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I. FRISS

TEN YEARS OF ECONOMIC REFORM IN HUNGARY

Hungarian economic reform was an experiment, a pioneering venture on the part of a socialist country with planned economy. The experiment has been successful. It has been proven that it is possible to draw up a national economic plan and to implement it successfully, moreover, to control a planned economy without prescribing for the enterprises obligatory plan targets deduced, in some way, from the national economic plan, and without instructions issued to the enterprises by their superior authorities. It has been proven as well that these instructions can be replaced successfully by economic, financial and other regulators directing the activity of enterprises, in general, towards the goals desired.

The tenth anniversary of the introduction of the economic reform on January 1st, 1978 passed without major celebrations in Hungary. The reason was probably that the reform has long become everyday practice.

It would not have become one had it not been an integral part of the policy of the Hungarian Socialist Workers' Party, consistently followed for more than two decades. It is the same policy that had eliminated the compulsory delivery of agricultural products at low prices more than two decades ago and had taken various steps in the industry aimed at a greater independence for the enterprises, easing the rigidity of planning, control and management pointing in the direction which was finally enforced in the reform. The reform is an integral part of the Party's policy which keeps in view that with progress in the building of a socialist society also the methods and forms of control and management have to develop.

In the first half of the 1960s it was the Party that had initiated, handled and widely organized the formulation of the principles for the preparation of the reform. After several years of work, at the meeting of the Central Committee of the Hungarian Socialist Workers' Party held on May 25–27, 1966 a decision was taken on the "reform of the economic mechanism". [1] It took another one and a half year's work for the state organs to elaborate the practical details of the reform and its functional rules which have become effective with January 1st, 1968.

In general the reform was favourably received by the public. However, certain criticisms appeared early and, as a matter of fact, have not stopped even today; they are based partly on certain misunderstandings and misinterpretation. To avoid them I feel expedient to go back to the original resolution. Therefore, I am going to present a relatively abundant excerpt of the text covering 43 printed pages in the first edition.

Objectives, principles and tasks of the reform

According to the introduction of the resolution the economic necessity of the reform resulted from the circumstance that previous important sources of economic growth had been near exhaustion and, therefore, a more intensive exploration of inner

reserves and acceleration of technological progress were required. Its political importance lies in that it is aimed at ensuring a faster rise in living standards, eliminating restrictions impeding individual initiatives and at fighting the bureaucratic tendencies.

According to the resolution, *the main point of the new method of national economic planning, and of planned control and management is that it is not the administrative, but instead the economic instruments which are dominating in control and management. The method of "breaking down" the plans by addressees should be eliminated (this meant the breaking down of yearly national economic plans through medium-level directing organs by enterprises in the form of compulsory plan targets)*; commodity relations, market, money, prices, profitability, credit, etc. should be asserted in a wider scope. On the one hand, the *main development objectives and proportions will continue to be centrally determined* in national economic plans and, on the other hand, a wider scope will be ensured for market relations and the interaction of demand, supply and prices. There should be a market that regulates while being itself centrally regulated. The bureaucratic system of centralized allocation of materials and products should be replaced by *trade.* Producing enterprises should have the possibility to decide themselves on what and how much to produce and to offer for sale, from which enterprises and in what quantity to buy means of production; and trading, servicing and other enterprises should have a similar freedom. Producers and users should be in a position to establish direct trading and cooperation relations with each other, buyers should make their own choice between domestic and import goods and sellers between domestic and export sales, respectively.

Those forms of competition should be furthered through which disadvantages caused by the monopolistic situation of certain enterprises might be eliminated. Such are the following: supply exceeding demand, adequate level of commodity stocks in trade, competition between domestic products substituting each other, competition of import goods and competition on the export markets.

The economic instruments with which the state ensures the realization of the national economic plan are the following: a partial drawing away of enterprise incomes by the state, rules regulating the utilization of incomes left with the enterprises, taxes, budgetary expenditure on defined goals, regulation of the terms of credit granting, selective credit policy, government regulation of wages and prices, rates of exchange, determination of foreign exchange multipliers, in case of necessity permits and prohibitions in certain fields.

The government decides on major investment projects, on the creation of new enterprises and big factories, moreover, on major individual projects of the non-productive sphere. Investments financed by bank-credit should have an important role. The possibility for building up own financial funds to be used by the enterprises for investment purposes has to be expanded.

The fundamental function of prices is to properly orientate and stimulate producers and consumers in their economic decisions, to further a rational utilization of economic resources, the adaptation of production to demand, the rapid development of technology

as well as the balance between demand and supply. Three main forms of price regulation have to be applied, namely, fixed official prices for certain basic materials and agricultural products, staple consumer goods and services; contractual prices moving within officially determined limits e.g. for building activities; free prices e.g. for investment goods and certain consumer goods. The price system should be flexible. *A close connection should be established between domestic and foreign trade prices.*

Combining planned central control and management with the functioning of the market mechanism allows and also requires a *considerable increase of the independence and decision-making possibilities of state enterprises and, parallel with that, of their initiative and responsibility.* The one-man management of the responsible director and the collective participation of workers and employees in enterprise matters should be jointly enforced. The state should be in command of the state enterprises as owner. It should ensure great independence for its enterprises, since this serves better the efficient functioning of socialist planned economy. *The enterprise decides on its plan itself, mainly concerning issues connected with current activity, but partly also those of development and expansion.* The main compass and measure of the economic activity of state enterprises should be the (long-term) development of profits. The development of enterprises should possibly depend on profits and this latter should have considerable influence on the personal incomes of workers and employees of the enterprise.

These were then the objectives, tasks and principles of the reform. Let us examine how far they have been realized, what could not be achieved, which of them should be regarded as relevant, unalienable parts of the reform and which as less important ones which could or had to be given up because of the circumstances without abandoning the entire reform. To make the survey easier, I am going to classify the objectives and principles into the following groups: 1. the new method of planning and planned control and management; 2. enterprise independence, relationship between the state and enterprises, competition among enterprises; 3. development and investment at enterprise and national economic levels; 4. prices and economic reform; 5. functioning of the regulators in the reform, the role of profits.

New method of planning and planned control and management

For all those with some knowledge of the objectives and endeavours of economic reforms put on the agenda in almost all socialist countries about the middle of the 1960s, both the similarities and the differences are striking at the first sight. It was emphasized everywhere that commodity relations and categories resulting from them, namely, market, money, prices and profitability should be taken into consideration with greater weight in planning as well as in the control and management of the national economy, that they must not be neglected – as had happened in the past –, moreover, in certain cases a decisive importance should be attributed to them. However, there is no other reform plan or endeavour where we could find what is ranked in Hungary in the first place, namely, that the method of economic control and management through "breaking

down" the plans should be eliminated, that is, the yearly national economic plans should not be broken down to the enterprises through medium-level directing organs nor prescribed for them in the form of compulsory plan targets.

This method of breaking down the plans was so general in the majority of the socialist countries and seemed so much to be an integral and indispensable part of planned economy that it was often identified with planned economy itself. It was believed and declared that if enterprises were not given plan targets to be fulfilled compulsorily they could not work in a planned way or even fulfil any plan. It was the merit of those preparing the Hungarian economic reform that, firstly, they analyzed in a many-sided way the wide-range practical experiences of several years and it was convincingly proved on this basis that though the system of breaking down the plans had been justified at the initial stage of planning, but at the given level of development it had more negative than positive results. Secondly, a theoretical foundation was provided for the possibility and probable advantage of planned economy without plans broken down and without compulsory plan targets for the enterprises as against the old system. Thirdly, they dared to transplant theory into practice trusting they were right. What has practice shown? Let us examine some main figures concerning the fulfilment of the last Five-Year Plan for 1971–1975.

Table 1

Some plan targets and factual data of the 1971–1975 plan
(1975 in percentage of 1970)

	Plan	Factual
National income	130–132	135
Industrial production	132–134	137
Agricultural production (1971–1975 in percentage of 1966–1970)	115–116	128
Real wages of workers and employees per one earner	116–118	118
Per capita real income of the population	125–127	125
Building of flats in the years 1971–1975 (number of flats)	400.000	438.000

Source: Report of the Central Statistical Office.

From the present Fifth Five-Year Plan only the first two years, 1976 and 1977, are over, which, of course, does not allow to draw far-reaching conclusions. However, it can already be stated that the two years complemented each other in several respects. In 1976

a number of important targets were not attained. There were several special reasons for this, first of all that, in consequence of unfavourable weather conditions, there was a setback in agricultural production as compared to the previous year. On the other hand, the targets mentioned were, in general, overfulfilled in 1977. Agricultural production exceeded significantly not only that of 1976, but even the good results of 1975 by 7–7.5 per cent. Thus the joint output of the two years approaches the proportionate share of the Five-Year Plan for these two years.

As can be seen, the national economic plan was realized, practice has fully justified the reform. This is, however, a result with a bearing on principles and theory and pointing beyond Hungarian experience. It is no longer only a theoretical conclusion, but a fact supported by practice, that a planned economy can be managed and a national economic plan successfully realized, under certain conditions, without instructing the enterprises by issuing them indicators deduced from the national economic plan and to be fulfilled compulsorily. It is also a circumstance worth mentioning that if enterprises produce not according to plan directives, but on the basis of orders, then the possibility of accumulating unsaleable commodity stocks will be much less.

In the foregoing we have only examined whether the reform impeded or promoted planned economy and successful national economic planning. However, it is also interesting to examine how the Hungarian national economy developed in the years of the reform. This development cannot be traced back to the reform, nevertheless, it is not completely independent of it, either. Obviously, we have to restrict ourselves only to some major figures also here.

There are several views inclined to attribute the basically favourable development trend indicated by the figures exclusively to the new system of economic control and management. There are some others as well blaming exclusively the reform for the economic deficiencies and difficulties experienced in recent years. However, neither the first, nor the second statement is supported by the basic concept of the reform or by the experiences of the last ten years. We have here interdependent processes, but clearsight and mainly the drawing of proper conclusions require us to separate from each other these interdependent, but by no means identical processes, namely, the reform from economic development. I will try to do so in the following.

The new system of control of the national economy has had a great many advantages over the previous one. A considerable part of them are related to the basic feature and substance of the reform characterized above. It should be obvious that the reform influenced the development of the entire society and economy, since it meant a radical interference in the economic life, it affected almost each of its fields, and influenced the development of the whole social economy. Therefore, the reform has had a considerable part in all the success and failures as well as in the favourable development of the overall picture in the years following the reform. However, any method or system of national economic planning or of the control and management of the national economy may be successful only if it works on the basis of an adequate, i.e. a scientifically properly founded economic policy. This, however, already points beyond

Table 2

Development of the Hungarian national economy
(1966–1977)

Year	National income	Gross industrial output	Agricultural output	Production per man-year in the socialist industry	Real wages of workers
	in percentage of the yearly average growth				
1966–1970	6.8	6.3	2.8	3.8	3.5
1971–1975	6.3	6.4	4.8	6.2	3.3
1976	3	4.1	–3	4.9	0.4
1977	7.5–8	6.8–7	10–11	–	3.5

Source: for 1966–1977 Statistical Pocket Books of Hungary for 1977. The report of the Central Statistical Office on plan fulfilment (Népszabadság, February 5, 1978).

the reform. The reform made possible the planned influencing of various economic processes with the aid of economic regulators, but it cannot be deduced from the reform at all, or only in very general terms for what purposes the economic regulators should stimulate or with what economic regulators these objectives can be achieved or well approached. True, in the new system – and this is a great advantage over the previous one – planners and managers have always to think about the regulators with which and how they might attain the goals set in the plan. Are there such regulators at all, or can the planners of regulators and the managers of the economy devise such? If not, then the objectives are likely to be wrong, presumably they were wrongly and irrealistically set, or at least some of them should be changed. This hard thinking undoubtedly contributes to the perfection and higher standards of economic policy and planning.

Independence of enterprises, relationship between state and enterprises, competition among enterprises

The Central Committee decision dealing with the reform, mentioned in the foregoing, speaks rather unambiguously and in a relatively detailed manner about the independence of enterprises, the relationship between state and enterprises as well as about competition among enterprises. I have said "rather unambiguously", because it has turned out that even an unambiguously formulated principle cannot provide firm orientation for practical application and does not exclude deviating interpretation and debates resulting from these.

Despite it, the largely increased independence of the enterprises is the most important and most useful achievement for the national economy and society following from the basic principle of the reform. It has brought about outstanding results so far, although it has not always nor everywhere been enforced consistently. It follows from the basic principle of the reform, because if the enterprise does not receive any directive, it not only may but must independently decide – in the framework determined by demand and supply, i.e. by the market – what it will produce, for whom and for how much it will sell, from whom and for how much it will buy. From this further decisions result within the enterprise. While the system of compulsory indicators extraordinarily delimited the freedom of action of managers, the new system has opened the door wide to their initiatives. Vast previously hidden energies have been released for the national economy and the entire society. The initiative of good managers could be freely put forth and there were some enterprises where this has worked wonders.

However, there is a hitch here. Efficient managers with adequate imagination and initiative, undertaking rational risks, may achieve excellent results. Ten years of practice have proven that there are many of them. But, what about the others? It has also been proven by experience that the poor ones will not automatically be replaced by good ones. With gross simplification we may say that the situation is as follows. Good managers having adequate experience, knowledge and leading abilities cannot be found easily anywhere. But even if there could be found, the majority of present leaders are so much rooted in the economic and social system – through their connections in ministries, in the Party, in the trade unions, in the councils – that they are not easy to remove. Formally, the minister of a given branch has the right to remove a leader, but this may be inconvenient for him in certain cases even if he is personally convinced about the incompetence of the leader in question, which is not too easy, either.*

It follows from the nature of the matter, that the reform could not provide any final solution for the contradiction between enterprise independence and central control. Creative initiative and undertaking of responsibility furthering the development of the national economy may develop in the enterprises only in the case of considerable enterprise autonomy. Therefore, an important objective of the reform was to ensure considerable independence for the enterprises. On the other hand, the reform could not abandon, of course, the possibility of central control, either. It is understandable, therefore, if Party or Government resolutions jointly provide both for increasing the efficiency of central control and management, and for the enforcement of enterprise independence. Enterprise independence is the predominant principle. This is admitted by the control agencies, too, even if they fairly often break it. Interference with the activity

*"... it is not a rare case", Ádám *Juhász*, state secretary for the heavy industry writes, "that a leader once appointed may stay on his post – even if he causes relative damage with his activity – until he draws attention to himself by committing some obviously serious mistake". In such cases it may be a good pretext for the minister that the enterprise is independent and he does not want and even cannot interfere in the matter. [2]

of the supervised enterprises and occasionally even cutting down enterprise independence seem to be especially self-evident for the supervisory organs when some task is prescribed by central decision for one or more branches and the directing organ is made responsible for the fulfilment of this task. It may and does occur that the principle of enterprise independence laid down in the reform is infringed and this, in most cases, does not make any good for the national economy.

The measure of enterprise independence gives rise to debates also regarding enterprises belonging to trusts. Initiatives and a growing sense of responsibility would be promoted by the greatest possible independence also here. Still, it happens that the management of the trust interferes even with the elementary rights of the enterprise, decides on its business policy, the utilization of profits, provides development possibilities for it or withdraws funds. All this is done contrary to the spirit of the reform.

We have seen that, according to the Party's decision on the reform, various forms of competition should be striven after in order to eliminate "disadvantages resulting from the monopolistic situation of certain enterprises". This part of the decision has not been realized in the way originally imagined. According to our experience this is not exclusively a consequence of the monopolistic situation of certain enterprises. Monopolies, too, try to win the favour of their buyers, they are even willing to reduce the prices of their products in lack of adequate demand for them, but enterprises which are not in a monopolistic situation do not compete considerably with each other, either, if – as is usually the case – the market is a sellers' one and supply does not exceed demand or is even lagging behind it. Some articles are produced usually by one or just a few enterprises, thus a monopolistic situation is frequent. There has been real competition in Hungary only among a few domestic products substituting each other. Import is too limited to mean a serious competition on the domestic market, while competition on the export markets has practically no influence within the country. This situation has not been created by the reform nor has it been changed by it.

Development of enterprises and of the national economy, investments

In the field of investments the reform somewhat increased investment possibilities for the enterprises, it brought about changes in the scope of decision-making*, considerably extended the influence of banks on selecting investments, in allocating funds, but did not change basically what had been causing serious troubles for the leaders of the

*The limited nature of this change is appositely characterized by an article of the paper *Népszabadság:* "Enterprise resources had and have to be complemented with credit or state subsidies, what is more, often the greater part of funds derives from the central budget. In this way – although already more than half of investment projects are qualified as falling into the sphere of decision of enterprises at present – ***at least 80 per cent of investment decisions are made directly or indirectly by the state.*** Credits (and development subsidies) practically determine the development policy of enterprises. [3]

national economy for many years, namely, the considerable, mostly cyclical fluctuations in the volume of total investments of the socialist sector, the "fever curve" of investments, showing great amplitudes.

In the three years before and the ten years following the reform the volume of investments of state enterprises and cooperatives shows a development as indicated by Table 3; (the volume of investments in the preceding year is considered as 100).

Table 3

Total investments of state enterprises and cooperatives in the years 1965–1977 (chain-indices)

1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
100	110	122	100	110	117	111	98	103	110	115	100	113

Source: for 1965–1970 the 1974 edition of the Hungarian Statistical Pocket Book, for 1971–1976 the 1977 edition, while for 1977 the report of the Central Statistical Office on plan fulfilment (Népszabadság, February 5, 1978).

It is enough to have a look at the above figures to become convinced: purposefulness and national economic plan could have hardly been enforced here. For the last year, i.e. 1977 the report of the Statistical Office makes the following statement: "181.5 thousand million forints, i.e. an amount by 10 per cent more than planned, were spent on investments of the socialist sector. This is by 10 per cent more than in the preceding year at current prices and by 13 per cent more in terms of volume. Such an increase of investments was not in proportion to the present load bearing capacity of the national economy, nor to the possibilities of concentrated construction. There were too many investment projects simultaneously in process, in some cases completion was postponed and costs rose".

This is bad, very bad, but it did not follow by any means from the economic reform. The reform replaced directives by regulators in the control and management of the economy. But, as it has already been noted, setting the objectives to be achieved and determining the instruments necessary for their realization are not tasks to be solved by the new system of control and management, but by economic policy. We cannot deal in detail with problems of investments here, of which the regulators are only a small and obviously not even a decisive part. All we have to mention is that, though problems of investments have not diminished, nevertheless, such or other development of investments cannot be attributed to the reform.

Prices and economic reform

I have quoted the relevant provisions of the Party's decision on the reform relating to prices. A great part of them have remained dead letters. This was unavoidable. Although the new system started with a price reform that approached relative prices to the desirable ones, but affected some relevant features of the price system only to a lesser extent. It did not change either the fact that as a matter of fact, the price system was built up, in an autarkic way, mainly starting from domestic production costs, or that a considerable part of prices were complemented by subsidies. Such a price system cannot satisfactorily serve economic orientation in Hungary where on the average of the last 15 years a one per cent increase of the national income necessitated a two per cent increase of exports, and as Károly *Németh,* then Secretary for Economic Affairs of the Central Committee of the Party explained: "About half of the output of ten sectors is destined for exports. They are: the pharmaceutical industry, the aluminium industry, telecommunication equipment and vacuum technical industry, precision engineering, vehicle manufacturing, the shoe industry, animal husbandry, poultry processing industry, fruit growing and the canning and preserving industry." [4] Therefore, the orienting power of prices has been limited from the very beginning. Still, producer prices had such a power, partly because they could be changed within a rather wide range and relative producer prices could be approached to international relative prices, and partly because, with the relatively stable prices of international markets, in the years following the reform the economy relied on these prices. "The turning-point", as Béla *Csikós-Nagy,* President of the National Board for Materials and Prices writes, "has been brought about by the acceleration of inflation on the world market. . . .In order to preserve a ***relative stability of prices*** there was no other method than to neutralize the increasing import prices through budgetary subsidies. In 1973 30 per cent of the external rate of inflation and in 1974 70 per cent of it had to be neutralized." [3]

In reality, the state has neutralized not only the effect of Western inflation for the enterprises. "In world trade the price structure (i.e. relative prices) has basically changed (in 1973–74 – I. F.): the price level of raw materials increased much more than that of finished products. This price explosion on the world market has considerably changed also the terms of Hungarian foreign trade, namely, the price level of imports increased much faster than that of exports . . . In the years 1974–1975 we suffered price losses of 50–60 thousand million forints with the new price relations as compared to the previous ones. These losses amounted to 7–8 per cent of our national income in 1974–1975. . . . The losses resulting from the deterioration in the terms of trade were not felt, as a matter of fact, either by the economic units, or by the population in 1974–1975, since the losses suffered by the national economy were not shifted on to them", András *Nyilas,* Head of Department in the Institute for Economic Research writes. [6]

Béla *Szikszay,* Deputy Head of Department of the Central Committee also states: ". . . the rocketing of the prices of energy and raw materials in 1973–74 was not introduced in the domestic prices in Hungary. The additional burden was taken over by the state

budget. This considerably weakened the orientating power of prices . . . The rearrangement of producer prices in 1975 and 1976 aimed at the restoration of the orientating role of prices . . . The domestic price level of imported materials (following the changes in prices – I. F.) covers the costs of imports (at least approximatively). This allowed the elimination of a huge import subsidy. . ." [7]

Of course, the price subsidy burdens of the state budget could not be diminished by this huge amount. The rise in producer prices obviously could not be fully enforced in consumer prices. Therefore, "in spite of the not insignificant rises in consumer prices the extent and scope of consumer price subsidies increased." [8]

And what about the orientating ability of prices? Their relations approached the international ones, so far they have provided proper orientation. However, in the practice of economic life relative prices orientate mainly by the fact that their neglect can be directly felt by the enterprises. It is to be feared that this was not the case in 1977, either. Emil *Nyul,* official of the Central Committee writes the following: "Changes in domestic producer prices in 1975–1976, aimed at adaptation to lasting changes in relative world market prices, considerably rearranged the net incomes included in the producer prices of individual branches. Still, the enterprises could feel but little of this rearrangement, because its effects were mostly neutralized by the budget."[9]

The few characteristics of the nature and functioning of the Hungarian price system presented in the foregoing do not and, of course, cannot give an overall picture of the entire price system or the problems involved. However, we are speaking not about the price system, but about the reform. We have seen that prices did not realize the concepts envisaged at the introduction of the reform. These concepts contained what was considered desirable by those preparing the reform. But, by its nature, the reform could not set prices or relative prices, it only formulated guidelines to be taken into consideration when setting prices. It remained a task for competent state organs to prescribe concrete prices, relative prices and price changes in some cases, while in others to determine the principles of price formation for the enterprises and to influence their behaviour through various economic regulators. If competent state organs failed to realize the concepts of the reform, this might be attributed either to the deficiency of the instruments used or to unrealistic concepts. It would require complicated and lengthy researches to clarify this question. On the basis of the foregoing we would still risk the assumption that under the given conditions and the changes in the world economy there were no such instruments available to the competent authorities with which the concepts of the reform could have been realized. We have no reason to blame the reform for the troubles we have. Maybe competent organs could have pursued a more successful price policy, but an adequate solution probably did not exist and could not be found at all with the instruments available and without radical structural changes.

Functioning of regulators, role of profits

The functioning of the regulators has already been mentioned in the foregoing and indirectly also the role of profits. The fact that compulsory plan targets prescribed for the enterprises were replaced by regulators of general validity is one of the most important characteristics and achievements of the reform. But the actual content of the regulators themselves is not an organic part of the reform. The content of the regulators can and should be changed according to changing circumstances, conditions and economic policy objectives to be achieved without affecting the substance of the reform, naturally provided that its basic principles, e.g. the independence of enterprises, are not infringed upon.

During ten years the regulators often and partly considerably changed. Since during these ten years the development of the national economy has been satisfactory and conformed to the plan, in general, it seems justified to state that also the regulators functioned generally satisfactorily. However, when examining this functioning in detail, the above judgement proves to be too summary. Regulators had to be changed quite often and partly considerably, because they did not at all or not completely achieve the desired effect. It often occurred, too, that central organs interfered with various measures in one or another field of the economy, where the regulators had not led to a direction corresponding to the principles of economic policy. Thus, for example, the resolution in November, 1972 of the Central Committee of the Hungarian Socialist Workers' Party was a significant intervention in economic life. The resolution stated: "A solution deviating from the general one should be elaborated and applied for the modernization of those 8–10 big enterprises with several thousand workers and employees, where financial funds necessary for the adequate transformation of their production structure cannot be ensured from own resources." [10] The same decision provided for a 4–5 per cent increase of the earnings of those living on wages and salaries and it was added: "Over and above that, wages of workers and foremen of the state industry should be raised by 8 per cent on the average and those of workers and foremen of the state building industry by 6 per cent on the average by special central measures with March 1st, 1973." [11]

Obviously, no such control and management of a socialist economy can be conceived that would leave the fulfilment of the annual or the five-year national economic plans completely to the regulators and the economic actions influenced by these regulators. To attain the main objectives set by the national economic plan there are several other conditions necessary beside adequate regulators. Let us take the latest example. "In accordance with the changed internal and external conditions", Károly *Németh* wrote, "in the Fifth Five-Year Plan for 1976–80 it was laid down as the main task to intensively increase the efficiency of social production and to gradually restore the balance of the economy. The main targets of the plan were subordinated to these objectives. A number of measures have been taken to prepare the ground for fulfilling the plan targets. . . We cannot rest content with the effect of measures taken. In view of the increased requirement there is only a slight progress in the improvement of the product pattern of export,

in raising profitability and in foreign trade marketing and prices attained (and paid). Yet all these are basic conditions for a permanent improvement and stabilization of the balance of the Hungarian economy. That is, realization of our economic policy aims, development of the production structure and a more definite assertion of foreign economic policy necessitate further constant efforts." [12] Precisely on this account, the Central Committee of the Party took a decision, at its October, 1977 meeting, on external economic policy and on the development of the production structure.

Merely economic regulators, whatever they be, obviously cannot ensure the realization of all these tasks. But, it is also obvious, that regulators may much promote or impede this realization. Regulators have been repeatedly criticized both previously and recently. I cite from a recent criticism: ". . . our present system of regulators", Ádám Juhász writes, "allows – both in theory and in practice – that *enterprises uneconomic for a long time already or not economic enough in the long run, which ought to be restrained according to our structural policy, should not only function but even develop for a longer period yet.* Renewals can be carried out and charged to production costs, development funds can be formed from depreciation allowances and they can be complemented by credits and often even state subsidies are granted to them. These enterprises can keep their labour force and employ them uneconomically because a great – occasionally overwhelming – part of wage-increases is not related to enterprise output." [13]*

Béla *Szikszay* writes the following: "Individual measures play a major role in the present system of financial regulation. Application of a significant part of these was certainly justified, as they prevented a drastic redistribution of profits among enterprises; it also prevented the failure to meet important targets of living standard policy and of development policy, and derangements in the sphere of the economy. Still, the scope and extent of the use of individual measures may be considered as excessive. The scope of preferences diminished less than had been planned and that of exemptions did not diminish at all. Production tax increasingly plays the role of a differentiated tool for centralizing incomes and has an important role in the elimination of differences in the profitability of enterprises. The excessively individual regulation takes the edge of economic judgement, and renders it difficult to make a distinction between economic and uneconomic activities." [14]

Emil *Nyul* writes: "Economic control and management did not properly coordinate various regulators and the income differentiating effect of the normative regulators depending on efficiency has been and is widely neutralized by individual regulation". [15]

Péter *Lovász* writes in connection with investments the following: "Regulation is too much levelling off differences in income between the enterprises and does not make it possible for enterprises which are more efficient on the basis of the value judgement of the market to obtain more of development resources." [16]

There is a special literature on the regulators connected with wages where a great number of criticizing remarks can be found. I quote from the article of a practical

*I try to give a more comprehensive picture of criticism with some further quotations.

specialist, László *Nyikos,* economic manager of the Ganz Instrument Works who writes the following: *"Between 1965 and 1975 the relationship between wage level, the possibility of increasing personal incomes and the mass of profits was not so much rigid in practice.* Participation in major government programmes, wage preferences to be obtained under various titles, the proportion of special production, getting into "a difficult situation" are all such factors that have deflected (and this is valid even at present) the wages and income proportions of our enterprises from those determined by the "rules of the game". . . . *relying on enterprise resources alone one cannot "break out" by improving the indicator of "permitted wage rise", the position as regards wage level cannot be changed within the given branch."* [17]

It should be obvious that under such circumstances enterprise profits could not play the role originally assigned to them in the new system of control, either. If only because of the deficiencies of the price system already mentioned and mostly unavoidable, enterprise profits cannot be accepted without further qualification as a yardstick for the good or bad work of the given enterprise. The complicated system of financial regulation, subsidies and taxation also contributed, which influence enterprise profits occasionally to an even greater extent than the activity of enterprise management. Neither the enterprise management sets the maximization of profits as its main goal, because, after all, development and the wage-increasing possibilities of the enterprise are not determined by this, nor do the Ministry, the Bank or the Planning Office judge on the basis of profits. They have learnt that judging the activity of an enterprise requires a much more complex approach and examination, and this is good. However, there is no objective basis for making comparisons concerning the activity of various enterprises and this is not good at all. Here we find difficulties which ought to have been solved by the reform, but it could not solve them for the reasons enumerated.

Productivity of labour and economic reform

In my analysis I have tried to take into consideration the viewpoint that the economic reform as a process deeply influencing the entire economy can be understood only as embedded in the entirety of the economy and in its various connections. Thus I had to go beyond the direct bounds of the reform, although I did not go too far in this respect unless it was absolutely necessary. There are still some more facts and factors influencing the entirety of society and development, respectively, which I feel necessary to mention.

First of all I have to speak about the productivity of labour as the most important factor of social development. If we consider that in our state-owned and cooperative industry the output per man-year amounted in 1976 to 321 per cent of that in 1950, i.e. it increased more than threefold, then everything seems to be all right. However, if we also consider how labour productivity developed at home and abroad during the two decades before 1970, that is practically prior to the reform, we shall be shocked, since

our development was slower than that of any other socialist and several non-socialist countries.

"International data", Zoltán *Román,* a recognized expert of the problem writes in his book, "are more widely available only on the *increase of labour productivity in the industry. In the years 1950–1970 from among the CMEA-countries labour productivity increased most slowly in the Hungarian industry.* According to data compiled by the Secretariat of the *Economic Commission for Europe* for the years 1950–1952 and 1967–1969, respectively, the growth rate of labour productivity in the industry was faster than in Hungary in 11 capitalist countries, similar in four countries and slower in three countries (Denmark, Switzerland, United States)." [18] These unfavourable data refer, as we can see, to the years preceding the reform.

Data referring to the years after 1970 are much more reassuring. Production per man-year computed on the basis of gross output at comparable prices increased in the state and cooperative industry of Hungary at the following annual average rates: in the years 1951–1955 by 3.8 per cent, in 1956–1960 by 4.1 per cent, in 1961–1965 by 5.0 per cent, in 1966–1970 by 3.8 per cent and in the years 1971–1975 by 6.2 per cent. [19]

With the 6.2 per cent rate Hungary is no more placed last among socialist countries. The same is indicated in the relation of socialist countries by the basically most comprehensive indicator of labour productivity, namely, by that of the yearly average growth of the national income. This amounted to 5.5 per cent in Czechoslovakia, to 5.4 per cent in the German Democratic Republic, to 5.7 per cent in the USSR, to 6.0 per cent in Yugoslavia and to 6.3 per cent in Hungary between 1971 and 1975. [20] These figures testify to the results of the reform. Naturally, the favourable results cannot be simply attributed to the reform. For example, in the rise of labour productivity also the fact played a role, that labour resources were much scantier than previously, and thus the increase of production could not be based on the growth of employment to such an extent as before. Some other factors had a part in the above development, too, among them – to a rather considerable extent – the circumstances created or enabled by the reform.

Unfortunately, we have no reason to be complacent even despite the relatively favourable results of the last few years. In the industries of socialist countries more developed than Hungary with the same amount of labour 30–50 per cent more value is produced, and the level of labour productivity in the most developed capitalist countries exceeds that of Hungary even two- or threefold. Of course, this is not the fault of the reform. When I speak about this question in connection with the reform, it is because this is a key-issue of our entire economic development and it is still on the agenda even in the years of the reform.

Conflicting interests and economic reform

It has already been mentioned and even examples were presented for the fact that some economic policy objectives determined by central organs could not be realized with the regulators designed for the purpose. Maybe, we said, the regulators were not

adequate, but it is also possible that the competent authorities could not even find adequate regulators since the economic policy objective in question was unrealistic. There are some other possibilities, too. It is remarkable, for example, that such an important economic policy objective as the acceleration of technological development which is very closely connected with the raising of labour productivity has been repeatedly put on the agenda for 15, 20 or even more years without any satisfactory result. We already know a lot about the complicated nature of the issue and the difficulties of its solution. But it seems as if other countries, no matter whether they are more or less developed than we are, had striven for realizing this objective more successfully. Of course, we may be wrong when saying this.

There are some other economic policy objectives, as improvement of cooperation between factories and enterprises, perfection of plant and work organization, better preparation of investments, etc. that have been on the agenda for long and whose realization has been going on also very slowly. They can hardly be all unrealistic objectives.

There is a thought-provoking phenomenon we can meet everywhere, namely, as if a trend for levelling out certain economic differences and for an overall egalitarianism were enforced in our socialist society as an irresistible force. In vain do those competent declare that material stimulation should be strengthened and for this purpose differentiation increased, yet the contrary (or, at least, also the contrary) is going on in practice almost as a rule. We could observe this in the form that the effects of price changes on the enterprises were neutralized, we met it in wage-regulation, we have learnt that regulation levels off the investment and development possibilities of the enterprises and this phenomenon appeared also in the balancing of the financial situation of enterprises. Material stimulation is obviously decreasing, the difference between good and bad work, good and wrong management respectively, is fading away. And as a result of all this, important economic policy objectives, intentions and concepts will fail.

How can such economic policy intentions fail which are supported by leading organs of the socialist society? An answer to this question could be given only on the basis of thorough scientific investigation. Such or similar investigations are going on, but the answer has not been found yet. This contradiction was one of the reasons for having started economic policy researches. An approach to this solution is the topic of various sociological researches. Their starting point is interest.*

I cannot extend to a review of these researches here. All I can do is to state that, firstly, various interests are existing and operating in society and also in a socialist one;

*"It is already a well-known and accepted fact at present", Csaba *Makó*, Head of the Scientific Section of the Institute for Sociology writes, "that interests of individual people or groups of people do not coincide even under our socialist social conditions; *deviations and clashes of interests* may be reckoned with between different layers and groups resulting from their place occupied in society. The recognition of their existence, however, indicates that events taking place in various fields of our society, thus among others also in socialist enterprises and factories may also diversely affect the interests and actions of people or groups of people working there. . ." [21]

secondly, various social activities and processes result from the functioning of the entirety of society; thirdly, if the direction of the actions of a great enough number of persons or groups who are also important enough does not coincide with economic policy concepts, then their action will modify the direction of concepts in practice; fourthly, in the given case, that is, in that of economic policy concepts and decisions, aimed at differentiation, a very significant, we might say a huge group, organ or organization must have been working in a deviating direction in order to turn all such decisions into their opposite.

Summary

For being able to draw up a proper balance of the ten years of the Hungarian reform I have tried to clarify the substance of the reform, what we can justly consider and call reform and what not. My aim has been to show and examine the reform, its development and problems embedded in the entirety of socialist economy, since the reform was a radical interference in the entirety of socialist economy affecting and influencing all fields of it to a smaller or greater extent.

The most important statement has been that the balance is favourable.

An integral part of the reform, resulting from its feature already mentioned, is a considerable increase in the independence of enterprises. This has provided favourable opportunities for the managers, for the leadership and to some extent even for the whole collective of enterprises to display their initiative. In the previous system of control and management there was practically no possibility for that. Huge reserves were opened for the development of the national economy, naturally only where the talents, abilities, knowledge, practice and the undertaking of risks of leaders promoted initiative. The reform itself contributed to a good start, helped in recognizing the abilities of leaders and furthered their development, too, but it could not ensure suitable leaders for each enterprise.

For ten years the development of the Hungarian national economy has been more balanced and partly more rapid than previously. Although this cannot be fully attributed to the reform, but, undoubtedly, the reform had a great part in it as well as in that the national economy could firmly endure the storms resulting from the extraordinary developments in the world economy, the accelerating general international inflation, the considerable deterioration in the terms of trade and the lasting capitalist world economic crisis – even if not easily and not without serious losses.

I have already mentioned that the reform did not and could not have the task to solve several serious problems of the national economy. These problems usually considerably reach beyond the scope of the reform and partly even beyond economic policy. The reform provided certain viewpoints for the setting of prices, but a considerable part of them could not be applied for various reasons. It gave viewpoints for the improvement of the investment situation, but this situation has not improved much. The system of regulators should have functioned in a normative way, but considerable forces acting against it in the national economy have often diverted regulation into the opposite direction.

By making possible an elastic regulation, by increasing the role of financial stimulation, the reform has contributed to the solution of the most important task of the socialist economy, namely, to raising labour productivity and to accelerating technological development. However, this task, too, is bigger and more complicated for the reform to achieve a break-through.

On the other hand, the reform provides a favourable basis for the further development of the national economy also in the future. It has considerably expanded our knowledge of the functioning of socialist economy, the forces, connections and interactions operating in it and to be taken into consideration. It has contributed to the increased requirements towards the perfection of scientific direction of the socialist ecomy, and strengthened the self-confidence of Hungarian society as well as the feeling that a correct way has been chosen.

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ДЕСЯТЬ ЛЕТ ХОЗЯЙСТВЕННОЙ РЕФОРМЫ В ВЕНГРИИ

И. ФРИШШ

Автор подводит итоги десяти лет венгерской реформы. Его наиболее важный вывод состоит в том, что эти итоги благоприятны. Хозяйственная реформа в Венгрии была также экспериментом, опытом социалистической страны, ведущей плановое хозяйство. Было доказано, что можно разрабатывать народнохозяйственные планы и успешно выполнять их, не разбивая по предприятиям обязательных плановых показателей, без указов предприятиям со стороны вышестоящих органов. Было доказано, что эти директивы могут быть успешно заменены экономическими, финансовыми и другими регуляторами, которые как правило направляют деятельность предприятий в нужном направлении.

