on the basis of a well prepared plan. At the beginning of the reform process a number of different forms appeared, some of which were less radical in abolishing the role of the communes in agricultural production. At last, the system outlined above has become general. It was not a reform devised "at the top", but the peasants' will manifested itself with an elementary force "from below": it was this form they wanted. The political and state apparatus did not hinder but, on the contrary, used every means to promote the spreading of the new form.

The same huge energy with which the peasants brought about this form also shows in the production yields. Let us first shortly revert to the pre-reform situation. For a long time, agricultural production grew by 2-3 percent on a yearly average, which was hardly keeping pace with the population increase. China's food supply was stagnating. The world then believed that this huge country, where people had hungered so much, at last overcame this grave difficulty and everybody had enough to eat. The tragedy has become known recently: in the 1960s horrible famines swept over the country demanding millions of lives.

As a result of the reform, production suddenly increased: it has been growing by about 8 percent yearly, exceeding by far the population increase that has slowed down. In the years between 1978-1983 the per head income of peasants doubled. We saw the signs of increasing prosperity with our own eyes: the rows of new buildings, the one-storey peasant houses, and a lot of other signs of rising living standards in villages. Ten years ago, the foreign visitor would certainly have been taken to the village worker who knew best Mao's red book. Today, however, visitors have been taken to see the peasant families who had the best houses and finest furniture, and whose farm had the greatest number of animals.

The only secret of the agricultural "miracle" is that the Chinese peasant families set to work with all their energy. (We may add that nature was kind, too: weather was favourable through long years.) The direct tangible material incentive immensely increased the zest for production. Investments or technological developments made in these years, though not unimportant, do not account for the fast growth. The source of most of the growth is more diligent, as well as more careful, work. The result does not only show in the suddenly increased peasant incomes, but in the food supply of the cities as well. Food is available in large quantities and in a wide range of choice, free markets are crammed with goods.

It is no exaggeration to say that these changes are of *importance on the scale of world history*. 800 million Chinese peasants switched over voluntarily, with the approval and support of the socialist state, to the production form of "family farm". It is an event that must draw attention from all parts of the world, especially from those developing countries where the socialist transformation of society and economy is beginning now or in the near future. The events in China urge an overall reconsideration of the theory and practice of peasant policy and agricultural development.

Of course, the issue is still unsolved what the future of Chinese agriculture is

going to be. Will it be millions of small-holdings producing for the market, and small capitalist farms—employing a few labourers permanently or occasionally—growing out of them that will constitute the backbone of agriculture? Today, they are at a low level of technological development. Will the family farm become increasingly capital-intensive, and will production be growing with the aid of improved technical equipment? Or will the role of the large-scale farm increase—be it state-owned, or cooperative, or privately owned—, or will certain combinations of different forms of ownership emerge?

The fast increasing productivity of agricultural work is a welcome process, though mass unemployment may appear as an accompanying phenomenon. In the pre-reform collective economy the overpopulation of villages remained a hidden fact. The commune provided employment for the full grown-up population of the villages; true, at a low productivity and low living standards. As the Chinese put it: everybody could eat from the common iron bowl. The strong financial interest of the family farm, and the free marketing will bring redundant labour to the surface. It is worth making careful calculations confronting costs with receipts. Production activities much more intensive now than before will finally release labour that will seek employment. It is an open question, whether the growth of industry and of the other sectors will be sufficient to continuously absorb the masses that become unemployed in the villages.

One of the important means of overcoming difficulties is the “industrialization” of villages. This phenomenon is somewhat similar to the development of the ancillary workshops of Hungarian agricultural cooperatives. In China, non-agricultural establishments collectively owned by the villages are proliferating: they pursue industrial, building, service or commercial activities. Production is prepared by cheapest possible investment: for example, second-hand machinery is purchased from city plants. Although they work at relatively low technological standards, these non-agricultural establishments do contribute to the national income and provide employment for labour released from agriculture. The number of families who earn a “dual income” is growing: a part of it coming from agriculture, another part from some other sector.

Reform in the city; state-owned industry

The enormous success the reform had in villages encouraged the Chinese leadership to launch the reform also in the cities. As for population, it is a much smaller sphere, yet its economic and political importance is obviously extremely great. One of the elements of the reform is obvious; private enterprise gains ground. Private tradesmen and artisans appear in masses, some of them at the low technical standards characteristic of the country. One family carries a sewing-machine out into the street, accepts and fulfils orders on the spot. The shoemaker also lays out his tools in the street; another family appears with a kitchen stove, kettles, a few tables and chairs:

this is a "restaurant". Many pursue private retail trading or handicraft activities on the free markets under the supervision of the city administration. Within trading activities, an important role is played by vendors selling their merchandize from a small hand-cart. All this is the usual Asian picture of bustling private activities. Only it has to be added that this sector had almost totally been eradicated in the Maoist era. In the reform period, it was enough *to allow* the existence of these activities that masses of private merchants and artisans start their work and contribute to the supply of the population.

To reform the state-owned sector is already a much harder problem. In the following we shall discuss the state-owned industrial enterprise in the first place, underlining some of its characteristic features, while making it clear that the state-owned enterprises of the other sectors (building industry, services, trade) may be described by the same features.

1. A large-scale decentralization is taking place on the *regional* scale. Let us just picture to ourselves that 800 thousand state-owned enterprises are functioning in the country! It is impossible, even geographically, to direct them from a single centre. China has twenty-one provinces and three cities of provincial right, and in some of its provinces the population is greater than in the most highly populated European country (apart from the Soviet Union). Within the framework of the reform, the central government transfers some of its decision-making rights to the provincial governments, or to lower-level local authorities subordinated to the provincial governments.

This is an important and necessary change, while we must be aware that in itself this is no move from bureaucratic to market coordination. Each provincial government can continue to function under the old command mechanism. What is more, this regional decentralization calls into being some tendencies which may counter the emergence of a unified national market, and the free flow of commodities, capital and labour. Parallel to regional autonomy, the spirit of regional autarky is emerging. The provincial government applies protectionist rules to protect its "own" enterprises against competition of "imports" from other provinces. It also impedes "exports" to other provinces, fearing that they may cause shortage on its own markets.

2. The Chinese state-owned enterprise is subject to a *dual regulation*. A part of its capacity is engaged by production prescribed by a mandatory plan target, as a continuation of the pre-reform mechanism. The material and semi-finished products wanted for the mandatory production are ensured through bureaucratic official rationing. For this part of production, fixed official prices are set. The enterprise is free to sell what it can produce above the mandatory part, and to agree in a price with the customer without restriction. For this free output, however, it has to acquire the necessary inputs from the free output of other enterprises. The ratios of mandatory and free production are different with each enterprise; with some, the mandatory part only amounts to 50–80 percent, while with others the mandatory production may still practically engage the available capacity up to 100 percent.

Chinese economists carry on lively debates among themselves about the advantages and drawbacks of this dual system. Its backers say it allows the central authority to keep in hand a large part of production of vital importance. Besides, it permits a gradual enlargement of the free sphere. Opponents of the dual system point out that a number of the well-known harmful consequences of the old command mechanism have remained: the plan bargaining, concealment of some of the resources, false information given to superior authorities in order to receive the lowest possible mandatory output and the highest possible amount of input. Enterprise managers who have so far only tried trickeries in the implementation of the mandatory plan targets, now can manipulate the connections between the two (mandatory and free) spheres as well. Relying on our Hungarian experience, we agree with the critics. One thing the Hungarian reform certainly testifies to is that the system of centrally prescribed mandatory plan targets is possible to abolish by one stroke. *This* is no risk to the functioning of economy; it does not even hinder state authorities to exert a great (sometimes too great and unnecessary) influence on enterprise economy. As bold as the Chinese leadership was in transforming agriculture, as much it is cautious in changing anything in the mechanism of industry and, in general, in that of the state-owned sector.

3. Various measures are taken in China to make the state-owned enterprise interested in increasing its profit. At the same time, the phenomenon of "*soft budget constraint*"* is prevailing there, too. In the course of our talks with Chinese economists they used this expression repeatedly: they had learnt it from the Hungarian literature. The enterprise's activity is not strictly limited by its financial resources; the coercion of profitability is not predominant. The permanently loss-making enterprise can survive and even expand. The final amount of profit is not decided by the market but through bargaining between the enterprise and its superior authorities. This profit-bargaining has developed in various forms. At first, a "profit contract" was signed between the authority and the enterprise—this is a veritable caricature of the profit motive. They agreed, after some bargaining, what amount of profit should be delivered and what amount could be retained. Later, it was a step towards a real profit motive when enterprise taxes were introduced. The idea was that the enterprise would pay the taxes and retain the remaining profit. Well, but one of the taxes, the so-called "adjustment tax" was apt to become again a subject of bargaining. Those who invented this kind of

* This term was introduced by János Kornai, one of the authors of the present article, in his book [6]. In economics, budget constraint is the upper bound on expenses of the economic unit (household, enterprise, or any other institution) set by available financial resources. This constraint can temporarily be lifted with the aid of credit, but credit has to be repaid sooner or later; it is receipts that in the long-run constrain expenses. The budget constraint of state-owned enterprises will "soften" if the state is willing to cover permanent losses, for example, by tax exemptions, or by granting "soft" credits, the repayment of which at expiration is not enforced, by administrative prices passively adjusted to costs, etc. With a soft budget constraint, the profit motive becomes illusory. The survival and growth of the enterprise do not depend on market success, but on the superior authorities' benevolence.

tax intended it to level out those differences between the various enterprises' profitability which cannot be explained with the good or bad performance of enterprises. But who can determine where good or bad performance ends and where good or bad luck begins? In our view, it is already bad performance, if an enterprise is unable to adequately adjust itself to unlucky external circumstances. The problem is familiar to the Hungarian economist. After the Yugoslav and the Hungarian experience, Chinese experience also seems to confirm that wherever an attempt is made to expose the socially owned enterprise to the market, the immediate reaction is to try to obtain exemption; yes, there should be some kind of competition, but not a "real" one in which there are winners and losers. . . .

It also sounded familiar to the Hungarian economist's ears when Chinese enterprise managers listed examples of tendencies levelling out profits. It is the very irony of history that in the country where once the extreme egalitarian slogans of Maoism were born, egalitarianism is today asserted with respect to profit, i.e. with the profitability of state-owned enterprises. The net income the superior authorities consider to be "too much" is taxed away from the enterprise making high profit and transferred to the loss-making enterprise. One of the managers quoted a Chinese proverb saying that "always the buffalo that pulls most is beaten". Another one told the following story to illustrate the practical assertion of the principle according to which an enterprise earning more profit can make more investments. "Let us assume that enterprise No. 1 could start two new investment projects from its own savings, while enterprise No. 2 has no money even for one. In such a case, half of the money of No.1 is taken away and handed over to No.2, so that each can launch one investment project. And, in appreciation of its good work, No.1 is rewarded with a red flag."

4. The Chinese state-owned enterprise plays a *peculiar paternalistic role* in relation to its workers. This role of the Chinese enterprise has developed under the influence of several factors. One of them certainly is East-Asian tradition, as slightly similar phenomena are also found in the privately owned Japanese firms. This Asian tradition is then further enhanced by the old economic and political mechanism, the system of mandatory targets, elimination of the market, and shortage economy.

Prior to the reform, a worker of a state-owned enterprise enjoyed a lot of advantages over the members of communes. It was a privilege to be employed by a state-owned enterprise. Now, with living standards rising fast in villages, the question already emerges to what extent this still is an advantageous position in comparison with the economic situation of the individually farming peasant. However, as we have mentioned, unemployment threatens today and will do so increasingly in the future, so that in a certain sense it will remain a privilege to be working for a state-owned enterprise.

Certainly, it is not easy to find employment with a state-owned enterprise, but once there, it is practically impossible to leave. The position held in a state-owned enterprise is inherited within the family. The enterprise manager cannot dismiss the worker, and the latter cannot give up his position; they are almost tied to one

another.* One can speak of a market homogeneously integrating the economy only if there is also a smoothly functioning labour market [7]—but China is far from it as yet.

The enterprise did not only act as employer, but fulfilled certain functions of provisioning as well. For example, it distributed food cards, or food in kind; or it allotted dwellings. The former function is on the wane as a consequence of the “marketization” of trade in food, while the latter still exists amid a depressing housing situation. The Chinese population has, in general, no social insurance, it receives no health services by civic rights; workers of the state-owned sector enjoy these exceptional benefits also through the enterprise. The role of the enterprise extends to asserting the central demographic policy: it has a positive say in which family, when, and how many children are to be born.

In the preceding, only four questions of the state-owned sector have been examined. Yet even this much is enough to show that, in comparison with the villages (and especially the non-state-owned sectors in them) which moved far away from the conditions of the Maoist period, changes in the cities (and especially in the state-owned sectors) are of a much smaller scale. Eighteen years after the 1968 regulations, we are somewhat further advanced on this road in Hungary, even though quite a number of economists, among them the two authors of the present article, find the reform process too slow. It would be difficult now to forecast the further speed of the reform process taking place in the state-owned sector in China, or to tell at all, how far they will go in the changes, and wherein they will conserve the previous mechanism.

Shortage, inflation, expansion drive

Pre-reform China was, as all the other socialist countries, a “classic” *shortage economy*. There were grave shortages in the supply of consumer goods and services to the population, and in the supply of intermediate goods and investment resources to the producers as well. As a result of the reform process, the situation is no longer uniform, in the trade of certain products and services a “sellers’ market” is still prevailing, while in that of others a “buyers’ market” has already emerged.

As we have mentioned, the food market is well supplied with goods. As for the supply of manufactures, it is difficult to make a general statement. With a lot of items, supply covers demand to a sufficient extent; the latter is strongly constrained by high and fast rising prices. As for other items, such as certain consumer durables, there is high excess demand, and they can only be had after long waiting.

Another phenomenon familiar to us was the intertwining i.e. simultaneous presence of shortage and slack (i.e. surplus or unutilized capacity). In front of the

* On the other hand, the village worker is also “soil-bound”; if he wants to contract for a job outside his own place, he needs the permit of his local authority. The enforcement of this constraint is all the easier, as he also needs the written permit of the same authority if he wants to buy a ticket for the train, long-distance bus, or airplane.

hotels, long rows of empty taxi cabs were waiting. At first we thought that the shortage in taxis, characteristic of most of the socialist countries, had been eliminated. Later on, however, it turned out that indeed there was a bad shortage of taxis. Exactly for this reason, institutions and enterprises hire taxis for whole days and let them wait for hours in front of their office or the hotel, because they want them to be available when their own executives or their foreign guests need them. Shortage breeds slack—in this case, unused capacity of taxis—and thereby further shortage.

The shortage harassing the consumer is most conspicuous in the non-market sphere. In the first place, urban housing shortage must be mentioned. It is already one of the gravest social and economic problems of China and, with the rising general level of consumption, it will grow even worse. The Hungarian society also struggles with the problem. It is, however, our impression, that the problem is many times worse in the overpopulated Chinese cities (several of them giant metropolises with millions of inhabitants).

In Hungary, on the present level of development, the shortage of telephone lines is one of the most tormenting shortage phenomena. China is, however, just beginning to establish a telephone network. In private homes, there are practically no telephones, except for a few "service lines" installed in the homes of some top executives. Enterprises, institutions, and authorities also have very few telephone lines. In this country of huge dimensions it is extremely difficult, even in the most urgent official matters, to get through to another city or province.

Transportation is one of the bottlenecks of growth. To use airlines, one must have an official assignment. On one occasion, we had to change our programme: from Shanghai, instead of going to the originally planned destination, we wished to return to Beijing. A few days prior to the journey, it was impossible to have our itinerary changed in the "commercial way" i.e. through the office of the airline. We were compelled to seek "patronage"; our guides appealed to higher and still higher organs. At the same time, we had to prolong our stay at the hotel in Shanghai, and this could not be settled with the hotel, either. Finally, the deputy mayor helped in solving both problems. Let us just imagine, the city has 13 million inhabitants, more than the entire Hungarian population. The scope of authority of the deputy mayor is comparable to that of a Hungarian deputy prime minister—a huge responsibility and millions of tasks, and yet he himself had to deal with the hotel reservation and air-tickets of two foreign visitors. We were informed of the fact and were not surprised that decisions of small importance such as these are often made on such a high level. We felt grateful for the obliging assistance, and sorry for those in charge of administrative and economic tasks of high importance that shortage phenomena force them to engage in such "dispatcher" activities.

It is quite obvious that also the other branches of transportation put a brake on development and will increasingly do so in the future. Busy highways are quite blocked up with lorries, buses, and the few cars of various institutions. What will happen, if private cars appear (which is quite inevitable on a higher level of development)?

Similar shortage phenomena and bottlenecks are expected to appear in other fields of infrastructure, such as water supply and drainage.

As for the enterprises' supply with materials, parts, semi-finished products, and energy supply, the situation is not uniform. It differs by products, periods, and regions whether there is shortage or a balanced market. Standstills, jolts and forced substitutions in the choice of technology are rather frequent, but we have no adequate information on the subject.

Reverting now to the consumer market, some of the tensions find outlet through *open inflation*. Official reports speak of a 14–15 percent rate, though quite a number of economists estimate it to be higher. The question is debated among academic economists of several socialist countries whether there is excess demand on the consumer market. In China, there is no such debate: excess demand exists beyond doubt. The only thing to be debated is how to avoid that inflation get out of control.

The almost boundless outflow of purchasing power mainly took place in two forms. One was unbridled *wage increase* in state-owned enterprises. Old administrative prohibitions freezing wages and setting strict upper limits to wage funds became much looser. Wage rise is *no longer* placed within bounds by the old mechanism, and *not yet* by a real enterprise profit motive. The enterprise manager is not particularly frightened of wage rises which are well tolerated by the "soft budget constraint" and which can be passed on either to the superior financial authorities or to the customers. Not caring for the cost consequences, what the enterprise manager does perceive is that wage increases are popular. They are useful means to ease tensions or dissatisfaction that may occur within the enterprise. Not infrequently, wages paid out in cash are completed by extra grants in kind, for example, carpets or cameras are distributed among workers and are accounted as production costs.

The other source of the unrestrained outflow of purchasing power is *investment hunger*. The situation is similar to the Hungarian (and even more, the Polish) investment boom. Every enterprise, authority, regional organ, and ministry wants to invest more and more. The most important thing is to launch the project and when this is done, the money needed for completion can certainly be obtained in one way or another, if not now, then later. The projects started hastily and then delayed for lack of financial resources or on account of technical difficulties are termed in Chinese as "bearded" investments.

The uninhibited outflow of purchasing power is a monetary reflexion of the *forced expansion drive*. It is another phenomenon well known from the Eastern European economic history. Success (in this case, suddenly increased agricultural production) gives the impression to economic policy makers that the system is capable of even more. And this impression dictates unrealistically high targets of growth rates. The dramatic and drastic closing down of the Maoist period and the launching of the reform released hidden energies, which enabled a suddenly accelerated growth. True, but this acceleration was a unique and non-recurring event. The high growth rate cannot be made permanent and, if it is attempted, it may lead to the well known

disastrous consequences of overtaut plans. It is remarkable that, after the Maoist era had forced the "big leap" and failed, the reform policy breaking away from Maoism now again attempts a "big leap". It seems that the temptation of organizing "big leaps" is rooted in the deepest-lying layers of the system, which the reform has left untouched.

It is not only the aggregate targets of the national economy that present a serious problem, but the *structure* of the growth process as well. It is to be feared that the one-sidedness, distortion, and disharmony weighing on Chinese development so far will continue to exist and may even grow. We did not conceal our worry from our Chinese colleagues seeing that they envisaged the great national programme of quadrupling industrial and agricultural production. It would be much more reasonable to campaign for increasing some aggregate indicator (for example, GDP) which would include other sectors beside industry and agriculture. The narrow formulation of the programme already carries the risk that infrastructure, the service sector and, in general, all sectors other than industry and agriculture, which have long been neglected, will be pushed further into the background. Harmony has been one of the fundamental principles of Chinese culture, art, and architecture for many thousands of years. When will the idea of harmony inspire at last the plans of growth?