Органической частью реформы было значительное расширение самостоятельности предприятий. Это открыло большие возможности для развертывания инициативы руководителей, руководства и, в определенной степени, всего коллектива предприятий. Прежняя система управления по существу не давала для этого возможности. Были вскрыты громадные резервы для развития народного хозяйства, но естественно, лишь там, где способности, знания, практический опыт руководителей, их готовность идти на риск пробуждали должную инициативу.

За десять лет развитие венгерского народного хозяйства стало более уравновешенным и отчасти – более быстрым. Это нельзя целиком отнести на счет реформы, но безусловно, что реформа сыграла в этом большую роль, также как и в том, что народное хозяйство, хотя не без трудностей и существенных потерь, но выдержало испытания, вызванные чрезычайным положением ирового хозяйства, усилившуюся и ставшую всеобщей международную инфляцию, ухудшение условий внешней торговли для Венгрии, затянувшийся мировой капиталистический кризис.

Перед реформой не ставилась и не могла быть поставлена задача решения многих проблем народного хозяйства, так как они, как правило, выходят за рамки реформы и даже – экономической политики. Реформа дала установки для ценообразования, однако, по различным причинам большая часть их не могла быть применена. Она дала установки для улучшения инвестиционной деятельности, однако значительных сдвигов не произошло. Она дала установки о нормативном функционировании системы экономического регулирования, однако, противодействующие этому значительные силы в народном хозяйстве часто отклоняли регулирование в противоположном направлении. Благодаря тому, что она сделала возможным гибкое регулирование, усилила роль материальной заинтересованности реформа, способствовала выполнению важнейших общественно-экономических задач, повышению производительност труда, ускорению технического прогресса. Однако эти задачи также гораздо сложнее, чтобы реформа сама по себе могла бы их решить.

Вместе с тем реформа создала благоприятные исходные позиции для дальнейшего развития венгерского народного хозяйства. Она значительно расширила наши знания о функционировании общественного хозяйства, о действующих в нем силах, об их взаимосвязях. Она укрепила уверенность венгерского общества в правильности избранного им пути.

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ENTERPRISES IN HUNGARY BEFORE AND AFTER THE ECONOMIC REFORM

The elimination of compulsory plan targets has much improved the efficiency of Hungarian enterprises, but has not made adaptation to demand smooth at one stroke. The study analyzes the contradiction between enterprise autonomy and the institutional system inherited from the era prior to reform. The contradictions are examined from the viewpoints of prices, wages as well as the allocation of investments.

Enterprises in the Hungarian economy during the period of directive planning

Between 1950–1967 highly important social objectives were attained in Hungary. Unemployment was completely and permanently abolished, the share of wage earners increased within the population from 44.1 to 46.1 per cent (now being 48.5 per cent). The share of *accumulation* within national income increased from 14 per cent to 25–26 per cent also with a stable character. The growth rate of national income rose from the annual 3 per cent of the 17 years before World War II to 5.4 per cent, and foreign trade increased, instead of the old rate of 4 per cent, at an annual rate of 10 per cent. Notwithstanding the successful development certain contradictions were stubbornly reproduced. They were the following:

– The structure of production did not adapt itself with sufficient flexibility to the quickly changing pattern of demand of either personal or productive consumption or of exports. This partly caused loss of income, partly surplus stocks in some products and shortages in others.

– There was a strong import pressure in the economy, and relative to that the interest in exporting was weak, the productive sphere was not aware of the external market effects, the balance of trade was not in equilibrium.

– In the enterprise sphere, beside efficient enterprises, the proportion of those utilizing their resources with low efficiency was large. Material motivation toward good work was minimal, the poorly performing enterprises did not feel any disadvantage and the good ones any advantage for the difference in performance.

– Claims for democratic methods emerged in the economic life with increasing weight: the workers wanted to participate in a certain part of the activity of their enterprise, the local political factors dealt more and more with the economic future of the enterprises operating in their domain, they wanted to know what, why and how they wish to do and consumers raised more and more criticism and requests.

In the course of critical analysis risking a "leap into the dark", answers had to be found to the question: to what causes can the apparent deficiencies and contradictions be traced back, further, whether there is some deeper systematic reason for the problems behind the apparent chain of concrete causes. It had to be weighed whether those were right who looked for the prime cause in the basic moral stand of the workers, or even in the "liberalism" of central planning. Against these views the critical analysis by experts uniformly identified the final and basic source of the many problems as lying in the given system of economic controls and management. From this the recognition followed that a partial change was insufficient and it was expedient to strive for complex changes.

The analyses clearly showed that the emerging problems of efficiency were not caused by the socialist ownership relations, that it was possible to work with greater efficiency both in state enterprises and in cooperatives, and that the essential changes to this end can be started by basic changes in the circumstances of enterprise management. The fight against the many other deficiencies could be fought successfully on the basis of the reform of the mechanism.

The question emerged whether enterprise profitability was of major or minor importance in a socialist economy. There can be no doubt that in a socialist economy decisions taken independently of enterprises may in some cases strongly affect profitability. This may happen e.g. when, for some important reason, central price policy fixes some price lower than would be justified economically, or when part of the enterprises receives a small share from the centrally allocated investment funds and can thus develop technology and raise productivity only to a small extent. In the economic science of the socialist countries there developed two standpoints regarding the profitability of enterprises. According to the first one only the profitability and overall efficiency of the economy as a whole is important, while enterprise profitability may have only a restricted role and importance. The second, however, professes that national income closely depends on enterprise profitability, and economic efficiency demands a strong profit-motivation of the enterprises. At the end of the sixties and the early seventies the Hungarian economic experts unequivocally adopted the latter standpoint, but it should be noted that those adhering to the first view are still with us and recently they have again emphasized their doubts.

No doubt, in the practice of socialist planned economy the urge and the possibility of profits is smaller for the enterprises than in a capitalist economy. If profitability is low, they may ask in the directive system for a revision of the plan indicators and in the case of indirect control they may ask for price, credit or tax preferences, and thus the pressure is weakened. The possibility is again smaller because a part of the development funds – in the directive system of control almost the whole of it – is collected by the state from the enterprises and then redistributed. In the course of the latter process the state used relatively more for general social purposes than does the state in capitalist countries. But this hardly puts the socialist system at a disadvantage against the capitalist market economy, since in the long run the social loss due to cyclical fluctuations is much smaller in a socialist economy and this more than compensates for the differences in enterprise

profitabilities, if they are not too big. In the final analysis, the fact that the urge of profitability and its possibility are smaller for objective reasons does not diminish but rather underline the importance of profitability on the market regulated by the national economic plan.

For an understanding of the reform trends in the socialist countries it is necessary to know that they are motivated not so much by the wish to transplant experiences of market economies into a socialist environment, but rather by the coming to the fore of those schools of socialist economic theory that build the socialist planned economy on the wide-scale persistence and reproduction of market and monetary relations, against the school which believes to implement the principle of socialism by gradually pushing back the market and monetary relations, regarding them as capitalist categories, and by expanding the direct central product-allocation, as a socialist category. The latter school had a decisive effect on economic practice in the USSR since the early thirties and after the war also in the East-European socialist countries, but the tensions caused by efficiency and quality concerns pushed the reform school foreward. The alternative is thus not whether "we should apply capitalist or socialist methods", although even the so-called new left is of this opinion, but whether "we can better implement socialist management on the basis of market relations or with the aid of direct product allocation".

Let us return after this brief digression to the Hungarian economic reform. In the final analysis, the reform means the complexity of six basic principles, each of which is important in itself, but they simultaneously constitute an interrelated system and the assertion of each principle is related to all others. In this package of principles the following can be found:

1. The persistence of the multisectoral nature of the economy in the long run. This means that it is not in the interest of society to restrict the cooperative sector, to "develop" the cooperatives gradually into state enterprises and to establish thus a stereotyped form for socialist ownership. State enterprises have proved to be the most expedient form in large-scale mass production, in wholesale and foreign trade. The greater flexibility of cooperatives in shaping the pattern of production, their relatively bolder risk-taking, and the particular democracy in cooperatives makes their operation advantageous in a definite part of the economy. It is similarly rational to maintain in the long run small-scale private economic activities in a role complementing the socialist sector, particularly in services and small-scale commodity production: the socialist sector is, namely, only partially competitive in satisfying such needs, in some fields it proves to be cumbersome and expensive. Precisely on this account, the principles of the reform stressed that from the point of view of state regulation the state enterprises and cooperatives are of equal status (it is incorrect to determine more favourable economic rules for the state enterprises). The principles also include that the relative proportions between sectors should not be determined according to abstract political viewpoints, but left to develop as a function of economic efficiency and competitivity.

2. Trade in commodities on a commercial basis. Earlier, namely, central planning had determined the production pattern of enterprises (by major product categories), the allocation of materials and the conditions under which buyers had to take over the products. Relations were of a fully commercial nature only between retail trade and consumers, it hardly prevailed in the deliveries within industry or between industry and trade, the features of physical exchange were dominating. The physical exchange character created such artificial climate where economic calculation lost its true importance, there emerged surpluses and shortages, but this all was covered up by centralized allocation, the system of obligation to accept deliveries. The shifting of centralized allocation of materials and products onto commercial basis promised the elimination of bureaucratic administration on the one hand, and the elimination of "over-assurance" of enterprises – accumulating inventories – owing to the uncertainties of supply.

3. Flexible state price policy, gradual assertion of value relations in prices. Earlier, in principle, all prices had been established by the state, but in practice the central organs were incapable of following either the changes in costs, or those in demand and supply. According to the new principles the prices were to express effects of three factors: actual inputs, the value judgement of the market, and state preferences or dispreferences. Transition to the new price policy necessitated a wide-scale revision of prices with January 1st, 1968, when the new price mechanism took effect.

4. Close economic links between production and foreign trade activity. Prior to the reform the foreign trade enterprises had not so much linked as rather isolated the productive enterprises and the foreign markets, because the domestic prices of products could not be related to the export or import prices expressed in foreign currencies. The foreing trade enterprises constituted a separate branch, planning in isolation from producers and settling their accounts separately with the state: it was not a normative requirement what domestic inputs may be used for earning foreign exchange. The reform brought three substantial changes:

– Part of the producing and trading enterprises obtained the right to export or import directly – mainly in the case of special products. The aim was to comply better with the requirements of foreign markets, to make better use of the possibilities.

– For the accounting of foreign trade transactions a uniform foreign exchange coefficient was introduced, computed from the full domestic input necessary on national average for earning a unit of foreign exchange.

– The productive enterprises releasing substantial quantities for export or processing much imported material, and not obtaining the right to transact foreign trade independently, established common interests with the specialized foreign trade companies, mostly in the form of commission contracts, and came into contact with external markets in this manner.

5. Creation of possibility for autonomous action by enterprises by asserting uniform government regulation and material (financial) interests. Earlier the state organs had "addressed" to every enterprise separate plan-indicators, which had been obligatory and left very little scope for autonomous enterprise decisions. With detail in the plan it was

impossible to allocate tasks and means correctly among the enterprises. A characteristic "plan bargaining" developed between the ministries and the enterprises: the ministries increased the tasks and reduced the means allowed to use (this is how they could remain within the framework of the targets allocated to the branch), while on the contrary, the enterprises made efforts to reduce the plan tasks and increase the figures for the assets to be obtained. To this end the following measures were taken:

– In the framework of medium-term planning the uniform economic regulators valid for the whole enterprise sphere and those for particular industries are spelled out and issued to the enterprises before the start of the plan period. These are the following: the plan for the central price measures, the rules relating to taxation, investment regulation, wages and incomes, the extent of profit tax and the tasks deriving from interstate economic agreements devolving onto the enterprises. These constitute the financial links between central control and the management of enterprises, called upon to mediate the efficiency requirements of the national economic plan to the enterprises.

– The enterprises draw up their short- and medium-term plans themselves, they also obtained a realistic possibility for preparing a long-term enterprise strategy by assessing their situation and possibilities.

– The earlier centrally established and rigidly enforced "production profiles" were abolished, the central organs determine only the scope of activity for the enterprises.

– The enterprises may build up own development funds from depreciations allowance, from the centrally determined part of profits, as well as from technical development means accounted for among costs. The enterprises decide themselves on the use of their development funds. As a result of the system about half of all productive investment is decided upon by the enterprises, the other part is decisively influenced by state organs and banks.

– The state guarantees the earnings of enterprise workers at the level attained, but the raising of earnings depends on the increase of profit.

6. Assertion of the democratic rights of workers in the operation of the enterprises. The Hungarian economic reform affected the development of economic democracy from two aspects: by creating enterprise autonomy it broadened the scope of democratic methods and brought about new forms of cooperation between economic leaders and workers in the enterprises.

– Through their trade union representatives the workers regularly participate in discussing the enterprise plans, the elaboration of development strategy, the forums for this purpose are the production meetings on different levels. The plans of cooperatives are decided by the general assembly.

– The trade union organs within the enterprise obtained the right to have a say in matters affecting working conditions, they participate as equal partners of the management in deciding on general rules affecting employment and wage payment, and may put in their veto against measures infringing on the collective agreement or legal prescriptions, and also have the right to check upon the observance of legal rules affecting the workers.

– In the wake of the reform the concerns and ideas related to the operation and development of enterprises, as well as the relation between the enterprise and its development received a much greater publicity than was the case before.

As a result of the reform, the economic environment of Hungarian enterprises has changed since January 1968, the activities of enterprise executives and working collectives are no longer restricted merely to implementing the plan received from the centre, they have become more diversified, encompassing also the weighing up of various possibilities. Nor is central control restricted to planning the national economic processes, also a particular function of market regulation has evolved. The basic importance of central planning has persisted, but greater attention is devoted to the planning of harmony between physical and value processes and, in general, to that of factors of efficiency and quality.

In the final analysis, we may state with justification that with this reform the socialist Hungarian economy has entered a qualitatively new stage of development.

Central planned regulation and market relations in the socialist economy

As everywhere, the socialist economy came about in Hungary by discarding the capitalist economy. The basis of management was created, as has been mentioned, by large-scale nationalization. At that time the central control accorded but a complementary and subordinate role to cooperative ownership beside the state ownership.

When working out the economic reform, we had to face a particular contradiction. How can we conceive such an organization of the, mostly state-owned, enterprises that is comparable and not only formally, to the separation of enterprises operating in a market economy and still secures planned control and regulation of the economy.

The problem raised may seem particularly contradictory if we consider that the reform of the highly centralized system of control based on plan instructions was implemented in Hungary at a time when in the market economies the role of state interference was unequivocally strengthened and when, because of the internal contradictions of market processes, the opinion was gathering momentum that in countries with non-socialist systems it was socially useful to replace the market form by the internal order of hierarchical organizations.* Those preparing the Hungarian economic reform, when discarding control by means of plan-instructions and advocating the increased use of forms of self-regulation, never believed that the market would spontaneously secure the social efficiency of management or that large organizations should be replaced in every field by small companies, better corresponding to the ideal conditions of atomistic competition.

The studies preparing the reform [2] and the documents describing the bases of the regulations in 1968, as well as the articles evaluating them [3, 4, 5] spoke about a

*The seemingly most authentic comprehensive work about the problem is [1].

centrally regulated market. Although in the documents it had not been unequivocally clarified what the creators of the reform meant by planned regulation of the market, it is certain that they had not forgotten about the utilization of those social objectives (positive and negative externalities) which cannot be expressed by the spontaneous price movements under the influence of demand and supply. The most important mark of the planned control of the economy is that the reform extended its effect always only to those fields of management where experience had proved that in the interest of efficiency first of all an increased adaptability to demand should be aimed at. This was indeed important in those fields where the frequent changes of demand and a rich assortment of production items are of great purport, and where, precisely on this account, needs cannot be adequately satisfied without the immediate and fast adaptation of producers even after using the results of the best predictions.

This field of management may be termed the competitive sphere. We believe that there is no exact limit to expanding the competitive sphere. It is, however, certainly justified to consider as part of this competitive sphere the production of manufacturing and agricultural articles as well as their trade at home and abroad. In these fields the pattern of enterprises, the competition among them, the possibility of founding new ones as well as the possibility of letting imports compete with domestic production do create market conditions. Competition may extend to the production and trade of the most important raw materials (coal, crude oil, electric energy etc.) or part of them, but, depending on economic conditions and political value judgements, these may be eliminated from the competitive sphere, that, of course, will have particular consequences.

Naturally not all economic activities are characterized by such differentiation and constant change in needs which are so difficult to survey that a hierarchical organizational setup of activities and determination of the tasks for the partial units would disturb efficiency. In an ever widening scope of the economy, in the production of public goods and services, as road building, water supply and other infrastructural areas the conditions are generally such that social needs can be better satisfied in a well organized system of institutions with planned central control than if it were done by competitive enterprises. In fact, it is probable that with enterprises competing in these branches many external economic effects (not figuring in the price) would be left out of consideration and this would result in social damage.

Another element of asserting planned control is that, in our view, in the wide domain of economic activities that we called the competitive sphere, there exists an objective possibility for the state not only to create competitive conditions for its enterprises, (even after an almost full-scope nationalization), and to operate them on the market as autonomous profit-motivated economic units, but also to regulate these activities centrally and in a planned manner. The most important precondition of such a control will be a uniform regulatory system conforming to the national economic requirements and their changes. By this we mean first of all taxes and the valuation of central resources as labour, fixed and circulating assets and foreign currencies. Further, central control has always wanted to exploit also the possibility of preferential credit

support, in the interest of planned development, given to those industries that may trigger the accelerated development of the whole economy. Furthermore it wanted to levy taxes on activities with socially harmful side effects, thus e.g. the exaggerated concentration of industry in Budapest, environmental pollution, etc.

But even after the above statements we have not yet solved the contradiction. When the decision was taken to introduce the Hungarian economic reform, the necessity of changes was deduced from the fact that the central organizer

– cannot sufficiently know the pattern of expected economic needs;

– the standards of information about the alternative economic possibilities of production are inadequate because of the complexity of relations between enterprises, the uncertainty of estimates and the bias of the informers;

– so he is finally unable to evaluate quickly and unequivocally, in a way confroming to the requirements of social efficiency, the informations of doubtful value abour the needs and production possibilities.

On this basis the executors of the reform reached the conclusion that instructions formulated by the central organizer and compelling enterprises to carry out these instructions as well as the moral and financial stimulation to meet these obligations are not sufficiently effective methods of economic control. According to experience, namely, control through plan-instructions cannot efficiently adapt itself to changing needs. The fitting of supply to demand is so weak that it causes not only direct losses, but indirectly even greater ones. Dissatisfaction with work essentially damages the enthusiasm and initiative of both managers and employees. Let us confront this line of reasoning with the market criticism found in the literature about organizations. These set out from the recognition that the differences in efficiency between particular productive and management institutions are decided not mainly by the technology applied, but by the quality and costs of carrying out the economic transactions. Analyzing the experience of market economies this literature states that the partners behave in a limitedly rational manner if information is imperfect. Among other things, the market can be imperfect and weak because the economic factors are present only in a small number, cheat in the course of negotiations, the negotiations themselves get protracted and a bad atmosphere develops which all damage the efficiency of these transactions. They therefore reach the conclusion that it is frequently expedient to substitute large organizations instead of the market and that government limitations on large corporations need not to be forced.

What is common in the Hungarian idea of the reform and in the ideas pertaining to the analysis of organizations is that they approach the efficiency of the organizational-institutional order on the basis of transaction costs. There is also a similar idea that the decisive circumstance on whose basis they evaluate the system of institutions is the uncertainty of recognizing the future, the adaptation to changing conditions. On first approach, however, the direction of the conclusions seems to be utterly divergent. One of them rejects the compression of the whole economy into one hierarchical system, the other qualifies hierarchy as more efficient than individual markets. Yet the contradiction between these two statements, which seem to be separately convincing–though not yet

satisfactorily proven – is smaller than would seem at first sight. Namely, the idea of the Hungarian economic reform does not deny the possibility that large organizations may promote the rational solution of some problems, and even expressly relies on large organizations. What is denied is only the expediency of controlling the whole economy as a single large organization and the disregard for small and quickly adjusting enterprises beside the large ones. At the same time, the adherents of organizational hierarchy did not claim the expediency of an organization comprising the whole economy, or that a big organization (hierarchy) should perform its activities so that in the meantime the state guarantees its monopoly situation.

As regards the centralization or decentralization of development decisions, the discussion is sharp in Hungary even after implementation of the reform. There are economists who believe that adaptation relying on profit motivation is justified when the problem is to utilize existing productive capacities or to improve earning conditions in the short run, but think that the system of profit-oriented decisions is incorrect in respect of investments. Those advocating the centralization of investment decisions set out from the assumption that the central organs will know social interests better than the enterprises and will take into account the external effects which influence the development of the economy but do not appear in expected profits. Those in the other camp refer to the poor level of information available to the central organs and, therefore, wish to hand the right of decision to the enterprises while informing them about the general social interest with the help of a uniform state regulation.

In the discussion about the quality of information both parties my be right. It may easily happen that there is no way for unequivocally deciding whether in the vertical flow of information it is the stream going up or the one going down that can be made more free from disturbances. Nevertheless, we believe that there are grave arguments, outside of the usually discussed topics, that speak in favour of decentralizing the development decisions in the competitive sphere – with well-defined state preferences. First of all, it should not be forgotten that economic efficiency is not mainly the effect of an *ex ante* optimal allocation of means. We refer here, beside Hungarian experience, to production function computations performed by Solow, Denison and others which prove that 50–80 per cent of the increment of GDP is a consequence not of increased inputs of resources, but of residual factors. Moreover, in this, in our opinion, not only the allocation of assets plays a role, but also how the leading responsible specialists adapt themselves to the unexpected changes in economic conditions in the course of implementing the investments decided upon and during the operation of the new project. This adaptation is, in all certainty, an important element in what is called X-efficiency. [6]

But, in order that the leadership of the enterprise adequately and continually adapts itself to the changing circumstances which frequently deviate from those taken into account in the plan to no slight extent, it is first of all needed that it be fully responsible for the implementation of the investment. If, however, this responsibility is divided between management and the central organs, because the manager has not received consent to what he asked for, because he had to deviate under external pressure from the

original ideas in the course of realizing the development project to an extent that he can no longer regard the realized project as his own, his behaviour will strongly change. In this case it is better if he proceeds as an honest official, but does not fight for the success of the projects as a lion. Such differences in the behaviour of enterprise managers, however, may result in substantial differences in the efficiency of development.

The contradiction cannot be simply bridged over by a more successful harmonization of the views of leading organs. Each of the contradictory opinions regarding development projects may be sensible in itself. The deviations follow, namely, frequently from deviating judgements of partly uncertain possibilities and from the differences in the functional tasks of the experts judging the problem. It may thus easily happen that several alternative decisions may lead to solutions of identical value – if implementation is successful.

The weakness of the system of central decisions is generally not that they assert wrong viewpoints, but that they are unable to formulate the good viewpoints in practical terms conforming to the details of enterprise management and that they have no possibility for enforcing the actual requirements.

The second group of arguments in favour of decentralized development decisions is related to the fact that the participation of the state or the centre is described in the discussions in an idealized form. They reckon with the manifestation of a single central will. In practice – at least in Hungary – the centre interfering with the problems of development appears in the form of pressures from many institutions, frequently in sharp debate among each other. The supervising Ministry, the National Bank, the Development Bank, the Ministry of Finance, the National Board of Technological Development and frequently even different Departments of these institutions represent particular opinions, rational in themselves, until a decision on development is finally reached in the Council of Ministers, which often none of the state organs considers as his own. Such participation of the central organs in development decisions is not only extremely complicated and slow but, in lack of a proper harmonization of interests, it is frequently not suited even to represent the internal rationality of a central decision. In addition, there are also such complex economic processes – affecting several industries – which can be surveyed only by the enterprises.

The third group of reasoning argues that it does not seem advantageous that the highest state organs should take upon themselves direct responsibility for industrial, agricultural and commercial development decisions whose outcome is uncertain by dint of their internal properties. The incomplete success of development or, in part of the cases, the unavoidable failure, presents sometimes such temptation to the government which it is difficult to resist. Namely, performing the functions of economic regulation secures the government such rights that it is often in a position to prevent even the greatest failure from becoming manifest. As a matter of fact, to maintain an unsuccessful enterprise with budgetary and other means and thus to slow down or render unneccessary its adaptation is most disadvantageous for society.

Acceptance of the arguments in favour of delegating the right of development decisions to the managers of autonomous enterprises does not call into question the necessity to enforce central preferences of economic policy also in the competitive sphere of the economy. The central organs must not neglect planned selection of those industries whose creation or accelerated development will trigger a definite increase in the total performance of the economy with high probability.

When utilizing this possibility, the practice of the socialist economy frequently uses the ideas which are proposed by many authors for application in the developing countries.* A task waiting for solution is to find such procedures for indicating preferences that accelerate development and protect new industries that will weaken neither the creative powers of enterprises nor their adaptation to the changing conditions of production.

Achievements and internal contradictions of the Hungarian economic reform

Though there were several internal and external economic factors that prevented the reform from exerting its accelerating effect, it can be nevertheless stated that the reform was essentially successful.

The most important is that we succeeded in regulating centrally the economy in conformity with the plan in spite of having eliminated the rigid plan-instructions, putting fetters on the adapting ability of management. The practice of the Hungarian economy furnished an important lesson for the fact that directive control is not the only possible form of economic management after socialist nationalization, and one can rely on autonomous enterprises. Our experience adequately proves that evolution of objective price and monetary relations and successful adaptation is feasible in an economy operating with many independent decision centres.

One of the most important areas of change in the adaptability of management is the striking change of enterprise relations. The system of material allocation, overly simplifying and necessarily narrowing the range of commodities therefore hampering the refinement of demand, has been replaced by widely ramifying relations among enterprises. A green light appeared thus for the satisfaction of the actual needs of final users, within them those of the population, by taking into account also minor changes in demand.

The experience may be generalized that while the Hungarian economy has allowed room for enterprise autonomy, it preserved the character of planned development. In fact, as has been pointed out by scientific investigations, carried out by the Committee for Economics of the Hungarian Acedemy of Sciences – the conformity to plan has even improved. The planning from two aspects, from that of the national economy and that of

*See e.g. [7]

the enterprises, has not opened the road to spontaneity. The main data characterizing economic growth of the national economic plan and of the aggregate of enterprise plans have come sufficiently close, while the enterprise plans themselves are much more realistic than the earlier plans, deriving from central allocation, had been.

As a characteristic feature of the present Hungarian economic control, the national economic plan has preserved its determining role in defining the direction of economic development as a whole, while the operative control of the economy has proved to be capable of applying the tools of price, monetary, commercial, and foreign exchange policies in the interest of planned development.

The situation after 1968 may be characterized by the following facts:

The legal workweek was reduced in 1968–70 to 44 hours from 48, meaning a loss of capacity of almost 10 per cent, which was counterbalanced by the growth in productivity only gradually. This factor moderated the rate of growth.

– Even with the above effect, gross national product increased between 1968–1976 by 6 per cent on annual average, in constant prices, against the rate of 5.4 per cent prior to the reform.

– Also real wages per earner increased at a faster rate than before, by 3.5 per cent p.a. between 1968 and 1975, as against the former 1.7 per cent. Equilibrium on the consumers' market essentially improved and this was a factor having a general advantageous effect on living circumstances.

– The wider price changes implemented at shorter intervals than earlier were a new factor for the population. The inflationary pressure appearing in the Hungarian economy resulted, namely, in a price raising tendency and the regulating role of government price policy manifested itself in braking but not in price stability, since the latter would not have been rational. The consumer price level increased between 1968–1975 by 3.5 per cent on an annual average, while the wage level by 7 per cent. In this situation the living standards of every strata of those economically active increased in the medium run, but in the short run also a transitory decrease may have occurred in some strata, because not everyone obtained wage rises each year.

– The balance of trade of the country was in equilibrium between 1968–73 – with some annual fluctuations – the difficulties being related to certain countries. The price explosion on the world market changed this situation and bore a new problem of foreign trade.

– The dynamism of investment was maintained also after the reform; this was partly related to the fact that, with other factors of efficiency improving, the utilization of assets ("capital productivity") did not improve. Between 1970–1975 GNP per unit of assets engaged increased by a mere 1 per cent. Equilibrium of the investment market improved only partially and transitorily, the improvement in investment efficiency is not satisfactory, the reform has been unable to solve this problem with the means presently available.

– We deem extremely important the change, highly appreciated by the members of the Hungarian society, attained in adapting supply to demand, in satisfying needs, in

reducing the number and value of deficit articles. This is a substantial difference in the performing ability of society, which, unfortunately, has remained up to now inaccessible to national income and efficiency computations.

While the state and enterprise system of social policy considerably improved and had a highly favourable effect on the political atmosphere, there were two circumstances which released negative effects: one was the increased movement of labour and the other the growing differentials between earnings depending on strata and performance. These two factors causing tension persist even today, and the dilemma of Hungarian economic policy today and in the future is that, on the one hand, the structural changes of the economy require substantial flows of labour and wage differentials depending on performance (and qualification), while, on the other hand. political public opinion expects minimization of both kinds of movements. If we ask the question to what extent the principles of the reform assert themselves in practice, we may say "they are substantially asserted, but not entirely and not always consistently". In this context reference should be made to the economic phenomena called "brakes" by Hungarian economists at the introduction of the reform.

The changes in the world economy in the last 5–6 years have been a great test indeed for the viability of our system of control, with particular reference to the fact that the Hungarian economy is linked to the world economy on a wide scale and with strong ties. In 1975 the values of exports amounted to 39.5 per cent of the GDP and the weight of foreign trade is continuously increasing. 62.8 per cent of exports went to the socialist countries (within and outside the CMEA), while 37.2 per cent to the capitalist and the developing countries.

The achievements notwithstanding, we cannot rest satisfied with the results. The reason for dissatisfaction is twofold. On the one hand, we are aware that the actual achievements in increasing the rate of production and efficiency as well as in adaptation to demand have been lagging behind the potentials. On the other hand, the changes in the external markets occurring in the wake of the price explosion and affecting Hungary disadvantageously not only consumed the positive effect of the changes, but also annulled the total increment of national income (at unchanged prices) in the last four years.

Acceleration of inflation on the world market reached Hungary under such conditions when it possessed a mechanism for warding off the infiltration of external inflation, but the active exchange rate policy was only in the initial stages within its armory of tools. In 1973 about 30 per cent, in 1974 already 70 per cent of the external rate of inflation had to be neutralized with the aid of so-called "financial bridges", i.e. import allowances, production and consumption subsidies. Owing to the spread of financial bridges the domestic price proportions deviated more and more from the external ones and thus the orientating force of the price mechanism was much weakened. This situation again pushed the question to the fore whether we could not free ourselves from the harmful effects of world inflation by returning to the rigid price system in force prior to the reform, and thus make domestic prices independent of external ones.

The world market price explosion had a strongly negative effect on the terms of trade of the Hungarian economy: between the levels of import and export prices a negative margin of 17 per cent came about, beginning with 1974, and this completely claimed the annual GDP increments of 6 per cent of several earlier years. Though with a time lag and to a minor extent, the deterioration of the terms of trade appeared also in relations with the socialist countries. The question emerged how to adapt ourselves to the new world economic situation. In this context, two problems reappeared to which an answer had been already given by the reform, but which demanded an answer again in the new situation. These were the following ones:

1. Could we not diminish import requirements substantially by shifting toward a strongly protectionistic production policy in respect of both raw materials and finished products?

2. Were it not possible to quickly increase self-sufficiency within the CMEA and to narrow down relations with the capitalist world economy?

Owing to the depressed state of export markets the conditions of transacting Hungarian exports became difficult precisely at a time when the deterioration in the terms of trade could be counterbalanced partly with an increased export drive. For an annual 5–6 per cent growth of GDP an annual increase of 10–12 per cent increase of exports has to be attained on the non-socialist market, but the unfabourable business situation endangers the attainment of this goal.

Evolution of the successful processes initiated in the double task the state performs: on the one hand it regulates the functioning of the enterprises while on the other hand, as owner, it is responsible for them.

The Hungarian practice tried to solve coordination and harmonious implementation of the two tasks without essential institutional reforms, relying on the system of organization developed already earlier. As a matter of fact, the centre recognized that it did not possess such information nor the information processing ability that would be sufficient for the continual, smooth and elastic control of enterprise activities. But, for eliminating the deficiencies it believed sufficient to renounce control by plan-instructions that was rendering enterprise behaviour particularly rigid and directly hindering development of enterprise adaptability. Many important details remained unclear as to the methods to be used for the central regulation of economic activities. The leading organs of the national economy naturally insisted on several methods derived from the old institutional system, even though they did renounce the practice of control by means of plan-instructions. Yet they continued to keep managements within the framework of the old hierarchic organization, where the division of labour between enterprises had to develop along predetermined paths.

Such development of relationships between the central state organs and the enterprises may be explained by three closely interrelated causes. The first group of them is related to the power structure. The internal inertia and conservatism of the hierarchical system does not release the formally free enterprises from the chain of earlier established relations. The most important form of resistance to the new type of management

manifests itself on part of the sectoral Ministries. Exploiting the slogan of selective economic development they have frequently done everything to conserve their own positions. Adequate conditions were created for this by their right of supervision over enterprise activities, the right of appointing enterprise executives and determining their remuneration.

The second group of causes is of an economic nature and is related to the objective obstacles to bringing about a competitive situation. In should be clear that where a chronic deficit restricts the possibilities for letting imported goods compete and where there are but few enterprises, the result of bargaining among enterprises will be dependent on chance and the tactics developed in order to improve bargaining positions may cause substantial social harm. To this we may add that by artificially obstructing the evolution of market forces, there will be an increasing number of cases in which the interests of the enterprise and those of the national economy clash, which then necessitates direct state interference. It can be simply shown that whenever prices in force do not adequately reflect the conditions of demand and supply, when a part of the international economic relations is unsurveyable for the enterprises, then, even with an otherwise correct regulation, enterprise interests may unequivocally run counter to some interest of the state, which, again, supplies a stubbornly recurring argument for the restoration of the system of central decisions.

The third group of causes is constituted by the methods of regulation actually elaborated in Hungary. These methods, disturbing social rationality and closely related to each other, have been introduced mostly deliberately, under the effect of the forces already mentioned.

a) Relative stability of producer prices was considered a basic requirement on account of several factors. The reasons included the successful policy of the government, intending to avoid inflation and quick rises in wages at any cost, even under the conditions of world market inflation. The steady and regulated improvement of living standards with consumer prices increasing at a rate not exceeding 2–4 per cent p.a. required a rigid producer price system that did not react adequately to changes in the conditions of supply and demand nor to those in world market price proportions.

Several other factors acted in this direction together with the above. The rigidity of the price system was stipulated, among other things, in order that the profit motive should not disrupt the smooth internal economic relationships, and that the success of enterprise efforts might be "obejctively" evaluated on the basis of profits in some annual or five-year period, further, that the *profit motivation* of working collectives should not result in income differentials, qualified by some leading social circles as incompatible with the value of labour performed. Stability of the price system was accomplished first of all by fixing part of the domestic producer prices and additionally controlling a wide sphere of prices to such an extent which practically involved the same consequences as the fixing of prices. In addition, the export earnings and import expenses of the enterprises are reckoned not in a uniform system of exchange rates, but in commercial rates of exchange and with a government subsidy differentiated by enterprises and industries. This substan-

tially reduces the income differentials between state enterprises, but simultaneously reduces the information content of external relations from the viewpoint of the national economy.

The contradiction between stable prices and the orientating role of prices was believed to be resolved by modifying prices from time to time. Prior to the world market price explosion a revision of producer prices at five-year intervals was provided for, but this could not be upheld. After 1971, in 1975 and also in 1976 partial price revisions had to be performed. But the revision of prices at certain intervals has not proved to be successful. This was not only because the changed conditions were transmitted only with a time lag, but mainly because when determining the possibility of raising the price the objective was not the clearing of the market but constraining the enterprise profits, dominating the production and distribution of the particular groups of products, into a narrow interval prescribed by the central financial bodies.

b) In order to minimize the role of conflicting social interests within the enterprise extremely strict prescriptions were applied to control personal incomes (wages). The average wage (after 1976 in some enterprises: the wage-bill) was made dependent on enterprise profit. This had the result that enterprises which could not increase their profit from one year to the next, or whose development strategy would have required a shift involving a transitory decline in profit or perhaps a loss, could raise wages only if the central organs accorded, in agreement with the supervising organs, exceptional treatment.*

c) The size of the amount remaining with the enterprise for investment purpose was determined by such rules that major investments could be started only with credit made available by the National Bank of Hungary (the Central Bank). In practice such credit could be acquired by the enterprise only with the consent of the supervising ministry. This resulted in a situation where the investment was supported only if it corresponded to the preferred development ideas of the respective sectoral ministry and thus expected profitability was pushed into the background when making the decision.

As a result, instead of market prices – with references among other things, to the bias of regulated prices – essentially all developments were regulated by so-called government preferences. And this entailed that more credit was allocated among needs exceeding development possibilities than what was available in funds, without being able to secure favourable conditions for those industries which indeed have a role in accelerating social progress and therefore would deserve the preferences.

The three characteristics of financial-fiscal regulation mentioned have led in combination to the situation that even after having abolished plan instructions and their compulsory fulfilment, the economic autonomy of Hungarian enterprises did not develop satisfactorily, and administrative methods remained predominant in state control. Thus, the autonomous enterprises, working on the principle of profit motivation as formulated

*The system of so-called "wage preferences" extended over the whole economy. A very large part of all industrial enterprises obtains individual wage preferences.

in the documents of the reform, have not come about. Instead, we have enterprises which, owing to the established organizational setup and the regulations in force, interpret themselves the expectations of the leading social organs and try to conform to them.

In the meantime, the enterprises continued to bargain with the leading organs, according to their special interests, about the modification of prices fixed or controlled by the state, about tax exemptions and about special budgetary funds or credits. Their immediate interests, of course, influenced their behaviour in the above bargain, also the information given to the centre about their business possibilities. This particular bias, however, also hampered the rationality of the decisions of central organs.

The established order of management is justly distinguished from the regulated market economy on the one hand, and from the control through plan-instructions as applied prior to 1968. In practice, enterprises are controlled by the central organs, by the "visible hand", without their applying the directive methods of immediate control.*

A uniform hierarchical organization of the economy, a regulation differentiated by enterprises and the treatment of managers as functionaries, fulfilling national economic tasks, have become, willy-nilly, important characteristic features of the Hungarian management.

The reason why ten years after the start of the reform we have not made better progress in the practical solution of enterprise autonomy and central regulation cannot be found exclusively in the internal social tensions related to the division of decision rights and income differentiation here reviewed. The explanation is related to the fact, that, owing to the world market price explosion, the reduced possibilities and readiness of the socialist partners to supply raw materials and to other factors as well, the objective exonomic situation of the country has essentially deteriorated in the recent past. These brakes on the economic development, though on one hand, intensified the craving for new methods of control and management aimed at greater economic efficiency, yet, on the other hand, made the responsible authorities cautious in solving the problems of the institutional system of the economy and its control – continuously arising in new forms – in harmony with the spirit of the reform.

Many people ask the question whether it was worth-while, with such limitations, to implement the economic reform. We believe that, in spite of justified doubts, the answer is in the affirmative. Though, because of the world market events unfavourable to Hungary, and on account of subjective factors, traced back to internal causes discussed above, we cannot report spectacular changes as a result of the reform, still the statistics of the last ten years have shown modest, yet not negligible results. The first is that the increase in national income has been attained with reduced specific inputs of factors of production, first of all labour; the second that the production has succeeded in adapting itself to the conditions of demand much better and thus users in both the

*The expression derives from E. *Neuberger*, who first used it for the description of the system of management applied in Yugoslavia up to 1965. [8]

foreign and the domestic market are better satisfied with the results of Hungarian labour than earlier. Unfortunately, we are also aware that with the world market price explosion the positive changes emerging between 1968 and 1972, succumbed to stagnation at the best. Further, what is more important, we are also aware that the extent of improvement experienced up to now does not create, due to deteriorating world market conditions, the prerequisites necessary for a further improvement in living standards nor for safeguarding economic stability.

What lessons can be drawn from the ten-year history of the Hungarian economic reform?

Following from the above, the years 1974–75 were a particular time of waiting, whose dilemma could be formulated as follows: shall we develop the reform further or correct it in respect of its essential principles? Scientific and practical-political investigations were conducted in this context. From the analysis of the situation it followed unequivocally that the maintenance of a suitable growth rate, as well as the gradual but fundamental modernization of the production pattern and, finally, the securing of external equilibrium as basic objectives cannot be attained either by narrowing world economic relations or by increasing self-sufficiency within the CMEA. The main objectives demand that the Hungarian economy should adapt itself more flexibly to the conditions of the world economy. This statement clearly speaks for a more consistent application of the principles of the economic reform.

In 1976–77 new steps have been taken to enforce the principles of the reform. The domestic prices of significant imported products were adapted to the foreign trade prices and this raised the rate of inflation temporarily to 4–5 per cent. A further essential step is that, making progress on the road of an active exchange-rate policy the National Bank of Hungary worked out the "commercial" and the "non-commercial" rates of exchange of the domestic currency, and these are now operating as true rates of exchange in their respective fields. At this time the process of expanding central limitations has already stopped, in fact some of them which proved to be superfluous have been lifted. All that, however, does not yet ensure that economic control "keep pace" with the events.

A more consistent enforcement of the principles of the Hungarian economic reform raises the question of a better realization of the principle of economic efficiency, of further developing the reform. In this framework answers must be found to the following questions:

– Can the internal market price proportions be approximated to those on the world market with the aid of the price and foreign-exchange mechanism? What deviations are necessary?

– What methods are needed in regulating earnings, the movement of labour and investments with a view to a more flexible product pattern in industry?

– How can we eliminate the "overheated" nature of the investment market and create equilibrium on this market by means of central regulation?

– To what extent and in what manner should we make room for vertical integration (research, development, production, trade) in the sphere of big companies in the interest of developing the organization of enterprises?

– What economic institutions are necessary that Hungarian enterprises should work successfully also in international ventures?

– What advantages could be attained in the state control of socialist enterprises by easing the present rigid division by industries and in what form would this be possible?

We believe that there are four fields where general lessons can be formulated on the basis of the Hungarian experience, which can be used in the control of every nationalized system of enterprises.

a) Competitive conditions and price system

The first and most important conclusion is that in those areas of the economy where demand changes swiftly, the needs of buyers cannot be successfully satisfied if the economy is not based on autonomous profit-motivated enterprises. But these can function successfully only if the state does not exempt them from competition with domestic firms or potential foreign partners and if the state does not undertake to solve the emerging economic difficulties at the expense of the budget. In the competitive situation thus developing the autonomous enterprises must know the system of prices, taxes and possible subsidies, which all influence the results of the enterprise and they must find themselves their way of adaptation. The efficiency of the system requires, that, in the case of unfavourable results, the enterprise executives should not be allowed to turn to their powerful owner, the state budget. It is, namely, only with such strict conditions that working collectives and managers may be expected to make great efforts in the interest of their own personal succes for an efficient use of the means made avilable to them.

For an efficient evolution of enterprise autonomy everything must be done in order that the financial regulations be rational and clear to survey. With a consistent price and financial reform the development of such a price system may be promoted – as is at present planned by government organs in Hungary – which will better orientate about social values and cost than does the present one, and which will be directly affected by the external demand and supply on foreign markets mediated by proper rates of exchange. Thus, the role of the financial regulators serving to bridge over the difficulties of particular enterprises will essentially diminish. But even the achievement of this is not sufficient. All positive effects of the price reform may be quickly reduced to nil if the state does not strictly adhere to the principle that the system of price setting and the budget should be modified only if the global situation of the economy requires it and only if these modifications are enforced in a uniform manner toward every economic unit. All this means that the state allows prices to be directly affected by the changes in internal

conditions of demand and supply, and even the modifications of the administratively regulated prices to the changes of the demand and supply are only temporarily delayed. The anti-inflationary policy of the state, developed in defence of the price level, must not be extended by trying to stabilize producer price proportions. Moreover if the government considers stability of the nominal prices of some staple foodstuffs as a political objective, it can implement this only at the final sale of the commodity in question with the aid of budgetary means, if it does not want to disturb the adaptation process in production and realization. From the preceding it also follows that it is not allowed to bridge over individual difficulties of enterprises with the means of the state budget.

b) Wage control

To resolve the tensions in wage control is a task almost as difficult as the development of the price system. The dilemma is waiting for solution whether it is justified to maintain the Hungarian practice according to which managers of the state enterprises economize on wages only to the extent required by the centre through wage control. This is a consequence of the fact that it is considered a greater success if they can pay high wages, than if profit is increased, among other things, by reducing wage costs per unit of output. The handling of the problem is complex because of its social implications. If, namely, saving on wage costs is a declared task of enterprise executives, the conflict between management and workers will openly appear, and this is usually avoided in the Hungarian practice of enterprise control.

If the Hungarian economic leaders were pressed only by the first problem, a simple answer could be given to the question of wage control: frugal management of wages could be delegated to the managers in a way similar to the other cost elements. The special rules regulating the outflow of wages could be dispensed with. But the central Hungarian organs believe that the possibility of sharpening contradictions within the enterprise is politically unbearable. Their standpoint is supported also by the fact that under the conditions of modern market economy even the governments of the leading industrial countries are frequently forced to control wages. Presumably, the role of social conflicts within the enterprise is diminishing also in these countries and they are replaced by negotiations between manufacturers, trade unions and the government. The behaviour of capitalist enterprises may also be characterized by the fact that whenever they can shift the price rise due to increased wages onto the user, they frequently desist from taking upon themselves conflicts deriving from putting a brake on the increase of wages.

The task is particularly difficult in the case of socialist state-owned enterprises. It seems that rationality of management demands that enterprise executives take upon themselves ever more from the task of management of wages, of economizing on wages, and the rigidity of wage control can be eased at the rate that progress is made in this direction. It should be avoided by all means that debates about wage control, bargaining between the enterprises and the central organs should become a factor determining the success of the entire management.

Furthermore the problem awaits solution how the necessary central control of wages is most expediently performed. The cause for concern is that the increase of wages can not always develop parallel to productivity and efficiency. Growing demand for some catagories of workers frequently necessitates a wage increase, and, for social reasons, this cannot be counterbalanced by reducing the wages of other categories. As is well known, wages are rigid downwards. The problems of wage control become even more complicated if shifts in relative wages are accompanied by a rise in the consumer price level. On such occasions, namely, a general raise is required, even in those factories which proved incapable of raising their profits at the time of the price rise. Thus, the smooth activity of a considerable part of enterprises can be secured only if they can raise wages not only according to their economic results and in direct proportion with the latter.

We do not perceive any possibility for solving the problem without contradictions. In the last two years we have been experimenting with some success with not restricting the rise in wages in a certain interval and levying a progressive tax only on a wage rise exceeding it: in many cases this method has proved to be prohibitive.

c) Investment allocation

It is a task difficult to solve how an adaptive enterpreneurial spirit can be called to life, simultaneously with the planned central regulation of investments and carrying out government preferences. Outlining the possible ways of solution may be interesting even when the government has not put these questions on the agenda.

Solution can be found in a fortunate separation of the administrative functions of the state from its economic ones. In our opinion, the task is to bring about such an institution, or system of institutions that enables enterprises to acquire assets (capital) necessary for development as a function of its expected efficiency. The institution or system of institutions fulfilling the functions of a capital market can play their role consistently only if renouncing functions other than expressly business activity. Thus, it cannot claim to be simultaneously a representative of all state interests. It also emerges that holdings, independent of each other, or organizations similar to conglomerates should take over the role of state supervision of enterprises from the hierarchically organized sectoral ministries.*

Besides, also an institution for the allocation of funds necessary for preferential developments is needed. But institutional measures are requested in order that the allocation of these assets should not impair the autonomous position of the enterprises and that the granting of preferential credit should not exceed the amounts earmarked for the purpose and should not cause inflationary pressure. The best solution seems to be if the state organs grant the preferential credit with determined conditions as lump sum grants. The granting of this support must not amount to the central organs' taking over responsibility for the development by declaring that in case of failure no further credit will be granted to help in overcoming the difficulties.

*Relevant literature makes proposals for diversified forms. See: [9, 10, 11]

d) Appointment and control of executives of state-owned enterprises, working relations within the enterprise

One of the key problems of the successful activity of state-owned enterprises, as of every firm, is the selection of executives. It is a question to be clarified theoretically, in what dependence the executive should be held after being appointed.

We believe that for answering the question two starting points must be accepted. One is that, by its very nature, management of firms is such an enterprise that is related to great risks. The second, that success and failure become clear usually not in short periods, but only over a longer time horizon.

It follows from the two assumptions that once we have been circumspect in selecting the manager, he must be highly trusted. Acknowledging that the manager has been appointed to lead a risky enterprise, his enterprising and not his administrative talents must be relied upon and adequate preconditions for this must be created. It should be reckoned with that in their responsible work peaks are necessarily alternating with trough and the boldly soaring paths frequently require long and tedious preparation.

Managers and their most important collaborators can surmount this work successfully only if they enjoy the support and trust of those appointing them. Thus the expediency of a long-term agreement emerges between the supervising authority as owner and the manager, so that the latter may start working in security and implement his development ideas in an atmosphere of trust.

From the viewpoint of the efficiency of management it is also highly important to clarify what behaviour should be expected from the executives of state enterprises when partial enterprise interests conflict with some justified or deemed state or global social interest. The problem is highly significant, because such conflicts occur in every system of management and, unfortunately, on account of the weaknesses of regulation, in the Hungarian economic practice they are more frequent than would be desirable.

Two extreme standpoints have emerged in this context. According to the first one managers should always secure the assertion of social interests and turn against local ones. According to the other opinion, the interest of the state, of society cannot be judged from the position of the manager and, therefore, he cannot be expected to clarify the social issue nor to identify himself with it.

We believe that there can be no unequivocal choice between these two views, only a pragmatic approach may be advised. It cannot be refuted that government regulation works well if, as against the Hungarian practice of recent years, it does not build on the identification of enterprises with the interests of the state, which have not been and frequently cannot be exactly defined. Accordingly, it will avoid forcing them to undertake partial tasks influencing business results detrimentally or even asking them to do so, lest it should allow them to put the blame for the lack of achievements on such "voluntarily" undertaken tasks. On the other hand, a manager may be expected to proceed in his relations with the central agencies as a good businessman. In transitory

troubles he will not strive to exploit the partner, knowing that the basis of safety is mutual advantages. Thus, in conformity also with his own long-term interests, he will not strive after every petty short-term advantage in the maze of the complicated system of government regulations.

There are still many unsolved problems as regards social relations within the enterprise. There is a wide discussion emerging in Hungary about the phenomena and the related tasks, about the problems of extending so-called factory democracy. It would be premature to sum up the conclusions; for the time being the following seem to be clear:

– management of the enterprise is, in fact, the task of a broad collective of executives, where the harmony between sharing responsibilities and the justified hierarchical relations must be found;

– in the interest of successful work enterprise management must rely on the active contribution and support of the whole working collective for the interpretation of the economic tasks, and for working out the ways of implementation;

– it is particularly important to develop this active cooperation in establishing the general working conditions;

–nevertheless, healthy intra-enterprise social relations demand the active work of trade unions, separated from management, in defending the interests of workers.

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ПРЕДПРИЯТИЯ В ВЕНГРИИ ДО И ПОСЛЕ ХОЗЯЙСТВЕННОЙ РЕФОРМЫ

Р. НЬЕРШ–М. ТАРДОШ

Авторы анализируют изменившееся положение предприятий в Венгрии на основании десятилетного опыта функционирования системы управления экономикой. Важнейший элемент изменений состоит в том, что в интересах планомерности экономического роста, учета производством потребностей и эффективного использования ресурсов целью реформы было повышение самостоятельности предприятий в той части экономики, где имелись объективные возможности конкуренции между предприятиями, а также между отечественным производством и импортом. При этом не упускалось из виду, что ускорение темпов экономического роста требует, чтобы при распределении капитальных ресурсов предпочтение оказывалось тем видам деятельности и отраслям, которые играют ведущую роль в экономике с точки зрения технического и экономического прогресса.

На основе расширенной самостоятельности предприятий реформа привела к ускорению темпов экономического роста, к лучшему приспособлению к спросу, а также повысила и производительность труда. Однако эти результаты нельзя считать в полной мере удовлетворительными, а использование основных и оборотных средств по-прежнему складывается неблагоприятно. Недостаточность результатов авторы объясняют не неблагоприятными изменениями на мировом рынке, а противоречием между осуществившейся заинтересованностью предприятий в прибылях и неизменной институционной структурой хозяйственной деятельности.

В статье анализируются возможности планомерного централизованного воздействия на экономику и успешного осуществления самостоятельности предприятий в связи с проблемами формирования цен, заработной платы и распределения капиталовложений.

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I. T. BEREND

TEN YEARS AFTER – INSTEAD OF A BALANCE-SHEET

– THOUGHTS ON THE ANNIVERSARY OF THE HUNGARIAN ECONOMIC REFORM –

Day after day, an economist has to solve thousands of problems, but he must not get lost in those of everyday life. He also looks back to a longer period and contemplates the future. He evaluates a five-year plan, examines world economic trends, conceives a long-term development strategy for 15–20 years. No macroeconomic activity is possible without long-term perspectives. Moreover, round-figure anniversaries induce the drawing up of a balance sheet almost as a conditioned reflex. Here is such an anniversary: the last year was the tenth of the operation of the "new economic mechanism".

The absence of festive balance-sheets and what they might look like

Since at present a new, long-term orientation is being worked out in Hungary (teams with great scientific and practical experience are engaged in formulating guidelines for the economic structure, foreign trade strategy and the price system), it is surprising how few "balance-sheets" have been drawn up. Most of the leading Hungarian periodicals even failed to note the anniversary. Has work on the present and the future engaged our powers to such an extent? Has the mechanism, 'new' ten years ago, become familiar to such a degree? Has it lost its importance, under the circumstances of present world economic changes, in comparison with, say, the economic political orientation? Such and similar questions may be asked, but they all sound false. True, official evaluations now and then confirm that the reform has stood the test, its basic principles remain unchanged, while the system of economic regulation has to be modified and developed, according to circumstances. Is it possible that even a more thorough, more detailed professional analysis would fail to add something? This is almost impossible.

Then, perhaps, we are not certain in our evaluation. It is easy to achieve consensus on a few principal points; is it perhaps better not to discuss details? We often hear that there are no 'delicate questions', all can be answered. I, too, am convinced that this is true, but when we notoriously fail to ask, and, thus, do not even attempt to answer, certain questions, this truth itself becomes questionable. When existing questions and missing answers are carefully avoided, delicate spots will emerge, and these are then even more carefully neglected by most. I think such factors also played a part. I was asked certain questions, regarded as delicate, some not discussed in Hungary, by foreign journalists. The representatives of L'Unità, the New York Times, or BBC Television, Marxists and bourgeois conservatives alike, all put them only in recent months. Also, interestingly, – or, perhaps, not interestingly? – when asked by a variety of institutions in

Budapest or in the provinces to talk to them, a club of professional people in the country, young people in a Hungarian bank, or the teachers of a military academy alike, I encountered similar questions. "Is not the way we work under the conditions of the reform basically the assertion of the principles of capitalism? ", or, conversely, "Can we speak about an existing reform mechanism at all, or have we silently given up its essence? " NB: One would think that the first question was put by a foreign journalist and the other by a Hungarian inquirer; in fact, both questions were put by both, in only slightly different forms! Or: "How can it be explained that the reform could be implemented in Hungary, and not in Czechoslovakia, Poland, or Romania? " – "Was the reform challenged from within in the mid-1970s and why? " – "Why do we build up intensive foreign trade and financial relations with capitalist countries? "

In recent years, much uncertainty has emerged in connection with these existing, though not, or barely treated questions, worded with different preconditions, put from different aspects and with different emphasis; these questions overshadow the anniversary. I believe this is *one* reason for the absence of 'balance-sheets'.

The above formulation suggests that there are other reasons as well. There certainly are. Among them I would point out the anxiety whether it is possible, to draw up a balance-sheet with clear scientific conscience. There may be certainly more than one conceivable answer to this question.

One of them: *the balance-sheet is easy to draw up.* Receipe: take ten statistical time series of the ten years, compare them with similar time series of the ten years preceding the reform and draw conclusions concerning the effect of the reform from the differences. Or (and) take a list of the principles laid down in writing (in resolutions), compare them with the practice of the ten years, tick what has been realized and what has not, or only partially, and you can draw up the balance sheet regarding the realization of the objectives of the reform.

Another possible answer: *The balance-sheet cannot be drawn up,* as it is impossible to select from the real economic processes in the last ten years what followed from the targets of economic policy (their merits and mistakes) and what from the reform of the economic mechanism. The reform can provide instruments, but cannot replace adequate economic development targets. As the targets of economic development were somewhat unclear (or they were clear) the reform of the economic mechanism can hardly be evaluated in itself. Further, the reform formulated a number of basic principles, several of which were consistently realized (e.g. doing away with "breaking down" plans), in other fields its principles were asserted inconsistently or not asserted at all (e.g. price formation proportional to value, reflecting inputs). Consequently, the reform cannot be evaluated as a unified system.

Finally, a third kind of answer, a *mixture* of the first two, is also possible. Its model may be summed up as follows:

Although a partial balance-sheet can be drawn up, as the comparable statistical series are available, together with the concept of the reform, and they can be confronted with the practice of ten years of implementation, we must be aware that in most cases we

are ignorant whether that achievement or mistake might be attributed to the objectives of the economic policy or to the system of economic control, especially because the reform itself was only partially realized and several of its principles remained on paper. The reform, thus, was also good, though we do not exactly know what it was like and, particularly not what it could habe been like.

A historical interpretation rejecting the balance-sheet method. After such prolegomena, the reader might expect me to challenge the described positive or negative answers and, especially, views about balance-sheets produced by a mixture of the two. However, this is not easy. Even though I caricatured the models, the above alternatives all contain a grain of truth as to whether it is possible to draw up a balance-sheet with scientific rigour. It is true that statistical time series of growth, consumption and their sources can be compared and analyzed. It is true that the objectives of the reform formulated more than ten years ago can be confronted with their practical realization and this too can be evaluated. But it is also true that the real processes of economic development are the results of many factors and not simply those of the reform; it is also true that there is no economic laboratory where the consequences following from the objectives of economic policy can be precipitated on the anode, and the economic consequences of the reform system on the cathode. It is similarly true that some of the basic principles of the reform have not, or have only partially been realized.

Have I, then, arrived at the lukewarm third answer, the mixture of the first two?

At this point I should like to remind the reader that I have rejected the task of drawing up a balance-sheet from the outset, already in the title of my writing. I have also rejected the constraints following from the nature of a scientific paper, when, in the subtitle I chose the most flexible literary form available, i.e. "thoughts", excusing myself from detailed documentation, from quoting data and long citations. All that may help me in avoiding the many traps laid by the above alternatives of answers.

Having thus rejected the method of balance-sheet I will not try to make an exhaustive evaluation of the reform from a book-keeping aspect of *debit* and *credit,* listing the declared basic principles and the unrealized items. I also reject the book-keeping method in that second sense that the principles of the reform should, in any case, be placed on the debit, and the real processes of economic development in ten years on the credit side. (An evaluation of the reform can by no means be independent from, nor equal to, the evaluation of the economic processes of the last ten years). My answer, thus, is based on the view that the reform can be evaluated also without such balance-sheets, and that an interpretation is only possible by a different method. The reform can be evaluated, even though the effects of the pursued economic policy and of the realized mechanism are inseparably blended in the practical achievements and shortcomings, producing such a complex situation in which not every objective has been realized, and some of the outcome has not even been planned.

When I approach the ten years of the reform *historically,* and think about its processes from the only possible historical aspect, then, first of all, it is the tendency carrying the reform and the tendency the reform carries that can be evaluated. Only then

can the seemingly indecipherable tangles of its unfolding successes, of its jolts and dashes of its contradictions and partial implementation become *unambiguous.*

Even though we have mostly missed (and can dispense with) the jubilee balance-sheets, we can certainly not do without an analysis of the path of the economic reform in the last ten years. We must think about such matters. Though they are behind us, the lessons that can be drawn from them are needed for the years to come, precisely at this time of search for the ways of economic development. They are necessary for the realization of the objectives of economic development already found, and also for the elaboration of new concepts.

The process of the reform – the reform of the process

When thinking about the reform, it is self-explanatory that we have to direct our attention to a period longer than a mere ten years. The reform can be interpreted only as a part of a longer historical process. In the most general formulation, the system of planning, necessarily following from the liquidation of private property, is not given for once and forever, in a specific form, but itself changes under the double influence of the ever rising development level of the economy, on the one hand, and of the related movement of the production relations on the other. The systems of planning and of the control mechanism that existed for decades were not a kind of *a priori* form of socialism, nor, for that matter, one described by the classics of Marxism but the product of a concrete historical situation. It is well known that under the conditions of the necessities and the accepted theoretical considerations following the October Revolution (as has been amply documented and analyzed), the economic system called war communism emerged and this was aimed at, in many respects, by the Hungarian Soviet Republic (1919), too. Lenin elaborated the long-term strategy of the NEP (New Economic Policy) by relying on the analysis of practical experiences, which also involved modification of the economic system. After the way-searching discussions in the mid-20s, among the confronting concepts of development strategy, planning and control, the one chosen at the turn of the decade which, it was then thought, could best serve the purpose of making up for a lag of a half century in a single decade in the young Soviet state fighting against backwardness, having an agrarian-peasant structure, under the circumstances of isolation and outside threat through industrialization, by providing for the greatest possible accumulation and the highest growth focussed on industry. The economic benefits or disadvantages of this decision may, of course, be questioned, but its basic strategic-military justification was proven by World War II, when, after ten years the Nazi war machine, having easily conquered half of Europe, invaded the Soviet Union. It is another question, however, that Stalin, who had finally made this strategic decision, elevated the steps regarded as practically necessary, or even unavoidable, to the status of general socialist theory. This prevented a whole generation from regarding the socio-economic relations and, within them, the mechanism of planning and control

not as something unchangeable but something to be developed, modified on the basis of an analysis of reality. However, the necessity of such an analysis was finally recognized from the mid-50s on, in a substantially different historical situation, in an atmosphere of countries which progressed toward socialism setting out from different development levels and under considerably different conditions. This gave rise again to analyses of the situation, to practical experiments. Different solutions were tried in different countries, thus enabling them to learn from each other's achievements and mistakes. This period saw the start of a more recent trend of economic reform, in which the Polish economic theoretical school – founded by Lange and Kalecki – played an important part, the economic debates conducted between 1954 and 1957, the sporadic, yet uncertain practical steps made in Hungary. Then, in December of the tragic year 1956, the historical declaration and program of the Provisional Central Committee of the HSWP formulated the requirement that a new, adequate economic policy and a system of planning and control had to be worked out. From the end of 1956 till 1964 a reform concept of partial, gradual transformation of the system of planning and control was asserted. These years were a period of great importance for the reform process. Not only for its practical achievements, but also because it started rethinking on a number of basic questions, which had formerly been regarded almost as taboos. Among the institutional changes implemented were: abolition of the compulsory delivery of agricultural products, a completely new model of the operation of agricultural cooperatives, the challenging of the former system of stimulation and incentives of industrial enterprises (the introduction of profit-sharing, direct exporting rights awarded to producing enterprises) and a partial modification of the budget-financing of enterprise investments, which had been free for them.

During these years debates were conducted and practical steps were even taken in a number of socialist countries. Understandably, the greatest interest was aroused by the debates in the Soviet Union, commonly referred to as the Liberman debate, which grew out of the pages of specialist periodicals to the daily press. In twenty years the Yugoslav reform went farthest and the major step was made in 1965. (Other solutions resembling the former war-communism were tried e.g. in China and Cuba.)

The necessity of economic reform was in the air in socialist countries in the mid-60s. The widely varying practical solutions remained, however, very much on the ground. Conditions and circumstances widely differed in the particular socialist countries and the reform of the control system was realized in varying political contexts. The process of transformation of the system of planning and control was influenced by political shocks, by chance in the shape of personalities and by thousands of other factors. One thing is certain, however: that the transformation started *everywhere.* In none of the socialist countries is the system of incentives the same today as what was regarded a quarter of a century ago as the only possible one; the wages-system, the role of enterprises, the operation of agricultural cooperatives, and planning systems have all gone through many changes, even though the solutions chosen and the extent of changes vary widely.

This is easy to understand. The East-European countries, most of which used to have an agrarian-peasant structure, with ample resources for extensive industrialization, reached a new stage in their development in the mid-1960s. Most of them completed on the whole the historical period of industrialization, and more or less exhausted the possibilities of extensive growth, which had offered them fast industrialization through markedly one-sided development strategy using corresponding instruments best serving the purpose. In the new situation determined by the higher economic maturity new objectives emerged, and these required a system of instruments for their realization.

The reform is thus a historical process, even if, in some cases, it emerges in the disguise of correcting the overdone, forced assertion of premature principles, that had been asserted without due regard to the conditions. However, the reform cannot be equated with the continuous, gradual modification of the system of institutions. Reform also includes the interception of these processes, modification of the factors working in them, and also their transformation. In the dialectic process of the economic development the higher level attained with the help of the former concrete forms of planning and institutions, require and stimulate, in their turn, the further development of the institutional framework. We participate in this process facing the difficulties involved in searching for the right way, in choosing the right solution, we have to accept the high risk involved in decisions, and we are also at least equally responsible for sins of omission.

Standstill in the middle of the last decade: misunderstandings, interests, internal social and external, world economic influences

Thus, the 'reform of the economic mechanism', introduced in 1968, might be regarded as a part of a longer historical process. But when I emphasize the process character of the phenomenon I mean more than that, for the reform introduced was certainly not a once-for-all, final solution. This was rendered obvious also by the circumstances of its inception. After the period of the former partial-gradual measures those called upon to decide bravely undertook radical steps, and dealt with the most important questions of the working of the economy – from the earlier practice of planning through the system of prices – simultaneously and with the aim of significant transformation. The reform of 1968 was therefore pretty radical.

At the same time, the necessary caution was present. Even if the independence of enterprises, market interests, central planning supported by central regulation and controlled market stimulation, the interest in selling instead of the quantitative fulfilment of the central plan, the responsibility of the enterprise for investments instead of getting free, centrally provided investment funds, a genuine interest in efficiency, and the price system called upon to help all these by approximating value relations, in which the changes in the producer and consumer prices were already related to each other – all stimulated the solution of the tasks of the new development stage, – they still carried the risk of serious transient shocks. To mention but the main points, a consistent assertion, an instant realization of the principles relating to the price system would have unleashed,

beyond doubt, the effects of the world market, with all their benefits and disadvantages. In that case a part of the unprofitable enterprises or industries would have gone bankrupt, and the *selective* development so often voiced today, but also mentioned at that time would habe been ruthlessly asserted by the world market prices. It is thus probable that we could have gone further on the way toward selective development than we actually have. Nevertheless, this advantage would have involved such damage as loosing control over inflation, and the unrestricted influence of world economic prices. The discussion of the reform also called attention to the dangers menacing full employment. If the principles of the reform had asserted themselves without delay, the enterprises would have laid off redundant staff at once. Obviously, efficiency, which has remained in the focus ever since, could have increased considerably more than it actually has, but its price would have been inevitable transitory unemployment. The economic advantages and benefits of the latter may be argued, but there can be no doubt that people can hardly be more humiliated socially than by having to look for a job without success.

To avoid inflation and unemployment – this was a *must* at the introduction of the reform, and a clear limit to its radicalism. The reform sought guarantees against these dangers beforehand, and found them at the cost of curtailing the reform, through compromises. This may also be questioned, but now my purpose is not to contribute to this specific debate. I just want to stress that the "inherent brakes" built into the reform-mechanism were not directed against phantoms but at *real dangers.* The question whether without these brakes a hardly tolerable, galloping inflation and unemployment might have emerged can be answered with great certainty. The Yugoslav economic reform, introduced approximately at the same time, accepted all these dangers and now enjoys the resulting benefits and suffers from the disadvantages, among them, an annual inflation of 20 per cent, and also the burden of unemployment. What we could undertake, here and then, was a matter for political decision. The government, when undertaking the risks of the reform, certainly considered that the country, having suffered many serious shocks in the preceding decades, must not be subjected to such, not even temporarily. Thus, they regarded the radical reform *itself* a process when, with the disadvantages in view, they decided to 'let in' the pressure of the world market only gradually, to progress toward higher efficiency gradually and slowly, and to create the real possibility of full employment internally.

Just a few points proving that at the time of the introduction of the reform an uncompromising assertion of the reform principles was not even intended. The security brakes were to be loosened *later,* on the safer basis of a booming, developing economy, and improving living standards. Consequently, the reform was regarded even by its elaborators and introducers as a process, or rather the initiation of one. Ample material could be cited to prove this from contemporary declarations which underlined the necessity for further progress, the need for socialist democracy following from, and also reacting on, the economic reform not only in the context of the provisional economic security measures, but in that of the relation between economics and politics as well.

The fifth anniversary of the reform saw many publications, drawing up a highly positive 'balance-sheet'. The reform had a rapid, direct effect on production, services, consumption, while the rate of growth increased, and the fulfilment of the plan became significantly more exact than before, but what is more, the national economic equilibrium became considerably more stable. This period also saw positive balances of payments for the first time for many years.

However, the process of the reform failed to gear up. The second half of the last ten years began with cumulating internal tensions. After the economic achievements of the first five years, a standstill followed, criticisms were voiced, and social tensions and discontent gave rise to discussions. Especially between 1973 and 1975, the process of the reform lost its impetus. The reform, though partial, was still radical enough, it raised new requirements, and stirred up 'idées reçues", among them, carved-into-stone doctrines. Many points were misunderstood. These were exacerbated by the lack of experience and by mistakes committed during the first steps, by instances of non-intervention when this would have been necessary. And let it be told that the operation of the reform mechanism violated vested interests in different fields and on different levels. All these factors, combined and mixed, understandably exacerbated conflicts and provoked attacks.

Some thought they recognized the revival of capitalism, and were afraid of the repudiation or, at least, a considerable enfeeblement of the planned economy; others criticized incomes policy for its alleged supression of the interests of the working class, criticizing the 'paradise of the private entrepreneur', or were anxious that state industry might suffer from the growing 'impertinence' of agricultural cooperatives*; the socialist principles were believed to be endangered by the differentiation of incomes and the related distortive trickeries, and the "purely economic" view of efficiency was confronted with the strengthening of the socialist characteristics of ownership relations and incomes policy.

The situation was complicated as many phenomena were mixed up. Let me illustrate this by a single example. With the improved provisioning of the population in view and considering it as first priority, as long as the state large industry, the state service network and the collective large farms were unable to provide the necessary commodities and the range of choice, the needed and missed services, the reform intended to give greater scope to small-scale production and for the combination of large and small-scale enterprises. This was, of course, in the interest of the working class, representing the majority of the population (e.g. the elimination of the formerly recurrent meat shortages, or the provision of repair services was achieved for this class in the first place, etc.). However, this led to a faster increase of peasant incomes than that of workers', though the latter were rising at an unprecedented rate, too. Artful dodging also emerged, beyond doubt; such malpractices exploited e.g. the serious deficiencies of the state construction capacities and the construction boom following from the increase of

*These were turning out industrial products on an increasing scale. *Ed. note*

incomes and some got rich in 2–3 years. The pancake fryers at Lake Balaton became the pets and symbolic characters of cabaret jokes and newspaper articles. This was in sharp contrast with the personal tragedy of some of the managers unable to cope with the requirements of independent enterprise management, who had formerly held on in the struggle for power and in the realization of the stepped-up targets, sacrificing their nerves and health. Measures that could have mitigated the tensions, for instance, through vigorous taxation, were not taken or with long delays only. In the discussions, or only in the minds, views seemed to go such extremes that *either* better supply and services are provided and one need not be anxious about socialism even if a handful of private entrepreneurs or quick-witted smart guys got rich quickly, *or* we purify society, subordinating the economy to incomes policy so that the peasant shall not make more money from his household farming plot than the worker from his job, even thought this might put a brake on the certainly unprecedented high rate of agricultural growth; let us control the private entrepreneur even though this might hold back services, let us limit the outstandingly high incomes of the intelligentsia, and managers drawn from their full-time and part-time sources, even though this might hold back creative, risk-taking enterprise. (My wording is somewhat overdone, as I hardly think that these tendencies emerged with such onesidedness, the idea was rather that, even with such controls, an adequate encouragement of risk-taking, of productive enterprise would provide a safeguard against deterioration in any field.) However, no good compromises could be found for some time, that would have halted malpractices which aroused justified apprehension, while still providing the necessary stimulation and scope for flexible movement.

The cries of alarm at the spreading of petty-bourgeois mentality filled the air of public discussions. The discomfort was caused by the fear for surrendering to the 'consumer society', the proliferation of a false consumption-oriented order of values. Does the system of financial incentives introduced by the reform provide a good orientation? Does it not contribute to the preponderance of individual and group interests over those of the national economy? These questions arose on the basis of real facts. Interestingly, however, many forgot that as problems these were not new and were far from being the products of the economic reform. The monster of a consumption-oriented society had been projected by the press and in literary discussions as early as the beginning of the 1960s, the dangers 'refrigerator-socialism' had been formulated at a time when a third of the population was still struggling with problems of subsistence and the advent of the refrigerator could have been the symbol of deliverance from bread-and-butter worries rather than that of wanton consumption-orientation in conflict with socialist ideals. As to the preponderance of individual and group interests, many have forgotten or cannot even remember that the castigation of this same phenomenon was hardly missing from any issue of the party daily Szabad Nép (Free People) at the beginning of the 1950s. When in those days the enterprises exerted themselves to the utmost in order to fulfil the overall enterprise production plans to 100–120 per cent and for this purpose they used more and more expensive materials, while fulfilling the plan for the range of products to less than 50 per cent, when they produced only large vessels

instead of pots and pans of different sizes, when they "simplified" their tasks by producing foot-rags instead of different kinds of stockings, when the apparent achievement of a 100 or higher per cent plan fulfilment was achieved by a part of workers through the mass-production of shoddy products, these all were gross violations of the interests of the national economy and this tendency became so deep-rooted that even in the first half of the 1960s the accumulated stock of unsaleable, shoddy products equalled 5–7 per cent of the national income – all this under the conditions of serious shortages!

All this, of course, cannot excuse the emergence of later mistakes (although these took significantly different forms). I mean as much only that the existing shortcomings were mistakenly related to the economic reform in a rather wide sphere. Many writers are inclined to explain this by *misunderstandings.* Obviously, they too played a role in many cases: ignorance or superficial information; simplifying reasoning in terms of 'black or white': either the policy of reform or the socialist model of consumption; either a reformed mechanism or the assertion of the interests of the national economy. In countering these views persistent enlightening work, and the dispersion of misunderstandings are called for. A painstaking educating policy countering the distortions of views indeed accompanying growing incomes and improving living standards is very much necessary, and is not contrary, but complementary, to the policy of the reform in regard to planning and control. But let me add, since it is more exact: to any policy intended to raise incomes and living standards.

Further, the possibility of conflict between national economic, company and individual interests, arising under all conditions, could never be eliminated by subjecting the latter two to the first merely by means of directives, interference and moral pressure. Harmony among them can be brought about only if, instead of actions against individual and firm interests, we create such conditions, circumstances or. to use an economic term: regulators – which ensure that the assertion of individual and firm interests should serve also the interest of the national economy. This is not a counterpoint of the reform either, but a part of it.