In connexion with the expansion drive, we have yet to mention the problem of *foreign trade and foreign credits*. This country turning inwards for years has at last decided to "open" in this respect, too, thus creating the conditions for benefiting from the well-known advantages offered by the international division of labour. This is a sound change. However, with the given economic mechanism in which no self-limitation of enterprises stimulated by the profit motive has as yet emerged, an almost insatiable *import hunger* has developed. Every enterprise, every organization, every authority wants imports. The main thing is to have the foreign goods as soon as possible: consumer goods sought by the households, and modern machinery for the production units. It is not difficult to raise domestic currency in payment for these. And it is not their worry where the state can find the convertible currency needed. Foreign firms, especially the Japanese ones, eagerly rush at the seemingly boundless Chinese market. Momentarily, they also brush off the question by what means China will pay. Imports are already growing three or four times as fast as exports. It is true that China still disposes of a certain amount of foreign exchange reserves, but they are quickly melting away. There is a danger that reserves will change into a deficit and China, with its gigantic dimensions, will step on the road to indebtedness.

Yet another problem is that of *price and wage reform*. A great many Chinese economists agree in that relative prices are badly distorted; certain products and services are overvalued, while others have relatively too low prices. Similar distortions are found in the wage system. The market is unable to function properly with such distorted price- and wage-systems; it is imperative to make adjustments. It is, however, an open issue how to set to the task. Some suggest a gradual solution, i.e. a series of partial adjustments, fearing that an overall reform might cause too great a shock.

Whereas others—and we find their argumentation more convincing—oppose the gradual solution on the grounds that it would speed up the inflationary price-wage-cost spiral. Any partial price or wage increase would immediately increase costs, spilling over into other parts of the economy, generating price increases elsewhere, which again would lead to further price and wage increases. Later on, also inflationary expectations exert their influence to this effect: every producer calculates future cost rises into his prices. It must be remembered that inflation is a *dynamic* process; this dynamics is generated and accelerated by an endless series of price and wage increases.

Contradictions: opening and remaining closed

In the foregoing chapter, various forms of economic disequilibrium have been discussed: shortage phenomena, inflation, foreign trade deficit. Chinese economic managers and economist-researchers have recognized the harmful and dangerous nature of these phenomena, they face the facts and discuss widely what can be done to overcome the difficulties. The view is rather widely spread, though not generally accepted, that further reform measures must be put off as long as the economic equilibrium is not restored. Those who hold this view suggest a clearly defined sequence: *first* macroequilibrium, and *afterwards* further measures to reform institutions and let market forces increasingly assert themselves. Quite a number of foreign advisers are also disposed towards this view. Whereas others think, more conclusively for us, that the two spheres of efforts must not be separated in time, either. Definite steps must be taken *simultaneously* to create macroequilibrium and to carry on with the reform of institutions. It is to be feared that a priority of macroequilibrium would be concomitant with a *recentralization* of the mechanism, proliferation of bureaucratic regulation and interventions, and the weakening of market effects.

In China, disequilibrium has come about not only in certain economic relations, but in people's *system of values* as well. Respect for the values proclaimed by the cultural revolution has collapsed. We had conversations with several Chinese colleagues who said that at first they had believed the slogans of that period and even participated in the red guard's movement, but later on became disappointed. Others bitterly related their ordeals. In the radical movements of the West such judgement is still not infrequent, that China had followed the proper socialist way at the time of the cultural revolution, but left it with the reforms after the Maoist era.* We think that these French or American authors, lacking personal experience, can hardly understand and interpret the Chinese events of the last decades. With Hungarians, empathy comes much more naturally.

* The radical "New Left" positions of North America and Western Europe—disagreeing, among others, on the Chinese questions—are discussed in detail in [8].

Under the pretext of "fighting against bureaucracy", a wild wave of terror swept over China, intellectuals were persecuted and humiliated in the name of the new culture, economic activities were deprived of sound incentives with the slogan of equality. All this would have led to strengthening the basically unaffected bureaucratic institutional system, had it not been disrupted by the anarchical accompanying phenomena and the disturbances of economic development.

Though the old order of values collapsed, a new one has not been established yet. As far as we could make it out from our conversations and from studying different analyses, a rather large-scale depolitization has taken place in China. Political slogans are no longer painted on the walls. As a rule, argumentations are practical and pragmatic.

The artificially suppressed spirit of consumption awoke in hundreds of millions of people. Those who dislike it scornfully speak of "consumerism", just as in Hungary of the 1960s "refrigerator socialism" and "goulash communism" were the usual terms. Indeed, the Chinese women forced to wear grey or green uniforms through long years happily put on colourful dresses today. Shops and department stores are crammed with shoppers looking for electric fans, refrigerators, hi-fi radios. The colour TV-set is the most demanded shortage article. As for us, we do not find any condemnable, "anti-socialist" tendency in this. It is another question, and an important and justified one, when and to what extent other values—such as commitment to great ideals—join the just claim to decent material living standards. Perhaps a longer time is needed for it and more personal experience of success to confirm that social responsibility and activity undertaken in the transformation of the country do in fact *influence* public affairs.

The key word of the Chinese reform: "opening", has already been mentioned in this article. One of its most conspicuous manifestations is opening towards the world's science and culture. In this country insulated for a long time, in which leaders flatly denied all community with the great literary, artistic, and scientific values of humanity, cultural hunger now bursts forth with an elementary force. To limit ourselves to our own trade: among the tens of thousands of young people studying abroad there are a great number of students who want to learn modern economics at the best universities of the world. Delegations of economists pay visits to different foreign countries and foreign experts are invited to hold lectures and to take part in consultations in China. They want to become acquainted with the Hungarian and the Yugoslav reforms, French planning, industrial management in the German Democratic Republic and the functioning of banks in the USA and the Federal Republic of Germany. Of course, all this greedily devoured, fresh knowledge needs time to be digested. The acquisition of knowledge is an organic process; it does not go from one day to the next. And in China, entire generations fell out. The knowledge of the elderly generation has grown obsolete; those who were imprisoned or sent to the country to tend pigs were not in a position to read the latest professional literature. Entire cohorts of young people missed education altogether. It may be a long time before the lag can be recovered.

"Opening" is not an uncontested tendency. As a matter of fact, China is today a

peculiar combination of insulation and openness, of conservation of the pre-reform state of things and its changing. We met several top leaders who had been themselves victims of the cultural revolution; they had been dismissed from their jobs, or tortured, and put to prison, or sent to the countryside where, without regard to their professional knowledge and state of health, they had been forced for many years to do hard unskilled physical work. At the same time, however, a lot of people kept their position who had held power also during the Maoist era; now one-time persecutors and persecuted live in peaceful coexistence. Economic policy is tolerant: between certain limits, it gives way to individual initiative and private property, whereas demographic policy is extremely intolerant. One can understand that the fast population increase, which is almost unbearable from the economic point of view, must be curbed. On our part, however, we do not regard the forcible means morally acceptable which are used in trying to assert this policy. And the list of contradictory phenomena, incompatible in the long run, could be continued.

It is impossible to foretell what the future holds in store for China. We do not think we are the only ones who cannot see it—who know little about China—, but not even the most highly competent experts of Chinese matters would venture any prophesying. Chinese history has so far been full of sharp turns: periods of “opening” and “insulation”, of “let all flowers bloom” and ruthless force, of “big leap” and cautious slowdown have been alternating. It cannot be thus excluded from future possibilities that the reform process stops or is reversed. So much is certain, however, that *today* no palpable sign shows into such direction. Again an analogy can be drawn with Hungary. In our country, one often feels a depressed atmosphere: many people are exasperated, sceptical and pessimistic. The reform process, now coming to a halt, now moving ahead hardly has an inspiring pathos. Whereas China is now in the midst of the first euphoria of changes. Life has returned to a society having grown rigid, consumption has suddenly increased, life has become on the whole more pleasant and all this raises hope and confidence in almost all groups of society. We sincerely wish that their hopes and plans come true.

References

1. Lim E.-Wood, A. (eds): *China—long-term development issues and options*. World Bank—John Hopkins University Press, Baltimore—London 1985.
2. Perry, E. J.—Wong, C.: *The political economy of reform in post-Mao China*. Harvard University Press, Cambridge 1985.
3. Solinger, J. D.: *Three versions of Chinese socialism*. Boulder, 1984.
4. *World product and income*, World Bank, Washington, 1982; *China: socialist economic development*, World Bank, Washington 1983.
5. Jordán, Gy.: Kína mezőgazdasága ma—változások és tendenciák (Chinese agriculture today—changes and tendencies.) *Közgazdasági Szemle*, 10. 1985. pp. 1249–1260.
6. Kornai, J.: *Economics of shortage*. North-Holland, Amsterdam 1980.

7. Tardos, M.: A szabályozott piac kialakításának feltételei (Conditions of developing a regulated market). *Közgazdasági Szemle*, 11. 1985. pp. 1281-1298.
8. Griffin, K.-Gurley, J.: Radical analyses of imperialism, the third world and the transition to socialism, *Journal of Economic Literature*, Vol. 23, September, 1985. The section on China on pp. 1134-1436.

КИТАЙСКАЯ ЭКОНОМИЧЕСКАЯ РЕФОРМА ГЛАЗАМИ ВЕНГЕРСКИХ ЭКОНОМИСТОВ

Я. КОРНАИ—Ж. ДАНИЭЛЬ

Экономика Китая формируется четырьмя главными факторами: 1. функционирующим в стране политическим и экономическим строем социализма. 2. После Югославии и Венгрии Китай — третья социалистическая страна, в которой происходят глубокие реформы. 3. Китай — развивающаяся страна, стоящая на низком уровне развития производительных сил. 4. Китай имеет многие уникальные, не сравнимые с другими странами индивидуальные особенности, исторические и культурные условия. Авторы, хотя и подчеркивают важность 3-го и 4-го фактора, но рассматривают экономику Китая с точки зрения фактора 1 и 2.

Сначала они рассматривают сельскохозяйственную реформу, прежде всего т. н. «систему ответственности», которая передает организацию производства на усмотрение крестьянских семей в подавляющей части сельского хозяйства. Сильная прямая материальная заинтересованность дала большой толчок росту производства, резко повысился уровень жизни крестьянства и снабжение городов продовольствием.

В статье затем анализируются проблемы государственного сектора и прежде всего промышленных предприятий, находящихся в государственной собственности. Реформа здесь менее радикальна, чем в сельском хозяйстве. Государственные предприятия находятся под т. н. «двойным регулированием»: часть производства ведется на основе обязательных плановых заданий, а о другой части предприятие решает самостоятельно на основе межхозяйственных рыночных связей. Это ведет к большой непоследовательности и позволяет предприятиям «ловчиться». Бюджетные ограничения государственных предприятий являются «мягкими»: отстающая предприятию доля прибыли определяется в ходе торгов с вышестоящими органами, и вопрос о дальнейшем существовании и росте предприятия решается в бюрократических рамках.

Далее в статье говорится о напряженностях, имеющих место в экономике Китая. В этом отношении также имеется развитие: Китай сегодня уже не является «классической» дефицитной экономикой, потому что во многих важных сферах удалось преодолеть дефицит. Однако имеется много острых проявлений дефицита. Ускоряется инфляция, в первую очередь в результате чрезмерных выплат зарплаты и инвестиционного голода. Кроме того, проявляются также и характерные сопутствующие явления форсированного, ускоренного роста, так, например, диспропорции и дисгармонии между различными секторами экономики.

В Китае сосуществуют остатки эпохи Мао и новые черты эпохи реформы. Во многих отношениях экономика и общество стали более «открытыми», и в то же время продолжают жить и многие формы прежней замкнутости. Одно, однако, ясно: после первых очевидных успехов реформы настроение населения пронизано оптимизмом.

ECONOMIC RELATIONS BETWEEN THE CMEA AND THE EEC: FACTS, TRENDS, PROSPECTS

A. INOTAI

In spite of the significant changes in world economy there is no change in the relationship between the two European integrations. This does not amount to saying that there have been no important modifications both within the integrations and in the commodity pattern of trade between the CMEA and the EEC. These may influence the earlier official standpoints and also motivate the particular interests attached to the institutionalization of relations.

Changes in the world economic environment, and novel problems raised by the internal development of the West European integration triggered major revisions in the late 1970s. Among other things, earlier views and mechanisms had to be partially revised, and a new light was also thrown on East-West trade which, for ten years, had been growing much more dynamically than world trade. At the same time, quite a few new elements emerged in the mutual relations of socialist countries, and it became a topical question to further develop the CMEA, i.e. socialist integration, so as to adjust it to the changed internal and external conditions. The world economic recession of the 1980s, the sharpening international debt crisis, and certain political developments of the late seventies and early eighties have put even more obstacles into the way of an institutional agreement between the two European integrations, which had already been made difficult by an almost inextricable maze of economic, financial, legal, institutional, political, and ideological factors. It is thus not surprising that, in the midst of world-wide restructuring, there is an area "resisting all shocks"; the negotiations started in the mid-seventies notwithstanding, no institutional relationship exists as yet between the two European integrations. While the EEC has built up its world-wide system of contracts based partly on preferences and partly on its own cooperation agreements, in the CMEA-EEC trade—amounting to well over half of East-West trade—there still are no contracts, or, as a specialist put it, a "diplomatic soccer-match" is still going on [1]. This is to say that economic relations are unsettled between the two parts of Europe; the *ex-lex-state* lasts longest where centuries of development have brought about a large number of historical, economic, political, and cultural interactions.

The changing economic conditions and the European political situation, as well as recent initiatives justify an examination of the trade relations between the two

integrations, and an evaluation of the elements influencing the long-term development prospects of economic relations and, relying on these, an outlining of the steps to be taken.

Characteristics of the trade between the two integrations

The trade between the two European integrations only makes up a modest part of world trade. In 1975, when East-West trade was the most dynamical, it amounted to 2.9 percent, in the last five years, however, it has dwindled to 2 percent. It is still not to be neglected either from the economic, or from the political points of view. Its changes these last years necessitate that some of its important tendencies, promising to be effective also in the coming years, should be recorded.

EEC exports to the European area of the CMEA were growing dynamically in the course of the seventies: after 1979, however, they fell back considerably and have been stagnating on that level. Whereas EEC imports from the CMEA have been growing intensively, with only little halts: in 1984 they already amounted to more than two-and-a-half-fold of those in 1975. In these figures, as we shall see, a determinant role has been played by the increase of Soviet oil and gas exports.

The deviating development of exports and imports led to a turning of the balance (*Table 1*). Although, traditionally, the EEC had a surplus in its trade with the CMEA, from the late seventies the surplus has turned into deficit. It is even more important that

Table 1
*CMEA-EEC trade**

	1975	1979	1982	1983	1984
EEC exports (million \$)	14480	19790	16826	17949	17365
EEC imports (million \$)	9999	21013	25691	24851	27315
balance (million \$)	+4481	-1223	-8865	-6902	-9950
CMEA share (percent)					
in total EEC exports	4.9	3.4	2.9	3.1	2.9
in total EEC imports	3.4	3.5	4.2	4.3	4.4
EEC share (percent)					
in the OECD exports of CMEA	56.7	60.5	65.0	64.7	65.0
in the OECD imports of CMEA	55.9	51.6	46.8	51.3	50.1

* Here as well as in the next table CMEA figures only comprise the European CMEA countries. Further, they do not contain the figures of trade.

Source: OECD. Statistics of Foreign Trade. Monthly Bulletin, and own computations.

in 1984 the deficit came near to \$14 thousand million in ten years. Most of the deficit arose in the Soviet market; it is in fact a multiple of the amount for which the Soviet Union purchases American corn. This may be put in a way that the Soviet Union earns the amounts necessary for its corn purchases from its trade surplus with the EEC and, in the trilateral flow, it is Western Europe that pays the American farmers. These last years a few other CMEA countries have also earned a surplus in their trade with the EEC. This has followed from their financial situation, their debt repayment obligations, and from the severe import restrictions and export incentives introduced with this in view. Hungary's and Bulgaria's trade with the EEC has been in deficit throughout the period. (In the seventies, EEC trade with the six small European CMEA countries earned a surplus no less than \$10 thousand million for Brussels.

Similarly to the whole of East-West trade, in the CMEA-EEC trade an asymmetry in the importance of relations strikes the eye. While trade with the CMEA is not more important for the EEC than that with Switzerland, the EEC plays a determinant role in the Western trade of the CMEA, and it has a considerably greater weight in the total trade of each socialist country as well. The CMEA's share in total EEC exports has fallen from 4.9 to 2.9 percent in ten years, while in its imports it has grown from 3.4 to 4.4 percent. The fall in exports can only partly be explained by the socialist countries' economic situation, it is, namely, to be ascribed to a large extent to West European competitiveness deteriorating by international comparison. At the same time, in the increasing import share an important role is played by the Soviet oil and gas exports, which is in harmony with the West European countries' efforts at diversifying their energy purchasing sources.

The EEC's loss of international ground is shown by its decreasing weight in the OECD imports of the CMEA countries (nearly 6 percentage points in ten years). At the same time the socialist countries' exports to the EEC grew from 57 percent of their OECD exports to 65 percent, in spite of the well-known West European protectionism. This fact indicates that the economic policy aimed at diversifying the export relations of the CMEA countries has not produced the desired result, the rigidity of the export pattern has kept the socialist countries on the "West European forced path". It has still been the greatest market in volume that has determined the main directions of exports—in spite of forced exports because of debt repayment and increasing trade policy difficulties.

In the exports of the CMEA countries the share of EEC is usually more than 10 percent, with the exception of Bulgaria, while in the case of Romania, Poland, and the Soviet Union it may even surpass 20 percent.* In imports, the EEC's role is outstanding in the case of Hungary, reaching 20 percent; the Polish figure is not far from it either.

*The foreign trade statistics of the different CMEA countries made with different computation methods (different valuations of the rouble and dollar rates) do not allow a direct comparison.

These last ten years important shifts have taken place in the trade between the CMEA and the EEC. The Soviet Union's weight has grown spectacularly: from 43 to 64 percent in CMEA exports to the EEC, and from 42 to 57 percent in imports therefrom. This means that the relative export weights of all the small CMEA countries have decreased (Poland's by 10 percentage points, Czechoslovakia's by 4, Hungary's by 3, Romania's by 2). The situation is more balanced in CMEA imports: there the Soviet Union's gaining ground is mostly contrasted by the Polish and Romanian loss of ground (decreased imports), while, remarkably, the importance of the Hungarian import market has grown. (In 1984 Hungary came into line with Poland—with a nearly four times greater population—with its share of 10 percent).

As a result of historical development, a special complementary division of labour had come about between the two European integrations, which practically determined the pattern of commodity exchange throughout the seventies. In recent years, however, certain strange features have emerged, hardly in line with the main development trends

Table 2
Commodity pattern of the CMEA-EEC trade

Product groups	1975	1980	1983	1975	1980	1983
	EEC share (percent)					
	in the OECD exports of the CMEA			in the OECD imports of the CMEA		
Agricultural products	64.2	61.4	58.9	17.1	31.7	35.3
Crude materials	51.7	57.1	55.3	24.8	26.6	27.8
Mineral fuels	53.4	63.0	66.6	63.5	59.8	52.7
Chemicals	57.5	60.3	51.8	66.7	70.5	63.9
Miscellaneous manufactured goods	62.3	66.5	65.5	63.6	56.9	55.3
Machinery and transport equipment	52.9	49.5	58.0	63.5	62.4	57.1
Total	56.7	64.2	64.7	55.9	54.9	51.3
	CMEA share (percent)					
	in total EEC exports			in total EEC imports		
Agricultural products	1.8	4.1	3.8	3.0	1.8	1.6
Crude materials	3.5	3.5	3.6	5.5	4.6	4.3
Mineral fuels	0.8	0.7	0.4	5.9	8.4	12.4
Chemicals	6.0	5.5	3.7	2.5	2.9	2.4
Miscellaneous manufactured goods	5.8	3.5	3.5	2.9	2.7	2.6
Machinery and transport equipment	5.5	3.1	3.1	1.3	1.0	0.8
Total	4.9	3.5	3.1	3.4	3.8	4.3

Source: Own computations relying on different issues of OECD. Trade by Commodities (Series C).

of the international division of labour and economic relations. Of the two parts of *Table 2*, the second one is the more significant. It shows that while the share of the CMEA in total EEC exports fell from 4.9 to 3.1 percent between 1975 and 1983, in two groups of commodities, agricultural products and crude materials the role of the CMEA grew. It is not merely the fact of growth that is interesting, but even more so that, with the exception of chemicals and miscellaneous manufactured goods, it is only these figures that surpass those shown in total exports, which means there we can speak of a relative specialization trend of the EEC. It is quite evident that agricultural and crude materials, or even the expressly raw material and energy-intensive chemical industrial semi-finished products are highly improbable to represent a desirable specialization for an advanced industrial region organically integrated into the international division of labour. At the same time, in the exports of manufactured goods, especially of machinery, the competitiveness of the West European integration has weakened. Its inner mechanisms expressly served the efforts at physical self-sufficiency of the region, and then efforts were made to shift some of the additional burdens of the "autarky" realized at high costs to other actors of world economy, within the framework of a particular export structure.

This trend is further demonstrated by the socialist countries' share in total EEC imports. It is true that it grew by 0.9 percentage points between 1975 and 1983; behind the fact, however, there is the no less than a 6.5 percentage point growth of primary energies within EEC imports. In all the other groups of products the CMEA share decreased, especially in agricultural products, but also in miscellaneous manufactured goods and in the already small volume of machinery. Specialization is represented in the first place by energy exports, as well as crude material exports relying on natural resources; in all other groups of products the CMEA share is below the average.

Several important conclusions can be drawn from the preceding. The first one can be related to the whole of the East-West economic relations: as opposed to the general trend of the international division of labour, covering increasingly wide fields, in CMEA-EEC relations the importance of the exchange of primary products has clearly grown. It should be stressed that this trend has not been promoted by the socialist countries' increasing oil exports alone, but was supported by the above-average growth of EEC raw produce exports as well. It is highly improbable that on the basis of this exchange of an increasingly "physical" nature a cooperation can be built up which corresponds to the economic development levels of the member countries of the two integrations. It is much nearer the truth to say that this process of an increasingly "physical" trade may become a source of considerable tensions. First, it seriously constrains the prospects of increasing trade relations, second, it sharpens political sensitiveness, which might have an adverse effect on East-West relations (and in it, of course, on CMEA-EEC relations) already, and always, of a high political sensitiveness. Third, and this is not just a by-effect, it puts the countries not disposing of any considerable natural resources, first of all oil and gas, in a highly unfavourable position. The figures make it clear that in the EEC imports of agricultural and

manufactured products the CMEA share decreased, which must have, as a matter of course, badly affected the economies mainly relying on the exports of such goods.

The importance of economic relations with the EEC from the national economic and foreign economic aspects, and their local value are mainly determined by the export commodity pattern of the different CMEA countries. The countries whose exports to the EEC mainly consist of agricultural products, and often of finished goods qualified as "sensitive" and, who therefore, run into limited quotas or are subject to other constraining regulations (textiles, iron and steel, chemical products) have to work on harder conditions than raw material exporters who practically meet with no limitations. On the contrary, they well fit into the EEC strategy aiming to spread, and geographically diversify the raw material dependence. It is partly this easier access to the market, and partly the importance of fulfilling export targets that explain the spectacularly growing weight of primary energies in the exports of several CMEA countries in the last years. This phenomenon is also found in countries which are generally known to be major net energy importers. The only exceptions are Poland (because of the decline in coal exports) and Hungary. Agricultural goods play the relatively greatest role in the Polish and Bulgarian exports as well. Each small CMEA country has a group of products in its exports if not the main one, consisting of miscellaneous manufactured goods with quite a number of "sensitive" items among them. In 1983 these amounted to more than 40 percent of the GDR, Czechoslovak and Romanian exports, to 36 percent of the Hungarian, and to 30 percent of the Polish exports to the EEC. At the same time, in the Soviet exports these groups of products only have a negligible share; whereas unconstrained energy exports amount to more than four-fifths. This not only ensured a fast development of exports, but the realization of a big trade surplus as well.

The export interests of the different CMEA countries are further differentiated by the weight of the expressly "sensitive" products within exports. Such are first of all textile, clothing and iron and steel products, for which Brussels initiated a particular protectionist policy already years ago. Several socialist countries tried to damp the effects of this policy by signing a bilateral contract with the Common Market for exports of textile, clothing and steel products. Also, organic chemical products come into this category, for which there is not—at least for the time being—any comprehensive industrial and trade policy in Brussels, but which are, nevertheless, primary targets of anti-dumping measures of the Common Market.

The share of the "sensitive" products within total exports was changing between 1975 and 1983: most of them slightly decreased, while, for example, in the economies under the heaviest pressure for exports (Poland, Hungary and Romania), the weight of two groups of products grew within total exports, in other countries attempts were made to increase the weight of one group in order to counter-balance a decrease in other fields. For this purpose, most countries judged the exports of chemicals and steel products the most appropriate, and not only because of rises in prices. It seems likely, however, that only a temporary easing of tensions can be expected of this policy.

The socialist countries' exports of the sensitive groups of products only make up a fragment of the trade volume the EEC import market transacts in this field. Therefore, the argument is totally unacceptable that it is socialist exports that disturb market equilibrium in Western Europe. For such a thing can hardly be said of chemical exports that do not reach even 3 percent of the total EEC imports, or of clothing reaching the relatively highest share: 4.5 percent. Besides, between 1975 and 1983 the importance of CMEA exports in EEC imports fell in each field except for steel products, which means that the CMEA lost ground in the competition. This statement is valid, however, almost for every third country, because the measures taken by the EEC increased the importance of its intraregional trade. Further, *Table 3* shows comprehensively, to what extent the CMEA countries succeeded in redirecting their exports of the said product groups to other markets, facing the protectionist obstacles. A trend reflecting a clear, though very slow, change is only emerging in the field of clothing, while this still is the group of products which mainly relies on the EEC (four-fifths of the exports to advanced industrial countries go there). The corresponding indicator of iron and steel exports shows high fluctuations; the importance of the EEC market grew somewhat also in the textile exports, as well as in the exports of chemicals. This means that in the so-called sensitive product groups the CMEA countries increased their orientation towards the EEC market, its protectionism notwithstanding. This cannot be approved from the trade policy aspect, and from that of structural policy it is to be considered expressly disadvantageous. In other words: the restrictive market regulations of the EEC still proved to put up lesser resistance as compared to long overdue domestic structural development (and its economic and social obstacles).

Table 3
Importance of CMEA exports of "sensitive" products

		SITC 51	SITC 65	SITC 67	SITC 84
Share in total EEC exports (the product group concerned = 100)	1975	2.6	2.0	3.1	6.0
	1980	2.3	1.8	3.7	4.9
	1982	2.7	1.6	4.1	4.6
	1983	2.7	1.6	4.0	4.5
	Weight of the EEC market in CMEA exports to the OECD (the product group concerned = 100)	1975	59.1	61.5	57.0
1980		60.1	61.6	68.1	82.0
1982		63.2	62.2	65.3	79.0
1983		63.0	63.4	62.6	79.1

Note: 51 (organic chemicals), 65 (textiles), 67 (iron and steel products) 84 (clothing).

Source: Own computations based on various issues of OECD. Trade by Commodities (Series C).

Table 4
CMEA exports affected by the trade policy of the EEC
(in percentage of each CMEA country's total exports to the EEC)

Country	Industrial products ^a			Agricultural products ^b			Total		
	1975	1980	1983	1975	1980	1983	1975	1980	1983
CMEA	14.3	10.4	8.5	13.4	5.9	4.6	27.7	16.3	13.1
without oil	21.8	21.3	22.7	20.5	12.1	12.4	42.3	33.4	35.1
Soviet Union	5.4	1.5	1.2	4.8	0.9	0.6	10.2	2.4	1.8
GDR	17.7	18.2	17.5	21.7	5.5	1.3	39.4	23.7	18.8
Poland	10.6	13.2	13.5	15.8	14.6	16.0	26.4	27.8	29.5
Czechoslovakia	30.6	26.2	30.0	7.7	5.8	7.6	38.3	32.0	37.6
Hungary	29.3	31.7	27.8	36.0	24.4	27.0	65.3	56.1	54.8
Romania	23.5	21.2	23.1	20.8	5.9	4.8	44.3	27.1	26.0
Bulgaria	28.3	28.1	26.1	39.0	17.6	17.6	67.3	45.7	43.7

^a Organic chemicals (51), textiles (65), iron and steel (67), clothing (84)

^b Food and live animals, beverages and tobacco, vegetable and animal oils, fats and waxes.

Source: own computations based on various issues of OECD, Trade by Commodities (Series C).

Table 4 sums up the figures which show the "degree of hindrance" in the different CMEA countries' exports to the EEC. Here also agriculture had to be taken into consideration, the CAP being perhaps the most serious export hindering factor. It is clearly to be read from the Table: a considerable share of the socialist countries' exports to the EEC meets with obstacles. This share fell from 28 percent to its half between 1975 and 1983. The figure computed by neglecting oil exports shows, however, a 42 percent degree of hindrance in 1975, and a 35 percent one in 1983. It is even more important that, among the European CMEA countries, it is Hungary's exports that are worst affected by the EEC trade policy. In 1975 nearly two-thirds and in 1983 well over a half of Hungarian exports came under the categories most strictly regulated. It is quite characteristic that this ratio amounted to 44 percent in the case of Bulgaria which follows in the line, to 38 percent with Czechoslovakia, 30 percent with Poland, 26 percent with Romania, and 19 percent with the GDR, while only 1.8 percent of Soviet exports belong to this category. The special situation of Hungary is explained first of all by the high ratio of agricultural exports, as it is the decrease of their share in total exports that accounts for most of the decrease between 1975 and 1983. It must not escape attention, either, that the Hungarian figure is very high also in the exports of manufactures: it "leads the field", together with the Czechoslovak indicator.

A few characteristics of the EEC trade policy and the behaviour of the CMEA countries

The trade policy the EEC adopted in the seventies, and its increasingly grave problems of competitiveness affected the CMEA countries rather disadvantageously in several respects. The socialist countries' economic literature produced comprehensive analyses of the discriminative measures and their adverse effects not only on the CMEA countries, but on the development of international trade and the division of labour as well. It was not by chance that the proposals of the CMEA were first of all concerned with the assurance of a trade without discriminations.

The trade policy armoury of Brussels against the CMEA is of a rather wide range. Direct and indirect means are equally applied; some expressly affect the socialist countries' products, others those of a great number of third countries; preferences granted to some countries necessarily generate dispreferences for others.

Of the wide variety of means, the following three had the greatest impact: establishment of the common agricultural policy (CAP) and thereby heavily constrained agricultural exports; laying down an overall system of preferences in the early seventies; sectoral policy concerning the textile and the steel industries, from the late seventies.*

Beside structural modernization and improvement of the export pattern of socialist countries shifting towards higher-valued products, also the agricultural regulations of the EEC played an important role in the fast decrease of the share of agricultural exports. (In a few countries, also errors in agricultural policy contributed to the shrinking of exportable commodities.) This concerns Hungary in the first place, and, to a smaller extent, Bulgaria and Poland. The CMEA countries could only place a part of their products driven out of the EEC market on other markets with convertible currencies. It is not so much the failure of the export diversification policy that accounts for the fact, but rather the traditionally determining role the West European outlet has been and still is playing in the agricultural exports of these countries. Besides, as the world's largest agricultural importer, the EEC would be difficult to dispense with: the loss of sales thus incurred could not be counterbalanced by other markets. The adverse effects of the agricultural policy are today mainly reflected in the trade balance situation of the socialist countries, since the export earnings of several CMEA countries are not increasing at an adequate rate because of the agricultural obstacles. This is an especially serious problem for the economies with a traditionally net agricultural surplus, first of all for Hungary.** It is a further difficulty that the bulk

*The agricultural agreements signed between 1965 and 1980 cover Bulgarian, Czechoslovak, Hungarian, Polish and Romanian products. They were renewed, with modifications, in 1981-1982. The present agreement on textile fibres covers the period 1983-1986; in the steel sector there are continuous consultations, for Brussels fixes the quotas for three-, or six-month periods.

**There is another wider, more general, aspect of the question, which is, however, no less worrying. The CMEA-EEC agricultural trade balance showed a \$850 million surplus in favour of the CMEA in 1975, in 1980 the EEC already had a \$1.3 thousand million surplus, which grew to \$2.4 thousand million in 1981 and still amounted to \$1.1-1.2 thousand million in 1982-1983. Whereas it is quite clear that the small CMEA

of the socialist countries' agricultural exports consists of products in which the EEC has not only attained self-sufficiency in the last years, but has in several cases even built up considerable reserves, so that it could appear as an important exporter on markets where, among others, also Hungarian agricultural exports tried to find outlet. While the Hungarian, Polish, and Romanian meat exports, Hungarian grain exports, and the vegetable and fruit exports of all CMEA countries are constrained by numerous market obstacles, in respect of fish products, drinks and fodder the EEC regulation is "more indulgent". That is to say, the agricultural exports of the socialist countries consisting of the latter kinds of goods meet with less difficulties. (This mainly concerns the Soviet exports of fish preparations and drinks.) [2]

The EEC system of trade preferences affects the CMEA countries disadvantageously from two aspects. First, such measures in themselves mar the prospects of those countries with which the EEC has not concluded preferential (or other) agreements. Second, they raise the preference threshold between the countries enjoying the advantages of agreements, and those not having such advantages. A Western analysis made in the early 1980s [3] registered restrictive trade policy practices affecting 27 percent of the CMEA exports to the EEC, as against the 8-9 percent rate found in respect of the exports of advanced industrial and developing countries.

Finally, the sectoral agreements on textile garments and steelware hit hard, among others, the CMEA countries, since a considerable part of their exports consists of such products. Under the terms of the agreements, the socialist countries restrict their exports, or do not raise them above the volume stipulated by the EEC, and accept certain minimum prices (independent of their production costs).

The rather frequently applied anti-dumping procedure is a particular element of the trade policy armoury used against the socialist countries' exports. In the course of the seventies about 90 such actions were initiated against the European socialist countries (Yugoslavia included), which is the same number as that of proceedings initiated against the OECD countries or against the rapidly industrializing countries. At the same time, the importance of the latter countries in EEC trade is much greater, thus, the number of actions brought against the socialist exports was conspicuously high. (In 1981-1982, no less than 59 of the 106 anti-dumping actions were aimed at socialist products). Prior to the introduction of the sectoral policy concerning the steel industry, in the late seventies, the dumping charges mainly referred to steel products, and later to an increasing extent to chemicals and a few other items (tyres, refrigerators, electromotors, ball and roller bearing, clocks, etc.). In the practice of long years, until the end of 1983, Brussels had not refused to bring a dumping action

countries could finance some, or most, of their West European machinery and manufactured goods imports exactly from the surplus they should earn through agricultural exports. In 1982 only two member states of the CMEA had such surpluses: Bulgaria the modest sum of \$42 million, and Hungary a larger amount: \$331 million. In 1983, liabilities and various export measures—in many cases endangering even the food supply to households—resulted in agricultural export surpluses for all CMEA countries, except for the Soviet Union and the GDR. However, only Hungary's surplus was a significant amount (\$303 million); other countries had surpluses between \$15 and 50 million.

even in a single case, which is to say that, whether the charge was justified or not, the exporter was bound to suffer losses.

The motive of the dumping actions has largely changed these last years. Instead of the price question, earlier regarded as decisive, considerations are now rather based on the effects on West European producers. Since the international competitiveness of the EEC has decreased, some of those who had earlier produced for the world market were compelled to withdraw from the strong external competition to the regional market. Thus, an increasing part of the exports to the EEC is considered as "dangerous". The permanently high rate of unemployment further strengthens the EEC producers' position in initiating dumping actions or, in making various "voluntary" export restrictions accepted, under the threat of taking such actions.

The problems may be mitigated if, as is pointed out in a Czechoslovak study [4], the socialist countries deepen direct relationships with the EEC Commission, while receiving increased legal support from the national chambers of commerce (and industry).

For some time, the EEC applied certain politically motivated commercial sanctions against the Soviet Union which were introduced under pressure of the U.S. It is another question that this measure affected merely 1.4 percent of the Soviet exports and caused no more than a \$140 million loss (it was the exports of luxury articles, such as caviar, pianos, and field glasses that Brussels restricted).

The CMEA countries took various measures to counteract the unfavourable consequences. The improvement of the export pattern, and the changing of its geographical distribution have not, as we have seen, produced a satisfactory result. Besides, the affected countries entered into negotiations with Brussels with a view to finding mutually acceptable solutions to the disputed issues. Suggestions ranged from signing a general trade agreement through to sectoral agreements to negotiations of special partial questions.

In fact, the question is about a three-pillar system of relations which provided, somehow or other, for a flow of information even in a situation not governed by contracts, and also offered a certain forum representing the interests of the socialist countries. The latter were, namely, deprived of their chance of influencing the external economic policies of West European governments, as the foreign trading rights of the national governments had been transferred to Brussels. First, the cooperation agreements signed with the EEC member states have from the beginning not been subject to the authority of Brussels,* not least because of the efforts of the member states of the West European integration to keep their independence. Second, although the European CMEA countries—with the exception of Romania—have not signed an agreement with Brussels, their embassies in Brussels maintain far-reaching relations with the Commission. That there are channels functioning between the individual CMEA countries and the EEC is shown, among other things, by the above-mentioned

*Czechoslovakia signed such agreement with 18 West European countries, Hungary and Romania with 19, Poland and the Soviet Union with 20, and the GDR with 16.

agreements on textile goods and steel products. Finally, the third forum for maintaining relations has been established within the framework of international organizations (GATT, IMF, UN specialized organs, the Conference on European Security and Cooperation).*

Beside joint actions, the CMEA countries have also taken a few individual measures to mitigate the harmful effects of steps taken by the EEC against the socialist countries' interests and hindering and distorting international trade.

It is remarkable that the Soviet Union, which has been the least affected by Common Market protectionism, has always started negotiations with Brussels, even when only a partial economic interest was involved. Such was the case of the fishing agreement back in 1977, and again in 1983 when Brussels brought a dumping action against the Soviet nickel exports.** The foreign trading company concerned (Raznoimport) lodged an appeal and, for the first time in the case of a socialist country, the EEC was compelled not only to stop the proceedings officially, but also to refund the amount collected in the meantime by right of dumping customs duty. Observers in Brussels used the case to call attention to the impartiality of the Commission and the decisive role of economic criteria. In fact, however, what this case exemplifies is rather the role the economic and political importance and bargaining power of a given country can play in trade policy negotiations. (In early 1984 a Common Market agricultural delegation went to the Soviet Union to discuss problems concerning wine exports.)

Owing to the special trade regulations between the two German states, the GDR enjoys certain advantages also in the EEC trade, since it can export the bulk of its products to the FRG market, which is most important for it, free of customs duties or quotas. (This was separately so ruled by the 1957 Rome Treaties.) According to Western estimates [6], these advantages bring yearly \$300–500 million savings to the GDR. The amount saved is in fact much higher, because, if this specially regulated trade did not exist, a number of GDR products could not be sold at all on the FRG market. Bulgaria is considering to ask for preferences due to developing countries; Czechoslovakia has taken far-reaching measures to mitigate the effects of protectionism hitting it especially hard, and has set the objective of normalizing its relations with the EEC. Czechoslovak economic policy judges GATT and certain bilateral agreements signed back in the twenties and still considered valid as appropriate means for the purpose, in addition to the sectoral agreements the effects of which on Czechoslovak exports are not always judged unfavourably, sometimes even unfilled quotas are mentioned because of domestic production problems. (The bilateral agreements mentioned established the mutual granting of the most-favoured-nation

*The various forms established for maintaining relations are examined in detail in [5].

**Soviet nickel exports to the EEC amounted to 20 thousand tons in 1982, i.e. the Soviet Union had a 15 percent share of the market. According to Brussels, this increased share was reached by underbidding the reference price by 16 percent. This assertion was, however, not confirmed either by other producers' selling prices, or the quotations of the London metal exchange. As in many other cases, the real cause was that the EEC nickel production fell by 56 percent in a year, and its capacity utilization decreased by 40 percent.

clause.) Romania, having already enjoyed the advantages of the general system of preferences of the EEC owing to its "developing country status", signed a trade agreement with Brussels in July 1980. This covers industrial products only, and contains the EEC's promise to ease the quantitative restrictions of Romanian exports (concerning mainly organic chemical products, chemical fertilizers, glassware and ceramics). Whereas it does not provide for any Common Market preferences, tariff concessions or agricultural facilitations. As against this, Romania undertook to increase and structurally diversify its purchases from the Common Market. As it is pointed out by a study [7], Romania's purpose with the agreement was to promote and extend all-European economic cooperation and to counteract the erroneous, yet fast spreading, view, in which European cooperation is narrowed down to the sphere of the West European countries. During the five years that have passed since the signing of the agreement, bilateral expectations have only partly been fulfilled. A mixed committee was organized to superintend the contract and to explore new prospects. Romania judges that the system of conditions has improved for placing certain products on the market, first of all owing to higher quotas. At the same time, the drastic import restrictions that had become necessary pressed down EEC exports to Romania to one-third of the 1980 level in 1983-1984, which resulted in a substantial Romanian surplus. Brussels officially criticized Romanian trade policy, saying that the development of bilateral relations did not fulfil expectations fostered at signing the contract. Whereas on the Romanian side the Common Agricultural Policy is further criticized. Also, Romania would like to make progress in the financial, scientific and technical fields in addition to advantages enjoyed in agriculture, and it sees the means by which to achieve this objective in replacing the present trade contract by a cooperation agreement. (This has remained an open issue at the last mixed committee meetings.)