It is beyond doubt that serious mistakes were committed also in clearing up the misunderstandings, in public information, both on the level of theoretical foundations and of that of mass propaganda.

However, whenever "misunderstandings" become a mass phenomenon, the suspicion arises that these are not really mere misunderstandings, but perhaps arguments voiced by opponents of the reform, packaged in the form of "misunderstandings", i.e. the utilization as counter-arguments of phenomena lending themselves to misunderstandings.

The acknowledgement of better, more valuable, and higher performance through differentiated incomes is against, and the levelling of incomes is in favour of, the interests of those who are not willing to make greater efforts, who choose the less risky path, or who are unable to perform beyond – or on – the average standard. There is no misunderstanding in this case and views rooted in interests, voiced now unambiguously, now in the disguise of principles, cannot be dispersed by the explicitly expressed clear reasoning of Marx, that on a lower level of development the levelling of incomes is

impossible because it reproduces the struggle for the goods, or by stating that Lenin, speaking about the pre-communist period of the development of socialism, laid special stress on the principle "to everyone according to his work", that is, that the differentiation of incomes is not treason leading to capitalism but the only realistic option for the development of socialism.

It is in the interest of the medium-level executive, who is not forced to, and who is perhaps unable to, make independent decisions, who tries to pass on, or up, the responsibility, who lives comfortably with the motto "if I do not do it, it won't do any harm", and who rather tames the risk-taking "fanatics" striving for the achievement of something better and more, so that the atmosphere be preserved in which he feels safe (also supported by a few personal contacts). This situation cannot be changed by the dispersion of misunderstandings, by explaining that the planned economy will not only remain so, but even become more "planful" and firmer without "breaking down" the plans, without direct central interference, without prescribing and directing the activities of the enterprise by the ministry.

Such interests were pretty much violated by the reform. The emergence of such opposed interests is not an excuse for the political mistake, they rather render more serious, that the consistent enforcement of income-differentiation according to performance was not adequately cupled with the elaboration of modes of timely measures, regulations controlling the extortion of additional incomes disproportionate with work performed; nor for the mistake that the ways of speculation were not barred effectively enough – to put it simply, for the fact that the efforts made for the realization of the reform were not matched by efforts meant to safeguard the reform against phenomena called "detrimental excesses".

The historical situation, of course, was considerably more complex. Here, however, I only tried to point out that, instead of a further progress of the reform, of the loosening of brakes built in at the start of the necessary economic, social and political steps forward, the tightening of brakes came to the fore after some years. Certain non-institutional interference with the affairs of enterprises also represented an impediment, although the principle of enterprise independence remained unaltered. (Quite a few scared enterprise managers sighed with relief: at least I am told now again what I have to do!).

However, these tensions and discussions emerging in the wake of the second half of the decade of the reform coincided with and were related from the outset to the real explosions of the world economy in autumn 1973 and with the emergence of the phenomena indicating a new world economic era, accompanied by serious crises. All that led to difficulties and produced a dangerous situation in the Hungarian economy. The equilibrium swayed, a serious deficit came about in the balance of trade, and the structure of the economy proved to be disadvantageous. Large-scale and rapid structural changes and transformations were (and still are) called for in order to overcome the foreign trade problems. Even though the first reactions were optimistic and the phenomena were believed to produce crisis only in the capitalist world, leaving the Hungarian economy unaffected, the new, complex situation soon became apparent. The seriousness

of the situation was recognized as well as the necessity for radical steps. Under such circumstances it was an understandable reaction that many should expect the solution from central decisions, from more resolute interference. It is well known that such measures have often been necessary even under the conditions of unplanned market economies, based on private property. The changes in the world economy acted, objectively and subjectively, against the reform in the short run. Subjectively, by arousing the demand for centralization, the 'strong hand', and objectively, to mention but one very important moment, by confusing the also hitherto partial achievements of the 1968 price reform: the spreading circle of subsidies buffering the penetration of the inflationary effects of the world market not only erased the stimulating effects expected from the price system, but they also crossed the earlier steps taken toward a clearer insight into the price and value relations.

Thus, from a number of aspects, a clear distinction should be made between the first and second half of the ten years of the reform. Internal social-political and international economic factors led to a temporary halt. It we examine the phenomena against the complexity of the historical process it would be surprising if the opposite were true.

However, the economic reform introduced ten years ago has withstood the storms. Even under difficult conditions convincing successes were recorded, experience accumulated and became embodied in sound amendments. We have been and still are learning how to operate this system and also that the regulators must be changed, if necessary (e.g. undesired effects of incentives have to be counterbalanced by taxation polity, etc.). The new findings, which underline the historical importance of the economic reform in spite of its contradictions, its partial realization and the temporary halt have become especially important.

The unity of economic development objectives and the system of planning and control in serving the greatest possible economic flexibility

In conclusion, let me select only two lessons which I regard as of pivotal importance.

One is related to the connection between *economic policy and the mechanism of planning and control.* As I have mentioned, the view is held by many that the balance of the past decade cannot be drawn because it is not known which results have been produced by economic policy and which by the reform mechanism. Partly with the same reasoning, they expect that the scientific elaboration of economic development objectives and the improvement of government economic control, of its scientific nature will be the main source of achievements attainable in the coming decade. Some economists draw such conclusions especially from the transformation of the world economy: in the circumstances of the difficult new international medium, thoroughly influencing the

foreign trade oriented, open Hungarian economy, progress depends on the recognition of economic development objectives, and the relevant steps to be taken.

I would certainly not question the great importance of the role, and of the scientific elaboration of economic policy. I regard the governmental economic policy principles elaborated and published in the autumn of 1977 concerning foreign economic strategy and the related structural changes to be an outstanding achievement with considerable scientific and practical economic policy implications. Now we are more aware, following from the very research of the past two or three years, in what direction the Hungarian economy should be developed, what sectors, what production structure should be developed in certain fields, what foreign economic objectives are attainable and necessary than what was known, for instance, at the dramatic world economic turn of the years 1973–1974. It is also obvious that economic policy research and practical work cannot, by far, be considered as completed.

Nevertheless, I still regard the one-sided emphasis on the role of economic policy, i.e. the separation of the tasks concerning economic policy from the planning and control mechanism to be mistaken. For this reason, I have to revert to the evaluation of the past ten years as well. In contrast to those who underline the distinction between the effects of economic development objectives and of the reformed mechanism, I consider the close correlation to be important, in spite of the truth of much of their reasoning. I should like to explain this correlation once again in a historical context. At the time of the first five-year plan, at the beginning of the 1950s, explicitly disproportionate development, the economic policy of forced accumulation and industrialization was in harmony with the over-centralized planning system, excluding the market effects to the utmost, using the breaking down of plans to economic units, and this system served the realization of the strategy by providing efficient instruments. There was a logical connection between the two.

After this period, between 1953 and 1956 partially, contradictorily, with many deviations, the practical revision of economic *policy* started, and this became, from December, 1956 a substantial, through and consistent transformation in the practice of the HSWP. However, for a decade we witnessed the emergence and the effects of such a contradiction that even clearly identified and well declared economic targets could not be realized because the planning system (in spite of its partial, gradual transformation) had remained adequate to the *former* development strategy and worked against the new economic development objectives. In vain was the achievement of growth through improved productivity declared the basic objective when the system of planning and control provided *counter-productive* stimulation toward the exploitation of quantitative, extensive resources. (Interestingly, a similar phenomenon has been exposed recently by a discussion in *Pravda* concerning the counter-productive effects of the plan indicator of gross enterprise output). In vain was the development toward autarky condemned by the economic policy, if on the enterprise level the functional mechanism of the economy provided almost no stimulation, no incentive to change this orientation, on the contrary, it stimulated its preservation. Consequently, coopera-

tion between enterprises within the country and outside it remained on the government policy level for a long time. Many such contradictions that led to the problems of the economic processes of the 1960s could be enumerated.

The reform of the economic mechanism intended to restore the balance on a higher level between the economic development objectives and the mechanism serving their realization, by establishing a system of planning and control serving the termination of the extensive development period and the requirements of an intensive phase, in conformity with the recognized objectives of economic development which are in harmony with the endowments of the Hungarian economy. The reform was made in order that the two become complementary logically as well as practically, with the new objectives in view, just as they had been at the time of the first five-year plan, serving the objectives of the time. The great economic achievements of the last ten years followed from this greater harmony in many fields where no significant progress could be made earlier. The achievements of economic policy and of the mechanism are related, the more so, as a well operating mechanism should indicate the mistakes of economic policy, and should in part provide stimulation toward the recognition and correction of such mistakes. When there are mistakes in economic policy and the mechanism fails to point them out and thus no correction occurs, the operation of the mechanism is also imperfect. There have been such problems. I think that a harmonic correspondance between economic policy and the planning system could not yet be perfectly achieved and even in this last decade of dynamic, successful growth we have had many reasons to be discontented with the uncertain points of economic policy and with the inconsistencies of the mechanism. It follows that important tasks have to be faced in both fields. However, in this process, economic policy and the mechanisms of planning and control are not linked like two chess players on each side of the table where a step made by the first is followed by one made by the second; the relationship, to stick to a sporting metaphor, is rather like the partnership of *double-scullers:* they have to pull together, simultaneously, for a fast and even ride. Firmly relying on the recognized and set objectives of the economic policy programme, under constant further elaboration and development, consistent improvement of the mechanism of planning and control, elimination of its partial solutions and contradictions, transformation of its partially provisional yet preserved elements, its renewed application to the new findings and objectives of the economic policy must be regarded as simultaneous tasks.

The other recognition pertains to the *interrelation between the new world economic situation and the Hungarian reform system.*

Consistent enforcement and further development of the reform mechanism introduced a decade ago (together with the realization and development of new economic policy recognitions) are all the more of a greater, central importance – and this may be the most significant moment in the historical evaluation of the reform – as the new era of the world economy, begun with serious shocks, has not, by far rendered its principles and practice outdated but, on the contrary, it has been proven that their consistent assertion is of vital importance.

Even though the alarm caused by the first shocks produced as an understandable reaction the idea of the efforts at strengthening central interference as well as at centralization of decisions, an analysis of the circumstances and the practical experience of half a decade proved unambiguously that though the firmness of central decisions, and, in certain fields, the strengthening of central planning and interference are important, the assertion of the principles of the reform is at least as important. In the fields of enterprise management, in incentives, in the price system and in the indirect regulators it is even more important that they should be asserted even more firmly, freed from contradictions and brakes.

In a paper written a year ago I explained and tried to prove that the main economic requirement is the ability of utmost flexible economic adaptation. I would not like to reiterate the arguments here, but this requirement follows the present period of transition to the new era of world economy which, on the basis of historical experience, is expected to last long, perhaps for decades. On the long and thorny path leading through world economic fields we have to reckon with a series of changes now and in the future as well, with tests of out ability to adapt. When we speak about the vital questions of the transformation of the Hungarian economy, and within it, about the structural changes in industrial production and foreign trade, not a single act of transformation is meant which, once made, would provide a smooth ride to the future, free of disturbances. In the present era of price revolutions, under the conditions of the present technological race, the sectoral and product structure may often have to be changed. An article meeting with success on the international market today may become obsolate as soon as in five to ten years. We cannot change this, we can only adapt to it. If we succeed. We cannot escape it, as the role of the world market is continuously growing in importance for the operation of Hungarian economy, and it is a commonplace that for attaining a one per cent economic growth foreign trade has to grow by two per cent. The main reason is that the extraction of raw materials has become increasingly difficult and expensive and the opportunity to import them from the CMEA countries does not grow as fast as required by economic growth and, thus, an increasing proportion of such materials has to be procured by venturing into the open sea of the world market. In order to be able to import we have to export, but for reasons of quality, efficiency and production structure our exports to Western markets cannot be increased as fast as those to socialist ones under the conditions of killing world economic competition. Imports from Western countries, are thus not only growing, but do so even faster than the exports to those countries. For this reason, the character of the export structure, and the competitiveness of export goods must be changed and improved rapidly and efficiently; this requires the import of the most up-to-date technologies, partly also from the West. Thus, imports from there grow faster than exports, and the gap must be bridged with credits. This is, of course, not related to the reform, and even less so to a kind of reformism, as I am sometimes asked after lectures. At present, this is an economic necessity and is characteristic of *all* European secialist countries, independently from their planning system. Further, we cannot lay enough stress on the fact that CMEA markets also are part of the

world market, the prices there are also related to world market prices and the requirements raised towards the quality of goods there approximate those on the world market.

Under such world market conditions, the alternatives of keeping up, forging ahead or lagging behind are equally present. Avoidance of the last, and thrusting ahead through the exploitation of the advantages inherent in the great transformations require from our economy the ability to adapt flexibly: to achieve competitiveness in quality, costs, to concentrate development on the most important products, to analyze markets constantly, to respond timely to new tendencies, shortly: constant adaptation. All these, of course, have many and difficult conditions. In the paper I wrote a year ago, which I just mentioned I looked at the development levels of infrastructural branches, the rethinking of many earlier values, for instance, those reflected by wage proportions, and, especially, the central role of the education and training system, and of access to and participation in culture. In this analysis I indicated that "in this context the system of planning, control, regulation, or in connection with them, the possibility of flexible *entrepreneurial* response and stimulation obviously play an important role." [1] This latter can only be provided by the assertion and further improvement of the reform mechanism.

The historical value of the brave step taken ten years ago is best proven by the imperative requirements of the world economy today, which remain decisive also in the future. They testify in favour of the progressive character of the historical tendencies inherent in it. The set of instruments and their expansion, a successful and brave application are the main guarantees for the realization of the new objectives of economic strategy.

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ДЕСЯТЬ ЛЕТ СПУСТЯ – ВМЕСТО ВАЛАНСА

И. Т. БЕРЕНД

В связи с десятилетним юбилеем венгерской хозяйственной реформы 1968 года, пытаясь оценить её значение, автор считает непригодным метод „двойной бухгалтерии" – сравнения статистических данных за период до и после реформы или сопоставления исходных принципов реформы с их реализацией на практике. Необходим исторический подход к оценке реформы, т. е. выявление тенденции, породившей реформу, и анализ во многих отношениях противоречивого процесса поиска на практике новых методов и путей хозяйственного развития среди постоянно меняющихся внутренних и внешних условий этого развития.

Венгерская реформа рассматривается автором как часть длительного исторического процесса развития, начиная со становления социалистических производственных отношений после Октябрьской революции в Советской России и включая всю историю зарождения и развития системы планового хозяйства в социалистических странах Центральной и Восточной Европы после второй мировой войны. На этом фоне автором рассматриваются исходные цели и ограничения венгерской реформы 1968 года, её начальные успехи; трудности и общественные противоречия, обнаружившиеся или обострившиеся в процессе её развертывания, которые в сочетании со структурными сдвигами и кризисными явлениями мирового хозяйства застопорили в середине семидесятых годов ход реформы. Но созданная десять лет тому назад система народнохозяйственного планирования и управления выдержала испытания. И в трудных условиях накапливался опыт, вносились поправки, рождались хорошие начинания.

Из десятилетней истории венгерской реформы напрашивается много выводов. Автор в заключение останавливается на двух уроках, которые исключительно важны с точки зрения дальнейшего развития венгерской экономики. Это – необходимость взаимосвязанного развития целей экономической политики и системы хозяйственного планирования и управления; и далее, необходимость последовательного дальнейшего развития созданного реформой хозяйственного механизма, чтобы венгерское народное хозяйство могло максимально гибко и быстро приспосабливаться к меняющимся требованиям мирового рынка.

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A. DEÁK

ENTERPRISE INVESTMENT DECISIONS AND ECONOMIC EFFICIENCY IN HUNGARY

The ten-year-old system of economic control and management has brought about a number of formal changes in several fields of investments. The author studies their real content and their impact on enterprise investment decisions and on their financing. She outlines the further steps and measures which will allow an enhanced assertion of economic efficiency in enterprise investment decisions.

Ten years have passed since the changes in the system of investment decisions in Hungary. There are two main distinct categories of investment decisions: "state" (central) and the "enterprise" ones. This distinction refers not to differences in ownership but to those in regulation. According to the legal provisions a part of state investments is decided by the government, while others by the ministries or bodies with national authority. Enterprise investments are decided upon by the director of the enterprise.

Following the years of transition after the reform in 1968, the distribution of investments by spheres of decision was – in a first approach – about the same, the relative proportions did not change much.

However, the investment decisions are not detached from each other completely. In the decisions of both categories both the central organizations and the enterprises have their roles, though to different extent. There are several reasons for their interdependence, here two important ones will be highlighted:

1. *The national economic plan* affects every investment decision, since the purchasing power is regulated on the basis of the development trends and proportions formulated in the plan. This effect is different in case of the state and in that of the enterprise decisions.

In the sphere of state decision the plan is authoritative, the targets are derived directly from the relationships of the plan. Every state investment is decided by central organs. In addition, enterprise initiatives and conceptions are cast important roles. The decision-makers are aware that a decision is better based if, in the course of preparation, the opinions of the future operating enterprise, as well as of the executing and the supplying enterprises are heard and their suggestions are considered. The right of decision-making and the responsibility involved rest nevertheless in the state decision sphere with the central organs.

The enterprise decisions are taken by the enterprise directors, considering primarily enterprise interests and potentialities. Here, however, the influencing role of the national economic plan is asserted. The are important instruments at the disposal of state control to provide for the fitting of enterprise interests and potentialities into the conception of the national economic plan.

Table 1

Investment proportions in the state and cooperative sectors according to competence of decision, in percentages

Year	In the whole economy		In industry	
	State	Enterprise	State	Enterprise
1971	42.7	57.3	33.8	66.2
1972	46.0	54.0	36.3	63.7
1973	44.3	55.7	34.0	66.0
1974	43.7	56.3	30.8	69.2
1975	44.4	55.6	32.0	68.0
1976	45.9	54.1	37.1	62.9

Source: Statistical Yearbook 1976. Budapest, 1977. Központi Statisztikai Hivatal.

The main instruments of influence are the following: the generally applied rules of taxation, affecting the extent of demand and of enterprise monetary resources; the general regulations of profit orientation, which guarantee enforcement of the postulates of economic efficiency; and, last but not least, prohibition or reduction of certain investment activities also through administrative provisions (e.g. at present there are limitations on building holiday resorts, weekend homes, management and office buildings; a building tax is expected to moderate the rate of constructions, and the obligation to secure the cover for imports in advance is supposed to curb imports, etc.).

2. The opportunity of taking a decision is a legal formula, filled with content by the *available monetary resources.* The decision is virtually taken by the one who also possesses the necessary financial means. From this point of view it may be stated that the state and the enterprise monetary resources do not move separately but mutually complement one another.

The enterprises' own resources also take part in financing investments resolved by the state. In the course of investment, a certain, not very significant, part of the costs – a total of 6 to 8 per cent of productive investments – are financed from the enterprise's own resources. (It would not be reasonable, namely, to finance the expansion of an enterprise entirely from budgetary resources only because the decision was taken by central organs. Expansions normally involve the replacement or reconstruction of existing but outdated enterprise assests as well. Since the enterprise resources serve this purpose, it is reasonable that the enterprise should contribute to financing the investment). The enterprises pay back two-thirds of the costs of productive investments from their pre-tax profits and depreciation allowances. Otherwise, they could use a part of these for a development fund and pay the other part to the budget as a tax. I.e., the liability of repayment also reduces their future development fund.

A major part of investments resolved by enterprise cannot be accomplished solely with the own resources of the enterprise. This is not possible in any part of the world, even the private enterprises of capitalist countries finance their investments mostly with outside capital. In Hungary *credits* and *state subsidies* serve to complement the enterprises' own resources. (Moreover, under given terms, enterprises may also transfer to one another financial funds for the purpose of investment, but so far this has been used so rarely that it will not be discussed here.) Thus, from the viewpoint of the autonomy of decision-making also enterprise investments fall into two categories:

a) The decisions – within regulated frameworks – of those enterprises which finance their investments solely from their own resources may be considered as autonomous.

b) An investment for which the enterprise avails itself of outside resources too, whether in the form of credit or subsidy, cannot be considered as perfectly autonomous, since the decision is taken together by those who provide the money required for the investment. These will be referred to as "joint" decisions.

The impacts of the *generally applied* taxation system, the rules of interestedness, or the limitation of certain types of investments will not be analysed in this paper, though the various facilities and subsidies implied by them substantially affect the development opportunities. Only the methods with *differentiated bearings on enterprises* will be studied.

Enterprise investment decisions are under several external influences. One of the most important of these is the influence of the *sectoral – or supervising – ministries.* This affects almost every enterprise. It also extends to the autonomous decisions, at least in the course of the survey of medium-term enterprise plans, furthermore, when the performance of enterprise executives is evaluated, because here the judgement on the development policy of the enterprise is a very important consideration. Sectoral ministries are to give opinion on every application for credit, They are also members to the commissions for subsidizing, which means that without them and against their opinion it is not possible to extend state subsidy to investments. (True, the sectoral ministries are not in a position to decide alone.)

Provision of purchasing power from outside is the other special influence affecting the enterprise investment decisions. The effect of the outside influence providing the purchasing power does not appear with each investment project separately, but asserts itself for the entire investment policy of the enterprise. The forms under which purchasing power is allocated are various: the enterprises may get credit, state subsidy, moreover, for investments decided by the government they may even get budgetary allocation or state loan.

A given enterprise may carry out more than one investment at the same time, financing one investment from its own resources while applying for credit for the other, moreover, it may also have an investment project on which it is given a budgetary subsidy. Furthermore, a part of the enterprises carry out investments decided by the state, but may simultaneously invest separately from their own funds, and may obtain in

addition either credit or subsidy. True, these are separate decisions but are not independent of each other.

If external resources are provided, even to a single investment project of an enterprise, its whole development fund balance is surveyed and decision is taken accordingly. An investment project will not necessarily fail if e.g. an enterprise does not get the credit or subsidy asked for that investment: it may as well drop another project and finance this one instead, without outside resource. But if the required supplement is allocated the enterprise can at the same time avail itself of the opportunity to use its own money – normally a part of it – for other purposes. When running for outside resources the enterprise has to prove that it uses its own funds for economical investments that also match the objectives of the national ecnomy. If this cannot be proven, there is no ground for complementing its own resources. That is, the decisions on credit, subsidy, and state investment determine at the same time (in case of productive enterprises) whether the enterprise may use the rest of its money for other purposes.

It is a debated question in Hungary whether it is justified to take a stand, under the pretext of a given investment, on the details of how the enterprise utilizes its own resources. According to those challenging the prevailing practice, a given investment ought to be evaluated on its own merits, it should be expected to be economical on its own, while normatives should be set for the participation of the enterprises in financing. Also in our opinion this would be advisable. However, this is not what prevails today, and this paper has undertaken to study here the prevailing situation.

We shall try to trace in what scope of enterprises, and in what ways, the various types of individual financial influences are enforced; how much these effects are separated or interlocked; and what the specific characteristics of the various types of influences are. For the time being, the analysis is based on macroeconomic studies and is not yet supported by case studies, although the latter could very well complete, justify, perhaps criticize our statements.

Autonomous enterprise decisions

A considerable number and proportion of Hungarian enterprises do not use outside resources for their investments but take investment decisions independently within the framework of the general regulations and under the possible influence of the sectoral supervisory ministries.

Round two-fifths of all enterprises take their investment decisions alone and autonomously, and finance their investments exclusively from their own resources. Yet these enterprises usually implement investments that are far smaller than the average. This is shown by the low share of their investments, amounting to *12 to 15 per cent* of all enterprise investments. And here the reader is also warned that enterprise investments are 55 to 57 per cent of the total, i.e., autonomous enterprise decisions cover less than 10 per cent of all investments.

Table 2

*Data of enterprises investing only from own resources**

Investment made only from own resources	Enterprises		Investments	
	Number	Proportion in percentage of all enterprises	Amount, billion Forints	Proportion in percentage of total enterprise investments
In the state sector of the national economy, total**				
in 1974	638	40	5.8	12
in 1975	632	40	7.5	13
in 1976	634	43	9.0	15
In industry				
in 1974	290	39	2.1	8
in 1975	285	38	2.5	8
in 1976	260	38	3.3	10

*Data computed from the records and data bank of the State Development Bank. These, as well as the following computations, were made by members of the investment information and computation technology departments of the SDB

**Only the enterprises engaged in "material production" were considered in the computations. The service sector was not considered because the price and interest systems of services are different from those prevailing in material production, and we wished to concentrate now on enterprises operating under the general system of interestedness

The yearly investments by enterprises taking autonomous decisions amount to hardly more than three per cent of the value of their fixed assets – while in the productive sphere of the national economy this ratio is seven per cent on the average – thus their investments are not sufficient even for the replacement of their outdated fixed assets.

A considerable part of the autonomous decisions are taken by water control and the transport and communication enterprises which, owing to their public utility character, receive significant subsidies through other channels. In the industry more than one-third of the enterprises decide completely independently, but their investments make up only a tenth of the total enterprise investments in industry, i.e., hardly more than 6 per cent of all the investments implemented in industry.

These industrial enterprises can afford to replace their fixed assets once in 14–15 years, because the replacement of 5–5.5 per cent is covered yearly by their investments. This is not very likely to bring about noticeable structural changes. The scarce financial resources do not allow that in the scope of autonomous enterprise decisions.

It may be seen that the group of enterprises which invest exclusively from their own resources is remarkable if the number of enterprises is considered, but insignificant

as regards the proportion of their investments within the total. This means from the other side that *there is a considerable number and proportion of enterprises which also use outside sources for their investments, i.e. whose investment decisions are influenced also by allocating them purchasing power individually.*

More than half of the enterprises obtain external resources – credits, state subsidies, perhaps both, or other government allocations – for financing their investments. According to the amount invested the proportion of joint decisions is even much greater because *the overwhelming majority, more than four-fifths, of enterprise investments are carried out in these enterprises.*

The various outside resources belong to various decision systems and their impacts on enterprise management are different, because they involve different repayment liabilities:

– The enterprise resources are complemented with credit by the National Bank of Hungary, and it must be returned from the enterprise development funds.

– The quotas of state subsidies are laid down by targets in the national economic plan. Within these quotas, it is decided by a committee – comprising representatives of the National Planning Office, the State Development Bank and the sectoral ministry – which enterprise will be given a subsidy. Since 1976 this subsidy has been given to the enterprises in the form of a tax allowance. The enterprise may raise a credit for that, which is to be repaid, though not from its own funds but from the tax allowance, i.e., the subsidy is "returned" from a money that would be due to the state anyway.

– The investments to be decided by the state are practically decided upon by the central authorities. In case an enterprise implements such a project, it needs not repay the budgetary allocation issued for that purpose at all, while it will have to pay back the state loan from its pre-tax profit and from the depreciation allowance.

The external sources, different in respect of decision-making and the mode of repayments, appear very often together at a given enterprise. It will be interesting to survey the ranges of credit, state subsidies and state decisions, and their interconnections.

Investment credits

The amount of credits has grown markedly in recent years.* Enterprises raised 12.5 billion Forints in 1971 and 22 billion in 1976 as investment credits.

The proportion of credits in the sources of enterprise investments was 21–22 per cent in the 1971–1975 Five-Year Plan period, in the two years so far elapsed from the 1976–1980 plan period their share has increased, and by now more than a quarter of the costs of enterprise investments is financed from credits.

*Credits advancing a state subsidy are not considered among credits.

Table 3

Number of enterprises granted investment credits and proportion of their investments

	Number	Proportion (in percentage of all enterprises)	Amount invested billion Forints	Proportion in percentage of total enterprise investments of investments	Credits* billion Forints	Credits in percentage of the amount of investments financed with credit
		of enterprises receiving credits				
In the state sector of the national economy, total						
in 1974	642	41	31.7	78	10.6	50
in 1975	600	38	36.5	65	12.3	48
in 1976	581	39	39.1	68	18.–	69
In industry						
in 1974	342	46	19.6	72	6.7	49
in 1975	313	46	22.5	70	7.9	51
in 1976	315	46	24.9	75	12.8	77

*This amount is less than the total credit granted, because credits granted to cooperatives and to the service sector are not included.

Two-fifths of the enterprises receive credits, and these enterprises realize more than two-thirds of enterprise investments! Credit has thus a rather wide-ranging influence.

Credit has thus a rather wide-ranging influence.

However, a diminishing fraction of the outlaid credits, *in 1976 only one-fifth, was extended to enterprises that did not get money from any other external source.* And most of the money is given to enterprises that also get subsidy or other government support, i.e., which are influenced not only through credit but also with state money.

It turns out that a great part of *enterprises can raise credits for some investment project because another one is financed from state subsidy, or state loan, perhaps budgetary allocation.* But these are never independent of one another, it is precisely one of the investments that provides favourable opportunities for another one! Moreover, it is by now quite common that they cannot be distinguished even to this extent, but subsidy and credit are simultaneously used for financing the same investment. A possible interpretation of this intertwining is that an enterprise would not be creditworthy without subsidy for as big an investment project as it intends to carry out.

Table 4

Distribution of credits granted in 1976 in the state sector of the economy

Resources	Number of enterprises	Amount of their investments, billion Forints	Amount of credit, billion Forints	Percentage distribution of credits
Beneficiaries of credits, total	581	3911	18.0	100
From this:				
own funds plus credit	179	8.6	3.8	21
own funds plus credit and subsidy	248	20.1	8.6	47
own funds plus state investment and credit	20	2.1	1.1	6
own funds plus state investment, credit and sub-subsidy	134	8.3	4.5	26

It is the subsidy that makes it creditworthy. This applies for the branches absorbing the biggest credits as well. E.g. in the engineering industry in 1976 2.3 billion Forints credit was granted to enterprises which were also given subsidy, but only one billion to such ones that did not get subsidy, to the light industry 1.7 billion credit was given together with, and only 600 million without, subsidy; in the building industry 600 million together with, and merely 100 million without subsidy.

Half of the credits is granted to enterprises which get state subsidy as well, and a further one-third to enterprises where state-decided investment is also carried out. With the latter it is particularly obvious that the development of the infrastructure is solved through state investment, thus rendering them capable of undertaking the terms of paying back the credit for another investment.

Subsidies for development

The development subsidies are steadily gaining ground. The enterprise investments are more and more attached to targets determined in the plan. The increasing number of central targets in the enterprise decision sphere is synthetically shown by the number of targets to be supported as determined by the national economic plan: 34 in 1971, and 60 by 1976. The 1976–1980 Five-Year Plan contemplated to spend more than one and a half times the amount set in the previous plan period on subsidizing investments.

Table 5

Number of enterprises receiving state subsidy for development, and proportion of their investments

	Number	Proportion in percentage of all enterprises	Amount invested (billion Forints)	Proportion of their investments in percentage of total enterprise investments)	Subsidies* billion Forints	Subsidies in percentage of the amount of subsidized investments
		of subsidized enterprises				
In the state sector of the national economy						
in 1974	650	41	30.2	65	6.2	30
in 1975	675	43	37.4	66	8.8	35
in 1976	609	41	36.5	63	8.3**	34**
In industry						
in 1974	261	35	17.2	63	4.0	34
in 1975	269	36	20.6	64	5.1	37
im1976	243	36	20.1	61	5.7	43

*This is less than the total actual subsidy because the subsidies to cooperatives and to the service sector, and the price subsidies of argicultural machinery are not included

**The drop here is only temporary: it was due to late decisions in the first year of the 1976–1980 five-year plan period

That is, at present, subsidy for development is given to more than two-fifths of the enterprises, and nearly two-thirds of all enterprise investments are realized in these enterprises. Although the amount of subsidies is smaller, yet their influence is similar to that of the credits.

The subsidized targets are more and more frequently attached to a given enterprise. E.g. from the 12 subsidized targets so far set in the engineering industry seven could be assigned only to definite enterprises. Almost each of the 16 targets in the food industry cannot but subsidize a given trust or national company. Nearly half of the amount earmarked for subsidy was specified in the 1976–1980 plan by given enterprises or trusts. These usually considerable sums were not allocated by asking the enterprises to put in a tender and awarding them to the investment with the higher output and higher economic efficiency, but the decision was taken on the basis of "necessity". *The designated enterprises or trusts could take it for granted, already before submitting a well-founded and economical investment proposal, that the subsidy would be allocated.*

Table 6

Distribution of subsidies paid in 1976 in the state sector of the national economy

Resources	Number of enterprises	Amount of their investments	Amount of subsidies	Distribution of subsidies, per cent
		billion Forints		
Beneficiaries of subsidies, total	609	36.5	8.3	100
From this:				
own funds plus subsidy	179	4.4	1.3	16
own funds plus credit and subsidy	248	20.1	4.7	56
own funds plus state investment and subsidy	48	3.6	0.8	10
own funds plus state investment, credit and subsidy	134	8.3	1.5	18

According to Table 6 a part of the subsidized enterprises do not raise credits, their own funds are only supplemented with subsidy. Small subsidies as the only supplement to the own resources are given mainly in trade, to many enterprises: in other branches this is not done frequently. However, it has been seen often in recent years, that owing to quota considerations, an enterprise may obtain only subsidy in the first years of the investment, then, in the next years, also credit is granted, or conversely.

More than half of the subsidies are given to enterprises that also raise credits. Subsidy is given this way chiefly to enterprises in the light, the engineering, the food and the building industries.

More than a quarter of the investment subsidies is given to enterprises which also implement government investments. In 1976 the spendings of these enterprises on investments totalled 44 billion Forints. From this Ft 28 billion relied on state decision, and Ft 16 billion on those of the enterprises themselves. (Within the latter the amount of state subsidy was Ft 2.3 billion). In this category it is the enterprises in mining, the building materials and the food industry, as well as in agriculture which get the most of the subsidies.

Why are enterprises subsidized? There may be various reasons for that:

a) The activity of the enterprise or the sector is not profitable enough because of central price regulations, yet it needs to be developed (e.g. in mining, in the bricks and tiles industry, in some branches of the food industry, in transport and communications).

b) The realization of certain objectives produces greater advantages for the national economy than reflected by the enterprise results, and it is thus reasonable to contribute to their development from central resources (e.g. equipment resulting in energy savings, manpower saving investments, shifting industrial plants out of the capital, building of retail shops, department stores in areas with poor supply, etc.).

c) According to the national economic plan certain sectors require bigger development – owing to foreing trade commitment or uneven domestic supply – than what the sector could afford with the funds deriving from profits depreciation. (Credit is included when the investing capacity of a branch is considered, but the extent of the credit to be granted is also restricted by the profit and the depreciation allowance, because it must not exceed the amount which the enterprises are able to pay back during the approved term.) Considerable subsidies have been forecast in the current five-year plan to the light and the building industries, and to a number of engineering enterprises, because of development plans surpassing their expectable financial potentials.

d) Some enterprises are given support because they cannot afford to carry out reconstruction or to transform the product pattern from their own resources (e.g. Ganz-MÁVAG, Danube Crude Oil Industrial Co., Hungarian Aluminium Industrial Trust, etc.).

If the enterprises can show (to the central economic control organs) that the investment is connected with any motive of subsidy, the insufficiency of their own funds – complemented with credit – is no obstacle to the implementation of that investment. In our given system of decision-making and financing, an investment proven to be necessary and fitted into the plan will be implemented, from any resource that can be acquired. If an own source is available the case is a simple one. If the funds of the enterprise are not sufficient but it is creditworthy, and the investment can be returned from own funds later, the enterprise lines up for credit. But if these resources are not sufficient the enterprise asks for government subsidy. And once the subsidy is potentially decided in the plan it is only natural that these individual demands will be met.

The economic efficiency of the investment project is analysed also when subsidies are granted. But the plan is a more powerful justification than economic efficiency. *This means that the position of the postulate of economic efficiency is not clear in the present system of planning and decision-making on enterprise investments financed from several sources.* Though definite conditions are imposed when credits are granted, yet four-fifths of the credits are "attracted" by government money. And the decision on the subsidy is a plan-bargain. The subjects of the "bargain" are the amount of money the enterprise has for the implementation of the target laid down in the plan, and the amount of credit it is capable of repaying. The difference is given to it by the state. It is an indication of the ineffectiveness of economic efficiency considerations in this bargain that – even though it has been a rule since January 1, 1976, that only such subsidy should be given which is returned from the tax on the extra profit deriving from the investment – yet in practice only half of the subsidies could be given in this way till now, the other half has been invariably given to the enterprises "free", without liability of repayment. Half of the

subsidies is not returned from the tax of the subsidized enterprises either. That must be drawn away by the budget probably from another sector or enterprise (it also happens, though, that the enterprise in question pays a production tax, i.e., the cost of the investment is recovered through another income channel).

In my opinion, in our present system of deciding on subsidies the aspects of economic efficiency are not considered as they should be for the following reasons:

– Orientation towards economic efficiency is made difficult by the shortcomings and rigidity of the price system. Several times the investment subsidy is given to the enterprises in the form of production and price subsidies, while on the other hand big amounts are drawn away through production taxes above the general taxes as well. It is impossible to tell whether these "discriminations" are of the type that ought to be disregarded or, on the contrary, considered, when judging economic efficiency. The wide ranging discriminative financial measures also allow for reference to problems of the price system even on such occasions when the lack of economic efficiency should be exposed. Above the real difficulties of measurement also the sectoral approach, representing the separate department interests rather than those of the national economy, plays a role here.

– It has not been clarified in Hungary what should happen to the *non-economical activities,* especially if not some definite activity but an entire enterprise is concerned. A non-economic unit is not left declining but is sustained by means of subsidies, and often it is even developed. Thus the principle cannot be consistently enforced that governmental financial assets are to be used for the expansion of efficient activities, because these assets are drained by the preservation and even expansion of the inefficient ones.

– Because of the shortcomings of the price system, the complicated interlocking of the financial resources, and the overlapping levels of decision-making, it is by now impossible – as far as I can see – to perceive what is and what is not efficient. This is why despite the best intentions and guidance economic efficiency is pushed more and more to the background.

Extent of interlocking of decision-making levels

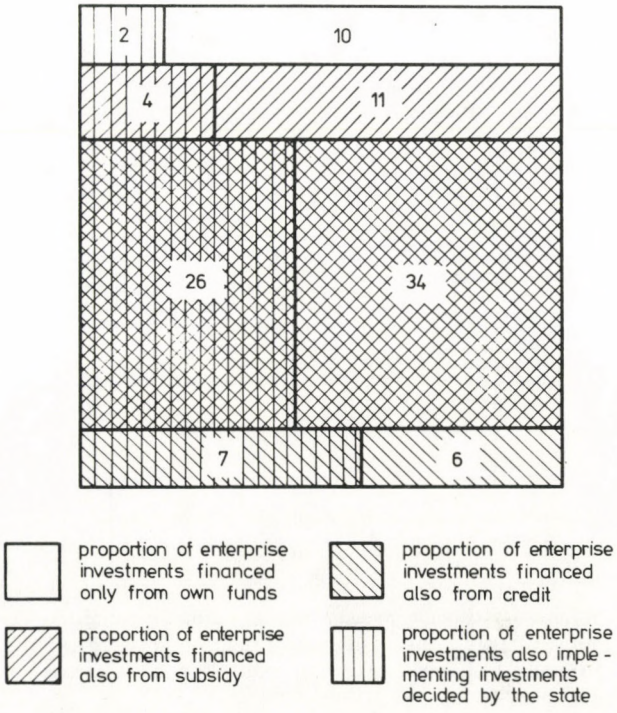
Let us sum up the sources from which the investments decided by enterprises are financed.

It is shown in Table 7 that the majority of investments fell into the categories where several levels of decision-making overlap. The proportions vary, as data of yearly allocations were used, and these are rather different even for the same investment each year. Nevertheless, despite the changes, the proportions move within a quite narrow zone.

The overlapping levels of decision-making are even better illustrated in the figure. This figure was plotted on the basis of summarized data of four years, as also the data of 1977 investments, showing the same tendency as the earlier ones, were taken into account.

The enterprises' purchasing power was supplemented through one institution in 19 per cent of the investments (11 per cent with credit, 6 with subsidy, 2 with state allocation for investment).

Overlapping decision levels, 1976 (per cent)



Enterprises which implemented *45 per cent* of all enterprise investments received external resources from *two institutions* (34 per cent was influenced by credit and state subsidy, 7 per cent by subsidy plus state investment, and 4 per cent by credit plus state investment).

Three institutions influenced the own funds of enterprises which implemented *26 per cent* of enterprise investments (credit plus subsidy plus state investment).

(Still another kind of overlapping, namely, that an enterprise may have several investments financed with subsidy or credit, etc. at the same time, was not reckoned in the above. However, there is no need for any special consideration of this fact, because the participants in the same type of decision are always the same institutions, and usually the same persons, too.)

The overlaps are indeed significant. These overlaps are advantageous for the enterprises because they can get money in several ways. But this cannot be taken for a competition between the allocators of capital, because the funds *are not given under identical term by the various institutions.* On the other hand, the disadvantages of the overlapping of decision levels are numerous. The procedure is unavoidably sophisticated, enterprises have to apply to several institutions in the same matter. Different organi-

Table 7

Distribution of enterprise investments according to the sources for financing the investments
(per cent)

	Proportion of enterprise investment financed from					
	exclusively own funds	own funds and credit	own funds and subsidy	own funds, credit and subsidy	state loan* too	Total
In the state sector of the national economy, total						
in 1974	12	16	13	31	27	100
in 1975	13	16	14	27	30	100
in 1976	15	15	8	35	27	100
In industry						
in 1974	8	20	13	36	23	100
in 1975	8	23	14	30	25	100
in 1976	10	20	6	39	25	100

*Here belong the enterprise investments implementing also projects decided by the state (either individually or by groups). They include those that do not get anything, which get credit, or subsidy, or both. Naturally, here only those investments of these enterprises were considered which were resolved by themselves

zations have to carry out the same analyses. Some of the measures are often formal, since some way of financing is obtained as a remainder. It is even more harmful that the supressing of the criteria of economic efficiency is disguised by these overlaps.

Data characteristic of economic efficiency in various groups of enterprises

Some data or indicators have been selected in an attempt to describe the different groups of enterprises:

- share in total net income (budgetary subsidies have been subtracted from total net income)
- share in total export price receipts;
- share in total fixed assets;
- proportion in total investments;
- net income per unit of assets (this is referred to as profitability);
- cost per unit of export price receipts (for lack of a more appropriate term this is considered to be export profitability).

From the viewpoint of this study it is not the absolute value of these indicators but their relations to each other that is interesting.

Enterprises belonging to the category of *autonomous investment decisions* produce more than one-third of the total net income, and almost a quarter of total exports, but the bulk of both is contributed by *trade. Industrial* enterprises investing only from their own funds have a low share in both income and exports. Their profitability may be considered as mediocre, their export profitability as poor. These – mostly small and medium-sized – enterprises can develop only slowly, the amount of their investments relative to their assets is far below the average.

The indicators of enterprises investing from *own funds plus credit* are very favourable whether the entire state sector of the national economy or only industry is considered. Their share in net income and export is high, their profitability is extremely good, and also their export profitability corresponds to the average. Their development is rapid too, in proportion to their assets it is the highest from all groups of enterprises.

The profit and export share of enterprises investing from *own funds plus credit plus subsidy* is similar to that of the previous category, but for this purpose they need far more assets and investments, their profitability and export profitability are much less favourable. Their wage costs are also more than double of that in the enterprises belonging to the former category. And they get twice as much budgetary subsidy for their management – though this is not contained in the net income. Despite the disadvantageous economic circumstances these enterprises develop almost as rapidly as those in the previous category. Investments amount in both groups to 13 to 14 per cent of the value of fixed assets. But two times as much has to be invested in the latter enterprises to attain the same results!

Enterprises *also implementing state investments* pursue extremely capital-intensive activities, their shares in fixed assets and investments are very high. Thus, even though their share in profit is considerable, their profitability indicator is very low. They show better export profitability than the other categories, but are less export-oriented than the others.

It is important to underscore another thing. In this paper not the enterprises themselves but their investments are studied. Enterprises receiving outside resources carry out two types of investments: projects resolved jointly or alone. It is most remarkable that the enterprises spend the biggest part, 60–80 per cent, of their own resources – remaining after repayments and filling up the working funds – not on those investment projects to which they get external supplement but on those which are decided and financed by themselves alone. This applies not only to the average of all enterprises but also to each studied category. At the same time, only a smaller part, 25–30 per cent, of the costs of investments financed from several sources is covered by enterprise contributions, the major part is financed from external sources.

This may be the explanation for the fact that 60–80 per cent of the enterprise sources covers simple replacements. This is acknowledged by the central agencies when for investments financed from credit or with government money this part of the

enterprise sources is not claimed. On the other hand, this is the reason why in each category complemented by external sources the enterprises contribute at most one-third or one-fourth of investment costs, and the rest is covered from external sources. (True, they later repay the external funds – more exactly a part of these.) All that amounts to the fact that the enterprise takes the initiative and, in the last resort, it also decides on these projects, yet the substantially greater part of the purchasing power necessary for them is secured from central funds. This stresses the importance of the influencing role of the central funds.

A strong overlapping of the decision levels is particularly characteristic of the last discussed enterprise categories. Two-thirds of enterprise-decided investments are implemented in them, (though state investments implemented by them are still left out of consideration), and 40 per cent of total net income, 50 per cent of the income derived from industry, 40 per cent of export receipts are realized by them and they transact almost 50 per cent of industrial exports. Their profitability is lower than of firms in the former two categories. Their future position must not be thus neglected. It is impossible to envisage the implementation of the structural policy programme recently declared in Hungary without making investments in these categories more economical than they have been up to now.

So we state about two-thirds of enterprise investments that in individual influencing activities very little consideration is paid to economic efficiency. There are no guarantees to assure that economical investments should be realized where several, central and bank, decisions are made at the same time. This absolutely needs to be changed.

Direction and way of further improvement

Some requirements ought to be considered as basic preconditions for transforming the system of complementing the enterprise resources. I believe the most important of these are the following:

1. The prime measure of the efficiency of central control should be whether the development of the patterns of production and sales is channelled by investment policy in the desired direction and at the desired rate. For this, among others, it is necessary to grant the external resources – both credits and state allocations – to economical investments and not in order to maintain uneconomical activities, and especially not for their expansion. *This needs a much more consistent use of norms of economic efficiency.*

2. There should be greater reliance on enterprise autonomy, not only on their initiatives in general, but also in trusting that they initiate economical actions. We need not be afraid of leaving alone an enterprise with uneconomical activity. If it cannot always reckon with a support it is much more likely to make greater efforts at a change for the better, and this will be much more fruitful than central salvage operations.

3. Distinction between budgetary and credit resources ought to be stricter. Through credit future resources due to the enterprise are advanced, that is, it means a *provisional*

regrouping of sources, while an allocation from the budget – in any form – distributes funds due to the budget, i.e., it means a *final regrouping.* This is obvious in the case of direct and free allocations, because money originating from another enterprise is used for the investment, but it is similarly true when a tax allowance is granted by the budget. In this case, too, the state gives up a revenue it could allocate for other purposes but spends it on the investment instead. This does not imply that the budgetary investment need not be judged from the viewpoint of economic efficiency, yet any way of budgetary allocation is more advantageous for the enterprise, but more disadvantageous for the national economy, than credit.

4. *Credit ought to be used in a much broader scope,* but not the formal credit meaning only a form of financing, but the credit that requires profitability and refunding capacity really from the product of the investment, i.e., from funds due to the enterprises. Three complementary measures could make this a realistic possibility:

a) Prices should show the costs, that is, the market value judgements, more realistically than today. This could strongly reduce the scope of subsidies that have to be issued because of unrealistic prices, and increase the creditworthiness of certain sectors and branches. Other arguments not mentioned here also call for such prices, work has been going on for some time now in Hungary on such modification of producer prices that will satisfy this requirement. Considerable price modifications pointing in this direction are expected in Hungary by 1980. It has to be noted that the changes of producer prices in 1976 and 1977 have already shown a favourable trend.

Not only todays' prices but also those of the future have an important role in investment decisions. These are not known to anybody, but methods of prognostication have developed all over the world. In Hungary it is a debated issue whether it is possible to forecast prices correctly. Those who doubt it propose to determine the terms of repayment for investments that need a longer time for implementation only at the time of inauguration. I am afraid it would be a big mistake to accept the price forecast for the decision on the project but not to attach any financial consequence to it. What is really necessary is to make the enterprises as interested as possible in a realistic prognostication. This may be expected to initiate thorough market analyses and effective work aimed at higher sales prices also in the period of marketing. I therefore believe that the role of prognosticated prices must not be reduced, but the central organizations should give more help to the enterprises in obtaining the informations that can be made available centrally.

b) The creditworthiness of enterprises which are run economically should be increased so as to make their share in net profit higher than it is now. For this the entire subsidy policy has to be changed, including subsidies not only to investments but also to production. The sum of production subsidies is now very high, in fact identical with the sum of total profits and is a multiple of development subsidies. This means that big sums have to be centralized, through production taxes and other channels, in order to redistribute them through the budget in the form of subsidies. Along with the reduction of production subsidies the centralized part of net profit could be reduced too, and so *a greater part of the profit could be left with the enterprises.* The amounts to be used for

development would not be increased this way, but their distribution would change. Development possibilities would increase proportionally with incomes and the counterpart of this would be a reduction of subsidies. But if the bigger part would be left with the enterprises – i.e., the general profit tax would become lower – then from a unit of future profit the enterprises should pay back greater credits than today, and thus more credit could be granted for an investment of the same volume.

c) Last but not least, a part of the subsidies should be made automatic. Unlike the present conditions, the extent of the subsidy would not be subject to bargaining, and would not vary by enterprises, but *the same amount of subsidy would be given to enterprises realizing indentical targets,* irrespectively of the funds they have. The enterprise could make investment only if it had the part of the forecast input above the normative subsidy, or were creditworthy for the missing amount of money. So no individual decisions would be needed on these subsidies – on the contrary, no exception should be tolerated at all – but definite amounts of subsidy should be assigned to the targets of the plan. Thus, for example, tax allowances could be granted to all enterprises which

- build commercial warehouses – the amount of tax allowance could be set by square meter;
- implement a project for the rationalization of energy consumption – a tax allowance would be determined by a unit of energy or sarce saved;
- in case of investments aimed at mechanizing material handling and packageing, if it really economizes on labour – the sum of allowance could be determined per one worker saved;
- in certain areas with poor supplies, if the capacity required for manufacturing a shortage item is increased, a support per unit of capacity could be determined.

It may be seen from the examples that we are far from trying to determine the amount of the subsidy in proportion to the cost of investment, because in that case the investor is not interested enough in saving and economizing on implementation. The normative subsidy would be always attached to such objectives (defined in physical units of measurement) which are determined in the plan and whose implementation cannot be covered from exclusively enterprise sources – and supplementing credit – either because the sources of the eligible enterprises are too limited in comparison with the goals, or because they are not interested enough.

The normative subsidy – which would be extended to the enterprises as tax allowance – would add to creditworthiness and perhaps even to the own funds required for being granted credit. Unlike the present subsidy differentiated by enterprises, this subsidy would not level out the differences in efficiency. Besides, the realistic opportunity of choice from tenderers for credit would be maintained.

5. Obviously, it is impossible to turn every subsidy into a normative one, i.e., individual subsidy would be maintained but would be by all means limited to a much narrower field. Normative subsidy would be attached to given *targets* that can be determined in physical terms and implemented by several enterprises, while individual

subsidy would be linked to a given *enterprise,* contributing to the acutely necessary increase of its capacity, modernization, changes in the product pattern, which the enterprise is unable to carry out from its own funds – and from the credit advancing it – and for which there is no provision for a normative subsidy. Yet this must not be an economically ineffective investment either, therefore it may be given support only if certain given stipulations regarding economic efficiency are met. These stipulations lend themselves to quite appropriate formulation in the framework of *allocations linked with rent* which are already known in Hungary though not widely used. This means that from the additional profit produced with the aid of the investment implemented with subsidy the enterprise would pay rent for a certain period. The total amount of the rent must not be less than the value of the subsidy increased with annual interests. The enterprise would pay the rent from the pre-tax profit, which implies the same condition (and participation) that exists between the budget and the enterprise in case of state loans: from each unit of subsidy – or state loan – the part equivalent to the tax is covered by the budget, while the enterprises cover the part which they would otherwise spend on their own purposes. The function of the individual decision is the same here as that of the credit decision in the case of automatic subsidy (checking the reality of cost and forecasts, regarding the time needed for implementation, contemplated trends of marketing, judgement of the situation of the enterprise, etc.).

This rent-linked allocation is based much more solidly on the methods of monetary requirements and on calling to account than the present system of subsidies. No special credit should be allowed to accompany it, because the commitment to pay the rent diminishes the amount that may be deposited in the development fund, and there is thus no source for repaying the credit.

The solution we propose would put an end to the overlapping of subsidy and credit in individual investment decisions. Either individual credit decision, or individual subsidy decision would be only required.

This new arrangement could bring about simplifications in routine procedures as well, there would be no need to force several institutions to carry out the same analyses, the enterprises need not apply to several authorities because of actually only one investment, and the management of affairs could become much easier. A quite big part of the enterprises would have contacts with only one bank: those raising credits with the National Bank of Hungary, those receiving rent-linked allocations with the State Development Bank. The enterprises would use the normative subsidy automatically, and the General Directorate of Revenues, Ministry of Finances would supervise whether it is justified or not (the control of purchasing power would be necessary in this case too!). It is unlikely that the simultaneous granting of both credit and rent-linked funds to enterprises could be stopped, but the sphere of these would be much smaller than the present overlaps.

This paper is only a rough outline of the methods which, we believe, could eliminate the disadvantages of the present overlaps of investment decisions and could give way to the enforcement of economic efficiency requirements in the field of enterprise

investments. It needs a great deal of extensive, collective work and discussion, not only about the overlapping levels of decision-making, but also about other topics at least as important, which have a basic effect on the efficiency of investments, such as improving the methods of planning, a better preparation and faster implementation of investments, etc. If we set to this work now, then, simultaneously with the reform of producer prices, also a modification of the system of investment decisions and financing could take place in Hungary in 1980.

РЕШЕНИЯ, ПРИНИМАЕМЫЕ ПРЕДПРИЯТИЯМИ О КАПИТАЛЬНЫХ ВЛОЖЕНИЯХ И ЭКОНОМИЧЕСКАЯ ЭФФЕКТИВНОСТЬ В ВЕНГРИИ

А. ДЕАК

Из двух основных категорий решений о капитальных вложениях, – решений, принимаемых государством и предприятиями, – автор рассматривает последние. Она анализирует влияние различных форм наделения капитальными ресурсами на решения предприятий по капитальным вложениям.

Автор отмечает, что относительно высока в Венгрии доля таких предприятий, которые финансируют свои капиталовложения исключительно за счет собственных средств. Однако более половины предприятий пользуются кредитом, получают дотации или же иные виды государственной субсидии для своих капитальных вложений. Эти предприятия осуществляют более 4/5 всего объема капитальных вложений предприятий.

Автор указывает, что большинство предприятий пользуется одновременно несколькими источниками финансирования, однако требования, предъявляемые к экономической эффективности, различны, т. к. эти ресурсы предоставляются на разных условиях. Большую часть кредитов предприятия могут использовать лишь потому, что предоставляемая государством субсидия делает их кредитоспособными, или же часть необходимых сложений предоставляется им в качестве государственных капитальных вложений.

Автор предлагает такую перестройку системы кредитования и субсидирования, при которой в принятии решений большую роль будут играть требования, касающиеся экономической эффективности.

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A. NOVE

EFFICIENCY CRITERIA FOR NATIONALIZED INDUSTRIES: SOME OBSERVATIONS BASED UPON BRITISH EXPERIENCE

The problems discussed concern nationalized industries operating under conditions when competition is weak or absent. The public service concept has been largely replaced in Great Britain with a stress on commercial criteria based upon conventional marginal micro-economics. The author questions the validity of some of these criteria. They do not take sufficiently into account the implications of monopoly power, the elements of system, the necessity of judging efficiency in relation to purpose. Margins are frequently of a multi-level and hierarchical nature. More attention should be paid to external economies and diseconomies. Similar problems arise in many countries under different economic systems.

Introduction

The author believes that there have been serious errors in both theory and practice. There have also been successes. In no way is this paper intended to be an attack on nationalization as such. The attack, in so far as there is one, is on misapplication of economic theory, to circumstances quite different from those to which it ought to be confined by its own assumptions. However, we must recognize that some very perplexing problems arise in the search for adequate efficiency criteria, and the author is by no means satisfied with his own constructive ideas. There is a very great deal to discuss, to research into, to disagree about.

Let us begin by distinguishing the *kinds* of nationalized industries, as they do raise rather different issues.

Firstly, there are those which operate in a competitive environment, either because some parts of the same industry are left to private enterprise (e.g. Renault cars in France), or because the separate nationalized enterprises compete with one another (for example, in the Yugoslav footwear of textile industries).

Secondly, there are nationalized monopolies, largely shielded from direct competition in their own specific field: the post office, electricity, railways, coal are Brisith examples. The degree of their monopoly varies, inevitably, to the extent to which substitutes are available. Thus electricity stands alone as a means of lighting, but competes with nationalized gas and coal and private oil companies in domestic heating. Nationalized steel is, to a limited extent, affected by imports, as well as by alternative materials. Nationalized railways have to cope with nationalized buses and airlines, private-enterprise lorries, privately owned cars. So absolute monopoly power is rare. However, this category of nationalized industry is distinguished from the first category mentioned above by the total or almost total nationalization of the industry and so by the relatively weaker impact of competition.

A second kind of distinction requires to be made: this is based on the extent to which "externalities" are important. In using this term, I refer to effects, positive and negative, which do not show themselves in the accounts of the transactions of the industries or enterprises directly concerned. These externalities could be social (e.g. an effect on income-distribution), environmental (e.g. pollution or its avoidance), or directly economic (e.g. the effect of efficient dock facilities on the costs, output and industrial activity of a region). It may be safely assumed that almost every conceivable enterprise, activity, decision, generates *some* externalities, but it is surely clear that to consider them all would be prohibitively expensive in time and money, indeed quite impracticable. However, there exist industries, or types of decision, where externalities play a large role, where the gap between private (sectional) profitability and the more general social interest or profitability is common and important enough to require systematically taking into account. Transport facilities (say) are evidently more "externality-prone" than gas or textiles.

Finally, there is the factor which I have called "internalities", or the element of system, indivisibility, complementarity, which, as we shall see, greatly affects and complicates efficiency criteria. The point can best be made by contrasting coal mining and a railway network or electricity grid. In the case of coal each mine can operate virtually independently of the others, with its costs and results the subject of meaningful separate accounting. This is not the case if one takes one rail line or one power station. Both feed their throughput (passengers, current) into the system, and this "systemic" element tends at times to create contradictions between the interests (and accounts) of the part and of the whole, analagous to the externalities mentioned above, but internal to the given industry. (Such "internal effects" are to be encountered in many large organizations, whether nationalized or private).

It also matters a good deal *why* the given country has chosen to nationalize the particular industry or economic sector under consideration. It could be because it is a species of natural monopoly, like electricity and telephones. Or the object may be to carry through some policy objective of a political or cultural kind, as in radio and television. Or for military reasons, as in the case of an arms industry. Or, in some cases, nationalization is regarded as a good in itself ("capture the commanding heights", weaken domestic and foreign capitalists), or as a source of government revenue (e.g. the French tobacco monopoly), or because the given activity, though regarded a socially desirable, is unprofitable. State policy plays a big role, in certain instances, in determining the *objectives* of the industry: thus it may be decided to provide electricity, and to maintain postal services, in remote villages or islands where they could not in any conceivable sense "pay", or to provide a cheap transport link between islands and the mainland. As we shall see, it is not satisfactory to detach the concept "efficiency" from the question "efficiency for what".

There is also the question of what kind of organization administers a nationalized industry. It is usually a financially autonomous corporation, subject, however, to some policy guidelines and other controls from the government (or some regulatory or control

agency appointed by the government), but an alternative method is for a government ministry to run the industry or service directly: thus the Post Office in Great Britain was a government department until 1971, when it became an autonomous corporation. (In the USSR, industries are operated by ministries, but the subunits, "enterprises", have a degree of financial and operational autonomy).

A little history

The labour party was in principle committed to extensive nationalization. However, remarkably little attention was paid to the *economics* of nationalization. Generalizations about operating them for the public good were substitutes for hard thinking. Taking Herbert *Morrison's* of London Transport authority as an example (1931), the idea was to set up a quasi-independent board, which would operate the system for the benefit of Londoners, charging the users the amount that was required to cover costs, raising any necessary capital on the market. The undertakings which the Board took over included both private bus and underground lines and some municipal tramways. While London Transport was to be commercially sound, its management had also to "regard themselves as the high custodians of the public interest", in Morrison's words. There was no serious discussion of criteria. To be fair, there was at this time very little attention paid to investment criteria in the general economic literature. It was simply assumed that the would-be investors would seek profitable uses for their money. The role of the *state* as an investor was unexplored. As far as charges and the fare structure was concerned, the system of fare stages (and the fares themselves) inherited from the private corporation were retained.

Private competition was barred because it would "cream the traffic", i.e. operate only on busy routes and times, thereby recognizing the obligation of the Board to supply services at standard rates at time of the day at which they would not "pay". (It is interesting to contrast this view, very common at the period, with the "modern" orthodoxy, according to which buses or trains used only at times of peak traffic are held to have a very *high* marginal cost!).

Municipal water, electricity, gas and transport undertakings were common at the time. Again, no theory emerged. Operational criteria implied that costs should be covered, the customers supplied, interest on loans paid. Any profit would go into local revenues, but it was not suggested that profits were a major objective as such. Thus it was taken for granted that every household ought to have water. Most privately-owned public utilities were regulated, as they still are in the United States, by what came to be known as "independent regulatory commissions". A British example was the Railway Rates Tribunal. They saw their task as preventing monopolist overcharging and discrimination, as well imposing duties and obligations. A very early example of such regulations imposed by the state was the so-called "parliamentary train" (1844): railway companies were obliged to run a daily train which stopped at every station on the line and carried

passangers at no more than 1 penny a mile in the third class. There was also the duty of a "common carrier", i.e. to accept freight at the posted non-discriminatory charges to any destination in the kingdom.

We will return to this point, which is important: for if private profit-making operators were subject to various duties and constraints imposed by the state or by quasi-governmental regulatory commission, what should be the duties and constraints within which nationalized undertakings were to be judged? Efficiency in doing what, decided by whom, on what principles?

The attitude to the coal industry was coloured by its bad labour relations record, and also by the profit of the owners of the coal and of the land. There were no economic criteria elaborated. It was simply assumed that profits would go to the nation and that the coal industry under nationalization would operate for the good of society and of the miners. *Shinwell,* the first Labour minister of Fuel and Power after nationalization, was surprised to discover that "nothing practical and tangible existed. . . I had to start with a clear desk".*

In the first postwar years the Labour government did in fact extend nationalization, including coal, the railways, electricity, gas. It had become necessary to formulate operational and investment criteria, and in 1947 such an attempt was at last made. However, one must bear in mind the circumstances. There was an immense backlog of investment, and the government had at the time a tight control over investment, through licensing new building and the Capital Issues Committee. There was consumer rationing and controls over foreign trade. The pound was not yet freely convertible. Many foods were rationed, many prices controlled. In these circumstances, conventional, (and even unconventional) efficiency criteria could have little meaning or applicability. At times of shortage, when coal was rationed and electricity cuts were frequent, priority was naturally given to investment in power supplies, and in the private sector to the exporters. Profitability, under these conditions, was not a decisive factor, indeed could not be.

Many prices in no way reflected scarcity or opportunity-cost. Thus, to take on example, the price of coal in 1948 was far below the price at which coal was imported. Evidently, this produced a glaring contradiction between profitability (of current production or investment) and the urgency of the need for more coal. In some instances subsidies were paid. It was believed that artificially keeping fuel down was a way of avoiding a rise in industrial costs. Evidently, such prices could not be used in efficiency calculations.

The Conservatives were elected to power in 1951. The return to more normal economic conditions and the abandonment of rationing and controls over prices, investment and foreign trade, placed more firmly on the agenda the question of economic criteria for the nationalized industries. Gradually, the service-to-the-community concept was eroded, and replaced by a search for efficiency judged by commercial criteria. This indeed turned into a bipartisan approach, since the following Labour government elabo-

*Quoted from [1]

rated and reindorced the ideas of the Conservatives, even while adding steel to the list of nationalized industries. The principles found their first systematic expression in the *White Paper on the Financial and Economic obligations of nationalized industries* (Cmd 1337, 1961). The Labour government's White Paper of 1967 followed basically similar lines, and the principles laid down at this period have altered little, except in (admittedly sometimes important) administrative detail.

Commercial criteria adopted and defined

Nationalized industries were henceforth in principle to earn roughly the same rate of return on capital as private industry, unless strong special arguments existed to the contrary. Each investment project was subjected to a test discount rate, fixed at 8 per cent and then at 10 per cent "in real terms". Prices should cover both costs and replacements, as well as interest on capital. Nationalized industries were encouraged to raise their capital requirements through revenue, with their remaining need for capital financed largely through the Treasury. No longer was it to be regarded as satisfactory for the given nationalized industry to meet a global financial target: cross-subsidization (i.e. covering loss-making by profit-making activities) was now regarded as an evil to be avoided whenever possible, since it represented misallocation of resources. Prices should be related to costs in each (administrable and identifiable) instance. There was debate about marginal cost pricing, which concentrated on such (important) questions as the difference between short-term and long-term marginal cost, and on the problem that arises when marginal cost was below average cost. But the principle was accepted that each part should, in principle, pay, unless one strong social reason existed to the contrary, in which instance the state (or local authority) should pay an earmarked subsidy. The task of *management* was to act commercially. Notions of social service, duty, obligation, were regarded as standing in the way of efficiency. The influential Christopher *Foster* wrote: nationalized industries should be "fully commercial operations", with objectives "no different from the main objective of private industry". [2] The late Denis *Munby* declared, in his evidence to the Select Committee on nationalized industries, that the head of London Transport was wrong in imagining that he had some sort of "social contract with Londoners", that this was irrelevant to, indeed stood in the way of efficiency, indeed "made no economic or social sense". [3] Note the profound difference between this and the Morrisonian (and the earlier municipal) concept of "custodians of the public interest". Yet Munby was an adviser to a Labour minister.

Let me try to summarize the underlying "philosophy" of the doctrine developed in the 'sixties. In the simple model of free competition, the market indicates the most efficient use of resources. It indicates it through profitability. Investment which is profitable, i.e. where the rate of return equals or exceeds the percentage represented by the chosen test rate of discount, ought to be undertaken, as this represents a valuation by the community of the activity in question, in relation to its time-preference. In principle,

those goods and services should be provided for which the customer is prepared to pay the full price. Conversely, if any action or investment promises less than this, and there are alternatives which are being foregone which are more profitable, this shows that resources are allocated inefficiently, unless the contrary can be clearly demonstrated, e.g. through cost-benefit analysis. If nationalized industries were exempted from these strictly economic tests of rationality, this must cause misallocation of resources, with too many of these going to nationalized industries as against the private sector, and too much devoted to economically undesirable purposes. The test rate of discount derived from the private sector should apply also to the nationalized industries, with some adjustment for the element of risk and monopolistic position. The management of nationalized industries should be told to aim at commercial success in these terms, though not at profit maximization, which would in any case be prevented by residual control over the general level of charges and prices. In general, marginal cost pricing, marginal revenue equalling marginal cost, was the appropriate guideline for efficient operation, except that where marginal cost pricing would lead to losses the undertaking could impose discriminatory charges, depending on what the market would bear, so as to eliminate or reduce the need for subsidy. Other limitations, previously imposed on privately owned public utilities, were to a considerable degree abandoned. Thus the railways were no longer compelled to be "common carriers", they were given freedom to discriminate. Competition was to be encouraged whenever possible, for instance between different modes of transport (replacing earlier ideas about transport coordination through a Transport Commission, to avoid "wasteful competition").

Of course, it was seen that there would be exceptions. In some instances competition was, of its nature, limited or impossible. The existence of externalities was not denied, and in these instances cost-benefit analysis was necessary, as indeed both *Foster* and *Beesley* recognized [4]. It was also appreciated that social considerations imposed constraints (e.g. letters still had to be delivered to remote islands) or justified a subsidy in special cases (say, for a transport service to a working-class housing estate, or to a naval base). But it would not be unfair to say that these were seen as, literally, exceptions to the general rule. The rule was presented as economic good sense, as against the imprecise wooliness of vague appeals to social objectives, which might be used to justify open-ended subsidies.

To anticipate subsequent analysis, the weaknesses in these doctrines may be grouped into the following categories:

a) confusion over the rate of discount
b) misplaced marginalism (pricing problems, system, purpose)
c) misunderstanding of monopoly theory
d) restricted view of investment criteria
e) externalities narrowly interpreted.

Involved in all or most of the above is another important distinction. Some of the criticism that follows relates to what I believe to be a misunderstanding of how private profit-making firms behave, under the impact of competition (not, of course, *perfect*

competition, which is a fantasy confined to textbooks). A different line of criticism relates to nationalized monopolies, partly because of their being nationalized (and presumably having some not-strictly commercial objectives) and partly because of the monopoly power they possess.

The criticisms affect different nationalized industries very unequally, for reasons already indicated earlier. Therefore the criticisms that will be made do not apply universally. One must look at the specific circumstances of each case.

The rate of discount

There is, in my view, considerable doubt as to the validity of the principle that the rate of discount should be the same for nationalized as for private activities. It may be argued that the principle *would* be valid in the familiar assumptions of perfect competition and perfect markets, and indeed it might well be valid even under textbook conditions of imperfect competition and less-than-perfect foresight: it would not matter greatly if competition was between (say) a dozen large firms with product differentiation, and the future was only partially known for in this situation the imperfections would be equally spread between the public and private sector, and this of itself would not call for different treatment between the two.

However, uncertainty plays a major role in Britain today, and it is not just a matter of imperfect micro-foresight. No one knows the rate of interest, the rate of inflation, the level of wage demands, indeed the stability of government by the end of the year – or indeed in just a few months' time. This greatly affects one's time-horizon and savings-investment behaviour. Private individuals and firms are discouraged by these circumstances, and the high rate of interest associated with them, from looking far ahead. They – quite rationally – seek security and short-term gains.

Of course the current rate of interest in an inflation-prone country is misleading: 20 per cent with an annual inflation rate of 20 per cent can be said to be a rate of zero (though its existence can cause acute cash flow problems). The recommended rate of 8 per cent or 10 per cent for British nationalized industries is in "real terms". My colleague Mr. *Gillender* has pointed out, in an as yet unpublished memorandum, that this is much too high, far higher than the *real* rate at which private enterprise raises its capital, far higher too than the real profits of private enterprise after allowance for inflation. But in any event, *why* should the state have the same time-horizon as private firms and individuals? Why is this a precondition for rational resource allocation outside of the textbook world?

Here we must again refer to distinctions made at the beginning of this paper. There is no reason why the Renault car firm, just because it is nationalized, should have different criteria from Volkswagen or British Leyland, even in the imperfect world of reality. But what of fuel, or transport? Suppose that President *Carter*'s advisers are correct, and a major fuel crisis is due at the end of the 'eighties? With interest rates at

their present level, what private firm or investor would find it worth his while to take action with the end of the 'eighties in mind? Is it really suggested that present prices, aided by the highly limited and imperfect futures market, take care of the problem? Or suppose that an investment project – say a tunnel – will last 100 or more years. At today's typical rates of discount, it is almost bound to be found unprofitable, even if the external economies were included in the calculation. Another British example is forestry: the (state) Forestry Commission requires an unimaginably high future value of trees to justify expenditure on afforestation today. The Dutch would never have reclaimed any land from the sea if their advisers had followed the doctrines of Turvey or Foster.

Those economists who advocate a universally applicable "test rate of discount" would certainly argue that it does provide an objective test, derived from the capital market, and that there is no firm or objective basis for any alternative. This, however, is an instance of a quite widely held and incorrect assumption: what is unquantifiable, or we cannot quantify, should be ignored.

What right have we, it may be asked, to decide for future generations? The unborn have no vote, but also no chosen preferences. The only anser to such objections is that it is at least equally logical to assert that, in electing a government, today's voters expect it to pay attention to their children's interests as well as their own. Indeed, in our own individual behaviour we do (in varying degrees) try to provide for our children. The sad aspect of today's inflation and uncertainty is that, as individuals, we do so in ways which are often of little *economic* value to society, e.g. by buying an old master painting, keeping an account in a Zurich bank or buying some real estate, which we hope will provide some material security for our own family's next generation.

So there are several different criticisms of the *principle* of the test rate of discount: that it has in fact been too high (by reference to the realities of the private sector), that the existing rate of interest is greatly influenced by inflationary uncertainties, and finally that the time-preference of government (as the custodian of the longer-term interests of the nation, including future generations) is legitimately to be seen as different to that of private firms and individuals.

A very different argument can be raised against the use of a common rate of discount for all sectors; this relates to planning priorities. It is this which has always stood in the way of adopting a generally-applicable investment criterion in the Soviet Union. Stalin wrote long ago that footwear is more profitable than steel, but steel is more important, so investments should go to steel by preference [5]. In actual Soviet fact, prices and profitabilities bear only a random relationship to scarcity, utility or need (as was the case in Britain in 1947), but in any case, the *state's* definition of need, or planners' preferences, should or would have prevailed. This is an issue familiar in many developing countries too. If there is a development plan involving structural change, the existing market situation is being deliberately altered, and in this context a rate of return (howsoever discounted) based upon the existing situation may be quite inappropriate. I will not pursue this matter further, since to do so would raise complex and not unfamiliar issues of choice of investment strategics (and the dangers of adopting wasteful and

unsound development plans). It is sufficient to stress that if the government has a specific policy, it will surely give it priority over others which, on a rate-of-return basis, might seem more "economic". The government's policies *may*, of course, be economically irrational. But is would be a bold economist indeed who, in the economic climate in which most of us live, would define a project as irrational if it is likely to generate a rate of return lower than the test discount-rate.

Linked with the above are two other points which will be taken up later: one is the logic of input-output, the other – the nature and inherent limitations of prices.

Misplaced marginalism

There is a substantial literature on marginal cost pricing, much of it summarized in the excellent article by Nancy *Ruggles.* [6] As already mentioned, the literature concentrates on the (undoubtedly important) issues of the welfare implications of marginal cost pricing, particularly where marginal cost is below average cost, and rationality of the resultant subsidy. Oddly enough, the literature does not explicitly link this method of pricing with the test rate of discount: a subsidy means a *negative* rate of return, a loss. If this is anticipated – and the literature implies that *any* public utility with high fixed costs would operate at a loss with marginal cost pricing – then surely the discount rate test will be failed from the start. *Hotelling,* in his classic article, dismissed this question: "the question of whether it was wise to build the Union Pacific Railroad is an interesting historical problem, but the attempt to solve it by charging rates high above marginal cost is too costly. . ." [7] Yes, let bygones be bygones, let us use existing capital to the full, but suppose the investors in Union Pacific had read Hotelling's theories and pondered their implications, would there have *been* a Union Pacific railroad! This is more than a historical problem, if we contemplate investments made now.

There is, admittedly, an important distinction to be made (and it is seldom made) between *ex ante* and *ex post.* But it makes little sense to advocate "commercial" criteria *and* a system of pricing which would virtually guarantee a loss – unless, that is, a substantial subsidy were part of the anticipated financial arrangement. (To take an extreme example of a kind *rightly* mentioned by Hotelling, a bridge: once it exists, the marginal cost per user is insignificant, therefore it may be sensible to charge no toll; the public authority builds and maintains it at zero price to the user).

The advocates of marginal cost pricing generally admit practical or accounting difficulties: thus identifying the cost may itself be costly, especially in detail. There are also definitional problems well discussed by W. A. *Lewis*: not just the difference between long-run and short-run marginal costs, but also escapable and inescapable costs, which affect the proportion of fixed costs or overheads which should be included, bearing in mind also the need for replacement or renewal. [8] This at once raises an issue seldom discussed: escapable by whom, at whose cost? One answer can be in terms of marginal *social* cost and benefit, thus taking care of external diseconomies. However, this, as we shall see, is much more complex than it sounds, in some nationalized industries, and cannot just be

"treated *ad hoc* as particular exceptions", to cite *Farrell* as an example of orthodoxy [9].