The relations with the CMEA, i.e. with the individual member countries of the CMEA are judged differently by the member countries of the EEC. The cooperation agreements loosening up the trade policy competence of the EEC contain quite a number of specially national elements and direct attention to the different degrees and different fields of interests of the EEC member countries. The remark should be made at this point that the cooperation agreements signed earlier with socialist countries were followed in the early eighties by a number of agreements concluded with the developing countries. Depending on the view of the different member countries on protectionism, some countries wish to *enlarge trade*, others require stricter control. Representing the former view, the FRG is supported by a few small countries, whereas in respect of trade between itself and the GDR, it stands alone. Lately, other member countries have increasingly objected to FRG-GDR trade, blaming it, among other things, for the worsening of their structural problems. Their main objection is that GDR products freely flowing into the FRG are transmitted by West German dealers and agents to other Common Market member countries, and that through the GDR some other socialist countries' otherwise discriminated products find their way into the

EEC. The detailed investigations of the Commission have demonstrated, however, that the latter charge is unfounded. Further, the question has been raised that the trade between the two German states does not only create a favourable situation for the GDR in the FRG, but this is true the other way round, too, which reduces the other EEC countries' export prospects on the GDR market. By no means have the member states of the West European integration reached an agreement on the issue of export credits, and the temporarily introduced policy of sanctions has also become a source of dissensions. (Greece and Denmark did not adopt it.) A serious problem is caused by agricultural exports which get first of all to the Soviet Union at rather low prices, in fact, supported by EEC export subsidy, but without EEC permit (butter).^{*} It is worth mentioning at this point that the interest of French agriculture in increasing the sales of grain and other agricultural produce to the Soviet Union under the terms of special agreements has been asserted against the EEC regulations. In the final account, the member states' interests are still different at the COCOM negotiations, even though a certain degree of West European unity has been forced by American pressure. In this respect, the Community cannot play an active role, for Article 223 of the Rome Treaties rules that products and technologies serving direct or indirect military use do not come under the Community's competence.

Changing conditions

Although no tangible progress has been made in the course of the official negotiations between the two integrations, it is not less pressing now in the mid-eighties to put a stop to the situation lacking a regulation by contracts than it was before, even though related conflicts have not ceased, and the possible forms of normalization may even be more varied than it had been conceived earlier.

The urgency of settling the matter lies in the fact that East-West economic relations had reached a level by the late 1970s where, quantitative and structural disproportions (differences) notwithstanding, mutual economic dependence strengthened. It is today clear for the EEC that palpable economic interests tie it to the European CMEA region, and that a loosening of relations would be harmful for both parties.

Beyond the recognition of this fact, other conditions have changed, too, such as throw new light upon the development of the integrations and the CMEA-EEC relations. Some of them arise from world political changes, others from the world economy, and a third part may be traced back to the internal development of the two integrations. As for the future of the bilateral trade, the fact must first of all be considered that by the early 1980s socialist trade deficit changed into a surplus which, though mainly due to the Soviet export surplus, also includes the results of the small

^{*}The question was also discussed by the European Parliament [8].

CMEA countries' efforts to restore their external economic equilibrium. This balanced situation lends a certain degree of stability to the relations, and may provide the grounds for a further dynamical development.

One of the fundamental motives of the EEC's interests in concluding agreements has been and still is of a political nature: it is tied to the political recognition of the West European integration and the upgrading of its role in world and mainly European politics. The importance of this motive is clearly demonstrated by the fact that all documents treating EEC-CMEA relations or EEC and CMEA countries pay special attention to certain non-economic questions (socio-political development in socialist countries, human rights, foreign policy views, etc.). Besides, however, economic motives are also gaining importance.

Brussels' interest has been greatly increased by the West European energy policy conception adopted after the oil crisis, which did not primarily aim at reducing dependence, but rather at diversifying its geographical distribution and commodity pattern. As a consequence, West European interest largely increased first in Soviet oil, and later, from the early eighties, also in Soviet gas supplies. Interests are clearly formulated also on the part of exporters. These mainly concern the Soviet market of huge dimensions and great demand, in which the external economic restrictions of recent years have not been so badly felt, since the Soviet Union could increase its foreign exchange receipts. To maintain the EEC's share in the Soviet machinery and equipment imports is put down as a fundamental objective, which had no small part in the success of the negotiations on steel tubes and gas. The exporters' other interest is in selling the substantial surplus of agricultural products, which is increasingly difficult. It is no secret that Brussels looks to the Soviet Union and a few other agricultural importer countries of Eastern Europe as adequate partners for purchasing some of its surplus agricultural products.*

From the side of world economy and partner selection, Brussels' interest is motivated by the fact that the West European integration has lost ground in world trade in the last years and is increasingly lagging behind in several sectors of technological development of first importance. It seems that not only a domestic policy apt to counterbalance this fact, but also the aspect of partner selection, i.e. of external relations lacked the necessary attention in the Brussels conceptions of the late 1970s. Obviously, it is impossible for the EEC to compete with Japan or the United States (which can rely on a highly advanced and close industrial division of labour built up with the South-East Asian region and a few Latin-American countries) in a way that the EEC prefers the least developed countries of Black Africa, while it deters the industrially more advanced countries with its protectionist trade policy instead of trying to win them for partners. A reconsideration of the partner selection strategy on the one hand, and a reassessment of the European market on the other may provide

*... The Committee should thoroughly investigate all prospects of using the Eastern markets to the farthest possible extent, without having to grant any special preferences to the given countries and with no prejudice to the Common Agricultural Policy."—an EEC report says [9].

favourable grounds for developing the industrial division of labour between Eastern and Western Europe (on the condition, of course, that appropriate measures are taken also in the West European industrial and trade policy).

From the political and economic aspects, the EEC's interest in intensifying relations with the CMEA may be further supported by the increasing antagonism between the U.S.A. and Western Europe. The main trend in this is of political nature, and this can exert no little influence on the politically always sensitive East-West relations.

A number of conditions have also changed on the socialist side these last years. The increasingly protectionist industrial policy of the EEC, and trade restrictions affecting ever new fields have rendered access to the market extremely difficult. And this has happened exactly when the increase of exports was made a priority requirement in several CMEA countries, and attempts at geographical diversification have only brought modest results. Under these circumstances, the conviction grew stronger that relations with Brussels must be intensified, for this is the only means to prevent, or at least to mitigate, the losses which otherwise threaten the socialist countries' export positions. Increasing competition on the part of some of the developing countries, the appearance and advantageous position in Western Europe of countries' export positions. Increasing competition on the part of some of the CMEA countries to use a more active economic diplomacy in order to eliminate their disadvantages inherent not in production, but in the widely different terms of trade.

During the seventies it may still have appeared—and this justified the CMEA position taken in 1976—that partly membership in GATT and partly the cooperation agreements can compensate for trade policy losses. It is clear today that in a world trade covered by a network of preferences, in which the main obstacles to export expansion are factors other than tariffs, the GATT rules in themselves cannot help sufficiently.* Trade policy difficulties were only further increased by the development of the world-wide system of EEC contracts while the CMEA had been left out of it, as well as by the expansion of EEC through the Mediterranean countries which, according to computations, endangers further export markets of the socialist countries. What is more, a considerable part of the Mediterranean products flowing into Western Europe are rivals of the socialist countries' exports. The socialist countries cannot ignore the existence of a homogenous, duty-free West European market of manufactured products, if they wish to prevent their exporting positions from a bad deterioration in their trade accounted in convertible currencies.

Finally, it is to be mentioned that from the early eighties the number of problems has been growing which the socialist countries must solve in their cooperation (questions of bilateralism and convertibility of currencies, approximation to each other of the different economic mechanisms, handling of differences in development

*As early as in 1976, i.e. at the peak of the "cooperation optimism", a Polish expert [10] warned that these agreements may have brought about a continuity in that they replaced earlier trade agreements, but they proved to be insufficient replacements of the latter.

level, repression of the autarkic mentality still prevailing in many places). These challenges necessitate, on the one hand, a thorough exploration of domestic reserves, while on the other hand they demand further development of the socialist integration. Besides, they postulate intensive development of the international division of labour, as it is specified in the official documents of all CMEA countries.

New conceptions?

Notwithstanding the changes that have been discussed, it cannot be said today that any conception about the future of relations between the two integrations has yet crystallized in Brussels. This is partly explained by the fact that the West European integration has been taken captive by its own mechanism: the Common Agricultural Policy and the industrial protectionism have by now become independent factors, representing special interests, which cannot be eliminated from one day to the next (probably, not even in a longer time); and the system of foreign economic preferences imposes a number of obligations on the EEC, and the affected countries violently protest against any attempt at easing them. On the other hand, it is to be seen that there is by far no agreement within the EEC as for the economic strategy to be adopted. In trade and industrial policy questions the economic interests of member countries are openly conflicting, and even the agricultural regulations, earlier considered as a taboo, have been challenged. The roots of both sets of questions go back to the foundation and expansion period of the integration. However, while in the period of fast growth and a dynamical increase of world trade and intraregional relations the problems were not conspicuous, today fundamental dilemmas influencing the Community's future and thereby also the East-West relations are encountered in several fields. There is a dilemma between smooth regional cooperation and the maintenance of world economic openness, and an increasing number of signs point into the direction of regional insulation (problems of competitiveness, differences in development levels). Another dilemma exists between enlargement and the earlier established, world-wide system of preferences, since the former enhances the relative disadvantages of third countries, or, it would necessitate the elaboration of adequate compensation mechanisms. (The non-joining countries of the Mediterranean region, among them Yugoslavia, have already received favours to facilitate access to the market.) Third, enlargements increase the differences in economic development levels and push questions of levelling, as well as social, political and regional ones to the fore, at a time when there is less money than before to cover the related costs, and when the world-wide acceleration of technical progress demands new priorities, such as lay stress on competitiveness. Fourth, the enlargement of common economic policy fields, first of all the concentration of trade policy authority on Brussels, and the joint actions necessary because of competition, or from world economic, and sometimes also from political, aspects have given rise to and strengthened processes of an ambivalent

character. On the one hand, this has strengthened efforts at national autonomy in all the fields where the community policy was absent or proved to be weak, or the real or imaginary vital interests of the given member country were at risk. On the other hand, it has quite considerably confirmed the position of the Commission (mainly in world trade and sectoral questions, among other things, in the form of full-right membership at Western summit conferences), owing exactly to joint actions having become necessary in many places. The challenge of competition and technology may further strengthen the Committee as against the member countries, which may lead to such compromise as a result of which opening towards world trade will be further restrained to the benefit of regional free trade. [11]

It is not in conformity with the long-term interests of the small CMEA countries that the EEC expressly favours physical considerations: it makes efforts at increasing its agricultural exports and at stabilizing its energy imports. This is conflicting in particular with interests of socialist economies exporting manufactures and agricultural products, while on the whole it also weakens the economic stability of East-West relations. Brussels makes efforts to increase its exports, while using every means to restrict imports from the socialist countries, especially if they affect the so-called sensitive sectors. It is a regrettable fact that in the West European integration trade policy restrictions are increasing in number and a claim is taking shape to return to the more limited regional sphere at a time when the socialist countries, having experienced the difficulties, indefensibility and, first of all, the extremely high social cost of such autarky, and also having paid some "school-fees", are turning more outward and are outlining an active and export-oriented economic policy.*

EEC considerations concerning the CMEA are concentrated on two fundamental questions: first, whether it is necessary to conclude an agreement with the socialist integration and, if so, what kind of agreement it should be, second, in which way the West European integration could be politically upgraded in East-West relations. The changes outlined in the preceding have altered the Community's standpoint formed ten years ago in that arguments are more in favour of an agreement, notwithstanding the differences that undoubtedly exist between the two integrations. The most important argument is of a political nature: the strengthening of European security and cooperation and thereby contribution not only to European, but world peace (it is not accidental that Brussels—seeking a special political field for manoeuvring—uses this argument at the time of sharpening, as well as of superficially easing, tensions in East-West relations). This general framework is then filled with a special demand raised towards the socialist countries concerning human rights. The second argument enhances the historical, geographical and cultural unity of Europe and formulates the target of a "unified, democratic Europe" in the long run. (In this respect, it is close to

*Therefore, several Western experts call on the EEC to promote the foreign economic opening of the CMEA countries, or call attention to the risks involved by a Common Market policy discriminating against the socialist countries (conceptions of autarky and insulation gaining ground, deteriorating economic conditions of East-West division of labour, etc.) [12]

the position of the West German, and on the whole, of the West European, social democracy which calls attention to the importance of "europeanizing" relations.) The third argument highlights the common interests, among them the questions of environmental protection, transportation, standardization. And the fourth, latent but not unimportant, consideration is the wish to strengthen the European, and within it the Eastern European, role of the EEC in a sharpening international economic competition, first of all against the U.S.A. and Japan. The idea that permeates the entire reasoning is, however, that the question of relations with the CMEA countries cannot and must not be confined to economic aspects.

To this basic element is added the traditional conception according to which the interests of the small CMEA countries must be given special consideration in building up relations and it must not be promoted in any way that their economic dependence on the Soviet Union should increase. However, the behaviour of the EEC in the last ten years, and its political and economic objectives have hardly worked towards achieving this target, they have exerted an influence exactly in the opposite direction. As it is stated in a Western study: "The economic costs of the Soviet policy towards the EEC, and those of the EEC countries' policy towards the CMEA must be borne by the small CMEA countries." [13] Without going into a detailed analysis of the question, a few obvious examples will be not without interest. In the trade between the two integrations the importance of the small CMEA countries has more than once radically decreased. The agricultural policy of the EEC has strongly limited the export receipts of the CMEA countries exporting agricultural products, and thereby also their economic development prospects, while necessarily contributing to the building up of those systems of relationships—also in earlier world-market-oriented production fields—the prevention of which was declared to be a political target of primary importance. The credit embargo, reaction on the situation in Poland, and the strengthening agricultural export interests also have been promoting trends contrary to the political efforts of the EEC.

The short-term political determination of the development of relations is, however, impractical and counterproductive not only because of the obvious economic losses which can in most cases be expressed in numerical terms. What is more important is the role of the time factor. As a consequence of harder economic conditions and an increasing number of forced paths, such long-term structural processes have started in the last years and may start in the near future, as will only allow to fill out the scope of manoeuvring opening in the political sphere with economic elements and ties to limited extent, even in the case of alterations in the Brussels system of targets or of a general improvement in the East-West political atmosphere.

In the present world political and economic situation it may not be necessary to emphasize that the development of relations between the EEC and the CMEA is of a great political—and not only economic—importance. The future of these relations may play a significant role in the European cooperation, as the European atmosphere

largely influences the prospects of its development. Therefore, as for the coming years, more is involved than a formal agreement, or just one more document. Certainly, the signing of an agreement between the two integrations: the formulation of a framework contract and the ensuing bilateral economic agreements between each CMEA country and the EEC may bring favourable results, first of all on the political-psychological level. Since, however, the different sectoral agreements of recent years and the EEC system of foreign economic preferences strongly delimits prospects, an economic break-through may not be expected unless a series of new initiatives are made and new conceptions are fast elaborated and put into practice.* The question awaits an urgent—and reassuring—answer, whether the socialist and the capitalist parts of Europe or, narrowed down, the CMEA and the EEC, having learnt in the past decades how to coexist peacefully, have also learnt or are willing to live together in a closer cooperation in the future. It is to be feared that, if they do not learn it in time, the “soccer match” which is characteristic of the relationship between the two integrations and is still going on, will not have winners at all, but only losers by the end of the eighties.

References

1. Pinder, J.: Les négociations entre la CEE et le COMECON. *Politique Etrangère*, 3, 1980. pp. 665–677.
2. Inotai, A.: Az európai KGST-országok agrárkereskedelme az EGK-val (Agricultural trade of the European CMEA countries with the EEC). Research Institute of World Economy, Budapest 1983. (Manuscript)
3. Olechowski, A.—Yeats, A.: The incidence of non-tariff barriers on socialist country exports. *Economia Internazionale*, 2, 1982.
4. Cernohuby, M.: Relations between Czechoslovakia and the European Economic Community. *Czechoslovak Economic Digest*, 1, 1985. p. 61.
5. Maslen, J.: The European Community's relations with the state-trading countries, 1981–1983. In: *Yearbook of European law*. 1983. 3. Clarendon Press, Oxford 1984. pp. 326–336.
6. Hager, W.—Taylor, R.: *EEC protectionism: present practice and future trends. Vol. 2. The geography of protectionism. The Community's instruments and options*. European Research Associates, Brussels 1982. p. 140.
7. Pop, N.: *Romania's economic relations with EEC member countries*. Bucharest 1983. Manuscript. Paper read at the Romanian–Hungarian economics conference held in Bucharest in November 1983.
8. Aigner, H.: Bericht über die Ausführungen landwirtschaftlicher Erzeugnisse der Gemeinschaft in die UdSSR und die Staatshandelsländer. Europäisches Parlament. *Sitzungsdokumente 1981–1982*. Dokument 1–846/81. January 8, 1982.
9. De Clerq, W.: Bericht über die Beziehungen zwischen der Europäischen Gemeinschaft und den osteuropäischen Staatshandelsländern sowie dem RGW (COMECON). Europäisches Parlament. *Sitzungsdokumente 1981–1982*. Dokument 1–424/81. August 26, 1981. p. 26.
10. Wiczorkiewicz, A.: Politycznoprawne aspekty wyniany między Polska a krajami EWG. *Sprawy Międzynarodowe*, 6, 1976.

*Machowski's suggestion about free trade to be introduced between the two integrations points into this direction [14]. Questions to be investigated may include the prospects of the EEC countries' capital investments in the CMEA countries, the accounting of an increasing share of the bilateral trade in ECU, etc.

11. Deubner, C.: Die Außenwirtschaftspolitik der Europäischen Gemeinschaft. *Aus Politik und Zeitgeschichte*, April 27, 1985. No. 17. p. 46.
12. Marsh, P.: The European Community and East-West economic relations. *Journal of Common Market Studies*, September 1984.
13. Machowski, H.: Die Wirtschaftsbeziehungen zwischen den EG- und RGW-Staaten. Schwerpunkte, Probleme und Perspektiven. *Europäische Rundschau*, 3. 1985. p. 88.
14. Machowski, H.: op. cit. pp. 88-91.

ЭКОНОМИЧЕСКИЕ СВЯЗИ МЕЖДУ СЭВ И ЕС: ФАКТЫ, ТЕНДЕНЦИИ, ПЕРСПЕКТИВЫ

А. ИНОТАИ

Попытки придать институциональный характер связям между двумя европейскими интеграциями имеют за собой уже более чем десятилетнюю историю. В свете существенных изменений мирохозяйственной среды в статье анализируются количественные характеристики торговли между СЭВ и ЕС, проблемы сбалансированности и, в особенности, товарной структуры. Последнее свидетельствует о том, что эта торговля не следовала за всемирным ускорением разделения труда в промышленности; вместо этого в экспорте не только лучше обеспеченного сырьевыми материалами СЭВ, но и относящегося к наиболее промышленно развитым регионам мира ЕС на первый план вышли продукты сельского хозяйства, минеральное сырье и энергоносители.

Товарная структура экспорта социалистических стран в ЕС весьма существенно различается по странам. Поэтому не случайно, что практика торговой политики Брюсселя очень по-разному затрагивает отдельные страны СЭВ. Доля «чувствительных» изделий наиболее высока в венгерском экспорте, в то же время для ЕС в последние годы относительно обесценился как раз венгерский рынок.

В части, анализирующей поведение стран-членов СЭВ с учетом торговой политики «Общего рынка», указывается на те возможности и ограничения, которые могут быть выдвинуты на первый план в переговорах о торговле как между двумя интеграциями, так и между ЕС и отдельными странами СЭВ, если такие шаги будут предприняты в ближайшем будущем.

В статье подробно анализируются те меняющиеся условия, которые могут повлиять на поведение Брюсселя и которые важны для будущего сотрудничества Восток-Запад. Несмотря на то, что среда и система условий сотрудничества претерпели значительные изменения, сегодня еще нельзя говорить о зрелых новых концепциях. Целый ряд признаков свидетельствует о том, что внешнеэкономическое «раскрытие дверей» стран СЭВ, питаемое многими внутриэкономическими процессами, сталкивается с усилением замкнутости со стороны «Общего рынка». Такое развитие ставит под угрозу не только попытки усиления открытости и может не только неблагоприятно повлиять на мирохозяйственную роль западноевропейской интеграции, но может ухудшить и перспективы европейского экономического сотрудничества как раз в период, когда углубление международного промышленного разделения труда и перестройка мирохозяйственных условий могли бы расширить и укрепить каналы сотрудничества, качественно изменить его.

COMMENTS AND CRITICISM

AN IMPORTANT BOOK ON THE REFORM OF SOVIET ECONOMY*

L. SZAMUELY

Professor *Popov's* book is the most interesting, and probably also the most important Soviet work of the last fifteen or twenty years on the subject of the functioning of socialist economy. It points out the way to be followed in reforming Soviet economy, and the inevitability of revising the ideological and social value judgements, rigid and outdated for long decades, concerning the socialist system of society and economy.

I see the importance of this work in the following:

1. Since the late 1960s this is the first time a Soviet author establishes, without blurring the issue, that the well-known difficulties cannot be overcome by "perfecting" the existing mechanism of the economy based on directive planning, but only a "cardinal transformation" of economic management (p. 3) can bring solution.

2. The radical changes suggested are not identical with, but exactly the opposite of, the demands and programmes often voiced lately under the slogan of "setting things right". Appealing to discipline, conspicuousness, unselfishness, or the fulfilment of central instructions formulated in physical terms with the utmost care as a means of "speeding up" economic life are considered by the author as unfounded, out of date and empty dreams. He calls such speculations, very fittingly, "economic romanticism".

3. In the economic system the author suggests administrative instructions would be replaced by economic methods of management; the enterprises and their workers would not be interested in the fulfilment of plans, but in the economic results finally achieved, and also their income would depend on it; enterprises would be functioning within the framework of "full-scope economic accounting", which is to say, they would be free to decide on the composition and volume of their production, to choose their suppliers and customers, to conclude contracts on prices and other terms, etc. This would involve that the system of material and technical supply would be replaced by trade in means of production. As it is to be seen, the author suggests quite a radical reform of the economy based on plan instructions known so far.

4. In the author's opinion, the changes should not be introduced gradually, "in small doses", taking partial steps, but quickly, simultaneously, and comprehensively,

* Popov, G. H.: *Effektivnoye upravleniye* (Efficient control and management). Ekonomika, Moscow 1985. 336 p.

else the expected positive effects will not be produced, the impetus will be weakened, and the old economic practice and approach will "suck in" the new elements, i.e. adjust them to its own likeness.

5. While the preceding points more or less sum up the most consistent reform conceptions formulated in the early and mid-sixties (an important and remarkable deed in itself), the book touches on a few fields and sets forth certain conceptions which go far beyond the range of earlier reform suggestions. Thus, for example, the issue is raised as a complete novelty in Soviet literature, that the second economy should be legalized, i.e. the private servicing and productive activities which anyway exist, should be licensed and even extended, whereby the author does not only think of household farming plots and hobby gardening, but also of complementing free public education and health services by services to be paid for. He attributes great importance to the entrepreneurial activities of various (non-agricultural) small cooperatives and groups. He suggests the mobilization of household savings not only to be used as capital resource of infrastructural investments (for example, housing), but also for the purpose of productive capacities in order to enlarge consumer goods supply. For easing the shortage of cars, for example, he thinks it would be expedient to construct a big automobile works functioning as a cooperative (!). The money needed for the construction would be obtained through issuing bonds to the public. Buying bonds of a certain amount could entitle one to put one's name down for a car, or to have the right of preemption. Under Soviet conditions, the formation of works councils in large enterprises, introduction of the system of competitions for would-be managers and the assignment of managing directors for a limited period in industry, the institutional separation of the legislative-controlling from administrative economic functions within the state's proprietary functions are new ideas (p. 155). Within an enterprise, the so-called "contractor brigade" in several respects similar to the Hungarian enterprise economic workteams is considered a basic unit, but this one would be functioning during the official working hours.

The significance of the book is clear not only from its contents, but the author's person and the timing of the publication also speak for the fact. Professor G. H. Popov has been for decades Head of the Department and the Research Centre of Managerial Science — he himself had founded — at the Moscow State University. He has been an active member of the various decision preparing bodies studying economic management questions at higher levels of state and party administration. From the early 1980s he has become, one may say, a leading publicist of the daily and professional journals on questions of economic reform. His polemical articles published in *Pravda*, *Trud*, and other dailies have aroused country-wide interest among Soviet readers. His book discusses the questions raised in those articles in greater detail and it also contains Professor Popov's answers to readers' letters. This accounts for the vividness and unambiguousness of the book's style.

It is a remarkable fact that the book was published not long after the change in

leadership in March 1985. What is more, 50 thousand copies were printed, which is an exceptionally large size of edition for a book on economics, even in the Soviet Union.

Therefore, I may not be wrong in connecting this speedy and large-size publication of the book with the economic renewal conceptions of the Gorbachev leadership, the revision of the party programme and the ideological preparation of the Party Congress convening in February 1986. The highly topical informative value of the book is rooted in these facts. I do not believe, of course, that the book contains any "official" or even an intended reform programme of the new Soviet leaders since, in my opinion, no such programme exists as yet. There are, however, programmes or experimentations and tentative conceptions of different directions. The phase of seeking for new ways has begun and will certainly not end soon. Beyond its scientific and informative value, this book is a help in the ideological struggle for reform in the Soviet Union as well as internationally.

Popov's book also has, of course, certain deficiencies:

1. In his reform proposals there are a number of lacunae. For example, almost no mention is made of the bank and credit sphere or, what is generally characteristic of the Soviet economists' approach, of foreign trade, the foreign economic sphere, on the whole, of relations with the external world, including the socialist countries. (The latter also concerns the experiences and research works about the reforms of the economic mechanism.)

2. The elaboration of the different parts of his proposals and, accordingly, the standards of the different chapters of the book are uneven (I shall return to this later on.)

3. In the parts discussing the socialist economic theory, and in his generalizing argumentation, the author uses the language and categories of political economy of socialism, petrified for long decades. For example, he often supports his various proposals by the argument that they will help to assert one or another "law" of socialism. This is, of course, *contradictio in adiecto*: what kind of law is it that does not assert itself? Otherwise, this is no obstacle to understanding the author's train of thought. Namely, for the attentive reader it is enough to substitute the term "principles" for "laws" of socialism, so that everything come to its proper place.

* * *

The book has eight chapters. Its structural principle is to progress from the historical-general to the topical and specific aspects. The first two chapters provide a theoretical background to the necessity of socio-economic reform. The following four chapters (3 to 6) analyse various aspects of the economic system to be introduced. The last two chapters (7-8) discuss the specific problems of introduction: the difficulties inherent in institutions and attitudes, and the objections made on grounds of principle. The book is closed by a short "Summary" consisting of ten paragraphs in which the

author once again formulates the conclusions of his book, the principal characteristics of the economic mechanism he suggests, and the way of its introduction.

Chapter I entitled "Development of the economic control and management system" starts from the point that the most important task facing Soviet economy today is transition to the only way to stop the slackening of economic growth. And, the author claims, the final and only means of boosting up economy is the establishment of an efficient mechanism or system of economic control and management. In this context, it is one of his important theses that economic management and production organization is by no means to be considered an unproductive sphere, since the useful effect of social labour depends on it.

The two subsequent sections of this chapter are particularly interesting as well as original in evaluating the development of the Soviet economic control and management system in a historical perspective. It is a basic theorem of Popov's book that there is a difference between the economic mechanism of the building of socialism and that of the advanced socialist economy. He describes the mechanism of the former period by five characteristics: priority accorded to heavy industry, preponderance of administrative control methods, which is in fact necessary, for the state uses power to establish the socialist economic relations which have not existed before; as a consequence of the preceding, each phase of reproduction is strictly and directly under central control; the measure of success is the fulfilment and overfulfilment of the central instructions (commands) specified mostly in physical terms; workers' wages are stated almost exclusively on the basis of the centrally established wage tariffs and categories, practically independently of the performance of the given economic unit. While accepting this description of the system, I consider the author's repeated appreciation as disputable according to which this economic control and management system was "internally consistent as well as highly logical, and it corresponded to the objectively necessary target of an accelerated building of socialism". (p. 19) What is more: in the final account, industrialization carried out by such methods "was in conformity with higher-level efficiency interests, and the creation of a huge and well-proportioned economy". (p. 20) In my opinion, the otherwise sharp-sighted author commits here the rather frequent error of embellishing the past. No doubt, the traditional system based on obligatory plan targets was adequate to the given type of economic development policy. From a certain aspect, it was logical as well. As for its inner consistence, however, it existed in fact only in textbook presentations, in other words, only in *aspirations*. Let us only think of shortage economy becoming permanent (and not only on the consumer goods market), the disastrous neglect of agricultural production, the consequences of which still hinder the development of Soviet economy, etc. Also the economically uninterpretable reference made to a "higher-level efficiency" is hardly acceptable; this term was used to cover up the wilful economic policy distortions in the Stalinist era. The reason why the author committed this error must have been his effort to make it acceptable and tangible for everybody

that under the conditions of advanced socialism the once well functioning system has become inadequate by our days.

The most interesting part of this chapter is a subject never before discussed in Soviet literature in this manner: evaluation of the reform efforts of the 1960s, specifically of the reform of 1965, and of developments following the reform. Popov clearly states that, though the reform intended to decentralize decision making to a certain extent, to narrow down the centrally prescribed plan targets, and wanted to promote enterprise activity through economic incentives, it did not really change the fundamental feature of the pre-reform economic control and management which was "the central prescription of strictly determined targets for the entities with economic accounting (*khozrachot*), and the incentives depending on the measure of fulfilment of these targets. The primary criterion of judging enterprise activity is not the level of efficiency attained, but it still is the percentage of fulfilment of the obligatory targets." (p. 27) Elsewhere, he calls the determinant character of the system of central operative instructions the "fundamental contradiction" of the post-reform system, which sooner or later made the majority of economic regulators introduced by the reform into its own instruments. (p. 35) The "further developments", including those of 1979, have not changed the substance at all. Therefore, the author says, real progress is not to be expected from an improvement of certain details of the existing economic mechanism (based on obligatory plan targets), but only of its "radical transformation".

Chapter II is entitled "Economic control and management in the phase of advanced socialism". In this Chapter the author gives a theoretical explanation of the difference between the phase of advanced socialism and that of building socialism, with a view to providing theoretical foundation for the necessity of abandoning the system of obligatory plan targets.

In his reasoning, he first refers to the development of capitalism in which, after a large-scale industry as the adequate base of the system had been established, the role of the state played in economic life changed: the factors of exerting influence through non-economic means, i.e. by central force were suppressed (p. 42), and the system developed according to its own regularities. The emergence of advanced socialist economies also implies a qualitative leap. The scales of production have changed; so have the rates of accumulation and consumption. The development of production is today promoted less by the establishment of new factories, i.e. centrally decided large investment projects, but the efficiency of national economy depends to an increasing extent on the efficient activities of the existing establishments. It is not enough to provide for a more or less equal satisfaction of basic needs (because more cannot be afforded), but it is necessary to make efforts at the maximum possible fulfilment of differentiated demands for which the material-technological basis is already available. From all this, Popov infers that the whole complexity of the laws of advanced socialism—distribution according to work, planned proportional development, etc.—can be asserted in no other way but through the law of demand and supply, through direct connections between economically accounting units, and through competition

for the best possible satisfaction of consumers' needs. He writes: "The planned order determined in detail by the government is to be replaced by a planned order in which the government lays down the main proportions and rates of economic growth, particularly in a long perspective, effectuates intersectoral and national economic structural transformations, and implements a technological development policy. On the other hand, the specific current rates and proportions are to be shaped through direct connections between the basic economic units." (p. 50) From the same viewpoint, he explains that the development of economic control today is only possible through an intensive extension of commodity and money relations, while any conception trying to avoid money and value is, in the final account, Utopian.

In support of the necessity of the economic reform, the author advances also another set of arguments: he refers to the world-wide acceleration of technological change. He explains in detail why flexible economic organizations, full of initiative and capable of prompt autonomous decision-making are indispensable for keeping pace with this accelerated progress.

Chapter III discusses the main objective of the economic mechanism: "Activating the workers". This is perhaps the best composed chapter of the book, containing the most new ideas. The author sets forth in it his proposals as to how to make workers interested in more and better work, i.e. how to increase the incentive role of earnings. He advances that workers are to be paid depending on the final economic result achieved. The so far guaranteed wage (in common Hungarian parlance: "attendance fee") should be made into a minimum part of earnings, and a floating part should be made dependent on the yield of brigades holding a contract. The composition of the brigade, the number of its members, its leadership, and the distribution of earnings all have to be decided by the workers themselves, without external influence.

From the Hungarian viewpoint, two suggestions seem to be interesting and topical. On the one hand, the author discards the principle of guaranteed jobs and raises the question of an optimum employment policy. In his opinion, enterprises and their workers must be made interested in cutting down superfluous personnel (the so-called Schekino method), but employment of the released labour should not be the enterprises' task, adequate institutions should be created to deal with the matter. Enterprises would provide for them the financial resources for the retraining and support of the jobless persons: they would transfer the minimum guaranteed wages mentioned above. Since the guaranteed wage would be much lower than the average wage, enterprises would be interested in cutting down the personnel, and the unemployed in finding a new job as soon as possible. As Popov puts it: "In the planned socialist economy proper proportions have to prevail in all aspects, among other things, between the number of jobs and that of workers. If there is a labour shortage today, the cause is not to be sought in the abstract laws of population increase, nor in socialism, but in our inability so far to establish efficient incentives for the reduction of superfluous staff." (p. 99)

On the other hand, the author touches on such a "delicate" question as that of social benefits. His opinion is that under today's circumstances social benefits go beyond the level that would be allowed by the development level of social production in the Soviet Union. He says: "We have not yet reached that level of productivity where every two roubles earned can be completed by one rouble more from the social consumption funds." (p. 109) He suggests that, while maintaining the free basic services of health, education, etc., various other kinds of supplementary services (recreation, sports, education, etc.) should be made available against payment. The same goes for housing or holiday home building, various agricultural and servicing activities pursued individually or on a small-cooperative basis, etc. The point is to increase the attraction of the rouble i.e. cash income, to better remunerate for additional performance, and thereby to mobilize workers' latent energies, to reduce shortage of certain consumer goods and services and, in the final account, to improve the efficiency of social labour.

Chapter IV bears the title "The basic chain-link of economy". It has also a message of central importance from the aspect of the author's conception, because in it he makes clear, what the enterprise's situation should be in the new system, what "full economic accounting" means, etc. Popov's starting-point: the socialist economy is necessarily composed of production units (cells) separated from one another from the technological-productive and the economic aspects, and each is independently managed. These units should be interested in gross income, and the workers' wage-fund would be a remainder of gross income after deduction of taxes. (This is exactly the opposite of today's practice: the so-called free profit remainder is simply taxed away by the state budget.) The units should be operated under the terms of contracts with customers and suppliers they have selected for themselves. As it has been mentioned earlier, these contracts also contain prices stated on the basis of a bargain between the parties. Parties of equal rights to the contract can be commercial and industrial units as well as different central bodies, as directors and organizers (transactors) of central national economic development programmes. An economic unit operated on the principle of full economic accounting is interested in the maximum possible satisfaction of effective demand, which is also the measure of its performance (instead of plan fulfilment percentages). The author's ideas about the democracy of enterprise management, the election of managers through competition, the establishing of works councils, etc., are highly interesting.

Notwithstanding (or because of) all its novelty, this chapter is obscure, or contradictory on more than one point. First, it is clear that the author wants to entrust the right of decision on current production to the enterprises. But, what should be the way of production expansion, decision-making on investments, and investment financing? No clear picture is given of these issues: It may be carried out within the framework of various central development programs, yet no explanation is given of the decision criteria and financing methods. Whereas we know, exactly from the

Hungarian reform experience, that this is exactly one of the vital questions of a successful functioning of the economic management system.

Another contradictory element is that the author considers the large-scale enterprise with a great number of plants (establishments) i.e. the so-called production association as the "basic chain-link" or basic unit of economy, since, in his opinion, this is the only formation apt to operate the whole cycle of research, development, manufacture and sales, and to speed up technological change. That is to say, Popov borrows or keeps the favourite idea of the 1970s about industrial reorganization or increased production concentration as a solution to economic problems, with the difference that he would bestow greater independence on the associations, freeing them from the orders and instructions of the ministries and other central bodies. However, the author himself supplies enough data in his book to render the efficiency of the purely large-scale industrial structure questionable. For example, analysing the new phenomena of the scientific and technological revolution in Chapter II, the author stresses that "one of the most important potential consequences of robotization is the changed role of large and small enterprises. Thanks to the robots, small enterprises are reborn. Were this tendency to become predominant, both the structure and the allocation of social production would change, and so would the role of cities, traffic, and of other elements of production and, on the whole, the life of society." (p. 66) Or: the author himself says that a considerable part of scientific and technological change is impossible to direct centrally. Therefore, central control "cannot cover the totality of technological-scientific progress. . . almost a third of the inventions are born out of individual initiatives". (p. 69) The author further supplies an amount of thought-provoking information about the fact that already the 1965 reform envisaged transition to production associations. (We may add: in March 1973 a party and government decree was issued to that effect, followed by yet another governmental order a year later.—L. Sz.) Yet the book informs us that even in 1981, production associations provided hardly 50 percent of the total industrial production value and staff employed. (p. 125) Popov puts the blame on the ministries' bureaucracy. The fact is, however, not to be ascribed to subjective but to objective economic causes, which obstructed the way to forcing enterprise mergers. But the limited space of this article does not allow a discussion of this question in more detail.

Chapter V "Central economic control" and *Chapter VI* "Sectorial and regional control" are the least elaborated and least clear parts of the book. And it is no accident. On the one hand, namely, in his explanation on theoretical level of the necessity of central economic control and management in socialism, the author is right in stressing that the central bodies should not be engaged in operative economic management, but in elaborating long-term economic policy programmes. But the determination of the content of these national economic programmes and the way of their implementation are quite superficial (investments have been discussed above). On the other hand, the author maintains the impracticable idea of the 1970s about making the central economic control bodies (ministries) function on the basis of economic accounting.

What is more: Popov explains under a separate heading (pp. 195–198), that the salaries of employees of central bodies should be made dependent on the economic performance of the sector or region under their control. Even if the question of feasibility is disregarded, it is obvious that this would require “tight reins” on the part of the central authorities, that is, exactly from which the author wishes to free the enterprises functioning on the principle of “full economic accounting”.

The chapter treating sectoral and regional control is just about as contradictory. The author lays stress on the rationality of both principles, while he warns, referring to past experience, of the emergence and growth of specific sectoral or regional interests. His proposal is, therefore, ambiguous: economic management and control complexes transgressing the sectoral-regional bounds, or supreme bodies responsible for the long-range national economic programmes should be established, which would thus hold together the fragmented ministries. Practically, however, the existing control structure would remain.

The lack of clarity of these two chapters may be explained by the fact that the author did not reflect well upon the institutional changes that would become necessary if enterprises were granted autonomy, and the mechanism based on obligatory plan targets were abandoned. Although enterprises would function on the principle of “full economic accounting”, it still seems that the governmental control sphere would be intertwined with the enterprise sphere. Similarly, it is not examined thoroughly, what tasks would be left to the sectoral control apparatus, and in how much the existence of the latter would be justified by the elimination of breaking down the central plan specified in physical terms, and by the switch-over to trade in means of production. These are, of course, no easy questions for a state of such huge area and numerous nationalities as the Soviet Union.