None of these problems, perplexing as they are, are examples of *misplaced* marginalism, they are rather practical problems of applying the theory. The objection which I am about to raise is of another kind: it is the *inherent ambiquity of "margins" in the context of systems* (and in an important sense *any* firm is a system, i.e. a bundle of related activities).

The theory which asserts that the marginal rule is essential for rational resource allocation rests on the assumption of separability, on the absence of indivisibilities and complementarities. Let me illustrate with examples from transport.

Let us begin with a "feeder" service: a connecting bus or branch rail line, taking passengers to a main-line station or an airport. Let us assume that its costs are known (ignoring for the present purpose the distinction between marginal and average costs); suppose that the revenues do not cover costs, or that the investment in providing this service will not pay for itself. Let us further assume that the branch rail line, or buses, are run by separate companies. The effect of providing or not providing these services upon the main-line railway or airline could be considered as an external economy or diseconomy. These are "marketable" externalities: that is to say, it may be worth-while for the "external" beneficiary to pay branch-line or bus firm to start (or not to abandon) the service, or indeed to use the firm concerned as a sub-contractor. So far it is simple common sense.

But suppose the branch rail line or bus are *part* of a nationalized transport undertaking. The payment now takes the form of cross-subsidization, which many regard as a form of misallocation. Current doctrine in Britain implies that *each* activity, *each* project, sould "pay", for that is evidence of a commercial approach. So one has a paradox. By internalizing what was previously a marketable externality one can interpose an obstacle in the way to the corect solution, the obstale being a misunderstood marginalism: everything should pay *as such,* apparently regardless of what I have called "internal economies". [10]

Another way of expressing the problem is as follows. Let us imagine any transport network, say a railway system in Britain or India. Let us arbitrarily assume that a standard charge per mile enables the system to break even. Imagine further that the system is administered as twenty separate lines. Then, *ceteris paribus,* ten lines will make a profit, ten lines a loss. Should the ten lines be closed on commercial grounds, or only kept open if the government, for social reasons, provides earmarked subsidies? A moment's thought will surely suffice to see that the logic of closing each line that does not "pay" would be to wreck the sytem. The formal reason for this would be that every line, if treated as if it were a separate economic unit, would generate externalities, in the form of effects on the revenue of other lines, which it is essential for the railway system to internalize if efficient decisions are to be taken. One cannot disregard, as some are inclined to do, the systemic indivisibilities.

Many economists use the marginal approach in such a way as to fragment, divide, separate the parts of the whole.

They insist that it is not enough to give some overall financial target to nationalized industries, and argue that each act or project be judged by whether it meets the criterion of profitability and/or the test discount rate. Some, it is true, are aware of the importance of the systemic element: thus one does find references to the cost to the system (e.g. the electricity grid) and the revenue of the system. It is not that anyone actually *denies* the validity of the point that has just been made. It is usually evaded. For example, Farrell, facing the problem of indivisibilities, dismisses it as follows: ". . . Most indivisibilities can be removed by averaging over time. Thus it is not a practicable proposition to see three quarters of a play and one quarter of a film a week; but three plays and one film per month present no difficulties". [11] But, three quarters of a rail line, of a bus connection to an airport, remain what they are even for years! (It it typical of many economists that they pick an example of indivisibilities in *consumption,* not production. One can go to four concerts instead of five, but cannot, even in the long run, play a quintet with four players). Denys Munby once argued that the most efficient way to run a railway is to try to disassemble it into parts, imagining each to be a separate firm.* [12] In other words, eliminate the *system* from the analysis! Yet, by generating a multitude of externalities, this would greatly upset marginal analysis.

One more example will suffice. Let us imagine a suburban rail or bus line, in which the marginal service under consideration is one that leaves town late in the evening for a suburb. It may well not pay, taken in isolation. However, suppose the users have cars, and any of them *might* have occasion to work late. Then the fear that they could not get home would encourage them to come by car and so reduce revenues at more profitable times. What, then, is the marginal revenue attributable to *this* train or bus? It cannot be analyzed in isolation. Yet the marginal analysis tends to isolate.

Indeed, must not a prior question be asked. *What sort of transport system is desired?* The question is indeed unanswerable without careful costings and consideration of alternatives. However, unless it is at least provisionally answered, marginal issues cannot be correctly viewed and resolved. Thus, unlike most British transport economists, who incline to the view that only those services be provided for which the customer is prepared to pay, I would assert that many beneficiaries from public transport do *not* use the services, or do so seldom. These are:

a) employers, whose workers can get to their work punctually,

b) any car owner who drives to work, and can complete his journey because many others do not congest the highway,

c) the owner of any shop to which customers come by public transport,

d) all one-car families, in respect of schoolchildren and wife/husband,

e) any car owner who cannot for any reason use his car.

If the local or national transport authority accepts the above arguments, they would accept the need for a subsidy. The size of subsidy would then be one determinant

*To be fair, Munby did draw attention to the 'systemic' problem in his introduction to *Transport economics* (Penguin readings), but it is not incorporated in the body of his analysis.

of the kind of transport service which (say) the given city can reasonably expect. *Within* this chosen pattern or strategy there are, of course, numerous marginal choices: what precise services should run, along which routes, how often, until what hour, what kind of services (subway, bus, elevated railway) and so on.

This leads one to an elementary generalization, so elementary that its omission from nearly all micro-economics textbooks is to me imcomprehensible. While *most* marginal decisions are in fact multi-level, multi-dimensional, they are usually presented one-dimensionally, as if each is directly related only to the market, that its profitability is considered in isolation. Yet, in private as well as in public business, this can be very misleading. A firm, or an individual, chooses a strategy, a goal, a purpose, which appears in general to be advantageous, profitable. Actions are then taken, or investments made, which appear to be required *in that context,* but which might make very little sense if viewed as a *separate* "project" or action.

Firms frequently undertake some activities which make sense because related to the principal chosen role or strategy, not because they are profitable as such. Examples are not lacking: having chosen to advertise in such terms as "open always", "anywhere at any time", "repairs guaranteed within 24 hours", the firm will then be involved in some activities which, but for this strategy, would not pay as such. (It may choose, of course, to alter the strategy, but that is not a marginal decision in the conventional sense, or relates to higher levels of marginality).

This brings one to another important matter, which typical "myopic marginalists" find convenient to ignore: this is *goodwill.* As all business men know, this is valuable, it enables one to acquire and hold customers, it can be sold, and it is *costly* to acquire. It means that activity A, well or badly undertaken, reacts upon revenues arising from activities B, C and D conducted by the same firm. This is a powerful spur to service and quality, and, again, causes actions to be undertaken that might not pay *as such.* But what is the rationale of goodwill under monopoly, if a customer cannot go elsewhere?

Some economists seem unable to grasp these points because they see single-product, single-process firms, rather than the commonly-encountered reality.

Monopoly theory and its shortcomings

Note that under competitive conditions private firms, subject always to the good-will considerations mentioned above, can pick and choose their role. Others can always come in to undertake whatever this particular firm decides to leave alone. (Thus *some* garages are open on Sundays, others are not). However, if one is a nationalized *monopoly,* no one else is *allowed* to enter your "territory". In this case, duty and purpose must be imposed upon management, it cannot be left to its own judgement, for what it omits to do might not be done at all.

Hence the importance of defining *duties.* Some "public enterprise" economists have been tempted into the oversimplification that, within their sphere, the nationalized

monopoly should be left free to "act commercially", either maximizing profits (which go to the state) or achieving some defined financial target. Where the public or more general interest conflicts with the aim of acting commercially, such economists would certainly recognize the need to subsidize specific activities, or to introduce certain constraints or even duties, but these are seen as exceptions to the general rule of leaving management free to act commercially, "as though they were private corporations in the public utility field used to be subject to a considerable degree of detailed regulation).

The advantages sought are the achievement of clear standards by which to judge efficiency, and as near as possible an unambiguous criterion for management. The disadvantages arise from a common error in applying the theory of monopoly, which usually confines itself to the two variables of quantity and price. We shall be discussing price control later. Now it is sufficient to stress the existence of other dimensions, which arise from the complexity in real life of *defining a product or service.*

Thus many products or services are provided in different varieties: at different times, in shapes, sizes or routes, any of which can be abandoned.

There are wide varieties in *quality*: thus razor blades can be sharp or less sharp, cloth may or may not be shrinkproof or colour-fast, repairs may or may not be available at weekends, food may be edible or less edible, trains may or may not be punctual, after-sales service may be prompt or dilatory, customers may have to stand in line, or have difficulty in obtaining information. Let us assume (as is reasonable and realistic) that it costs less to omit to do these things, or do them badly, than to do them well. Recall again that goodwill has little value to a monopoly. It then follows that there is a negative correlation between "commercial" results and good quality.

This is one of the lessons to be drawn also from East European experience: unless constrained by imposed standards and duties, or unless inspired by some ideal of service to the public, it very frequently "pays" to treat expenditure to achieve quality of good or service as an avoidable expenditure. It "pays" to pass on the inconvenience or expense to the customer. Let us take two examples at random. Why *should* razor blades be honed to great sharpness, when blunter blades cost less to produce, men will buy them more often, and there is no alternative source of supply? Or why, if the state owns all shops, should it not have a line of customers waiting? It minimizes costs, maximizes "productivity" per shop assistant, increases profits with given retailers' margins. The loss of women's time standing and waiting does not show up in the profit-and-loss account.

The short-term marginal gain would be wiped out by the longer-term effect, under competition, through loss of goodwill. But monopoly engenders a take-it-or-leave-it attitude, which is not what is commonly meant by "commercial". It ill behoves economists to imply that this is an economically rational way for firms to behave, nationalized or private.

A British economist, P. D. *Henderson,* has shown a healthy understanding of these matters. He realizes that "it is not the case that the motive of acting in accordance with commercial criteria is both unambiguous and necessarily acceptable to large private firms." [13]

This brings one to the general issue of price control. Presumably most economists would agree that monopoly power over prices, where it exists, must be limited: otherwise it would be tempting to increase profits through price increases. This point must be borne in mind in the discussion of investment criteria, which will follow. It is also widely agreed that detailed controls are unnecessary where there is competition (or no more necessary for nationalized than for private concerns). Price policy for nationalized industries in Britain has undergone a series of change. Thus in the years 1970–73 the nationalized industries' prices were virtually frozen, and the result was that losses mounted, even in some previously profitable activities such as electricity supply and postal services. A sharp change in policy coincided with the conversion of the government to the view that prices should be such as to enable the industries to make sufficient profits to finance a large proportion of the needed investments, or in the case of the railways to reduce subsidies substantially. And so prices of nationalized industries rose particularly rapidly in the early seventies. For example: the prices of fuel, public transportation and postal services in the period 1974–75 more than doubled, increasing much more rapidly than the overall price index. However, price control, however loosely exercised, remained.

One other aspect of (relative) monopoly should be mentioned. It derives from the fact that a nationalized corporation may be subjected to effective competition for *part* of its activities: say there is a train from X to Y and an airline also from X to Y, but from B to C there is only a train. Or from X to Y there is a superhighway, while from B to C the narrow twisting road gives the train a big time-advantage over a bus. Assume the distances are identical. Is it proper to permit, indeed to encourage, the management to charge, say, 40 per cent more per mile from B to C than from X to Y, i.e. deliberately to exploit monopoly power in a manner which was specifically barred to the private railway companies, and is indeed quite contrary to the practice of French, German and most other nationalized railways? The current British doctrine seems to be: yes, it *is* proper. Yet is it?

If, in the name of "commercialism", a nationalized corporation adopts price policies which private corporations would usually neither wish nor be allowed to adopt, there is surely something wrong with the underlying doctrine. In my view, what has happened is that the pendulum has swung too far away from the original (admittedly woolly and ill-defined) concept of public service.

Nationalization has been advocated in the name of coordination and the elimination of "wasteful competition". It does indeed have advantages in these fields, but they have too often been ignored in practice. Two kinds of situations should be distinguished. One is coordination in the sense of ensuring consistent or complementary behaviour by two or more nationalized corporations, which would otherwise frustrate each others' purposes and cause waste. One example is well known to me personally. The Scottish islands attract subsidies (agriculture, small-scale industry, electrification) designed to encourage economic activity and prevent depopulation. This expenditure is, however, largely nullified because of the high transport charges levied by another nationalized

undertaking. This is an instance of lack of coordination of policy, a matter ultimately of government responsibility, since it relates to the efficient use of subsidies.

A second and very different aspect of coordination brings in the question of "wasteful competition". I may have appeared to be arguing *for* virtues of competition, but only insofar as competition is preferable to a strictly "commercial" monopoly. There are in fact instances where a public service monopoly is the rational solution, in terms of cost saving and even in consumer choice. This can arise when fixed costs and indivisibilities figure largely' thus a transport service might be highly uneconomic if probided by both bus and rail, and it may be best to let the local inhabitants choose which they prefer. If a rail link is to be maintained, then there is much saving, in terms of costs per passenger mile, if trains are well filled. This is the normal procedure in Europe, *except* Britain: there are usually no long-distance buses parallel to rail routes. The alternative (elimination of the rail route) has been the practice in the United States, except in the few areas (e.g. Washington, Philadelphia, New York) where traffic is dense enough to support several modes of public transport. It is also worth mentioning an even better example where consumer choice is actually increased if there is a monopoly: three television programmes run by one corporation are bound to offer a wider range of programmes than three competing companies.

Another aspect of conscious coordination is *connecting* services. Thus (say) in Germany the buses are run by the railways, and connect with trains. In Britain, the buses are *separate* (though usually nationalized) undertakings, and their failure to link up with trains or ships is proverbial. There is a moral about the advantages of common management for complementary activities. Indeed, a reason why firms are big is precisely in order to achieve organizational economies of scale. Another way of achieving the same objective is to sub-contract, or to let a franchise. In these instances, a principal determines what needs to be done and another organization or firm does it, subject to instructions and specifications from the principal.

Another look at externalities

Every British (and non-British) economist agrees that externalities must be taken into account. Two studies are often quoted which do, indeed, through cost-benefit analysis, try to incorporate them into investment appraisal. One is the Victoria underground line in London. The other is the Channel tunnel project. In both cases, only a limited amount of new traffic and new revenue would be generated. The main advantages accrue to the customers, the users, in terms of time, convenience, cost, with very sizeable backward and forward linkages as well in the case of the tunnel. Here at least it was and is clearly understood that a straight "commercial" calculation made by transport undertakings was bound to lead to negative conclusions, and that these other matters had to be included.

However, many economists, e.g. *Turvey* [14], *Beesley* [15] tend to limit the operational significance of externalities. Social benefit is held to equal customer's

willingness to pay for this specific output, unless the contrary arguments are strong, in exceptional cases. In criticising this approach, the Irish transport economist *Metcalf* rightly points to the damage which could be done to public transport by ignoring unquantified costs and benefits, wihich do in fact matter to governments, a situation which creates a wide gap between what economists advise and what governments actually allow to happen, in transport economics especially [16].

One cause of confusion is a narrow definition of *economic* externalities and the exclusion of what is supposed to be *"non-economic"*.

Thus in *Farrell's* contribution to the Turvey symposium, he begins by excluding from consideration "unexploited external economies in an industry", as these do not relate to public utility monopolies [17]. Thereby he eliminates at a blow what I have called "internal economies", i.e. those which are external to all partial calculations *within* a large public corporation. One is reminded of Stalin's claim that Soviet decisions are taken in terms of national-economic advantage, since there is one owner, in a sense one super-firms, USSR Ltd. Yet Soviet economic experience, as well as common sense, teaches ut that common ownership is fully consistent with a mass of externalities – defining externalities as matters external to those involved in the decision. It is obvious, surely, that what appears advantageous depends in some degree upon the area of responsibility of the decision-maker. If he is the head of a *branch* of a nationalized (or private) industry, in the USSR or anywhere else, then effects external to that branch are external to him. It is the task of business organization experts so to set up the hierarchy of the organization that matters important enough to require central attention (to avoid "internal diseconomies") are referred to the centre, but not in such a volume as to overwhelm (and excessively bureaucratise) the central apparatus. Not an easy task in practice, in any system.

As for other externalities, Farrell disposes of them by treating them "as particular exceptions to the public utility rule". Of course, some objections to the orthodox "marginal" rules exist, but "several of the objections consisted merely in 'possible' exceptions which were likely to occur, if at all, so rarely that they could conveniently be dealt with *ad hoc*". [18]

In the same volume, Henderson takes them much more seriously, and so does *Shepherd,* who points out, as a matter of course, that "the economic and social costs of a particular decision may greatly exceed the plant's own incremental profit in taking that decision ... Such divergencies may be prominent in industries undergoing basic transitions and technical change", [19] (or, of course, it could be the other way round). Shepherd makes this point specifically in the context of opposing the essentially naive but widespread belief that cross-subsidization is economically irrational. Henderson warns against the belief that "non-efficiency benefits that may arise from public investment are rarely significant ...", so that one can use "a convention which treats them as non-existent". He also rightly added: "A common weakness in British administration is to treat issues of policy as one-dimensional, so that a given question is labelled from the outset as either political or economic. This not only fails to recognize that multiplicity of

objectives is almost always present, but means that no attempt is made to establish trade-off ratios between them. This way of thinking is often associated with a bad linguistic practice by which the term 'economic' is used as a synonym for cheaper, more profitable, or simply more desirable. [20] "Non-efficiency" benefits include amenity, beauty, effects on income distribution, and so on.

It is worth returning to Shepherd's remark about technical change, not only because new techniques may well need subsidizing (or cross-subsidizing) until they are mastered, but above all because their external effects may far transcend the incremental analysis typical of so much writing on this subject. Take two historical examples: the emergence of refrigeration transformed the economies of Argentina, Australia and New Zealand, to an extent which obviously far exceeded anything which showed up in the profit-and-loss accounts of the shipping lines or refrigeration manufacturers. The building of the Union Pacific Railroad likewise transformed the areas through which it ran, provided vast new opportunities, and, incidentally, provided large profits for the railroad in the form of rising land values; would the purists of today call this "cross-subsidization", because for many years the railroad's operations qua railroad were loss-making?

Before going on to investment criteria, it is important to draw attention to one last point: *whose task* is it to take such matters as these into account? One school of thought emphasises that management's job is to be commercial, the state will best know what external or social considerations to take into account, and can embody them in specific instructions, contraints, and, where necessary, subsidies. Others, including Henderson, point out that often it is the management who will best know what alternatives exist, that constraints and objectives (as *Dorfman* also pointed out) are difficult to distinguish, that objectives may conflict, that efficiency can mean the most efficient way of attaining objectives which are themselves (as are constraints) subject to constant review in changing circumstances. True, evidence from British experience also shows that public enterprises can be wrong in their judgement as to what constitutes the national interest or external economies. But, as Henderson stresses, it would be foolish indeed to instruct managers to disregard such matters and concentrate only on profits [21]. Even more foolish would such instructions be to their subordinates, who may be (usually are) aware what constitutes quality and good service, but will not be in a position to calculate the net marginal profitability of their acts or omissions.

British experience has also shown that bureaucratic delays and expense are caused by having to refer even medium-scale investment projects to government departments for approval. Time and staff are saved if, subject to set limits and general rules, management could be left freer to decide.

Investment criteria

Conventional treatment of investment criteria presents each decision as if it were isolated, a special case of that one-dimensional marginalism analyzed earlier: does *this* project pass the test? Both British and Soviet experience prove that this can, in certain cases, lead to perverse results.

Let me cite first the Soviet experience, in relation to a regional oil-based development complex in West Siberia. Roughly ten economic ministries, several dozen nationalized enterprises, are involved in this major investment: drilling, oil-pipe laying, refining, a petrochemical plant, road and rail building, housing, electricity, are among the activities involved, all essential for the success of the project, each of them presenting to the investment planners a series of alternatives (what technique, what route, which machines, what kind of houses, what diameter of pipeline, etc. etc. etc.). "Marginal" decisions in plenty. But they make sense only in the context of the project, i.e. they are of their nature *multi-level, hierarchical* in character. It makes no sense to say that of these pay *as such.* When, in the early days of the project, each of the Soviet ministries concerned pursued its own success criteria, the result was confusion, since each ministry had other priority projects too, which in some instances "paid" better by the criteria applicable to the ministeries concerned. It is wrong to "blame" the inadequacies of Soviet prices for this outcome. No set of prices could guarantee complementary operations in the technically and economically necessary sequence. These things are everywhere handled (in Alaska as well as Siberia) by administration rather than the conventional market, either directly through subordinates or by using subcontractors.

So one important moral is: that many (not all, but many) investment decisions are part of some larger project and are complementary to a wider set of activities, and so it may be misleading to consider the rate of return or DCF applicable to them in isolation.

In British experience this became particularly clear in the case of electricity. We have a unified national grid. Consequently "it is not possible, or indeed conceptually meaningful within a large interconnected system to estimate the net revenue derived from individual power stations". One is compelled to think in terms of "whole-system" revenues and costs [22]. It is unfortunate that so many economists find it more difficult to think in terms of systems when they consider, for instance, transport. To repeat, this in *no* way exempts the analyst from the task of finding the most efficient, least-cost means of obtaining a given result. But note that the question to be answered is not *whether* but *how,* the best *means* to a given *end.*

Electricity can serve as the illustration of the next, related point: that of the role of an input-output type approach. On what basis does a major decision on the creation of future capacity depend? Clearly, in this instance, on an analysis of future demand, which is derived from an analysis of the growth of electricity-using industries, domestic appliances, etc. True, these are to a degree a function of price, and of developments in other fuel industries where these compete. But it remains the case that, to quote Berrie again, "a decision whether to build generating stations at all, or not, is not a meaningful one", by which he means that choices are made after a *prior* decision to build [23]. Present prices are clearly not a guide to investments which will be completed six or seven years later, even if prices were freely determined. Since, however, they are subject to price control, they are doubly "disqualified". The shadow prices of 1984 are not known. The best estimate of demand in 1984 is in fact used, in Britain, France and the USSR alike, as the basis of investment in electricity generating capacity.

Is not the same argument applicable to other products, or at least to basic materials and fuels? Surely to some extent it must be. There is an abvious difference between one firm among many firms producing a given commodity, deciding whether to invest, and a corporation responsible for the entire output of that commodity. The former can base its decision on an estimate of its competitive position, within a total demand that may or may not rise. If, however, we are considering the entire output of some commodity, an estimate of total use at a future date becomes decisive. So an input-output type of analysis can be of evident importance, with the expected financial results a derivative: that is to say, if the quantitative estimates prove correct, so will the financial expectations. Errors, when they occur, will usually be traced to an incorrect quantitative estimate, not to faults in existing prices, or to a failure to choose the correct appraisal technique (e.g. discounted cash flow instead of internal rates of return). A recent British example of error is the overexpansion of electricity generating capacity, in anticipation of a higher level of industrial activity than in fact.

Of course price changes, real or anticipated, can and should play a most important role. One has only to consider oil in and after 1973, (and indeed large investments were made by private firms in North Sea oil at a time when prices were still low, so low that there would have been a loss). It is not my intention to "denigrate" the price mechanism. However, as János *Kornai,* the Hungarian economist, has argued, no one in his sense takes decisions based on price information only.*

Uncertainty is always involved in investment decisions, because, as *Loasby* has pointed out, if there is choice there *must* be some degree of ignorance about other individuals' choices: certainty excludes choice [25] In his contribution, P. D. Henderson correctly noted the unreal nature of perfect foresight, and the almost equally unreal "pure actuarial risk", a concept more suitable for card-playing than economics. The most usual situation is one in which *some* information is available, but it is incomplete; and, despite necessary efforts to reduce the area of ignorance, there must still be many doubts. Henderson points to the need, where risk is considerable, to "hedge" and or to adopt flexible or adaptable solutions. L. V. *Kantorovich,* in a lecture in Glasgow (we awarded him an honorary doctorate in 1966) made the point as follows: we do not know what will be the shape of women's fashions in five years' time; therefore the clothing industry should invest as far as possible in multi-purpose machinery.

Finally, there is the question of general economic strategy, which is, of course, the responsibility of government, and not of any one nationalized industry. The strategy may concern industrial development, income distribution, the correcting of regional imbalance, concern for some backward nationality or tribe, support for agriculture, urban renewal or whatever. Investment criteria then have the function of finding the least wasteful way of achieving the desired result, and also perhaps of pointing to non-feasibilities in planned objectives. There will not only be a mixture of economic and non-economic aims, there will also be several sets of aims, possibly inconsistent, being

* See his very stimulating [24].

pursued simultaneously. All government, including even the Soviet government and party, is in a fact a species of coalition of interests, and various groups, the nationalized industries themselves among them, will be seeking support for their pet investment projects. If an economic calculation provides insufficient justification, they are bound to advance arguments about social benefit and externalities which could be mistaken or exaggerated. As Henderson rightly reminds us, "it is quite possible for two estimates of the opportunity-cost of a project, arrived at independently by disinterested and well-informed observers, to differ by a factor of two or more . . . Such estimates are usually made by people who are far from disinterested". [26] Information, especially about investment projects, is seldom pure.

Obviously one must seek precision, take care to challenge woolly rhetoric about the common good, insist on efficiency criteria. But one must do so while realizing that precise measuring-rods will usually be absent, that exact or even approximately reliable information about relative rates of economic (or social) return is the exception, not the rule.

Conclusion

Sectors are usually nationalized in the expectation that certain objectives will be more expeditiously attained thereby. It is therefore not necessarily an acceptable criterion for a nationalized industry that it should behave as much as possible as if it were a private firm. Yet that is the substance of some of the criteria that have been proposed.

But, true enough, rules and criteria must be devised, and, as Farrell rightly stresses, generalizations "naturally do not hold with logical certainty", and it is pointless to test policy rules against "the purely theoretical criterion of whether they give optimal results" [27]. My quarrel with Farrel is not that his marginal rules are imperfect, since, as he says, any rule must be. It is that, in too many cases, the marginalist approach he espouses positively encourages myopia.

If I may summarize some key elements in the lessons I would draw from British (and to some extent also Soviet) experience in this whole area:

1. The naive marginalism of the textbook is based on a set of highly restrictive assumptions. In the real world, the activities of private firms, and the marginal decisions which they take, are hierarchical and multi-dimensional. Cross-subsidization is common, and *not* necessarily irrational.

2. Competition compels the private firm, in the interests of goodwill, to satisfy the customer in ways which, but for competition, would be regarded as unprofitable. Micro-decisions are taken in the context of strategies, not in isolation.

3. It therefore follows that there is much imprecision and ambiguity in the view that nationalized industries should "behave commercially", because of unclarity as to how commercial private enterprises in fact behave.

4. If the nationalized industry has some monopoly power, its misuse will often appear to be "commercially" justified, escapable expenditure will be escaped, in the sense of being passed to the consumer.

5. Criteria of efficiency cannot be detached from purpose, objective, duty. These are particularly vital where monopoly exists.

6. Externalities are too important to be treated as exceptions, certainly in such sectors as transport or postal services, which so greatly affect both the efficiency of industry and the mobility and convenience of the public in ways which do not show up in the profit-and-loss account. One should also not overlook "internalities", arising out of complementarities of various kinds within large organizations.

7. As for investment criteria, a test rate of discount or the calculated DCF will seldom provide the needed answers, for many reasons scattered over the preceding pages. Uncertainty and imperfect information are the rule, investment decisions are frequently *within* a system, project or sequence, quantitative (input-output) estimates are often the essential part of the calculation.

Efficiency criteria, it must again be emphasized, depend very greatly on the circumstances of the case, and generalizations can be dangerously misleading. One may be considering only the relative cost of possible alternative ways of achieving a given objective (which could be building a hospital, providing meals on aircraft, generating 20 per cent more electricity or doubling the output of nitrogenous fertilizer). Clearly, other things being equal, one wishes to achieve given objectives efficiently, i.e. with a minimum expenditure of resources (though this may have to be modified in the light of regional policy or other political considerations). It may be asked *why* these objectives and not others? In some cases the answer may be that the state has made a choice on behalf of society (e.g. to build hospitals) which was not based on economic calculation at all. In other instances the decision is a consequential necessity (on long journeys by air food must be provided in some way). In still others it is consequential in an input-output sense (electricity). The decision to develop a fertilizer industry could be part of a development plan, which may or may not be sound, but the decision would be taken as given in choosing the most efficient alternative. Much of Soviet literature on investment criteria deals with problems of these kinds, comparing, say, a technique which could save on operating costs but would require larger investments with one which needs fewer investments but would have higher operating costs. A familiar example is thermal versus hydro electricity generation. The chosen rate of discount plays an important role here, but it must be emphasized that the rate of discount does not determine *whether* the electric power should be provided, but affects the choice of *means*.

Evidently such decisions, and the criteria applicable to them, must be distinguished from those which concern *whether* some action be taken or investment made. It is only to this second kind of decision to which one can apply "across-the-board" criteria. This too has been much discussed in the Soviet Union, with several prominent economists insisting that one must have a universal "cut-off" rate of discount and take into account opportunities foregone in all and any sectors of the economy. This, once again, is subject to general political or strategic considerations, and to the condition that the appropriate prices are used (these may be duals of a computerized "optimization" plan-programme). Here too one must be conscious of the big role of uncertainty, and the problems posed by

the effect of monopoly on the behaviour of a management instructed to utilize commercial criteria. To repeat, a nationalized car or cigarette factory, in a competitive environment, requires no criteria different from those that would apply to private enterpreneurs in the same situation, and their managements should be allowed to get on with their essentially commercial job. Whereas a public utility requires careful regulation even if it is privately owned of defining efficiency criteria when it is nationalized.

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КРИТЕРИИ ЭКОНОМИЧЕСКОЙ ЭФФЕКТИВНОСТИ В НАЦИОНАЛИЗИРОВАННОЙ ПРОМЫШЛЕННОСТИ: НЕКОТОРЫЕ ЗАМЕЧАНИЯ НА ОСНОВЕ ОПЫТА ВЕЛИКОБРИТАНИИ

А. НОУВ

Национализированная промышленность в Великобритании строила свою деятельность на основе принципа общественной услуги, при ценах покрывающих издержки. Позднее, как при правительствах лейбористов, так и при правительствах консерваторов сложилась тенденция к подчеркиванию коммерческих критериев, сходных с предполагаемыми критериями функционирования частных предприятий, и к применению традиционного микроэкономического анализа. Однако там, где конкуренция слаба и существуют элементы монополии, коммерческие критерии могут дезориентировать, особенно если не учитываются цели, ради которых действует национализированная промышленность. Измерение экономической эффективности, наверняка, следует связывать с целью. Конкуренция может вынудить повышение качества и улучшение учета потребностей потребителей; при монополии же коммерческую выгоду можно получить в ущерб потребителю. Одномерный маргинализм также применялся неправильно, что приводил к искаженным результатам, если рассматриваются системы со сложными взаимосвязями, например, транспорт или электроэнергетика. Инвестиционные критерии также имеют многосложную и иерархическую природу, например, в отношении программ капиталовложений в добычу нефти, будь то в Сибири, на Аляске или в Северном море. Традиционный анализ также имеет тенденцию в принижению значения внешней экономичности и неэкономичности и к игнорированию важности организационной структуры. Оценка предполагаемой степени рентабельности в всяких организациях зависит от широты ответственности лица (или органа), принимающего решение. Следует подчеркнуть, что горизонты времени государства, несущего ответственность перед будущими поколениями, могут отличаться от временных горизонтов частных фирм и индивидуумов, и это должно также влиять и на сопоставимость инвестиционных критериев в государственном и частном секторе. Следует также принять во внимание, последствия контроля над ценами, естественно, затрагивающего как настоящую, так и будущую рентабельность. Инвестиционные критерии не могут оставлять вне внимания логику затрат-выпуска прошлых решений и пропозируемых будущих потребностей, а также предпочтения государственного планирования.

Следует иметь в виду, что одновременное достижение эффективности хозяйственной деятельности и экономики расходов, а также обеспечения качества и удовлетворения сталкивается трудностями. Отнюдь не легко изобрести механизм, выявляющий и реализующий обший интерес, особенно потому, что обычно одновременно преследуется несколько целей. Немало таких проблем существует как в капиталистическом, так и в социалистическом обществах.

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INTEGRATION INTO WORLD ECONOMY AND DIRECTION OF ECONOMIC DEVELOPMENT IN HUNGARY

The foreign economic environment of the CMEA countries is different from what it used to be a couple of years ago mainly because they themselves participate in the international division of labour more actively than before. The stormy world economic changes of the recent years, foremost among them the change in the price proportions of finished products and fuels and raw materials, have affected a number of socialist countries' economic situation disadvantageously.

A few years ago there were only a few to assert that processes taking place in the western world economy might have a negative influence on the economic development of socialist countries. It was not generally recognized that the world economic environment had any effect at all on socialist countries.

The change in our ideas is most convincingly demonstrated by the fact that this view has been almost entirely forgotten. In most CMEA countries there is probably no one who would challenge today that the situation of the capitalist world economy has an influence – and a strong one – on their development. This changed economic reasoning requires that the situation and development potentials of the Hungarian economy should be examined also within the context of the world economy.

World economic changes and efficient economy

It has been said many times that today's economic difficulties, and most of the imbalances may be traced back to the changes in world economy in recent years. The oil crisis, and the subsequent raw material price explosion, then the Western recession of 1974–75 accompanied by galloping inflation, and later the still uncertain market tendencies, as well as the system of floating rates of exchange which has become general, have undoubtedly rendered economic conditions more complicated than they had been before. Without a consideration of these factors domestic and foreign economic developments of CMEA countries could not be investigated at all.

Nor is it possible to explain development difficulties and economic tensions *exclusively* by the above-metioned changes in world economy, i.e. by external, "objective" factors. This simplifying approach to be met here and there may not only suggest mistaken conclusions, but is wrong as well. The unexpected and stormy developments of the years 1973 to 1975 appeared, *at that time,* to some – mostly to the small – socialist countries undoubtedly as external factors, not to be influenced by them.

The changes (first of all those in world market price proportions) indeed exposed several CMEA countries to strong trials, but they did not and do not explain the course of economic development nor its actual problems.

Why have the terms of trade with capitalist countries deteriorated?

On examining the trade of CMEA countries with capitalist countries it immediately strikes the eye that primary tendencies cannot be traced back unambiguously to the effects of changes in world economy; the balance of trade position cannot be explained in all cases by a disadvantageous development in the terms of trade.

On the one hand, world economic changes have affected these countries in a very different way. Not even all of them were adversely affected by the world market price changes of recent years: the terms of trade of Poland with Western countries improved by 23 per cent between 1970 and 1975 [1]. And the Soviet Union – in whose total exports to advanced capitalist countries oil alone amounted to 42 per cent in 1974, and to 52 per cent in 1976 [2] – was particularly favourably affected by the oil price explosion. These two raw material exporting countries suffered less also from the Western recession than the countries in whose exports to the West finished products have a greater weight: the German Democratic Republic, Czechoslovakia, and Hungary. The terms of trade of the latter have deteriorated.

On the other side, even the deteriorating terms of trade have not always been the consequences of the world market price explosion alone, but – as it is sometimes shyly formulated – also of "specific factors". In the CMEA countries' imports from outside the region there are machines, materials, as well as foodstuffs. But, in the exports even of expressly raw material exporting CMEA countries materials (mineral oil products, chemicals, iron and steel, etc.) have an important weight beside finished goods and foodstuffs. That is, the commodity pattern of trade in itself – particularly if investigated in such large aggregates – is not the cause of the deterioration in the terms of trade, at least it provides no explanation for its *measure.*

The terms of trade of Hungary with countries whose trade is accounted in convertible currencies deteriorated only to a small extent in 1973, but in 1974 they deteriorated by 15 per cent, and in 1975 by another 7 per cent. After the improvement in 1976 the terms of trade index was only 83 per cent of that in 1970. All that is only partly explained by the large volume of materials imported, since Hungary has also large exports of materials: in 1972, i.e. the year before the price explosion, the ratio of material exports (incl. foodstuffs and materials for the food industry) in the total exports to countries with convertible currencies was only three percentage points behind the import ratio [3] of similar products. True, in Hungarian exports the ratio of agricultural products is much higher than in her imports. But that is no explanation in itself, either. In general, namely, the world market price level of agricultural products also rose faster than that of industrial finished products, although it was lagging behind the

rise in prices of primary energy. The latter damaged considerably only the terms of trade within the CMEA, because in imports from non-socialist countries this group of products had only a 2–3 per cent share between 1972–1975.

The trouble lies elsewhere: in the trade with non-socialist countries import prices rose faster than export prices *in each group of products*. In 1975 i.e., when terms of trade with non-socialist countries were the worst, machine import prices surpassed those of 1972 by about 39 per cent, while machine export prices by approximately 7 per cent only*. As against an average 64 per cent rise in import prices of raw materials and semi-finished products, export prices in the same group of products rose only by 49 per cent; food import prices increased by 84 per cent, while food export prices by 14 per cent; import prices of industrial consumer articles rose by 26 per cent, while export prices only by 23 per cent [4].

Investigation of the causes of deterioration in the terms of trade leads us, therefore, quickly to the recognition that the real reasons will be revealed if we examine, *what* materials, *what* finished products, and *what* foodstuffs we are exporting – and why we could not raise export prices to the same extent as import prices were raised. We have to search in the same direction also if we seek answer to the question why our exports were particularly hard hit by the 1974–75 recession of the world economy, and by the slow and uncertain revival lasting since. As a matter of fact, the world economic changes brought to the surface the problems of the economy: sharpening and aggravating tensions that had been there earlier, but were less perceived.