The last two chapters are again excellent with their freshness of thought, clarity of reasoning, polemical and expressive style. In *Chapter VII* (“Factors intensifying efficient management”) the author reverts to the problems of material incentive: the importance of income differentiation, the overcoming of prejudices on the subject, and the developing of non-state-owned small-cooperative and small-enterprise activities. *Chapter VIII*, bearing the title “Establishment of the system of economic management and control”, carries on the polemic with the opponents of switch-over to a regulated market economy, answering the objections raised in letters addressed to the author. Popov underlines that the reform is not to be postponed, nor to be evaded by discipline campaigns, replacing an inevitable revision of the fundamental conditions of economic management by “putting things right”.

REVIEWS

TRADE IN SECURITIES IN HUNGARY

A. DUKÁSZ

The envisaged separation of the central bank and the credit bank started debates in the National Bank of Hungary about the functioning of a two-level banking system and the necessary economic conditions. The question of securities and of a stock market has arisen.

Securities may be classified according to various viewpoints. For our subject, a classification by expiry (maturity) dates seems to be appropriate.

A) Short-term securities, such as the bill of exchange.

B) Medium- or long-term securities, such as shares and bonds.

In the following, by securities those defined under B) are to be understood (shares and bonds).

Trade in securities in 1985

In Hungary today it is mainly the financial institutions that are functioning as joint stock companies, which is, however, only formal, as 100 percent of the shares are held by the state. Only a few enterprises are joint stock companies (for example: Novotrade, Biotechnika, Building Industrial Innovation Fund); stockholders are banks and enterprises; for the time being, individuals are not allowed to buy shares. *Bonds have been issued and traded in Hungary since 1982.* There is only a domestic market for bonds, because current rules do not allow foreigners to buy bonds in Hungary. So far bonds have been mainly issued by economic organizations and councils. Financial institutions have issued their own bonds in two cases: the Agricultural Innovation Society in the amount of Ft 100 million in the first half of 1985 to finance small-scale agricultural production; and the Agricultural, Industrial, Commercial and Cooperative Chief Administration of the National Bank of Hungary in the value of Ft 300 million in order to increase its resources.* Resources acquired through the issuing of bonds do not amount today even to 1 percent of the enterprises'

* Two types of bonds are distinguished: those that are sold only to enterprises and those that can be bought only by private persons.

financing costs, thus the flow of the capital through the issue of bonds is as yet not significant.

It is to be mentioned that after the obligatory reserve funds were abolished, it was made obligatory for enterprises to buy bonds. These are, however, practically not mobilizable, and are only bought back in case of winding up, in an amount of about 4 hundred thousand, 0.4 percent of their subscribed value.

The security market

Six banking institutions (National Development Bank, The Central Bank of Exchange and Credit Ltd., the National Savings Bank, the Hungarian Foreign Trade Bank Co. Ltd., the Savings Cooperatives, and the Building Industrial Innovation Funds) have so far taken part in *bond issue*. Only the National Development Bank has been engaged in *selling* the bonds on the so-called secondary market. Secondary market is where earlier issued bonds are sold and purchased. In Hungary, the state guarantees repayment of the bonds bought by private individuals, as well as the payment of interests (this is not the case for bonds bought by enterprises), therefore, banking institutions must not buy such bonds.

Shares have not yet been traded in Hungary; thus there has been no stock market since 1948 when the Budapest Stock Exchange, founded in 1864, was dissolved. This is because of the relatively small number of shares.

The "secondary market" as a security market is an organized one, since it was created by the National Development Bank in order that demand for and supply of bonds should meet there. This market is as yet restricted from several aspects, and not quite developed. Only bonds are sold in it, and it functions as the monopoly of a single bank.

In comparison with Western security markets, the difference is that the "third person" coming between seller and buyer is here not the broker but the financial institution. On the other hand, there is a similarity in that the "person" of the mediator is accepted by all parties. (This, however, could be challenged as no other possibility exists at present.)

It must be further added that the chief credit administrations of the Hungarian National Bank, which were founded on January 1, 1985, wish to take part, in conformity with their statutes, in the issuing and sales of "bonds and *other securities* of economic organizations". The same thing is stated in the description of the sphere of activities of the Budapest Credit Bank. These statements must imply the possible future issue of shares. The formulation according to which the chief credit administrations take part in "undertakings" does not exclude the possibility of purchasing shares in the future. The Budapest Credit Bank puts things more clearly when it specifies capital participation in enterprises as one of its fields of activities.

The National Development Bank has progressed somewhat farther: it is ready to

negotiate company shares. Enterprises are interested in this activity: shareholders would like to sell, other enterprises would like to purchase. They are also interested from another aspect. Enterprises having superfluous development resources and placing these at the disposal of other enterprises have no say in the utilization of these resources. And the right of say (vote) is the exclusive property of the share among the negotiable securities. Besides, the capital deposits transferred to independent associations (for example, joint enterprises) these last three years are not negotiable securities, either. This role could again exclusively be played by shares. Also, there are quite a few enterprises wishing to satisfy their capital needs through the issue of shares, since prospects of raising loans are rather limited.

Private opinions are not known about the question. However, the attitude towards bonds—there were tens of thousands of individual purchases—makes it likely that a lively interest would also show in shares. An exemplary initiative was the creation of bonds with varying interest, issued by the Manufactured Goods Trading Enterprise of Pest County on August 15, 1985. In this case, in addition to the fixed interest return, bond holders are also entitled to varying interest depending on the enterprise's performance. This is a form in a way similar to the share: it contains a higher risk, and the varying interest is comparable to the dividend.

It is another encouraging sign that in April 1985 Hungary became a member of the IFC, an affiliate of the World Bank. The IFC grants credit for private investments, it subscribes to shares and gives loans, together with local and foreign partners. It is an important criterion that IFC's capital share should be negotiable, namely, the IFC subsequently transfers some of its shares and loans and again invests its funds. Where there has been no security market before, IFC provides technical advice, and where a market is already functioning, it increases the number and range of securities worth selling.

It is thus to be seen, that financial institutions as well as enterprises and, probably, also households are interested in the issue and sales of securities. An interest in buying bonds also shows on the part of foreign companies and private individuals. Whereas bond issue and sales today are still not significant, the issue of shares is negligible, with no trade at all.

What advantages would the increasing issue of and trade in shares bring?

1. The velocity of money circulation would grow, which could contribute to monetary expansion, and might reduce today's impossibly high demand for credit which exceeds the possibilities.

2. It would mobilize the financial resources held today by private individuals, and could thus increase accumulation possibilities.

3. It would bring a wider scope of capital mobility also for enterprises, enabling the crossing of today's rigid sectoral borders and helping the structural transformation of economy.

4. It would present an additional source of investment, which is especially

important for Hungary today, when investment has been restricted for five years, putting a brake on economic development.

5. The trade in shares would introduce an element of higher risk into economic life, which could enhance the spirit of competition. And, on account of the country's open economy, this is not a negligible factor.

6. If foreign economic organizations and private individuals could take part in the Hungarian trade in securities, this would intensify Hungary's relations with the world market and would make foreign capital available for Hungary.

The objection could be raised against the expansion of the security market that there are few such enterprises in Hungary which could genuinely participate. However, shares could also be purchased by medium- and small enterprises through some mediator. Such enterprises could make investments also by means of investment shares. Thus collecting their money, enterprises could invest in various undertakings, and share in the results. The investment share could be functioning beside the other kinds of shares, and the bonds. Speculation may be excepted and, though it would probably only concern a small percentage of the actors in the security market, some would earn extremely high profits, as it also happened in the case of the economic workteams (business partnerships).

What would it mean if other banking institutions also joined into the sales of securities beside the National Development Bank?

1. The National Development Bank's exclusive role would cease, creating a sound competition, which in turn would promote the development of the security market.

2. The demand that may now be lacking because of the buyers' distrust and lack of information could be activated with the participation of the banking institutions, especially of the National Bank of Hungary.

3. The National Bank of Hungary could buy the bonds—subscribed to from reserve funds—of the enterprises with "frozen assets", and thus may help to shorten the "queue" of such enterprises (waiting for settlement of their outstanding debts), and increasing their creditworthiness.

4. If Hungarian bonds were sold abroad under the control and organization of the National Bank of Hungary, the Bank's name would "hall-mark" the sale of bonds and open the way before Hungarian enterprises to take part in the international money and capital market.

Besides, it would be favourable for the National Bank of Hungary and could promote its joining into the sales of securities that its system of branches covers the whole country and it also has an adequate number of experts and an executive apparatus capable of solving the problems of planning and transacting the trade in securities.

THE FIRST YEAR OF THE USE OF THE BILL OF EXCHANGE

Á. MAJOR

The reintroduction of the bill of exchange in Hungary in 1985 was justified by the fact that the updating of the economic and commercial structure during the last years was not accompanied by new financial opportunities. Along with a more liberal production and sales system the financial and banking opportunities were too rigid. The well managed enterprises suffered much because of this state of affairs since they could not get their money because of the "queue" of others, (that is, while waiting for the settlement of their claims for other companies they, innocently, became indebted themselves).

According to an estimate of the National Bank of Hungary, those payment (transfer) commissions represent the durably highest percentage (70–76 percent) of default which the bank could not fulfill because there was no cover on the bank account of the liable party. The share of collecting commissions not fulfilled for the time being because of debtors' objections only amounted to 15–20 percent. Naturally, the bank only records the money flows and tries to enhance the healthy economic and monetary processes, but it is incapable and not in charge of exercising any basic influence on the economic trends in the background of payment difficulties such as loss-making production, lack of funds, market anomalies, inadequate management of assets, tougher external market conditions, shortage symptoms, etc.

The bank, through *the updating of commercial lending and the introduction of the bill of exchange*, should like to alleviate the payment difficulties of the business units. The bank has little information about the developments of commercial credit between business units because in this regard Hungarian firms are not bound to make statements. Thus, the extent of its use can only be estimated on the basis of the refinancing of commercial credit.

Response to the bill of exchange

Two, strongly different views prevailed in banking circles when the bill of exchange was introduced. According to the first version *very few bills of exchange would be expected* since the business units were not forced to abide by the strict rules of the bill of exchange. There are a great many other methods and ways of payments, demanding much less obligation; moreover, the enterprises, especially those enjoying monopoly positions, could choose the terms of payment in the case of each ordering party. The second camp reckoned *with a large number of bills of exchange* assuming that the enterprises would avail themselves of the extraordinary advantage that it is a

Table 1
Discounted bills of exchange in the months of April–October 1985
(million Forints)

1985	Maturity (tenor): following issue by								Stock of bills of exchange to be honoured			
	1 month		2–3 months		4–6 months		7–12 months		Prices	Value	Prices	Value
	Prices	Value	Prices	Value	Prices	Value	Prices	Value				
April	3	15.1	—	—	5	101	—	—	8	116.1	8	116.1
May	1	0.5	22	309.7	8	107.9	1	17.4	32	435.5	37	536.6
June	7	78.3	14	78.7	6	26.9	—	—	27	183.9	63	719.9
July	15	38.7	13	150.2	4	376.7	—	—	32	565.6	75	998.1
August	5	3.4	22	148.4	4	30.1	2	28.2	33	210.1	73	926.1
September	11	118.5	28	292.8	2	50	2	33	43	494.3	67	1196.3
October	5	48.6	13	111.5	3	50.4	—	—	21	210.4	81	1160.2
Total	47	303.1	112	1091.3	32	743.0	5	78.6	196	2215.9		

discountable and endorsable security. Both camps have turned out to be wrong and *reality is between the two ideas*, perhaps closer to the first opinion.

Practical use of the bill of exchange

The circulation of the bill of exchange was not started in the first quarter of 1985. I should like to emphasize the following of its reasons:

— The delivery contracts for the first quarter of 1985 had been signed, in general, at the end of 1984, i.e., when the measures concerning the bill of exchange had not been as yet effective.

— The business units were hindered in studying the matter with due attention by the financial and accounting administration work related to the start of the year 1985 (drawing up balances, finalizing of plans, general assembly, etc.).

— Since there used to be no bill of exchange for 40 years, some time was needed for both the bank and the financial departments of the business units to develop the necessary knowhow of handling the bills of exchange.

— In 1984 few pieces of information became known, but reviewing and informative articles were only published in the media in the first quarter of 1985. County branches of the National Bank of Hungary gave more ample information in the months of February and March in the county media, in briefings organized for holders of accounts, about the possibilities of raising commercial credit and about the use of the bill of exchange.

Several business units *apprehended the including of the right to recourse in the rules of the bill of exchange* and interpreted it to be a special statute of the National Bank, or a built-in safety regulation of its own. They did not realize that *the rules of the bill of exchange are codified by international law* and enterprises must get used to the challenges of tougher conditions, just like in economy in general. Financial transactions, too, involve hazards which the business organizations must take into account.

The circulation of the bill of exchange thus started in the second quarter of 1985, though, only in a narrow group of business organizations.

Table 1 does not contain the bills of exchange that were not discounted but were redeemed on maturity. So far the Bank has knowledge of 27 such bills in the total amount of 300 million Forints, partly already redeemed. From these bills of exchange, one enterprise redeemed 11 bills till October 9th in the value of 160 million Forints. The remaining sum is distributed between several business organizations. Thus, even though the Bank has no knowledge about all the bills of exchange not discounted and not yet mature, it follows from the above that these do not affect the said data appreciably.

As it is shown in the table, between April and October 1985 bills of exchange worth 2.1 billion Forints were discounted. This sum is negligible relative to the

commodity turnover. 50 percent of the discounted bills of exchange were of a tenor of 2 to 3 months and 33 percent of 4–6 months. Only five pieces of longer tenor, i.e., 7–12 months, were discounted.

The analysis of the monthly sum of discounted bills of exchange shows fluctuations. The number of bills increases every second month, to decrease again in the next. This fluctuation is attributable to the fact that four or five big companies regularly use bills of the highest values, therefore the turnover of bills of exchange reflects the special commodity turnovers of these few organizations.

There is little interest in the bill of exchange in the field of industry, it is rather used in the sectors of agriculture and trade. With a few exceptions, the bills of exchange issued were *discounted* during the first seven months *without endorsement*. As a rule, the large sum of the bills of exchange issued prevented the endorsing of the bills of exchange, though it also happened that a partner demanded a too high interest rate for accepting the bill of exchange, or that he simply did not accept it. Therefore, discounting was the quickest way to get cash. In practice the business organizations could not make use of the advantage that might be gained from the endorsing of the bill of exchange. It should be recommended to issue bills of exchange of smaller amounts which are easier to endorse.

No claim for discounting a bill of exchange was repudiated, however, the banking organizations reserved the right to recourse. This was not availed of, nor did noting take place, proving that primarily the enterprises of good financial status participate in the turnover of bills of exchange. From this point of view the bill of exchange has met the expectations and has removed the obstacle from the way of smooth cooperation.

A few typical examples of the kind of transactions where the bill of exchange was used: instant receiving of autumn and winter garments and shortage items; buying up barley for beer; counter-value of export wheat; purchasing of fertilizers and plant protectives; selling of bricks; selling of parts needed for maintenance; counter-value of base materials for animal feed; meeting of payment liability originating from the shipment of imported canned food.

Turnover of commercial credits without bill of exchange

The turnover of commercial credits compared to that of the bill of exchange is insignificant. Banking organizations refinanced 35 commercial credit items in the first seven months of 1985, in the amount of 500 million Forints. As far as we know, the volume of commercial credits without demanding refinancing was negligible. The industrial enterprises apparently prefer to use this form while the *bill of exchange is used more frequently between commercial creditors*. Some contracting partners have come to like the commercial credit because of its relatively simpler and unrestricted

nature, although in this form of credit raising the lending enterprise or institution is not absolutely safe concerning redemption. The repudiation of refinancing requests occurred in a few cases because the partner company was not credit-worthy. In one case this request was refused because the wrapping machine manufactured by the seller was to serve investment purposes at the buyer farm.

Factors influencing the spreading of the bill of exchange

It may also be stated regionally that there are blank spots in the spreading of the bill of exchange. In five counties no bill of exchange has yet been issued during 1985. It is hard to tell whether the main reason is the shortcomings in propagating this mode of payment in these regions or the disinterest of enterprises. (The Bank's publication "Information on essentials of the bill of exchange" issued in the second half of the year aroused a keen interest of enterprises.)

I underscore some factors working against a wider use of the bill of exchange:

— There is no active coercive power as yet which would help to restore the financial discipline. It is more comfortable for business organizations to force the supplier into involuntary lending than to take the ways of bank bureaucracy. In half of the cases suppliers do not claim penalty.

— Suppliers can obtain credit from the bank also on the basis of the old credit rules.

— A big part of business organizations manufacture investment goods where commercial lending is statutorily prohibited.

— Small companies do not ask for a bill of exchange from enterprises in monopoly positions and often paying late, for fear of losing the market.

— The duration of real processes is uncertain while the bill of exchange and commercial credit can only be used at most within a year.

— The minds of financial experts are still preoccupied by the quantitative approach regarding production and sales, money management has not come home and the traditional financial constructions are more convenient to this way of thinking.

— It actually happened that a company only accepted bill of exchange from another, steadily credit-worthy company at a 20 percent interest rate. Such enterprise behaviour does not contribute to the proliferation and endorsing of the bill of exchange.

The demand for information of the business organizations is not always clearly met. Until the bill of exchange entered the scene in Hungary, the banks had provided information about a business organization only to ministries and similar bodies. Now that the business organizations themselves may grant credit they are naturally in need to know the dependability of the partner company in respect of payments. In this matter they can ask information from the banks in the first place.

The banks, not to violate the bank secrets, tell only whether the given holder of account has regularly met his payment liabilities in the given year. The judgment of

enterprise creditworthiness is a much more complex issue than that. It is yet to be clarified who must provide information to the potential clients and on the grounds of what documents.

— From the technical point of view the forwarding of the bill of exchange is an obstacle, especially in the case of longer distances. As it must be mailed as a letter with declared value for which the postal charges are unrealistically high and the bill of exchange cannot be guaranteed against damage (wrinkling, folding).

Taking account of the said factors obstructing the spreading of the bill of exchange it is easy to understand why it is only used by a smaller group. But where it is used, it is very helpful and safe and accelerates the flow of money and the accompanying real processes.

BOOK REVIEWS

PETŐ, I.-SZAKÁCS, S.: *A hazai gazdaság négy évtizedének története 1945-1985. I. kötet: Az újjáépítés és a tervutasításos irányítás időszaka* (Forty years of Hungarian economy 1945-1985. Volume I: the period of reconstruction and of economic control and management through mandatory plan targets). Közgazdasági és Jogi Könyvkiadó, Budapest 1985. 764 p.

Few countries can boast of knowing their own economic history as thoroughly as Hungary. Hungarian economic history research has made particular efforts to reveal the experiences of the past forty years and has aroused wide interest first of all by an extensive analysis of the preliminaries of the *reform process that first began in 1968*. Two fundamental research trends can be detected: one covering the history of *economic conceptions*, the other that of *economic processes*. However, since most authors were biased towards one or the other trend, or because of limitations of subjects or space, those who wished to obtain a full picture of the last forty years' history of Hungarian economy had to rely on several sources. Iván Pető and Sándor Szakács have succeeded in amalgamating the analysis of "conceptions" with that of "development history", so that they present in both fields research results not known so far.

The first volume of the book by Pető and Szakács discusses Hungarian economic history from 1945 up to 1968 (or, for statistical reasons, adjusting to the five-year plan period, up to 1970 in a few questions). The reader less interested in details may be discouraged by the more than 760 pages (including notes) of the volume. And yet it is exactly one of the outstanding merits of the book to rely on minutely elaborated details, supported and documented by statistics, records, and literary data in its analysis of

the economic conceptions and the economic development processes that emerged in their wake (or contrary to them), and by far not always pointing in the expected direction. Authors engaged in historical research are not always pleased to be given recognition because of their supply of facts and data; they would rather expect it for their own conclusion drawn. The volume by Pető-Szakács is an economic history book of an *encyclopaedic character in the good sense of the term*: it has a clear-cut structure, and even the reader not caring to read through the whole work can find useful information in any special field he may be interested in.

The book consists of three large parts, which are the more thorough and extensive, the longer the period under examination. The first part investigates the years 1944-1945: the development phase that practically laid down the *basic system of conditions* for the economic processes of the ensuing four decades. The period discussed in the second part: the years between 1945-1949 determined the direction of development in several such questions as have for long been challenged even the countries on the *socialist way of economic organization*, and the answer to which of the political leadership has changed in a number of Eastern European countries. The third part covering the period from 1949 to 1968 makes it clear that the observance of the basic conditions laid down in the first period is *not necessarily concomitant* with a strict insistence on each parameter of the path of economic organization and growth that had begun in the second period. That is to say, in the third part the reader can trace the process in the course of which the development path, extremely dynamic at the outset, increasingly became a *forced path* making it difficult to preserve earlier results.