In other words: difficulties of national economic equlibrium that were graver in 1975–76 not only in Hungary but in several other socialist countries as well, may be at some places attributed *directly* to deteriorating terms of trade. Nevertheless, what seems to be an undeniable fact in first approximation remains but a partial truth in the course of further analysis, and might be formulated somewhat more exactly in the following way: world market changes appeared as external conditions that could not be influenced only with the given economic structure, with the given level of technological development, with the given mechanism of economic management, with the given economic policy attitude, and with the generally known problems of efficiency. As an economist analyzing Hungarian economy put it: "The new terms of trade demonstrate much more clearly than before that in numerous fields of production the productivity level is low by international comparison, the structure of production is characterized by a rather high ratio of less up-to-date and less profitable products, in the selling prices of which the many times increased costs of imported raw materials and primary energy are not or hardly returned." [5]

Otherwise, changes in world market prices hit the terms of trade of capitalist countries more or less hard depending not only on the degree of their self-sufficiency in energy (or in raw materials) either. Their economic structure, the development level of

*The representation of machine exports and imports is very low, thus data on changes in their prices are also only of approximate value.

their exporting sector, and their ability to react dynamically on the changed situation largely influenced the extent of deterioration in the terms of trade. The terms of trade index of the Federal Republic of Germany was 91 in 1974 on a 1972 basis, even though she covers 55 per cent of her energy needs from imports, while that of France was 88, and that of Britain and Italy 75. [6] That is, the price explosion had a differentiating effect: it showed more clearly than before, which country had a strong economy, and which had a weaker one, and which country was capable of a comparatively fast adaptation to the changed price relations.

Can we improve the terms of trade?

Before answering the question, let us have a look at world market price relations. The radical resettlement of world market price proportions in favour of raw materials – first of all primary energy – took place in 1973 and 1974. The gap between prices of finished products and of raw materials narrowed already in 1975 and 1976, and the rise in finished product prices even surpassed that of fuels. From the world market price trends of the last period, the actual saturation of the oil market, and the energy policy efforts of advanced western countries two conclusions may be drawn: the comparatively high raw material (mainly oil) prices as opposed to those of finished products will probably remain, but nothing indicates that raw material prices should rise faster in the future than finished product prices – either in the short or in the long run.

When there is no radical rearrangement of world market price relations, in the shaping of the terms of trade even of a small country, with a modest share in world trade, the role of "local" factors is growing, of factors which it can influence and which are directly dependent on it: i.e. economic and, concretely, foreign trade performance. Even if in the years of radical rearrangement the view had a relative justification that the unfavourable turn in world market price trends was just bad luck, now *it has become a daily economic policy task to influence the terms of trade with instruments of home and foreign economic policy.*

While it was still not known, whether the new world market price relations are temporary or permanent, and while consequences and tasks had no definite outlines, it could be justified to guarantee the stability of growth in a way that enterprises and the population should not feel the pressure exerted by changes on the world market. But this could be achieved – as was shown by the year 1974 in Hungary – only through an almost Ft 40 billion deterioration in the foreign economy balance reflecting the general situation of the national economy. It has also turned out that, if the state budget shoulders the consequences of a deteriorating foreign economic situation, this will disorientate* the

*Relying on the experiences of 1974 it was justified to call attention to this fact already in the following year: "If we do not increase the prices of products that can be bought only at higher prices on the world market, this will have by all means disadvantageous economic effects. Namely, the user or

economic organisations. This is because burdens are carried in reality not by the budget, but through it by the whole national economy, and tensions – if they are not temporary – are not eased but intensified by a separation of the foreign from the home economy. Though their effect is felt later, but then the stronger, since imbalances have grown permanent in the meantime.

That is why the approach is correct in which improvement of the terms of trade is not considered as a task of the distant future, not even if in the short run the quantitative increase of traditional, mostly "soft" exports often seems to be the most obvious and, with the given conditions, the most simply realizable way. It is under the pressure of balance difficulties that in recent years in the Western trade of several CMEA countries, to a certain extent also in that of Hungary, the so-called "countertrade" came to the foreground, that is, an import policy among whose criteria it is a primary viewpoint beside price, technological and economic considerations, that the exporter should be prepared not only to sell in the given country, but also to buy as much as possible. This method may lead, however, to price losses in exports as well as imports (since the Western exporter usually shifts the additional costs and risks involved by the activities foreign to his own line onto his socialist partner), and thus terms of trade may even deteriorate further.

Such solutions do not help us much even in the short run. It is an even more serious concern that non-profitable exports impair not only today's terms of trade, but also those of the future. Manufacture of "soft" articles need not only be maintained, but increased as well. And, if "soft" articles may be manufactured and even exported, why should the sacrifice and risk of introducing new products be undertaken? This is how the healthy compulsion to change the production structure and the corresponding production programs is weakened.

Compulsion to change is not strong enough, anyway. As a matter of fact it was in this period that – partly under the effect of the unfavourable changes in world economic environment – limitations and prohibitions multiplied in economic management, and enterprise independence lessened.

The problem is not that short-term tasks can be solved anyway only at the expense of long-term ones, but that certain ways of solving these tasks – questionable in themselves, not always thoroughly examined – hinder progress toward bringing the production and export structures up-to-date.

Modernization of the production structure is a long-term strategic task. This is not to say, however, that the release of new, up-to-date, and marketable products is not

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consumer receives *at unchanged prices* the products that are *increasingly expensive* for the national economy, and thus the *valuation system* of users and consumers becomes *distorted.* Inputs of enterprises are *lower* than the *actual* costs of the national economy, and thus the comparison of enterprise inputs with production results gives a distorted picture, and may thus orientate toward wrong decisions . . . Not increasing the price of the product that is increasingly expensive *suppresses the defensive reaction,* there is nothing to encourage saving, or the search for substitution through cheaper products." [7]

possible but in the distant future. It only means that its achievement is not like a campaign on which only a decision has to be made and then implemented. It requires the creation of such economic conditions as will promote the establishment of an efficient production and export structure. Modernization, if selective development criteria are correct and their implementation is successful, has not and cannot have any other measure than the steady increase in the efficiency of production and export.

Transformation of the structure is a development task that requires investments, and investments have a shorter or a longer gestation period before they become operative. Therefore, the success of *each action* can be judged only after a certain time has passed. Yet modernization of the product pattern sometimes requires exactly fast realisable and smaller enterprise investments. And the most important thing is that transformation of the structure is not only an investment task: an economic mechanism orienting towards the right economic decision is just as much a part of it; transformation of structure should start with improving the quality of current production, widening of the range of assortment or sometimes its narrowing. It cannot be separated from a better sales organization, just because the latter belongs under a different Ministry from the investigation of market demands, and the continuous assertion of impulses thus received in development policy. There is, namely, no modern structure "in the general sense" that would suit every country: modernity can be measured mostly with the efficiency of participation in the world economy, and with export achievements. (It is a different question that the conditions of measuring export efficiency have to be created first of all by bringing the Hungarian price system up-to-date.)

Export-oriented development policy should first of all adjust to the realities of sales possibilities. Our export possibilities to the West are today curtailed not only by the fact that we cannot appear in a wide sphere as exporters of the most advanced techniques. It is likely that in such fields where developing countries have considerable cost advantages in cheap mass production we shall have no more favourable market possibilities than today in the future, either. This does not concern only low priced textiles and clothing, but also a number of modern branches and products of the engineering industry (many telecommunication articles, electronic equipments, computers), in which mass production of large series is relatively easy to introduce. Exactly because our export possibilities are so much delimited, it is particularly important to find where from among the widely different fields, exports could be intensively augmented by setting out from today's structure and development level of the Hungarian economy. Among other things the changes in Western consumer habits and consumption structure, in fashion and in the way of life have to be observed, and fast and flexible reaction to them is needed in development policy. And this may mean sometimes that we have to consider as an important task to manufacture such products, which otherwise do not fit at all into our ideas about a modern product pattern. (Such products are meant as do not represent the most up-to-date technology, but, owing to their good quality, flexible adjustment to individual demands, and fast delivery they are well saleable.) It is an other aspect of the

question, that the manufacturing of a machine that is better and more up-to-date than previous ones, but is produced at a loss and is not well saleable may finally worsen the structure.

Can we speak about an export-oriented development?

Modernization of stucture is *not only* an investment task, but it is that as well. It is an actual economic policy dilemma of the period of deteriorating terms of trade that the necessity of ever new development actions arises *exactly then,* as a reaction, on this deterioration but such investments often require us to increase machinery imports from Western countries, which further worsens the tense balance situation. If, however, we did not implement these investments, we would give up from the outset the possibility of export expansion at a later date, although the realization of this possibility at some future date remains anyway an extremely hard and complicated task.

But the concerns of economic policy cannot be reduced to as much that we have to augment Western imports *today* with a view to future exports to the West. Imports from the West do not serve only the development of Western exports. In Hungary in the late 1960s and early 1970s (until 1974) 23–26 per cent of centrally decided investments in machinery came from capitalist imports, and less than that from socialist imports. But, as is stated by Iván Schweitzer in one of his studies: "centrally decided (productive) investments are almost exclusively made with the aim of import substitution or of increasing socialist exports. It also follows from their character that in most cases they could contribute only a little to exports to capitalist countries that require a high degree of flexibility from producers and generally a diversified range of assortment." On the other side, in enterprise investments "better suited for increasing Western exports" machinery imports from socialist countries were the double of those from capitalist countries in the late 1960s, and they exceeded the latter even in the early 1970s.

It is a problem generally characteristic of CMEA countries that *imports from Western countries intended to serve development usually do not serve the export-oriented development* well enough, (with the exception of only a certain part of raw materials and fuels). Western machine imports serve the development of the most dynamically growing industrial branches (mainly the engineering and chemical industries) of CMEA countries. Yet it is not the product of these branches that are exported in the first place, but those of the more slowly developing sectors whose development has been for long neglected in several countries. With a few exceptions, these are not among the up-to-date sectors of socialist economy, even today, which would satisfy demands for high quality and assortment (agriculture, food industry, light industry). (It is only the world market price development of recent times that has rendered the situation of raw-material exporting CMEA countries more favourable in this respect.)

The last two years have brought certain changes in Hungarian machinery imports. In 1976 e.g. the ratio of Western machine imports in enterprise investments was not smaller than in centrally decided investments. Undoubtedly, there are several investments

aimed – partly or fully – at the development of exports to the capitalist countries. Yet it must be noted that the investment credit line of Ft 45 billion granted by the National Bank of Hungary for stimulating exports to Western countries is only 7–8 per cent of the total productive investment volume of the Five-Year Plan. The overwhelming part of the about Ft 130 billions earmarked for major state productive investment projects planned – about Ft 100 billion – is of expressly import substituting character. 40 per cent of the total industrial investment serves e.g. energetical development [9].

The above-mentioned figures show at any rate that it is unjustified to handle investments aimed at the development of exports to the West as if they caused the dilemma in themselves. It may be the other way round: the dilemma concerning the interrelation between expanding investments and the balance of payments difficulties seems so big because there are still few such investments as would finally result in increased export possibilities.

In Hungary the demand for an active export policy (oriented towards Western markets) has been formulated. But this problem has still remained – perhaps against the intentions of the economic leadership – on the periphery of the long-term development strategy, simply because once the investment resources have been distributed among the various objectives, there is not enough money left for export-oriented development. If however, a medium- or short-term export development program is announced independently of the long-term development strategy, it may bring at most partial and temporary results. That is why the 1977 October resolution by the Central Committee of the Hungarian Socialist Workers' Party on the strategy of production structure and foreign economic development deserves special attention.

Increasing integration of CMEA countries into world economy

It is clear from what has been said so far that the demand met with in economic literature from time to time is far from reality which – frightened by the difficulties of export-oriented development – asks why economic policy does not urge *also* import substitution [10] In fact, what has made export-oriented development topical in CMEA countries was exactly that conception of import substitution – more exactly, the conception whose declared fundamental economic policy task was to satisfy the needs of CMEA countries defined in physical terms primarily from internal resources – proved to be insufficient for solving the problems raised by economic development. According to this conception the purpose of economic relations with capitalist countries was only to import what is not available in CMEA countries, or only in insufficient quantity – as long as it is absolutely necessary.*

*As is stated by János Szita: (even after the recognition of advantages in the socialist international division of labour) "the conception has remained for some time that with the non-socialist part of the world only such economic problems are to be solved as cannot be solved within

Explicitly or implicitly, this conception inferred at least two things: concretely in foreign economic respects that Western imports need not be too large – apart from short periods – and need not grow too fast, that is, their balancing was relatively easy, and represented therefore only a partial and special task for economic policy: there was no reason to spend separately on export development. And the more general assumption was that fast economic growth and technological development did not even require the division of labour with non-socialist countries, since the socialist economy develops independently of the capitalist world economy. (In 1952 Stalin held the opinion that two parallel world markets had developed, and socialist countries would "soon" have "no need of imports from capitalist countries." [14] These assumptions – inseparable from the earlier political conditions – came, however, gradually in conflict with economic reality, with the persisting technological gap, and with the new demands raised by development.

Therefore, the acceleration of East-West trade was decided by socialist countries on political level in the 1970s. It was thus not a process contrary to political and economic strategy objectives, starting spontaneously, but it was fitted organically into the armory of tools for the realization of internal economic tasks according to the cenceptions. As was said by Leonid Brezhnev, it had been the 1973 April meeting of the Central Committee of the Soviet Communist Party that had arrived at the conclusion that the foreign economic relations of the Soviet Union were not satisfactory and, therefore, they should be intensified. "The scientific-technical revolution progresses at full speed . . . the irresistible progress vastly increases people's needs and demands, and necessitates a growing degree of international division of labour." This holds particularly for East-West relations. "It had been political tension that made the Soviet Union and other countries withdraw into themselves and that had not allowed them to progress toward a widening cooperation. Even if that lasted for 10–20 years, it does not mean that it should last for ever . . ." [15]

The question is worth asking, in what respects the 1970s differ from earlier years.

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the cooperation of socialist countries. Therefore, imports from socialist countries were limited to what was considered as indispensable, and competitive imports were driven back." [11] The only statement of János Szita that suggests exaggerated optimism is that this approach, the so-called "remainder-principle" is entirely one of the past. Oleg Bogomolov's formulation seems to be more exact when he says: "What is worth buying abroad is primarily what contributes to increasing labour productivity, and to improving the quality of production in the whole national economy. This means that the imports necessitated by a temporary shortage in one or another article or by an upset material balance *will probably be increasingly substituted* (italics mine – A. K.) by such imports as are the results of reasonable tendencies in the international division of labour, and of the participation of the Soviet Union in the socialist economic integration". [12] It is to be noted that the following statement was made only four years ago: ". . . Everything must be deleted from the import list that we can produce ourselves, even if home production costs more than imports, if it is in the final result more advantageous for the Soviet Union." [13]

New approach to the imports of technology

One of the most important objectives of trade with advanced capitalist countries sometimes considered even exclusive was the acquisition of the most up-to-date techniques and technology also earlier (both, when it was on the upswing and when it was on the decline). Yet this objective could be realized in a different way in the past, and differently again in our days.

From the point of view of the economy of a country, of its industrial branches, or of individual enterprises modern and efficient production has always demanded extensive world economic relations. Still, when economic and primarily the scientific and technical development was less dynamical, and the economic structure was comparatively stable, it might have seemed, with more or less justification, that keeping pace with technical development – particularly if limited to only a few branches – could be also achieved through individual import transactions. Such actions did not require constant and regular commercial, technological and economic cooperation, nor the maintaining of direct and permanent production relations. Relations could be restricted for home or foreign, political or economic reasons, or they could even be broken off for shorter or longer periods. That was the situation in the 1930s when the active Soviet import policy of the first Five-Year Plan period was followed, after an acute balance of payments crisis, by a period when trade relations were minimized. And practically the same occurred in the cold war period, when the international political situation and the Western embargo almost totally stopped the trade of socialist countries with the West. [16]

When, however, acceleration of the technological and scientific development entails the permanent renewal of economic structures and product patterns, the approach described above has become obsolete. It is not only machine and equipment imports that have to be continued – since the most modern machine bought today becomes out-of-date in a few years* – but also a long-term and permanent cooperation, and permanent contacts between technological experts and scientists should be guaranteed. A dynamical increase of machinery imports is necessitated not only by the growing scale of production, but also by the fact that it is not possible any more to import just a "prototype", which would then be adapted to home conditions and manufactured accordingly. This requires time, and is a complicated task. leading to uneconomic manufacture and to the conservation of backwardness, so that this way of technical transfer has to be gradually abandoned.

*One additional fact to this statement: It is well known that one of the most up-to-date Soviet factories, the Volga (Lada) Motor Works was established in a Western (Italian) cooperation in the late 1960s and early 1970s. But since – as is stated by Soviet experts – the technology of car manufacturing has been radically renewed in the world every ten years, the equipments of the factory operating since the beginning of this decade must be modernized right now, if their becoming obsolete is to be avoided. Modernization has theoretically two ways: the establishment of domestic production of machines for the production of cars (again import-intensive), or further imports of equipments and licences. [17]

The appearance of new demands resulting from acceleration of the scientific and technical development coincides with the fact that in most socialist countries the possibilities of extensive economic growth have become more or less simultaneously exhausted. There remains no other source of development than to increase productivity and improve efficiency. Thus technical development has come to the foreground everywhere, including technological development realized through machinery imports.

But acceleration of technological development requires not only machines. Never – not even in the heydays of import substitution – have we succeeded in importing only machines from capitalist countries; increasing machinery imports usually entail growing need for material imports, that is, *development-import generates imports necessary for the functioning of the economy.* Now what is wrong here? Is there something wrong at all? Once an investment project has been put into operation, it has to produce, and it is natural in every given case that this has to be enabled even through the use of import materials, even if, when planning investments it is usually reckoned that they would operate with home materials or materials coming from the CMEA countries. But it happens that related investments – that ought to supply the wanted raw material – are not implemented, or only at a later date, or they supply materials of inadequate quality for the modern equipments etc.

It is no "trouble" in itself, and in fact even natural, that machinery imports are followed by certain steady material imports or semi-finished product imports. This is natural because they are usually materials representing sophisticated technology themselves: their use is required by modern equipments. (This is a trouble, of course, from the view-point of the logic of import substitution, since an import-substituting development turns out to be in fact import-intensive.) All this would be no problem, if there were exports to counterbalance them, but these are not available, as long as not those economic activities are primarily developed, in accordance with real economic conditions, that would in fact be able to produce such exports, but those in which potentials are much weaker, or whose products are not even intended for export to the West.*

Parallel with the recognition of new economic policy tasks earlier conceptions about the international division of labour are also changing. It becomes increasingly a "must" to actually recognize the advantages of a world-wide division of labour. When economic growth still had considerable extensive resources, imports of machines, equipments, and materials were simply considered a consequence of "shortage", or something undesirable and concomitant with a low development level. At a time, however, when improvement of efficiency is the only way of economic development, it has to be gradually recognized that it is not possible nor necessary, to manufacture *everything economically,* not even within the framework of a really large economic community. In the period of the

*Therefore, it is no argument for import substitution, either, that investments with an export objective also operate with an import material utilization higher than planned or that they start exports with a delay and at a lower efficiency. This is an argument "only" for more circumspect planning and more efficient economy.

technical and scientific revolution one of the most important methods of improving comparative advantages is the concentration of development resources, and the utilization of potentials inherent in the international division of labour.

CMEA cooperation and East-West trade

Apart from the foregoing considerations it is a new factor that not only the realization of domestic development conceptions in individual CMEA countries necessitates increased Western imports, but also that of cooperation plans in the CMEA. The *multilateral integration measures* of the CMEA countries require imports from capitalist countries, and the use of Western techniques and financial resources in the phase of realization. Thus, in contrast with the preceding period, when Western trade and trade within the CMEA may have appeared from the point of view of each socialist country as separate problems not requiring a coordinated solution at all, today it is obvious that our decisions of great portent for the CMEA integration are of great consequence also for our trade with the West.

Yet also the development of the *bilateral trade* between CMEA countries contributes to the constant increase of Western imports. The Western import contents of industrial articles and agricultural products exported to CMEA partner countries is constantly growing. In the case of Hungary e.g. it increased to 2.2-fold from 1972 to 1974, [18] while the value of exports to CMEA countries grew only by 27 per cent.* The specific Western import contents of exports of chemical and light industry products to the rouble area is particularly high. [19]

The increasing Western import contents of exports to socialist countries led to the peculiar situation that even the CMEA countries that tried to orientate themselves to only one market (the socialist, and within it mainly the Soviet, market) were forced to import considerably from the West, so that higher tensions have come about in their foreign trade with the capitalist countries than in several other CMEA countries in whose total foreign trade the ratio of capitalist countries is relatively high. That is, *coordination of the development of exports to socialist and capitalist countries has become one* of the vital topics of national economic plans. This may result, however, only in a widening of the bottleneck, i.e. a more dynamical increase of exports to the West.

As long as, in contrast with the deteriorating terms of Hungarian foreign trade with the West, those of our trade within the CMEA were unchanged, the degree of "hardness" of our imports from the socialist countries increased in relative terms. With the suddenly soaring world market prices, e.g., it became much more advantageous to purchase raw materials in socialist countries. At that time this could counterbalance to a certain extent

*Of course, in this increase the 36 per cent increase of our imports from the dollar area also played a role, but it does not explain in itself the 2.2-fold increase in import contents.

the difficulties arising from the growth of the Western import contents of exports to the rouble countries. Since 1975, however, the growing tendency of the Western import contents has been causing greater difficulties, because the change in world market price proportions caused a change also in the terms of trade within the CMEA. What is more, the delayed and gradual adjustment of CMEA prices to world market prices has led e.g. from the view-point of Hungary to a situation that the terms of trade will be deteriorating in any case, for two years still after 1977, independently of current world market price movements.

It is paradoxical at first sight that *this* worsening of the terms of trade should harm also the balance of Western trade, since it *is* well known that we get into debts mainly with capitalist and not with CMEA countries. What is the explanation? It is that worsening terms of trade with socialist countries are less difficult to counter-balance by the quantitative increase of exportable commodities, and therefore exports to socialist countries constitute the most dynamical part of Hungarian foreign trade. Calculated at unchanged prices, imports from socialist countries in 1976 surpassed those of 1970 by 48 per cent and imports from advanced capitalist countries exceeded those of 1970 by 47 per cent. Yet the *volume index* of exports to socialist countries shows an 81 per cent increase in this period, while that of exports to non-socialist countries shows only a 38 per cent increase (and within that exports to advanced capitalist countries a 30 per cent increase). [20] Such growth of exports to the socialist countries impairs, however, the balance of trade with capitalist countries from two respects. On the one hand it requires Western imports to an increasing degree, and it is only their volume that is growing more slowly than that of exports to CMEA countries, but their value (at current prices) is growing faster. On the other hand it restricts the volume of commodity stocks potentially exportable to the West.

CMEA countries transact also large and increasing material and semi-finished product imports from the advanced capitalist countries. This has several reasons, the best known among them being that there is shortage in many primary and raw materials, sometimes also of fuels in the CMEA region, and therefore, for some time already, CMEA countries need Western imports also of these goods.

Since the increasing demand for fuel of the smaller socialist countries can be satisfied only to a limited extent from CMEA resources, and the burdens of raw material- and fuel purchases within the CMEA are approaching those of purchases on the world market (because of the investment contributions and growing prices), their needs to be satisfied from external sources will be presumably growing (although the overwhelming part of their needs will still be satisfied from sources within the CMEA).

Let us formulate the latter interrelation more exactly. Fuel prices in the CMEA are lower today than those on the world market. If, however, the oil price increase on the world market stops – wich is not at all an abstract possibility, since, in view of the inflating dollar, real oil prices on the world market have been hardly growing since early 1974 – in accordance with the new CMEA price formation mechanism CMEA prices will continue to increase, and it is not even excluded that they should reach or possibly exceed

world market prices. Yet purchase within the CMEA may still prove to be more advantageous, since there we can buy for transferable rouble. We have mentioned that in Hungary it is the less difficult side of foreign economic activity to "produce" transferable roubles. But also the increasing dollar import contents of exports to the rouble area has been mentioned. If we take into consideration also these dollar burdens (as well as the additional imports from the dollar area to allow that by augmentating exports to capitalist countries these dollar burdens might be counter-balanced), it is not all so obvious that it is *always* more economical to import for transferable rouble than for dollar. Drawing into the analysis also investment contributions (in which the dollar import contents is again considerable), the problem to be solved is even more complicated.

In any case, the question is justified, whether a further increase in the quantity of fuel imports should not be rather avoided. Should not a certain level of self-sufficiency in fuels – similar to that of today – be maintained? Undoubtedly, the development of home fuel production is a realistic possibility for satisfying *a part* of home demands, and it is a correct energy policy objective that current needs of the home market should be satisfied by an optimum combination of imports and home production. Yet this optimum combination cannot be established exclusively by comparing domestic production inputs and import costs in the case of either primary energy, or of other goods, without consideration of the opportunity costs. The question is, what is cheaper: to mine coal, or to grow corn instead, export it, and buy fuel from the sales returns. In other words, the way of satisfying energy needs cannot be examined separately from other objectives and possibilities of economic policy: corn growing may be also energy policy. We have to think in terms of alternatives that enable home production and exports of maximum efficiency. If we can make progress in this direction, it will be incomparably easier to choose the mode of economic energy imports (or home production). In the opposite case, even if a country poor in energy succeeds in selecting the best combination from the several, mostly unfavourable, possibilities, is still has not come a bit nearer to answering the question what it ought to counterbalance the energy account with.

So far it has been said that from the point of view of intensive growth the importance of East-West trade for CMEA countries has grown. To this belongs also the aspect of raising the standard of living, of a better supply to the population. Imports from advanced Western countries include foodstuffs, industrial consumer articles, primary materials of consumer articles and machines for the manufacture of consumer articles as well. It is true that industrial consumer articles imported from non-socialist countries still have a very little share in total consumption, and the balance-of-payment difficulties of these last years have not been favourable for increasing them. This cannot divert attention, however, from a more significant tendency: *the increasing cereal imports of the CMEA region.* The large volume of imports in certain years is the consequence of unfavourable crop results, and in such cases the countries concerned are forced to shoulder outstanding foreign exchange burdens even in a taut balance-of-payments position. But the fact itself that they have prepared for permanent cereal imports for

long years to come (at some places exactly in order to provide for the fodder stock of animal husbandry) shows that they consider a smooth supply of goods much more important than ever before.

Effects of the cooperation mechanism between CMEA countries

What has been said so far should be sufficient proof that the expansion of Hungarian trade with advanced capitalist countries is necessitated by fundamental requirements of economic development. Other CMEA countries also wish to develop their trade with the West intensively. If only for this reason it is no solution to renounce export-oriented development, which is the key to joining the world-wide division of labour. It might much throw back the economic development.

Yet Western imports are talked about sometimes as if their increase was not the consequence of objective needs, but of subjective factors: intentions, decisions, or "faults". "Enterprises seem to prefer the capitalist markets in their purchases" [21] – we read in a recent article analyzing investment tensions. It strikes the eye particularly, if such goods are bought in the West which are produced in the same quality in the CMEA and, possibly, also in Hungary: this is already beyond forgivable sins.*

In the meantime it is forgotten that something that is manufactured somewhere is not always available, and it is available even more rarely when and where it is wanted. Shortage of goods is, unfortunately, still a serious hindrance to the expansion of trade among socialist countries.

But the question, why it happens – in fact quite frequently – that enterprises of CMEA countries buy from the West also what they could get this side of the Elbe necessitates that we should briefly treat, how the *mechanism* of CMEA cooperation affects the trade with advanced capitalist countries.

It may be said in general, that the same factors that hinder a faster increase of trade within the CMEA – the effort at a bilateral balance of trade, which is further enhanced by "structural bilateralism" i.e. the effort to balance trade in each group of products, the unfeasibility of an actual transferable accounting system, and the lack of convertibility – become impulses for the development of trade with advanced capitalist countries. A socialist country that wishes to accelerate her economic growth by additional imports or the use of external resources is dependent – *disregarding the nature of her import needs* – mainly on Western imports, and the use of Western credits, since the increase of her imports from CMEA countries depends directly on her possibilities to increase exports to the same countries, or, on how much her partners in the CMEA are willing to increase their purchases from her.

*It is characteristic that even in a work discussing foreign trade problems with high competence and extremely instructively, it is mentioned among the causes of a fast increase of Western imports that the Western supplier "does favours" to those in charge of industry on their official trips to the West, and that the Western trip is not only a status symbol but also material advantage. [23]

The increase of machinery imports from socialist countries is hindered – as is demonstrated by Iván Schweizer through the example of Hungarian machine imports from the Soviet Union [24] – by scarce and outdated information, different standards and technical prescriptions, and the well-known difficulties in the supply of parts and in servicing. In lack of direct contact between buyer and producer it is difficult to carry through even the smallest changes also in the case of an import quota, the less so as the exporting enterprise is interested most in the smoothest possible transaction of the turnover prescribed.

The most important problem is connected, however, with the long-term (five-year) trade agreements, since the setting of quotas requires rather a long foresight: machine needs must be (ought to be) estimated in the necessary detail practically at least for five years or longer ahead in order that at plan coordination negotiations a position could be taken on the machine import needs of the following five-year plan period. Such long foresight is possible, obviously, only in a few fields, in others it is not. In the latter case "requirements submitted for the coordination of five-year plans and then for trade agreements – determined in the form of value quotas – have no real content, and, therefore, the most considerable underfulfilment can be observed, in general, in this field." [25]

Otherwise, the above-mentioned problems are related not only to the mechanism of bilateral trade, but also to the internal economic control and management mechanism of socialist countries, that is, also to the Hungarian mechanism. Because of the delay in investment decisions the period for implementation is so short that only Western machinery imports come into question from the very outset; the relation between foreign trade and production is loose, information necessary for the simplest of decisions is missing on both sides, the user enterprise is not interested enough in saving on Western imports, etc. [26]

So much about how the CMEA mechanism increases demand for Western imports. The other side of the question is no less important: how today's forms and methods of CMEA cooperation affect exports to capitalist countries. Augmentation of the latter depends – as it has been explained above – on the modernization of the economic structure and the industrial product pattern, in general, on the improvement of efficiency. The increasing requirements regarding the quality and up-to-dateness of exports to the CMEA countries are working undoubtedly in this same direction. Yet there are such elements in the cooperation mechanism which, through their indirect effects, do not promote the improvement of efficiency. What does this mean? Imre Vincze formulates it in a way that "Delivery of goods between CMEA countries is characterized by an extensive – almost exclusive–determination (specification) in kind". [27] Even in the case of large cooperation projects, delivery obligations and tasks of participating in construction are determined by quantitative indicators of material-technical character, "value relations are little clarified as yet", in this regard only approximate computations, indicating orders of magnitude only, are available. [28]

As a consequence of the planning system of most CMEA countries such a mechanism of trade has developed, in which first the quantities of mutual commodity supplies are agreed upon, and the setting of prices comes only afterwards. These then depend often less on the parametres, i.e. quality traits, of the concrete products than on specific factors caused by the efforts at balanced trade. And, if a country has an active balance with another one, since there is no other way to make use of it, she is by all means obliged to buy something for it, i.e. she has to increase the purchase of "soft" goods. The *quantitative* increase of trade proves under such circumstances by all means more important than improvement of quality and modernization of the product pattern. That is why it is so "easy" to export to the socialist countries. All this does not only reduce the interest of enterprises in trying to produce for the much more difficult Western market – which raises higher demands on modernity, which is marketing-intensive and, what is more, conquerable only by transactions of much smaller volume – but it influences unfavourably also their ability to improve efficiency, thus hindering constant technical development, and flexible adaptation to market demands.

The role of credits

It is a common feature in the foreign economic policy of CMEA countries that in recent times they have all been trying to promote the realization of their economic objectives through an active credit raising policy. Contrary to preceding periods the justification of an active credit policy aimed at development, and its advantageous nature from the point of view of socialist development are not challenged any more in practice. This is understandable if we consider that credits served partly the dynamical increase of imports, and partly – in the case of countries whose terms of trade had deteriorated – the restoration of equilibrium.

In this article we shall not treat the conflicts of great potent, and of political motivation that have arisen exactly about the credit raising possibilities of socialist countries in the last three or four years, but we shall rest content with asserting that the actual state of East-West political relations still has an unfavourable influence on credit raising possibilities. As a function of the debt stock the credit raising conditions may become more difficult, anyway. It remains a fact, however, that credits have no constraint that could be expressed in some absolute figure: if not so fast as in the past two years, and if with harder conditions, yet a selective credit raising activity can be pursued to all appearances. Otherwise, one of the reasons for this is that the creditors are interested in maintaining the granting of credits. [29]

But the constraints on credit raising must be examined also from the aspect, how much the new credits contribute to economic growth and through it to exporting ability. Should that fail, the growth of credits must be used to an increasing extent for repayment, and thus they will be less and less a source of development. In that case, however, their effect will be the opposite of the earlier one: they will not serve any more

to ease imbalances and foreign and domestic economic tensions, but may themselves increase these tensions.

Decision on these question cannot be taken in the direct credit sphere, since credits finance, after all, every sphere of economic activity – not only those which contribute now or in the future to the expansion of convertible export commodity stocks. Decision can be taken only in the context of interrelations of the whole economy: the character of development, investment tendencies (and volumes), and the armory of instruments of economic policy. The question is not, whether we should raise credits or not, but what we are to use them for.

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Let us summarize what we have said.

It was not in connexion with the deteriorating terms of trade, but independently of it and even prior to it that the necessity of a faster increase of East-West trade arose. (In the 1970s, by the way, it was exactly the CMEA countries whose terms of trade had improved which particularly accelerated the development of their trade with advanced capitalist countries – the Soviet Union and Poland.) The role played by the deteriorating terms of trade was to widen the gap between import needs and export potentials and thus to draw the attention to the necessity that from the aspect of economic development strategy also the conclusions deriving from the importance of a permanent participation in the international division of labour and from import policy becoming more active must be drawn.

The world economic environment of CMEA countries is, therefore, different today from what it was at the beginning of the current decade, not only because a lot of things have changed in the capitalist world economy during the last years, but also because they are themselves integrated in the world economy more intensively than earlier, and also participate more actively in the international division of labour. No doubt, also the world economic changes that took place exactly at the times of a high upswing in East-West trade relations rendered it even more pressing and more complicated for several CMEA countries to find the best practicable ways of economic integration into the world economy. For the advantages of an incrasing participation in world economy also the consequences have to be borne. The new tasks have to be fulfilled by an adequate development policy, through increasing the ability to adapt, and through the formulation of a flexible economic policy and the development of an armory of instruments.

It follows that, in forming their world economic strategy, socialist countries need observe not only, and not even primarily, the adjustment to market changes of the world economy affecting them unfavourably or possibly favourably, but, beyond it, the general requirements of a permanent participation in the international division of labour.

From the point of view of CMEA countries it remains, of course, the most important thing how economic relations within the CMEA are developing. Therefore, in thinking about the ways and methods of further development of the CMEA cooperation the aspects of integration into the world economy must be taken increasingly into consideration.

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ВКЛЮЧЕНИЕ В МИРОВОЕ ХОЗЯЙСТВО И НАПРАВЛЕНИЕ РАЗВИТИЯ ЭКОНОМИКИ ВЕНГРИИ

А. КЕВЕШ

Автор анализирует причины изменения внешнеэкономической среды стран-членов СЭВ в 70-х годах. Он отмечает, что бурные изменения мировой экономики – и прежде всего относительных цен на топливо и сырье – имели определенные последствия для экономики некоторых социалистических стран. Возникшие при этом экономические трудности связаны и с недостаточной эффективностью хозяйствования, и с недостаточной ориентацией их экономики на развитие рентабельного экспорта товаров.

Однако главная отличительная черта изменения внешнеэкономических условий стран-членов СЭВ заключается в их более активном участии в международном разделении труда. Задачи экономического развития социалистических стран, а также развитие сотрудничества между ними требуют более широких, чем раньше, мировохозяйственных связей, активной импортной политики. Следовательно, социалистические страны должны выработать такую внешнеэкономическую стратегию, которая имеет целью не только более гибкую адаптацию к тем или иным изменениям мировой экономики, но и отвечает требованием усиливающегося включения в мировое хозяйство.

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MULTILATERALITY, TRANSFERABILITY AND EXCHANGEABILITY: THEIR CONTENT AND CONDITIONS OF THEIR REALIZATION WITHIN THE CMEA*

Multilateral balancing of the mutual trade between CMEA member countries is one of the important objectives of the Comprehensive Program. In principle, this can be achieved in two ways: either by working out the collated plans of international commodity deliveries, specified as to commodity pattern, with a view to asserting multilaterality (planned multilateralism) or by essentially increasing the role of money in international commodity turnover. According to the author the latter is more efficient and flexible and, precisely on this account, the more expedient solution. The author makes concrete proposals for monetary and financial measures and their organizational and economic conditions.

According to the Comprehensive Program providing for the development of economic integration of the CMEA member countries, monetary, financial and credit relations are to play a more active role in the development of planned economic cooperation and socialist integration. The Comprehensive Program envisages, among others, a multilateral balancing of commodity exchange among member countries with the help of the collective currency, the transferable rouble, as well as realization of the actual transferability of the common currency, and mutual exhangeability between the common currency and the national currencies of the member countries.

The study attempts to throw light on the contentual problems of multilaterality, transferability and exchangeability, on the possible ways and forms of their assertion and on the conditions of their realization.

The concept of multilaterally balancing international commodity turnover and the ways of its realization

The international commodity turnover may be said to be multilaterally balanced within a group of countries when, in a certain period, the total *imports and exports* of each and every country are balanced, while foreign trade between any two countries need not be necessarily balanced; an individual country may have an import surplus toward certain countries while having export surpluses toward other partner countries, thus, *bilateral* equilibrium is not required. Of course, import and export surpluses cancel out each other on the whole.

*This paper will be published also in the *Soviet and Eastern European Foreign Trade* with our approval.

Multilateral balancing of the international exchange of commodities is regarded as advantageous because, still remaining on a theoretical level, it provides greater possibilities for the increase of foreign trade than does bilateral balancing.