The analysis basically following a chronological order discusses the most important developments and trends of each period according to the main economic sectors and functional fields of control. The stress laid on one or another subject is, however, reflective of the particular character of each period. For example, the transitory period between the restricted (war) economy and state economic control (1945/1947) can teach important lessons mainly in respect of financial policy, because of the inflationary economic policy and the monetary reform of August 1946. In the period from 1947 to 1949 the fast change in ownership and foreign trade relations, and the emergence of the institutional system of directive state economic control are of outstanding importance.

Sectoral analysis can provide a detailed picture of the Hungarian economy guided onto a fast, but by far not harmonious, growth path, greatly changing from year to year, if it uses different criteria for measuring performance. For example, the enlargement of industrial capacities is especially apt to improve efficiency, if it is coupled with the sorting out of the obsolete production equipment. This was not the general case, however, and it only happened in a very limited sphere in the Hungarian industry of the early 1950s. Thus "in the engineering industry, according to computations performed in that period, the age of cutting machines was 18.4 years in 1953 instead of the accepted average of 13 years, and in a few important factories it was even 27 years. The average age of forging machines was 40-50 years, that of equipments in agricultural machine building factories and shipyards was 22, and in a few factories manufacturing consumer articles the age of the equipments even reached 50-60 years. This means that technology and equipments installed at the time of the Austro-Hungarian monarchy were still in use in many places." (p. 192) The unquestionable modernization of the industrial production apparatus was thus followed by a *modernization of production at a much lower rate.*

The production results of agriculture, impressive as they were in themselves, do not seem to be indisputable indicators of success, if it is taken into consideration, at the price of what inputs, and of what deterioration in the living standards of the village population they had been achieved and, further, what burdens the large-scale reduction of

the agricultural accumulation resources, i.e. their pumping over into industry imposed on the agricultural policy of later periods.

Although the authors consistently refrain from spectacular statements and do not make striking comparisons or such as may carry the risk of oversimplification, what they say of the Hungarian economic development of the early, and partly the mid-1950s induces one to draw a comparison taken from the field of strategy. It reminds one of the fast advance of an army, certain units of which make especially rapid advance, for which they use the best vehicles and arms. Because of this, the other units can follow them more slowly than expected, so that it becomes increasingly difficult to maintain the positions won in the forefront and, instead of the sweeping victory that has been hoped for, there remains the alternative of a final battle risking total collapse, or of a partial retreat securing at least a few positions, and rearranging of the lines. From the aspects of economic strategy and the control system, it is particularly instructive how the book discusses the circumstances in which in 1953 and again in 1957, the political and economic leadership first gave way to the conceptions pressing for a radical renewal and thorough reconsideration of the development strategy and then, fearing exaggerations, again took in hand the full-scope management of events. In the final account, this reproduced, though in a mitigated form, the earlier justly criticized way of development and led in a few years to wider and better founded demands for renewal. Thus the preliminary of the 1968 reform of economic control and management was a process of reform interests coming to expression, started almost 15 years earlier and at times suddenly accelerating, pushing its way from widely different fields of economy. The book provides convincing illustration of this fact through a many-sided representation of the situation and development, results and errors in agriculture, in various industries, and in the infrastructure.

The Hungarian economic development through the 25 years after 1945 may be judged by all means as successful from several aspects of production and growth. If, however, economic history research does not concentrate on production processes alone, but also examines infrastructure, commodity supply, or living standards not quite well expressible with the aid of statistical indicators, it can tangibly point out the numerous disadvantages of a *development policy*

giving absolute priority to production. And not only those which cause ever higher tensions, for example, on account of the overburdened transport network, the housing stock enlarged in an impractical way and composition, or telecommunication neglected through a long time, but also those disadvantages, on account of which a comparison with the indicators showing the state of Hungarian economy in various periods also leads to contradictory results. From this point of view, especially the thorough analysis of the Hungarian economy of 1951–1952, reaching back in several of its comparisons to data of 15 years earlier, can teach lessons so far not known.

It is often a comfortable solution for economic literature or economic policy to refer to historical or geographical circumstances in the explanation of failures, to certain unexpected developments, or such tendencies as are distressing in the long run. In the book of Pető and Szakács two such *dominant motives of ideas* ("leitmotivs") are more or less conspicuously represented which advance a number of important facts against the frequent apologies making references to the "heritage of the fifties" on the one hand, and to the situation of "East-Central Europe" as an inescapable fate, on the other. A characteristic example of the former is presented in the analysis of the development of metallurgy after 1956, which makes it clear that economic policy in the 1960s only seemingly broke with the practice of the 1950s giving priority to the development of this sector: "As against the engineering industry, chemical industry, or (...) building industry, the development of metallurgy was formally not included in the priority development projects. (...) And yet, metallurgy continued to receive a large part of industrial investment funds, surpassing its proportion within industrial production. Thus the industry could preserve its position within economy (...)" (pp. 582–583) (the parts omitted contain data supporting the conclusion drawn).

The belated economic development of East-Central Europe, its several distorted features, and the resulting capital shortage have been widely and for a long time recognized. However, they hardly provide a good argument for an exclusive explanation of the anomalies in the economic development of recent periods, especially if, beside the increasing lag—on an international scale—of the vitally important but highly capital-intensive fields of

economy, the relative position in the fields of low capital intensity is not improving, either. "Between 1950 and 1960 the situation of transportation deteriorated in an absolute sense as well as by international comparison. Telecommunication showed some development, yet its lag measured on the international scale did not diminish. Housing supply (...) worsened from all aspects. Health services and education, two fields of low capital intensity, were also lagging behind the standards of the developed industrial countries, while the differences demonstrable in statistics did not grow." (p. 623)

The outstanding results of Hungarian economic historiography achieved so far have been *further enriched by the important new insights and facts* of the monograph by Iván Pető and Sándor Szakács. It is the book's special merit that it attempts to provide an analysis of all the important phases of the economic history of the period under examination, and that it throughout keeps the good proportions between the approach concentrating on conceptions, and the one presenting facts and processes.

It is hoped that the second volume—covering the period between 1968–1985, discussing the experiences of putting into practice the reform conceptions, and presenting the reform process started vigorously under increasingly difficult internal and external economic development conditions, then halting, and starting cautiously again after ten years—will soon follow the first volume of this Hungarian monograph accomplishing a difficult task on a high level.

Á. TÖRÖK

BAGÓ, E.: *Diverzifikáció az iparban* (Diversification in industry). Közgazdasági és Jogi Könyvkiadó, Budapest 1985. 252 p.

It is a well-known obstacle to the flow of information that participants use the same term to define different matters. Even worse and nearly inextricable misunderstandings are caused when only *partially* different matters are denoted by the same term, for example by members of different civilizations or societies. For instance, it is not easy to bring it home to a colleague arriving from a Western country that the term free price is used in

Hungary to denote something else than what he would mean by it. We can still get on, provided he has acknowledged that in Hungary the adjective "free" implies the duty of preliminary declaration of price changes as well as the right of the price authority to postpone the changes. We are, however, at a hopeless loss when we talk to colleagues coming from East or West about really intricate, in part different and in part similar, matters of the economy. In this case even the use of as basic notions as money, enterprise or profit is uncertain—and the list could be continued. There is such an enormous amount of this kind of communication disturbances that, if we wish to avoid failures of interpretation and thus of understanding, we often have no other alternative but to accurately paraphrase each notion and describe its symptoms, and to thoroughly specify the agreements and disagreements.

Eszter Bagó undertook such glossological and analytical research work when she chose diversification within the enterprise, a rather new symptom even in advanced industrial countries, for the subject of her treatise. The book consists of two parts. Part one deals with the processes of diversification that took place in Western countries while part two discusses the Hungarian industry from this aspect. In the context of the latter, special treatment is devoted to the analysis of the enterprises' activity pattern, to the conditions of diversification and, finally, to diversification actions in the Hungarian industry.

Before World War II, the single-product enterprise model was sufficient to study enterprise behaviour and growth, for the activities of even the big enterprises were in most cases confined to one given sector. On the other hand, "steep acceleration of structural changes was characteristic" of post-war industrial development wherefore "the risk of specialization was strongly increased." (p. 32) This and several other factors (e.g. professionalization of enterprise management and its deriving concern for enterprise survival) resulted in the post-war expansion of such activities. More and more enterprises in the United States of America and then in Western Europe added new lines to their traditional ones. As the author established through a painstaking processing of the relevant English and German literature, the main cause of this new type of expansion was mainly that accelerated "structural changes following technical progress and changing market

requirements reduce the chance of an enterprise belonging to a given commodity group or a special sector to attain durable growth." (p. 60) On the other hand, "diversification of the activities of capitalist enterprises enhances the ability of enterprises to penetrate into new markets, and facilitates their withdrawal from shrinking markets." (p. 50) A further and correlated advantage is offered in market competition and in growth: "Through diversification the different incomes to be earned in the different spheres of activities are levelled out, the profitability level of the entire enterprise becomes stabilized, and the growth rate of income is found to be higher than that of specialized enterprises." (p. 47)

Of course, diversification (new commodities for new markets) is not a risk-free enterprise action. Eszter Bagó deals with mistaken diversification strategies in a special chapter and cautions, for example, that diversification must not be expected to eliminate the failures showing in the original sphere of activity of the enterprises or, as it is typical mainly of the so-called conglomerate-type diversification, that the levelling and growth stimulating role of diversification must not be overestimated.

Admitting all that, "by the gaining ground of diversification the increasing structural adaptivity on enterprise level enhances the structural adaptivity of the whole capitalist industry." (p. 51)

What are the characteristics of the socialist economy (industry) from this point of view? Are there any diversification processes here as well and, if so, what is their influence upon the performance of the economy?

In the classic Soviet-type system of industrial control where the enterprise is not more than a workshop implementing the output plan, non-homogeneous production structures, let alone diversification, are factors that upset the planned system and need to be eliminated. Eszter Bagó quotes many authors and statutes and her quotations show that this approach was not rare, even in Hungary in the early seventies. Nor was the practice because, at the time of industrial reorganizations with frequent enterprise fusions, powerful efforts were made all over again at the "clearing", read: restriction, of enterprise production profiles. Such actions were, naturally, suitable not only for helping (if helping) the so-called economic clearings but also for subduing the enterprises to the centre.

Perhaps the highest merit of the book of Eszter

Bagó is the demonstration that the *actual* Hungarian industrial enterprise strongly differed and still differs from this "ideal type". As shown by the exhaustive statistical analysis covering 398 enterprises of five industrial sectors, "only 13.6 percent of them were enterprises specializing in one branch of production, functioning with a homogeneous structure of activity." (p. 105) In fact, the bulk of firms, almost 60 percent, are active in 2-5 branches of production. Moreover, "in the majority of enterprises the product line representing the highest share has a relatively small weight in the enterprise profile by the number of employees, the sphere of activities of enterprises is not concentrated around the most important product line." (p. 106) What is more, especially in metallurgy, the engineering and the chemical industries, "the first two and even the first three top lines of production do not represent a decisive share... in the activity structures of the enterprises." (p. 110) Adding that 9.7 percent of labour employed in the enterprises covered by the study pursue repair and service activities, we may safely state that the Hungarian industry does not show any sign of specialization that was encouraged for decades. "The spheres of activities of the overwhelming majority of enterprises are broad, covering several lines of production, and with nearly three quarters of enterprises the concentration of the sphere of activity on the product line representing the highest share is not found to be strong." (p. 117)

Considering these "Western" proportions of activities, we might even conclude the powerful processes of diversification. Also the fact is tempting to make the inference that, unlike in capitalist economies, in Hungary the small enterprises do not show more expressed specialization than the big enterprises. However, Eszter Bagó does not stop at this point but carries on the analysis by exploring the disagreements in the background of similar proportions. She establishes that the degree of concentration is higher when computed on the basis of sales and not on that of labour, indicating that "the productive activities of enterprises are substantially broader than their activities actually present in the market." (p. 117) This feature of the enterprise activity structure is, in the opinion of Eszter Bagó, an important indication that: "the broad structure of activities of enterprises reflects the poor standard of division of labour between

enterprises rather than the results of the diversification strategy presented earlier about capitalist enterprises." (p. 117)

The said important indication, which enterprise managers call the "grocery" character of enterprises, inspired the authoress to further investigate this symptom. For example, she reviewed the directions of the so-called non-general lines of activities in which about 56 percent of labour were engaged in the sample. Their majority are employed by the enterprises in production lines belonging to their *own* sector (branch of industry): "the share of production lines not belonging to the sector is very small, and out-of-sector production is mostly concentrated in the engineering industry." (p. 114) In the majority of enterprises this activity is typically fragmented and it normally shows small dimensions of production. All that "mostly show the autarkic nature of the activity outside the general line." (p. 147) Enterprise autarky is even more manifest in the "negligible role of the activities which are carried out *not* in the main product line (not corresponding the statistical branch of the firm) in enterprise sales." (p. 152) It was found in the course of statistical analysis that "in the sphere of activities of 53.9 percent of the enterprises at least one production line was included in which the enterprise did not release any product for sale, that is, at least one activity belonging to the line of production was only used by the enterprise." (*ibid.*)

The above affect the competitive conditions of the Hungarian industry because it is of no avail if "there are production capacities attached to the activities of other sectors and branches, but these capacities do not actually contribute to the chances for competition to develop in the market of a given branch or sector." (p. 178)

Thus, the Hungarian industrial enterprises functioning in more than one sector and branch differ from their Western counterparts inasmuch as they also manufacture products of other sectors—but mainly for their own purposes. What is the reason of this difference?

Eszter Bagó traces back the proliferation of autarky or self-sufficiency chiefly to the dissatisfactory division of labour between enterprises, and to the lopsided industrial structure that can be described by the preponderance of big enterprises. The same was enhanced by the amalgamating activities of big enterprises, in such cases the

production of many items and the sales of still more ones were discontinued. Autarky was increased by the central development programmes as well. The administrative assignment of enterprise lines till very recently also encouraged enterprises not to enter into the market with their products foreign to their line of production. They could easily do so, already enjoying monopoly on their main markets, and for this very reason not having to conquer new markets.

Without challenging the reasoning power of the said factors it should be noted that some of them do need explanation, and that other factors could be quoted to complete the list. For example, János Kornai derives the preponderance of some market forms, e.g. of monopoly positions in the Hungarian market, from the lasting state of affairs in the market, i.e., shortage and disequilibrium. However, Eszter Bagó did not consider it her task to make further analysis of the explanatory factors and to make additions to the list in her book.

The presentations of diversification activities other than the "mainstream" she revealed are valuable parts of the book. The most important domain here is the Hungarian agriculture where a powerful diversification emerged towards industrial activity." (p. 196) The authoress gives the usual explanation for the widespreading of auxiliary plants, stating that through the activities of these establishments and workshops "the incomes of farms were significantly increased." Furthermore, this kind of diversification was one more contribution to the substantially bigger enterprising freedom and enterprising spirit of agriculture as against industry, and "the development of industrial activity in agriculture was a kind of manifestation" of enterprising. (p. 198) From the point of view of the subject of the treatise this explanation may be sufficient; however, it would have been useful from this point of view to present also other opinions about the development of auxiliary plants. Especially the relevant research of Kálmán Rupp* is missed, which shows that the industrial auxiliary plants represented a special

form of small private enterprising in the early and mid-seventies, to which the agricultural large-scale farm only gave its name and stamp, against an extremely high rent in comparison to the risk.

Carrying on the study of non-typical diversifications, the authoress made surveys based on interviews and consultations at 12 industrial enterprises, at places where—except one case—the idea and accomplishment of diversification was formed by autonomous enterprise decision. Entering into the market of one commodity or another was prompted either by excessive market dependence on the market position of a given commodity or service, or (at five places) by structural changes of the market, the declining market position of the basic activity. In this case "the factors encouraging diversification are, in the last analysis, identical with the motives of diversification as shown by the literature in capitalist enterprises." (p. 220) However, "actually there was not any unambiguous pressure in the background of decision on diversification." (p. 220)

The aforesaid, Eszter Bagó notes, indicate that "recognizing the expediency of diversification... depends on subjective factors: on the enterprising spirit of management." (p. 221) It could also be said that it is a managerial hobby.

All the above reveal the lopsided, semi-market nature of the Hungarian system of economic control and management. There exist factors that encourage the Western type of diversification, but sometimes their workings are insignificant. As long as this is the state of affairs, the notion of diversification as we use it will also define partly similar and partly different matters than what our Western colleagues mean by it. However, having read the excellent book by Eszter Bagó, a successful blend of the methods of economic analysis, we have a much more accurate idea, at least as far as diversification is concerned, about what is different and what is similar here and there. Which is a great achievement itself.

M. LAKI

* Kálmán Rupp: *Entrepreneurs in red, structural and organizational innovation in the centrally planned economy*. State University of New York Press, Albany 1983.

INOTAI, A.: *Válaszúton az Európai Gazdasági Közösség* (The European Economic Community at the crossroads). Kossuth Kiadó, Budapest 1985. 369 p.

The European Economic Community transacts 30 percent of the world trade; two-thirds of East-West trade fall to this integration. Besides, the EEC serves as a model for most theories of international integration. And yet a feeling has developed in the member countries that they have not quite attained what they wanted to in the beginning. The geographical extension that took place in early 1986 is to compensate, on the political plane, for the failure to achieve more intensive economic co-operation. At the same time, some questions arise. What can a stronger-than-average regional co-operation among geographically close developed countries attain and what can it not? Where is a common policy able to make progress and produce results, and where does it tumble over national interests? These exciting, and in many cases as yet unresolved, issues are discussed in András Inotai's book. He throws light on the crucial points of this extremely wide sphere of subjects in an objective manner, heavily relying on available statistical evidence. For a measuring rod he uses the relative competitive position of the individual areas and sectors in the world economy. Upon this ground he elucidates the dismal results produced by collective economic isolation, i.e. the economic policy restricting international competition, coupled with the "welfare state" approach with similar objectives within individual national societies. True, for the time being these do not yet show so much in the absolute level of economic performance, rather in the deteriorating positions relative to other countries. The point of reference for Inotai's analysis is the relevance of intra-EEC changes for a small and East-West trade-dependent country like Hungary. He examines what could be done in addition to registering and, in a worse case, condemning, the unfavourable developments, in order to adjust the Hungarian economy to changes that are beyond its sphere of influence.

Why is the West European community at the crossroads? Through the examination of integration policies in agriculture, in the industrial sectors, in technological development, and in commercial policy, the author demonstrates repeatedly that the

inward looking policy of the Common Market, mainly aiming at the protection of jobs and markets, has contributed to the region's lagging behind in world economic development. Moreover, the Common Agricultural Policy, having grown out of proportions and having overstrained the budget of the Community has also contributed to intensified clashes of interests among the member states, even before the accession of Spain and Portugal. An outward looking competitive integration concept would, however, better serve the EEC's own interests and, in the meantime, could promote a more cooperative approach of the region to the outside world.

The author presents statistical evidence for the EEC member countries' losing ground in the world economy, which is a direct consequence of the protectionistic policies. Assertion of the underlying interests in a CAP in West-Europe has not led to agricultural self-sufficiency. Owing to the disproportionate power of the national agricultural lobbies subventioning producers at much higher than marginal cost has not come to a halt at this point. It is therefore hardly a surprise that mountains of meat, butter, and corn as well as lakes of wine and milk are being produced time and again. These are later being sold at below market prices abroad, among others in Eastern Europe. This has become manifest in that the EEC member countries have increased their world market share in agricultural products, even though, obviously, it is not the West European region that enjoys comparative advantages in the world production of such commodities. On the other hand, it gives food for thought that the EEC is also gaining ground on the world markets of industrial raw materials and material-intensive semi-products, while its share in the world trade of leading, technology-intensive products shows, as a rule, a decreasing trend.

The EEC has declared its intention to develop an offensive common industrial policy in the very high-tech sectors. In one of his earlier writings the author challenged, even in principle, the feasibility of such an objective.* In this book he examines the issue by

* Inotai, A.: Regional economic integration and international division of labour. (Regionalism and globalism in the new period of world economic development). *Trends in World Economy*, No. 39 — Hungarian Scientific Council for World economy, Budapest 1982.

using the EEC's own measure and demonstrates, how little of the offensive industrial policy conceptions has been put into practice. In his opinion, it is also the "result" of the defensive and competition-restricting industrial policies of the Community confined to protecting jobs and markets that the EEC increasingly loses ground on markets of the U.S. and, also of the more developed countries just in the fields of manufactures, primarily in the technology-intensive products and subsectors. It is a further sign of weakness that in the geographical pattern of the Community's exports the share of the less competitive areas like Eastern Europe and Black Africa is on the increase. The author may even be over-emphasizing the fact that the EEC member states—again because of their job protection—have hardly at all benefited from the results of the increasingly successful industrialization in developing countries.

In his analyses focusing on intra-EEC developments, the author draws the conclusion that no genuine change is to be expected in the rather rigid common commercial policy of the EEC in the coming years, either in the field of manufactures, or in that of agricultural products. This is an immediate outcome of the structural uncompetitiveness inherent in some of the institutional arrangements in Western Europe. It seems to me that, beside the growing competition from the South-East Asian countries, the effort to preserve existing structures and policies clashes with relevant US interests, including agricultural world trade, but also that in high-tech manufactures. It is therefore expectable that at the forthcoming GATT round the EEC will not be able to ward off—because of the asymmetry in bargaining power, as also indicated by Inotai—the repeated strong trade liberalization

endeavours of the U.S. Administration, already displeased with the sizeable deficit in its balance of payments, by merely symbolical concessions. By joining the U.S., the developing countries can also exert more efficient political pressure against efforts restricting the EEC imports of agricultural produce and low-processed manufactures. This is one of the reasons why I believe—unlike the author*—that for the GATT-member Eastern European countries this multilateral international forum might be much more an instrument for asserting their trade policy interests in the coming years, than a direct agreement to be concluded with the Commission. A meaningful separate agreement with Brussels which a few years ago I considered as desirable myself, has now become illusory. Given the chronic budget problems of the enlarged European Community and the disinclination of important member countries, especially of France, towards even showing minimum flexibility in talks, it seems that the Commission in Brussels is objectively not in a position of actually giving up the discriminatory restrictions on Hungarian exports. In the lack of the previous conditions there is hardly any other alternative feasible in the short run, as an agreement for the agreement's very sake, a position having correctly been refused by CMEA countries on both political and economic grounds. If, however, the GATT round an international conflict over the ways of its financing drives the EEC to revise its trade policy thoroughly, it will be again worth reconsidering what additional trade preferences, beyond those legitimately received under the GATT regime, the Commission can grant to Hungary under the terms of a comprehensive trade policy agreement.

L. CSABA

* See his article in the current issue of *Acta Oeconomica*.

BOOKS RECEIVED*

- AMANN, R.-COOPER, J. (eds): Technical progress and Soviet economic development. Basil Blackwell, Oxford 1986. 214 p.**
- ANTONELLI, G.: Risorse umane e redditi da lavoro. Franco Angeli Libri, Milano 1985. 256 p.
- BEREND, I.: Capital intensity and development policy. Akadémiai Kiadó, Budapest 1985. 265 p.
- COURTADON, C. L.: The competitive structure of the Eurobond underwriting industry. Salomon Brothers Center for the Study of Financial Institutions, New York University, Monograph Series in Finance and Economics, Monograph 1985-1. 74 p.
- National health development networks in support of primary health care. World Health Organization, Geneva 1986. WHO Offset Publication No. 94. 49 p.
- PEÁK, I. (ed.): Papers on automata and languages, VII. Karl Marx University of Economics, Budapest 1985. 111p.
- STOLL, H. R.: The stock exchange specialist system: an economic analysis. Salomon Brothers Center for the Study of Financial Institutions, New York University, Monograph Series in Finance and Economics, Monograph 1985-2. 53 p.
- SZENTES, T.: Theories of world capitalist economy. A critical survey of conventional, reformist and radical views. Akadémiai Kiadó, Budapest 1985. 407 p.
- SZÉP, J.-TALLÓS, P. (eds): Mathematical analysis and system theory II. Karl Marx University of Economics, Budapest 1985. 215 p.
- WESTCOTT, G.-SVENSSON, P.-G.-ZÖLLNER, H. F. K. (eds): Health policy implications of unemployment. World Health Organization, Regional Office for Europe, Copenhagen 1985. 409 p.

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

** To be reviewed in *Acta Oeconomica*.

AUTHORS

- Dr. András RÁBA, see Vol. 33, Nos 1-2.
- Dr. János KÖLLŐ, b. 1952. Scientific research worker at the Institute of Economics, Hung. Acad. Sci. Author of "Fluctuations of labour shortage and state intervention after 1968" in: Galasi, P.-Sziráczy, Gy. (eds): Labour market and second economy in Hungary (1985); Studies of the Institute of Economics, Hung. Acad. Sci., Nos 23-24, and co-author with K. Fazekas of studies on the labour market (in Hungarian.)
- Dr. Béla KÁDÁR, see Vol. 34, Nos 3-4.
- Dr. János GÁCS, b. 1948. Candidate of econ. sci. Senior research worker at the Institute for Economic and Market Research. Author of several studies in *Economics of Planning*, *Eastern European Economics* and *Acta Oeconomica* on national economic planning, on the measurement of shortage and its impact on macro-economic decisions and several studies (in Hungarian on the same topics).
- Dr. Judit SUBA-VARGA, b. 1948. Scientific research worker at the Institute of Economics, Hung. Acad. Sci. Author of studies on Hungarian foreign trade (in Hungarian and Russian).
- Dr. István SALGÓ, b. 1952. Senior member of the Institute of Economic planning of the National Planning Office of Hungary, formerly assistant at the Karl Marx University of Economics, Budapest. Author of "Les dilemmes de la nouvelle organisation du commerce extérieur hongrois" (*Le courrier des pays de l'Est* 1. 1985), co-author with I. Szegvári of "Le rôle du commerce extérieur dans l'économie des pays de l'est et les mutations de l'économie mondiale" in: *Reflets et perspectives de la vie économique* (Bruxelles 1983) and studies in Hungarian.
- Dr. János KORNAI, see Vol. 34, Nos 1-2.
- Dr. Zsuzsa DÁNIEL, b. 1932. Candidate of econ. sci. Senior research worker at the Institute of Economic Planning of the National Planning Office of Hungary. Author of "Planning and exploration: a dynamic multi-sectoral model of Hungary" (*Economics of planning* 1971); "Public housing, personal income and central distribution in Hungary" (*A. Oec.* Vol. 31, Nos 1-2); "The effect of housing allocation on social inequality in Hungary" (*Journal of Comparative Economics* 9. 1985) and several studies in Hungarian.
- Dr. András INOTAI, see Vol. 31, Nos 3-4.
- Dr. László SZAMUELY, see Vol. 36, Nos 1-2.
- Anna DUKÁSZ, b. 1960. Economist at the Institute for Building Economy and Organization.
- Dr. Ágnes MAJOR, b. 1948. Economist. Chief official at the Ministry of Finance, formerly worked at the National Bank of Hungary.

TO BE PUBLISHED IN OUR NEXT ISSUE

R. NYERS: Efficiency and Socialist Democracy

T. KOLOSI: Structural Groups and Reform

G. GULÁCSI—P. JUHÁSZ: Development of Settlements, Decentralization and Communal Management
in Hungary

G. VÁGI: Freedom of Decision-Making and Security of Development

É. VOSZKA: Company Liquidation Without a Legal Successor

E. FÁBRI: Change and Unchangeability in Stockpiling Processes in Hungary

E. HUSZTI: The Purchasing Power of the Hungarian Forint (1946–1984)

M. PETSCHNIG: The Changing Role of Private Savings

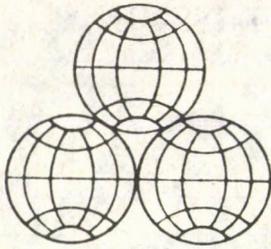
T. P. LIANOS: Marx on the Rate of Profit, the Rate of Profit of Enterprise and the Rate of Interest

REVIEWS

B. BOTOS: Changes in the Structure of Hungarian Industrial Foreign Trade

BOOK REVIEWS

BOOKS RECEIVED



TIERS MONDE

Croissance. Développement. Progrès

N° 106 — Avril-Juin 1986

L'AFRIQUE DES GRANDS LACS

sous la direction d'André GUICHAOUA

avec la collaboration de

Joseph AKILIMALI, Jean BAGIRAMESHI, Michel BARNAUD, Cléophas BAZIHIZINA, Jean-Pierre CHRÉTIEN, Charles KAZUNGU, Bernard LECOMTE, Gabriel LE JEUNE, Carlos MALDONADO, Émile MWOROHA, Anastase NTEZILYAYO, Prime NYAMOYA, Gérard PRUNIER, Pierre RANSONI, Jacques SCHWARTZ, Mathias SINAMENYE, Christian THIBON et Didier VERHEVE

André GUICHAOUA : Isolement et méconnaissance	245
Jean-Pierre CHRÉTIEN : L'Afrique des Grands Lacs existe-t-elle?	253
Cartes : La géographie de l'Afrique des Grands Lacs	267

I. — Enjeux régionaux.

Jacques SCHWARTZ : L'impératif régional	271
Mathias SINAMENYE : Politique industrielle et intégration régionale	279
Christian THIBON : Croissance et perceptions démographiques. Une politique démographique intégrée; quelques interrogations préalables	297
Gabriel LE JEUNE : Réflexions sur quelques enjeux politiques de l'Afrique des Grands Lacs	309
Gérard PRUNIER : L'Ouganda : une économie malade de la politique	319
Jean-Pierre CHRÉTIEN et Gabriel LE JEUNE : Elections et sociologie politique. Note sur les législatives de 1981 et 1982 au Rwanda et au Burundi	331

II. — Éléments de politique sectorielle.

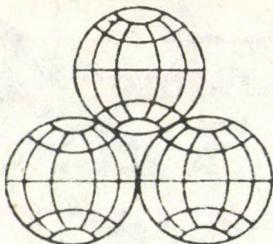
Emile MWOROHA : Politiques et actions du gouvernement du Burundi en matière de développement rural	339
Prime NYAMOYA, Charles KAZUNGU et Joseph AKILIMALI : Le financement du développement au Burundi : la filière café	357
André GUICHAOUA : Budgets et stratégies monétaires des paysans au Burundi et au Rwanda	375
Anastase NTEZILYAYO : L'agriculture à l'horizon 2000 ou comment doubler la production vivrière au Rwanda?	395

Jean BAGIRAMESHI, Cléophas BAZIHIZINA et Michel BARNAUD : Pour une nouvelle politique de la vulgarisation agricole au Rwanda	419
Bernard LECOMTE, Carlos MALDONADO, Pierre RANSONI : La promotion du « secteur non structuré » : le cas de Kigali	439
Didier VERHEVE : Les ressources minières de la CEEAC	457
Gabriel LE JEUNE : Recherches et institutions de recherche sur l'Afrique des Grands Lacs	467

ANALYSES BIBLIOGRAPHIQUES

RÉDACTION ET ADMINISTRATION
INSTITUT D'ÉTUDE DU
DÉVELOPPEMENT ÉCONOMIQUE ET SOCIAL
Secrétaire de rédaction : Christiane Salomon
58, boulevard Arago, 75013 Paris – Tél. : 43-36-23-55

ABONNEMENTS ET VENTE
PRESSES UNIVERSITAIRES DE FRANCE
Service des Revues : 12, rue Jean-de-Beauvais, 75005 Paris
Tél. : 43-26-22-16 – Compte Chèques Postaux : Paris 1302-69-C
Abonnements annuels pour l'année 1986. – France 260 F : Etranger : 350 F



REVUE TIERS MONDE

REVUE TRIMESTRIELLE

publiée par

L'INSTITUT D'ÉTUDE DU DÉVELOPPEMENT ÉCONOMIQUE ET SOCIAL
DE L'UNIVERSITÉ DE PARIS

N° 107 — Juillet-Septembre 1986

La nouvelle industrialisation du Tiers Monde

sous la direction de Moïses IKONICOFF

- M. Ikonicoff:** L'industrialisation du Tiers Monde à l'épreuve des mutations.
Cl. Courlet et P. Judet: Industrialisation et développement: la crise des paradigmes.
M. Humbert: La socio-dynamique industrialisante. Une approche de l'industrialisation fondée sur le concept de système industriel mondial.
A. Bressand: Déstabilisation technologique: le Tiers Monde dans la nouvelle économie mondiale.
J. Laganier et J.-P. Laurencin: L'Europe dans l'économie mondiale.
C. Ominami: L'ajustement contre l'industrie en Amérique latine.
Ch. Comelieu: Désastre en Afrique noire? Pour une clarification du débat.
Cl. Courlet et R. Tiberghien: Le développement décentralisé des petites entreprises industrielles au Cameroun.
J.-P. Barbier et G. Peltier: La réhabilitation des entreprises publiques du secteur industriel en Afrique au sud du Sahara.
J.-R. Chaponnière: Restructuration industrielle à Singapour.
M. Lanzarotti: L'industrialisation en Corée du Sud: une analyse en sections productives.
M. Chatelus: Revenus pétroliers et développement: leçon de l'expérience du Monde arabe.
R. Frouville et J.-L. Perrault: Bilan et perspectives des stratégies d'insertion dans l'industrie électronique mondiale: le cas des NPI.
A. Sid-Ahmed: Pétrochimie et raffinage: un nouveau modèle de division internationale du travail entre le Nord et le Sud.

Chronique internationale — Analyses bibliographiques

RÉDACTION ET ADMINISTRATION

INSTITUT D'ÉTUDE DU
DÉVELOPPEMENT ÉCONOMIQUE ET SOCIAL

58, boulevard Arago, 75013 Paris — Tél.: 43-36-23-55

ABONNEMENTS ET VENTE

PRESSES UNIVERSITAIRES DE FRANCE

Département des Revues: 12, rue Jean-de-Beauvais, 75005 Paris
Tél.: 43-26-22-16 — Compte Chèques Postaux: Paris 1302-69-C

Abonnements annuels pour l'année 1987. — France: 290 F; Etranger: 380 F

EL TRIMESTRE ECONOMICO

COMITE DICTAMINADOR: José Luis Alberro, Carlos Bazdresch P., Francisco Giner de los Ríos, Carlos Noriega, Jaime Ros y Eduardo Turrent (secretario).

CONSEJO EDITORIAL: Edmar L. Bacha, Enrique Cárdenas, José Blanco, Gerardo Bueno, Héctor Diéguez, Arturo Fernández, Ricardo Ffrench-Davis, Enrique Flores Cano, Roberto Frenkel, Ricardo Hausman, Albert D. Hirschman, David Ibarra, Francisco López, Guillermo Maldonado, José Antonio Ocampo, Gert Rosenthal, Francisco Sagasti, Jaime José Serra, Osvaldo Sunkel, Carlos Tello, Ernesto Zedillo.

Director: Carlos Bazdresch P.

Secretario de Redacción: Guillermo Escalante A.

VOL. LIII (3)

México, julio — septiembre de 1986

Núm. 211

Sumario

Artículos:

- Víctor L. Urquidi: *In memoriam: Raúl Prebisch*
- Máximo Lira: *La larga marcha de Prebisch hacia la crítica del capitalismo periférico y su teoría de la transformación social*
- Georg Elwert, Hans-Dieter Evers y Werner Wilkens: *En busca de seguridad: Modos combinados de producción en el llamado „sector informal”*
- José Tavares de Araujo Jr.: *Los mercados disputables y la competencia schumpeteriana en las economías de industrialización reciente*
- Aaron Tornell: *¿Es el libre comercio la mejor opción? Comercio Heckscher-Ohlin vs. comercio intraindustrial*
- Nathaniel H. Leff y Kazuo Sato: *Entrada de capital extranjero; ahorro interno e inversión en la América Latina: Una historia negativa y precatoria*
- Frank Orlando y Simón Teitel: *El problema de la deuda externa de la América Latina: Estrategias de servicio de la deuda compatibles con el crecimiento a largo plazo*

NOTAS Y COMENTARIOS: Víctor L. Urquidi, *Una propuesta para establecer un sistema de pago parcial, en moneda local, de los intereses de la deuda externa.* **RESENAS:** Joseph Hodara: Helio Jaguaribe, *El nuevo escenario internacional*; Helio Jaguaribe: réplica; Fernando Cortés; Mario Bunge, *Economía y filosofía*; Francisco Giner de los Ríos: Colección Estudios CIEPLAN. núm. 17. **DOCUMENTOS:** Brasil: Programa de estabilización económica; discurso de Alan García de las Naciones Unidas; Perú: La historia cambia, pero está de nuestra parte; Balance de los primeros meses del gobierno de Alan García; discurso de Miguel de la Madrid en la CEPAL.

Fondo de Cultura Económica — Av. de la Universidad 975
Apartado Postal 44975

FOOD ECONOMICS

By
A. BURGER

In English. 1985. 236 pages, 17 × 25 cm
Hardcover \$24.00/DM 59,—/£ 16.75
ISBN 963 05 3880 6

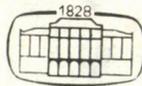
“Food Economics” is a macroeconomic textbook for undergraduate and graduate students specializing in agricultural economics, for agricultural economists working in agrobusiness, for students of the economic principles and practices of the European socialist countries, and for all those who are interested in socialist agriculture.

The book is an up-to-date synthesis of Marxist and neoclassical views and is based on the author’s own research and on Hungarian and foreign achievements in this field. Owing to conclusions drawn from actual research, the views expressed by the author often differ from those which are generally accepted in agricultural economics taught in socialist countries.

The book deals with the production, planning and financing of production and with marketing. It characterizes the mainstream of Hungarian agricultural development comparing it with world agriculture. It stresses the importance of a better incentive system in agriculture and of a more decentralized management system, connected with greater responsibility for farms’ capital— including land — and for its productivity.

The title of the book: “Food Economics” indicates that while it covers largely agricultural economics, it also deals with food supply and demand, with processing and marketing, hence includes most of the economic problems of food production.

The book contains a large reference list covering Hungarian and world literature.



AKADÉMIAI KIADÓ · BUDAPEST

Economic Geography of Hungary

Edited by
T. BERNÁT

In English. 1985. 450 pages, 69 figures, 30 tables, 17 × 25 cm
Hardcover \$35.00/DM 99,—/£ 24,50
ISBN 963 05 3543 2

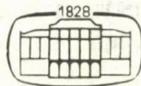
The book provides basic knowledge about the development, spatial location and territorial relations of the Hungarian national economy, as well as about the questions of regional development. The subject is set out partly in general chapters (population, industry, agriculture, etc.), partly in chapters of a regional character (economic-planning regions) illustrated with a number of cartograms. In addition, the volume contains a selected bibliography of the most important literature of Hungary's economic geography.

The authors do not follow the usual method of traditional descriptive geography, and in presenting the spatial relation system they give priority to the question of "how" and "why exactly there" over the "where" question of descriptive geography. To make it easier to read, the work contains relatively few place names and statistical data. Instead, it includes about seventy diagrams and cartograms to illustrate its statements.

The aim of the book is to disclose the spatial distribution and interactions of the productive forces of the economy by making use of the latest research findings in economic geography and the related sciences. On the basis of research it presents an up-to-date picture of the spatial location of the individual sectors of the Hungarian economy, of changes in the territorial division of labour, the functioning of regional policy, as well as of the participation of the Hungarian economy in the international division of labour.

Besides surveying the spatial structure of the economy, the work also outlines the experiences of regional planning already gained in practice. It also covers themes such as the urbanization process, the industrialization of the industrially underdeveloped territories, the question of developing marginal agrarian areas, the territorial division, and economic regionalization of Hungary.

The main chapters are concluded with a selected bibliography of the most important literature.



AKADÉMIAI KIADÓ · BUDAPEST

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

MAĎARSKÁ KULTURA, Národní třída 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

AKATEMINEN 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 Wellingbo-
rough, Northants NN8 2QT
WM. DAWSON AND SONS LTD., Cannon House Folkstone,
Kent CT19 5EE
H. K. LEWIS AND CO., 136 Gower Street
London WC1E 6BS

GREECE

KOSTARAKIS BROTHERS INTERNATIONAL
BOOKSELLERS, 2 Hippokratous Street, Athens-143

HOLLAND

MEULENHOF- 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, Marszałkowska 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
MEZHUNARODNAYA KNIGA, Moscow G-200

SPAIN

DIAZ DE SANTOS, Lagasca 95, Madrid 6

SWEDEN

GUMPERS 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