Let us consider, e.g. three countries, *A*, *B*, and *C*. Let us suppose that these countries have determined the possibilities of commodity shipments in their bilateral relations in international trade agreements. Country *A* could deliver more commodities than established in the balanced agreement between the two countries, and they are needed as well by country *B*, but the latter has no goods needed by country *A*. Country *C* could deliver goods to country *A* needed by the latter, but country *A* cannot offer commodities needed by the former. Finally, country *B* could deliver goods needed by country *C*, but the latter has no goods needed by the former. In this situation bilateral balancing cannot provide for further progress. Without special measures, the possibilities open for the expansion of trade among the countries will be lost. However, they can be exploited through multilateral balancing as, in addition to the bilaterally balanced trade, country *A* will deliver goods to country *B*, this country to country *C*, and the third, in turn, to country *A*. In this way, a higher level of commercial turnover will be realized by every country through multilateral balancing.

Multilateral balancing requires and adequate economic regulation of the international exchange of commodities, and mutual economic interests in a multilaterally balanced realization of international trade on part of the participating countries.

In principle, practical realization of a multilateral balancing of international trade may be achieved in two ways:

a) through a multilateral elaboration of the plans and agreements concerning foreign trade (planned multilaterality);

b) through an increased role of money, by awarding a greater role to money and related interests.

Planned multilaterality, as a theoretically possible method, continues to assume that the members of the group of countries consciously plan future commodity shipments among one another in their physical compositions as well. However, instead of bilateral balancing, they conclude such agreements affecting three or more countries in whose framework the export or import surpluses of the countries emerging in certain relations will be balanced by surpluses and deficits in other bilateral relations. Such an agreement requires that the member countries assess the bilateral balances of their planned trade through international plan coordination, and that they conclude multilateral international agreements on multilateral balancing, in which they undertake to settle their planned import surpluses in relation to certain member countries with export surpluses toward other member countries. It is also necessary that the national plans consciously reckon with the restructuring of trade among countries.

Planned multilaterality is conceivable as an overall system in which five-year and annual foreign trade agreements are concluded in the above way, multilaterally, by three or more countries. It is also conceivable that the cooperating countries remain basically on the platform of a bilateral balancing of international commodity exchange, but

conclude many agreements on multilateral commodity compensation in order to promote a further increase of trade.

Realization of such planned multilaterality presupposes an adequate international legal regulation specifying the necessary steps to take in case one of the partners fails to fulfil the agreement governing multilaterally linked commodity shipments.

If such planned multilaterality is realized, the role of money will remain restricted to recording, thus, it will remain passive. However, since the balancing of the physical processes in international commodity exchange will take place multilaterally, the international accounting will also reflect this multilateral equilibrium. The current accounts of the countries kept with the International Bank for Economic Cooperation will show a zero balance, while in the detailed accounts reflecting the status of bilateral relations, a zero balance will not be found even after the bilateral commodity exchange of a whole year will have been recorded. For this reason, mutual compensations and transfers should be included in the process of international financial accounting, thus creating a zero balance also in the detailed accounts.

However, the realization of planned multilaterality faces serious difficulties. It presupposes such a degree of consciousness and planning which is almost impossible to attain on an international scale. A further problem of planned multilaterality is that it can be accomplished only on state level.

The other theoretically possible way of multilaterally balancing the international commodity exchange is *to increase the role of money, so that money used in international trade should play the role of general equivalent, and general means of purchase.* The general equivalent, general means of purchase character of money manifests itself in that commodities can be bought, more or less without restrictions, for money also in the sphere of the international economic relations between countries and that the buyer (the money-holder) may reckon with an adequate commodity supply while the seller is interested in selling his goods for money.

When the international exchange of commodities is served by money that is a general equivalent as well as a general means of purchase, then the multilateral balancing of commodity exchange can be realized relatively easily. The holder of money can separate the money-commodity process. For money functioning in international trade he can buy in the country where the supply of goods and their prices are the most advantageous for him, as this kind of money is the general equivalent, the general means of purchase sought by each country of the community. Multilateral balancing, or rather the settling of positive and negative trade balances in individual relations can be realized without any special planned effort or agreement.

When international trade is transacted with the mediation of real money (general equivalent and general means of purchase) this does not hinder the international economic relations of a country from being tied preponderantly to one or a few other countries nor that turnover with them should be mainly bilaterally balanced. However, *it opens the way toward multilaterality.*

When money plays an active role in the transaction of international trade, thus, when there is an adequate supply available against the general equivalent, the general means of purchase, the previous planning in physical terms of the exchange of foods among member countries becomes unnecessary; physical planning may be restricted to the exchange of the most important articles between the national exonomies. However, the value indicators (in terms of money) become the focus in the planning of international economic relations and the international collation of plans, indicators like the total value of imports and exports in money terms, the balance of payments and its magnitude etc.

All this presume a set of economic and social conditions. Some of them are as follows:

– Developed commodity (market) and monetary relations must prevail in the economically cooperating member countries. Money has to play an active role also in the national economies of the individual countries.

– Production, trade and consumption of products should not be regulated by instructions expressed in terms of physical units of measurement in the economic control systems of the individual countries, or such instructions should be given only for a limited scope of products. This is a condition for money to play the role of a general means of purchase.

– The systems of economic control in the individual countries (legal regulations) should make it possible for the economic units (enterprises, trusts, unions, farms) to buy commodities relatively freely from abroad as well and to sell their products abroad, and they should not be extensively tied by compulsory prescriptions regarding the sale and purchase of products. The maintenance of bilateral commodity compensation is possible in a limited circle if it leaves sufficient scope for the trade not specified in physical terms.

– The individual countries must be economically prepared for the transaction of their international trade largely without administrative restrictions, with the aid of economic instruments. This preparation embraces a sufficiently high technological standard of the products manifactured in the country, a relatively high level of labour productivity, a relative abundance of products, the formation of foreign exchange reserves etc.

The background of contemporary bilateralism

The mutual economic relations of the CMEA countries are characterized at present by bilateral balancing. The trade between member countries is transacted on the basis of five-year agreements on foreign trade, specifying the assortment and quantity of the goods to be delivered.

The national systems of economic management of the CMEA countries and the set of instruments elaborated in economic cooperation (the international mechanism) could, in principle, make possible the realization of planned multilaterality as well; together with the conclusion of widespread multilateral commodity compensation deals. However, the

development of economic relations has shown that planned multilaterality can not be realized at present. Even multilateral commodity compensation agreements are rare, although the economic importance of multilateral balancing as one of the significant factors in intensifying mutual economic relations has been widely acknowledged and expressed in principle.

The following factors may serve as an explanation why CMEA countries do not apply planned multilaterality and multilateral commodity compensation:

– The national economies of member countries have become bilaterally harmonized as a result of bilateral economic cooperation through several decades. The circle of goods they provide bilaterally for each other has become clearly established, their physical assortment remains largely constant, only the quantities to be supplied change from time to time.

– It has not been revealed what kind and what quantity of goods could still be additionally produced in the individual countries, though presently not produced, mainly because no commodity to be supplied against them could be agreed upon in the bilateral relations in which the individual member countries take part, and the idea of multilateral commodity c mpensation deals has not yet been circumspectly examined.

– The realization of planned multilaterality is so complicated and cumbersome that the countries do not undertake it.

The question which of the three above-mentioned factors plays the decisive role in the CMEA community, could only be answered if the interested member countries, or the organs of the CMEA, undertook a thorough analysis in order to throw light upon the problem. Such an analysis could clarify whether multilateral balancing is objectively justified, what reserves could be mobilized for the expansion of economic relations, and, last but not least, what should be done for the exploitation of the objectively existing possibilities.

A concrete analysis cannot be substituted by such general statements that multilaterality can only be realized gradually, to the extent that the necessary circumstances and conditions are being provided.

The road to multilaterality

What are the possibilities for the realization of a multilateral balancing of international commodity exchange within the CMEA through an increased role of money? What conditions have to be provided for this in the individual national economies, in their economic control systems and as regards the instruments of regulation to be applied in the international cooperation of the CMEA countries?

Examining the problem from the aspect of the national economies of the individual member countries, as I see it, tree conditions must simultaneously exist:

1. The producing and trading companies should have the opportunity to decide on the quantities to be produced with their existing production capacities in a wide range of

products, to decide how they want to sell these products on the basis of their business connections (selection of customer), including the producer or foreign trade companies of other CMEA member countries. For this it is necessary that the enterprises should not be given compulsory production and trading tasks for a relatively wide range of products. The producing enterprises should be allowed to sell their products not only on the domestic market, but directly, or through foreign trade companies, on foreign markets as well.

2. An efficient system of enterprise stimulation is called for, so that the enterprises should be interested in stepping up production, in selling additional output, and should be thus prompted to seek selling opportunities.

3. Further, certain reserves of products, materials and production capacities are needed for the supply of possibly emerging demands on part of the enterprises of other CMEA countries. When the supply of products is scarce, and even more when product shortages are characteristic, the introduction of such trading methods understandably faces obstacles within an economy as well as on an international scale.

On the other hand, also *international regulation* has to be established so that is should provide opportunities for the exchange of a wide range of goods between the producing or foreign trading companies of different countries without the assortment and volume of the exchange of such goods among the countries being determined by interstate agreements or by other compulsory state documents.

The national and international regulations should allow the enterprises of the CMEA member countries to exchange their national currency for transferable roubles or for the currency of another member country, thus obtaining money with which they can buy in another member country. For the time being, the transferable rouble does not fuction within the individual member countries as a means of purchase, and the development of such a function would be rather difficult. It seems less complicated and more easily attainable to achieve that enterprises should be able to buy for their own national currency the currency of the country in which they intend to purchase. The relevant national banking organs and the International Bank for Economic Cooperation could mediate in the conversion and it seems even desirable to transact the conversion and transfer in transferable roubles (through the accounts of the designated banks).

To sum up briefly the essence of the necessary changes: Prescription of production and trading tasks in physical terms should be eliminated for a relatively wide range of products both in the individual countries and in international economic relations. The enterprises should be allowed to develop their own production and selling schemes on the basis of their existing production capacities, by taking into account external demand as well as their own financial interests. Thus, it is essential that, besides the central state organs, the producing and foreign trading enterprises obtain an active role.

I think it need not be explained minutiously why such changes would result in the activation of the role of money, in expanding multilaterality and, besides, in a more flexible adaptation to needs. In the sphere of the liberalized commodities decisions of enterprises based on a study of demand and supply relations could assert themselves.

Restriction of compulsory bilateral balancing would no more hinder sales for money by enterprises in other CMEA countries.

In order to attain this situation, significant modifications are obviously needed in the national as well as in the international regulations. Activation of monetary relations, an increased role of money and, through these, the service of sensible multilaterality may be expected from these changes only if the scope of goods produced and sold under this scheme is wide enough.

It is justified to remind the reader here that the Comperehensive Program for the development of the socialist integration of the CMEA member countries accords an important role in the trade among member countries to the sphere of commodities whose quotas are set in *value terms* and these whose trade is *exempted from quotas,* in addition to the commodities trade according to quotas determined in physical terms.

According to the Comprehensive Program, physical quotas will embrace goods that are primarily important for satisfying the needs of the national economies and of the population of the countries concluding the treaty (basic materials, fuels, machinery and equipments, agricultural products, food and consumer goods). For such products physical quotas are to be set for the full period of the validity of the long-term trade agreement in the future as well.

The quantities of goods to be delivered under *quotas set in value terms* will be determined by the contracts concluded under private law by the trading companies of the member countries. (Value quotas are suitable for setting state limits to the volume of goods to be delivered by individual member countries and, as such, may be an important means of state control.)

The assortment, quantity and price of goods to be delivered free from quotas would be determined by agreement of the enterprises, within the framework of the pricing principles and general sales terms valid in the foreign trade between CMEA member countries.

The Comprehensive Program has announced in principle the possibility of foreign trade on the basis of value quotas and of that free from quotas and set the task of the work and the analyses necessary for practical realization.

Now, the economic and organizing work of member countries and of the organs of the CMEA is needed. Experience and analyses of the period since the approval of the Comprehensive Program have proven that progress toward the assertion of trade according to value quotas and that free from quotas is possible only if modifications are made both on the level of international regulations, further, if efforts are made to create the economic background (reserves of products, materials and production capacities) necessary for such trade. Economic conditions for a certain progress are already given, a greater advancement needs more preparation. Certainly, even with the best of intentions and willingness, progress can be but gradual.

In order to attain such an organizational order of economic relations between the CMEA member countries under which state-level agreements and physical restrictions are limited to the inevitably necessary sphere and a considerable part of mutual shipments are

made within the framework of relations between enterprises with an increased role of economic intstruments, among them of money, serious preparations are needed. However, these preparations are worth making, as they might lead to a greater efficiency of the national economy of each country, and, to a simultaneous, rapid improvement of their mutual economic relations.

Monetary and financial steps to be taken

Assignment of claims. As long as the economic relations between CMEA countries are characterized by the bilateral balancing of trade, and by quotas in physical terms, introduction of the *assignment of bilateral claims among countries* seems reasonable in the monetary and financial settlements between member countries.

In some more detail, this means that any CMEA member country obtaining a claim in transferable roubles for a shipment of some commodity or for some service provided (this claim being recorded in the detailed accounts kept with the International Bank for Economic Cooperation) would be entitled to transfer (cede) this claim to another member country, thus changing the beneficiary in bilateral relations. In other words, against the goods delivered to a specific bilateral partner, the buyer would have to remit to a country other than the supplier.

When setting the rules for the assignment of bilateral claims it should be determined also whether the previous consent or notification of the debtor country is necessary. In the light of the general rules of international economic relations it seems by no means justified to make the cession of the claim dependent upon the consent of the debtor country, as this would only slow down the transaction. However, with regard to the nature of the economic cooperation and international accounting within the CMEA, it seems advisable that the International Bank for Economic Cooperation as well as the debtor country (or its designated bank) should be notified about a transfer effected.

Institutionalization of the assignment of claims could open the way for the emergence of commodity and financial transactions and settlements involving three or more countries, even under the system of bilateral balancing and physical quotas in the trade between member countries. In this way, such opportunities of commodity purchases could be explored as would remain otherwise hidden during a given period.

Transferability. When money acquires a greater role in the economic relations among CMEA member countries, functioning as a general equivalent and general means of purchase in a relatively major sphere of international commodity exchange, *the realization of transferability will become possible and expedient as well.*

The changed role of money (of the international money, the transferable rouble) will assert itself in that it will be the general equivalent and general means of purchase itself (without being attached to bilateral relations). It will be money for which its owner will be able to purchase in any member country (planned quotas in physical terms will be

restricted to commodities of primary importance for the national economies); thus, the member countries and their enterprises will be economically interested in selling goods for this money. A more abundant supply will be made possible by the material production of the member countries. It is also conceivable that the foreign trade prices will, as a rule, be affected by supply and demand as well.

Under such circumstances the international exchange of goods would take place as a series of commodity-money and money-commodity transactions. The exchange of goods against goods would cease, with the circulation of money being more than a passive concomitant of trading in commodities.

Money could and would move independently as well. The transferable rouble issued by the International Bank for Economic Cooperation would be money in the full sense, a general equivalent, and a general means of purchase. This would require adequate changes in the regulation of currency issue as well.

As soon as money becomes a general equivalent, a general means of purchase itself, moving independently, its *transfer between the designated banks of different countries becomes reasonable* and, for several reasons, economically *justifiable.*

As I see it, the system of international settlements within the CMEA will meet the basic principles formulated at the time of its creation only if transferability in the above sense will be made possible. Only then can the international money of the CMEA, the transferable rouble live up to its name, and become really transferable.

Compensation of balances. When the development of the economic instruments used in the economic relations of the CMEA countries, and within them, of their monetary and financial regulation system, reaches the level on which only a part of the commodity exchange of member countries remains determined in physical terms and the greater, or at least, a significant proportion is transacted on the basis of commodity (market) and money relations, against an actively functioning money, then the mutual *compensation of bilateral balances will be reasonably integrated into the system of financial settlements of the member countries.*

This would mean that all CMEA member countries having credit balance on the basis of bilateral foreign trade shipments with one or more member countries as well as debit balances with shipments with one or more member countries could partly or wholly settle these balances periodically on a multilateral basis, by mutual compensation.

The mutual compensation of balances is a sensible form of financial settlements in multilateral clearing systems. Practical experience is available concerning such systems of settlements, for instance, from the former operation of the European Payments Union. Although the economic environment is different in the socialist community, the reasonable elements of the compensation of balances might be utilized. The counter-argument is unfounded, according to which all receipts and expenses, credits and debits in transferable roubles of the state banks of CMEA member countries are synthetized in the accounts kept with the International Bank for Economic Cooperation and, consequently, the receipts, expenses and balances emerging in bilateral relations are of no significance. In reality, namely, as has been described above, the importance of bilateral

development and recording of the economic relations has not been eliminated; on the contrary, a rigid bilateral balancing is characteristic.

Utilization of interest receipts. Although the International Bank for Economic Cooperation credits the accounts of the member banks according to their credit balances (deposits) with an interest, for the time being the member countries are not interested in keeping considerable amounts of trasferable roubles on their accounts, in placing deposits with the Bank. One of the reasons is that the interest receipts of the member countries from the International Bank for Economic Cooperation are credits that cannot be transformed into bilateral claims and, thus, no commodity can be purchased for them.

In the short run, interests could be mobilized by distributing the interests paid by debtor countries among those who place credits with the International Bank for Economic Cooperation in the forms of current account or deposits (substracting the margin between interest after deposits and on credits, due to the Bank). In this way the credit receipts of the creditor countries could be transformed into claims against definite countries and could be exchanged for commodities in bilateral relations. Such an accounting of interest would also make the raising of interest rates after deposits attractive, thus mobilizing monetary reserves.

Of course, I regard such an accounting of interest appropriate only under the *present conditions.* When money acquires the role of general equivalent, a general means of purchase in a wide sphere of commodities, this rather artificial mode of accounting interests will become superfluous.

Utilizing credit sources. As has been indicated in [1] the utilization of credits provided by the International Investment Bank (IIB) in transferable roubles is rather cumbersome, sometimes impossible. These credits cannot be spent on buying in CMEA member countries products – machinery, engines, vehicles, materials – that are produced in considerable quantities both for domestic use and for export.

The analyses carried out in the organs of the CMEA pointed out that the reasons of this deficiency lie in national economic planning and is the inappropriate collation of plans; more exactly, in that the bilateral coordination of plans is completed without taking into account the product coverage of credits provided by the IIB. The studies elaborated and approved by the organs of the CMEA suggest to surmount the problem by means of such collation of plans as would reckon with the commodity coverage of credits granted by the IIB.

In reality, however, the problem is far beyond being a technical one: it is rooted in the lack, and even conflict, of interests. A CMEA member country delivering goods (machinery, equipment, materials etc.) against the credit provided by the IIB is unable to spend the transferable roubles received on the purchase of goods as it cannot turn with its claim to any of its bilateral partners. If it still supplies the goods, it become finally a real investment creditor against intentions.

The difficulties in the utilization of credits provided by the International Investment Bank stem from the present system of the economic relations and accounting of the CMEA; from the fact that the relations between individual member countries are

bilaterally planned in physical terms. For a smooth utilization of the credits provided by the Bank, activation of the role of money is needed in the economic relations within the CMEA. (As the content of this development process has been elaborated above, I need not repeat it in this place.)

Can we do anything for the utilization of the credits provided by the IIB before the role of money becomes actually greater in the economic relations between CMEA member countries?

In my opinion, as long as the planning, organization and accounting of the commodity shipments are done according to the present system, the commodity coverage of the credits granted by the IIB can be efficiently provided only if the Bank is given privileged rights to order machinery, instruments and investment materials in individual CMEA member countries, in proportion to the contribution of member countries to the capital and the special funds of the Bank and to the extent of credits provided for the Bank.

The International Investment Bank should be entitled to use its privileged right of ordering also for buying goods with the purpose of passing them on for the realization of the investments credited. This could greatly improve the conditions for the operation of the Bank.

Joint investments. Experience of recent years suggests that the CMEA member countries will regularly pool their resources for the realization of joint investments in the future as well. A joint investment is financed by the interested country or countries through interstate loans provided for the country on whose territory the investment is realized. These countries also undertake the shipment of certain machines, construction materials, and other goods, or the performance of construction and mounting works. In compensation, the country using the loan undertakes the delivery of a definite quantity of certain goods through a given period. Such shipments are settled in the usual order of foreign trade.

As regards the established practice, two factors deserve rethinking and pondering.

One is the rate of interest on credits. In the light of the usual terms of the international money market, maintenance of the present low – 2 to 3 per cent – rate of interest seems unjustified, its raising, perhaps even to its multiple, seems reasonable.

The other problem is the pricing of commodities to be delivered against the loan. Under circumstances involving common efforts of the cooperating countries in realizing the production capacities, the use of world market prices (prices on the main market) without correction is not justified. This is also contrary to the usage of the world market: it is a widespread practice that those participating in the creation of the production capacities enjoy preferential prices. In whatever way we approach the problem, it seems justified that the price applied to shipments serving the repayment of loans should be preferential, significantly lower than foreign trade prices formed in the usual way. (In determining the measure of the price reduction, the national costs of production might be taken into account.)

On the exchangeability of the collective and national currencies of the CMEA-member countries

A currency is exhangeable when the money-holders are entitled to buy other currencies in exchange for the money they have and they are also entitled to dispose of the currency they got.

According to this general formulation the notions of exchangeability and convertibility are identical.*

The question of the exchangeability (convertibility) within the CMEA community has the following five aspects:

1. exchangeability of the transferable rouble for the national currencies of the CMEA countries an *conversely*;

2. mutual exchangeability of the national currencies;

3. exchangeability of the transferable rouble for convertible currencies of countries outside the CMEA;

4. exchangeability of the national currencies of CMEA member countries for those of countries outside the CMEA;

5. exchangeability of the currencies within the frameworks of the international transfer of citizens and of tourism.

In my opinion, transferability within the CMEA should be treated separately from its extension to other countries.

Whichever of the above degrees of exchangeability is aimed at, its realization is possible only if on the one hand, an efficient development of international economic relations requires it, and, on the other hand, only if the conditions of its realization are provided. Let us consider in turn the degrees of convertibility.

At present, the commodity exchange between CMEA member countries is realized so that the foreign trade prices are set primarily in transferable roubles, deliveries are mutually planned and laid down in foreign trade agreements. Neither the collective currency, nor the national currency of any of the member countries emerges as a means of purchase on the national market of another member country. Consequently, for the time being, the exchange of transferable roubles for the national currencies of the member countries is not necessary. However, as soon as money becomes active in the mutual economic relations of the CMEA member countries in the above described way, it will be necessary that the individual member countries and their enterprises should be able to buy the national currency of another member country against their own national

*According to experiences of countries where it has been realized, convertibility has several degrees. It may be restricted to those regarded as foreigners by the exchange rules, but it may be extended to residents as well; it may be effective in the accounting of foreign trade and other items of the balance of payments, while capital transfers may be subject to special permits. Convertibility may be restricted to transfers between central banks, or may be extended to other banks as well. When analyzing the possibility of exchangeability, and convertibility within the CMEA community, a stand must be taken also as to the degree of convertibility to be attained.

currency or transferable roubles at their disposal, that is, that they may exchange currencies in order to buy the required goods from the foreign enterprises against the national currency thus acquired.

For the realization of exchangeability within the CMEA changes are need in at least three fields:

– *The material background has to be strengthened.* The supply of goods has to be expanded in the CMEA member countries, especially the production of hitherto scarce commodities has to be increased: the technological standard of the products should be improved; certain reserves of finished products, raw materials and production capacities have to be created, in order that demand might be satisfied adequately and that the internal and external balance of the national economies might be improved.

– *Changes in the national systems of economic management.* The sphere in which production and circulation is regulated by compulsory instructions should be reduced; the state control of production and distribution should be solved with the aid of indirect economic regulators and an adequate system of enterprise stimulation. By pursuing an efficient exchange rate policy, close relations should be established between external and internal prices. The enterprises should be enabled to take an active part in the initiation of foreign trade transactions as well as in their conclusion and realization.

– *Transformation of the regulations and economic instruments of international economic relations.* The most salient fields of the necessary changes are: restriction of the range of products exchanged on the basis of physical quotas to the articles of key importance for the reproduction of the national economies and for the supply of the needs of the population; regulation of an important proportion of foreign trade by quotas determined in terms of value or without quotas at all; a more flexible pricing leaving room for bargaining, in order to influence demand and supply, while maintaining the general pricing principles.

Changes in the internal control systems and in the methods and instruments of economic cooperation can be accomplished in a short time if the countries decide to take these steps. Creation of the material conditions seems to be a more difficult task, but the related problems should not be exaggerated, as a more efficient economic cooperation does not require unilateral sacrifices from the individual member countries. Although the expansion of available resources is called for, this is more than compensated by increased resources at the disposal of the community. Thus, the exaggerated and one-sided stressing of material conditions to be primarily provided is mistaken in principle, and harmful in practice, since it paralyzes action at a time when it is most important that the countries involved should take steps, and initiate the process improving the efficiency of international socialist cooperation which, through the reserves mobilized by it, can give a further impetus to its development.

– In the process of the economic and methodological preparation a solution has to be found for the specific economic problem that certain materials, machines, instruments can be acquired by the CMEA member countries only from outside the community, from developed capitalist countries. Such goods have to be usually paid for in convertible

Western currencies. If CMEA countries are allowed to buy commodities directly from the enterprises of other member countries against their national currency or transferable rouble, such an undesired tendency may emerge that in the liberalized exchange between member countries especially commodities imported from the West and those embodying a large proportion of Western imports will be most sought, resulting in unilateral advantages for the buyer country and involving economic disadvantages (foreign exchange problems) for the seller country.

This problem might be solved by administrative restrictions on the one hand (maintaining quotas for certain articles, export prohibitions) and with economic means (e.g. setting of a surcharge, levy of an export duty, prescription of partial payment in a convertible Western currency etc.) on the other.

In the case of joint investments, joint enterprises, international economic unions etc. calculation of the transferable rouble equivalent of costs incurred in national currencies, that is, their exchange, is already inevitable, although the weight of such ventures is small in comparison to foreign trade turnover.

The role and weight of joint enterprises, international economic unions is to grow in the future. The volume of investments implemented through the joint effort of several countries is certain to remain steady or even increase; this will only add to the necessity of the exchangeability of currencies.

From the economic and political aspects alike, it is a wholly realistic target that the exchange of national currencies for transferable roubles and vice versa as well as the exchange of one national currency to another should be gradually realized, within the community of CMEA member countries, involving increasing amounts and a gradually increasing economic weight.

Activation of the role of money may take the form of the member countries' acquiring through exchange national currencies of other member countries for the purpose of buying or for payments. However, the exchange of transferable roubles for national currencies and *vice versa,* further, the exchange of some national currency for another cannot be unlimited, especially in the initial stage of such relations. The sum of national currencies to be exchanged has to be limited in bilateral relations by agreements between states or central banks. Progress has to be gradual. Restrictions might be removed depending on and in proportion to the strengthening of harmony between supply and demand, as well as with the elimination of the existing structural tensions within the CMEA.

Foreign trading and producing enterprises will be supplied with transferable roubles and the national currencies of other countries by the banks of the member countries for payments in national currency; the latter will transact currency exchanges within the framework of their international banking relations, including those with the International Bank for Economic Cooperation.

Transfers by citizens

The transfer for, or by, citizens to another CMEA country may become necessary especially under the following titles: wages paid for work performed abroad, fees, royalties, to be tranferred to the country of residence; payments in connection with accident, life, and property insurance; international trasfer of revenues from inheritance; aid to relatives living abroad, alimony payments etc.

Tourism between CMEA countries has grown rapidly in recent years and has reached considerable dimensions. Most of the member countries have eliminated the earlier administrative restrictions on the travels of their citizens to other CMEA member countries; this necessitates that the citizens wishing to travel get for their national currency an adequate amount of the currency of the host country.

The major regulators of the transfers and money exchanges of citizens are the non-commercial rates of exchange, the exchange coefficient between the transferable rouble and the Soviet rouble, the interstate limits of conversion, the nationally determined norms for the supply of travelling citizens with the currencies of other countries, levies and bankers' charges.

Regulation of the non-commercial exchange rates of national currencies is based on the principle that the citizen should acquire the same amount of purchasing power in the other country as is represented by the money expressed in the original national currency. The non-commercial rates of exchange of the currencies are regulated by a multilateral interstate agreement. This regulation was changed in October, 1974 in the sense that the member countries may depart from the multilaterally harmonized rates by 10 per cent in both directions by bilateral agreement.

The turnover and balance of non-commercial payments between CMEA member countries is accounted bilaterally by first convering them to Soviet roubles at the non-commercial rates of exchange, and then to transferable roubles with the coefficient between the Soviet and the transferable rouble, thus expressing them in the currency. This latter coefficient reflects the purchasing parity between the Soviet domestic consumer rouble and the transferable rouble. The turnover and balance of non-commercial payments are planned by the CMEA member countries under the same heading as their economic relations.

Transfers between citizens and the exchange of currencies for touristic purposes is still limited by annual interstate agreements in several CMEA countries. However, these sums are already significant and their role will certainly incrase in the coming years.

Exchangeability outside the CMEA

Extension of the exchangeability of the national currencies of CMEA member countries to the currencies of countries outside the CMEA, especially to basic Western currencies, is a question to be decided by each member country in a sovereign way, by

weighing the possibility of creating the necessary conditions, as well as the expectable advantages and disadvantages.

Making the national currency convertible and maintaining this convertibility has definite conditions. The more important ones are:

– adequate monetary reserves for satisfying the demand for conversion and for countering outside pressure for the devaluation of the currency;

– in addition to monetary reserves, adequate international credit supply is needed;

– the exchange rate must be realistic;

– quantitative limitations on foreign trade have to be at least significantly reduced;

it is desirable that the gap between economic development levels of countries having convertible currencies should not be too large;

– the internal purchasing power of the currency should not deteriorate to an extent endangering tis international valuation. (The rise in prices should not be faster than the general rate prevailing in other countries with convertible currencies);

– an active economic policy should be pursued, capable of adequately influencing exchange rates, the price level, the internal and external economic equilibrium.*

Of course, convertibility of any currency presupposes that goods can be purchased for it, relatively free from limitations and hindrances in at least one country (but preferably in several ones).

Declaration of convertibility in relation to Western currencies also presupposes that the country declaring convertibility simultaneously joins in the activities of the relevant international financial institutions (International Monetary Fund, World Bank). A few socialist countries (Yugoslavia, Romania, Vietnam) are members of these international financial institutions at present, and are in credit relations with them. However, none of them has attained the convertibility of her national currency for Western convertible currencies.

Convertibility of the transferable rouble

It is a common cause of the CMEA member countries to be decided in common, how they judge making their collective currency, the transferable rouble, exchangeable for convertible currencies of countries outside the CMEA. If they opt for convertibility, further questions arise: what type of convertibility the find expedient to assert; what preparatory steps should be taken; by what time they regard the introduction of convertibility possible.

The Comprehensive Program does not set this target explicitly, but there are indications in Hungarian literature concerning the possibility of introducing the convertibility of the transferable rouble [3, 4]. My opinion concerning the subject is as follows.

*For a more detailed explanation of the conditions see [2]

As long as the transferable rouble remains basically an accounting unit, in fact only registering the trade turnover agreed and specified in bilateral foreign trade agreements in physical terms, as long as this money fails to play actually the role of general equivalent and general means of purchase, at least in the sphere of a significant part of commodities, the question of exchangeability cannot be raised seriously and in an economically well-founded manner even within the CMEA community, and much less so with regard to the convertible currencies of countries outside the CMEA.

As soon as, through the consent of the member countries, it will have been attained that the collective currency plays a significant economic role in the economic relations between members, as soon as money will play the role of general equivalent and general means of purchase in the majority of foreign trade transactions, as soon as the exchange of national currencies (between different countries and their enterprises) for buying goods will become widespread practice, and only then, it will also become possible that *external convertibility* be introduced and asserted toward third countries having convertible currencies outside the CMEA.

The external exchangeability of the transferable rouble would mean only that the banks and enterprises of countries outside the CMEA could freely exchange their claims in transferable roubles for convertible currencies.

For this external convertibility the International Bank for Economic Cooperation and the central bank of the member countries would have to undertake a joint guarantee for the conversion of claims in transferable roubles into convertible currencies of countries outside the CMEA.

Exchangeability of the CMEA collective currency would allow the settling of account of CMEA and Western countries in this currency, opening thus new ways and mobilizing reserves for the development of economic relations between CMEA member countries and those outside the community.

In order that the mutual exchangeability of the collective currency of the CMEA and convertible currencies of countries outside it should be attained, a great many conditions must be provided. Only after thorough preparations can we expect a lasting, and economically efficient convertibility.

Full convertibility of the transferable rouble, that is, conversion by CMEA member countries of claims in transferable roubles into convertible currencies outside the CMEA cannot, in my opinion, be realized in the foreseeable future.

It is sufficient to indicate a few economic factors:

Demand of the CMEA member countries for Western convertible currencies presently exceeds, and will exceed for a long time, the available sources. Their products, with the exception of materials and foodstuffs, can often be sold on Western markets only in limited quantities or at disadvantageous prices. For this reason, the amount of convertible currency they can obtain through exports is limited. However, vithin the CMEA, a highly dynamic increase of commodity turnover might be attained through planning and conscious organization with the prevailing commodity pattern in several classes of products, under conditions of less strict requirements regarding technological

standards and up-to-dateness than asserted on the world market. It this way, certain countries may accumulate considerable claims for transferable roubles. I believe that, in the foreseeable future, neither the International Bank for Economic Cooperation, nor the designated banks of the CMEA member countries can undertake, under joint liability, to give convertible currency from outside the CMEA against claims of transferable roubles acquired within the CMEA.

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The measures suggested in the monetary and financial fields, the ways and conditions concerning exchangeability of the collective currency and the national currencies are expected to provoke discussion. Of course, some of the concepts, suggestions may be rejected by the discussion while others may be modified. However, if I could contribute however little to the exposition of the economic problems of the monetary and financial tasks facing the CMEA, and especially, if however few of the suggestions are accepted, in Hungary as well as by the CMEA, then my work was not done in vain.

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МНОГОСТОРОННОСТЬ, ПЕРЕВОДИМОСТЬ И КОНВЕРТИРУЕМОСТЬ: ИХ СОДЕРЖАНИЕ И УСЛОВИЯ ИХ ОСУЩЕСТВЛЕНИЯ В СЭВ

И. ВИНЦЕ

Многостороннее балансирование товарооборота между странами-членами СЭВ представляет собой одну из важных задач Комплексной программы социалистической интеграции. В принципе это можно осуществить двояким образом: или путем разработки согласованных по полной спецификации товаров планов международных товаропоставок с учетом многосторонности (планируемая многосторонность), или же посредством существенного увеличения роли денег в международном товарном обращении. По мнению автора, последний способ является более эффективным, более гибким, а поэтому и более целесообразным. Однако это может быть осуществлено лишь в том случае, если будут приняты должные меры как в механизме международного сотрудничества в рамках СЭВ, так и в системах национального хозяйственного управления отдельных стран-членов СЭВ. Необходимы практические мероприятия, чтобы намеченные в Комплексной программе стоимостное контингентирование и бесконтингентное внешнеторговое товарообращение на практике распространялись на существенную часть внешнеторгового оборота.

Автор излагает конкретные предложения относительно мер, которых следовало бы принять в области валютно-финансовых, а также организационных и экономических условий их осуществления. Так он предлагает предоставить возможность для передачи причитающейся задолженности третьей стране (обратимость), характеризирует условия, требующиеся для осуществления переводимости; занимается вопросами, связанными с содержанием и условиями компенсации сальдо; предлагает определенные мероприятия в интересах обеспечения возможности использования процентов, начисляемых МБЭС, а также меры по осуществлению товарного обеспечения кредитов Международного инвестиционного банка.

Понятие конвертируемости в рамках стран-членов СЭВ является довольно многогранным.

По мнению автора, категорию конвертируемости следует рассматривать обособлению в рамках СЭВ и в экономических взаимосвязах вне СЭВ.

В настоящее время конвертируемость национальных валют стран-членов СЭВ осуществляется в планируемых рамках в международном туристическом обращении и в сфере неторговых платежей.

Автор читает экономически правильным, рациональным и возможным, чтобы – после создания необходимых условий – в рамках СЭВ и в экономической сфере осуществлялась конвертируемость национальных валют стран-членов между собой, а также между национальными валютами и коллективной валютой – переводным рублем.

Он считает также возможным, чтобы – если с этим будут согласны страны-члены СЭВ и если свое намерение они обоснуют коллективной гарантией, – была создана и конвертируемость коллективной валюты СЭВ – переводного рубля – по отношению к конвертируемым валютам стран, не входящих в СЭВ, но только для банков и юридических лиц этих не входящих в СЭВ стран. Это был бы специфический вид конвертируемости. Однако в ближайшем будущем автор не видит возможности для того, чтобы конвертируемость переводного рубля на конвертируемые валюты третьих стран осуществилась и для стран-членов СЭВ.

Возможное введение конвертируемости национальных валют стран-членов СЭВ на валюты третьих стран автор считает таким вопросом, решение которого входит в компетенцию исключительно лишь руководящих органов отдельных стран.

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MAJOR SPECIALIZATION TENDENCIES OF HUNGARIAN EXPORTS TO THE WEST

Accelerating changes in the structure of world economy observed during the past ten years, the growing assertion of Common Market effects, as well as the intensive period of Hungarian economic growth and the increasing export orientation of Hungarian development policies and the economic control system justify the inquiry, how the changes in world economy and in Hungarian economy are reflected in Hungarian exports to the West.

The period since 1965 has been the most dynamic long phase in the development of Hungarian foreign trade. According to UN data, the total value of Hungarian exports rose from $1.5 thousand million to $6.4 thousand million between 1965 and 1976, and within it the value of exports to developed market economies from $0.3 thousand million to $1.5 thousand million. Within the total amount of Hungarian exports calculated at current Forint prices the share of Western countries rose from 21.4 per cent to 31.5 per cent. If the effect of world market price changes is disregarded, the yearly average real growth rate of exports may be put at 9.3 per cent, or, a unit growth of national income was concomitant with 1.75 units growth of exports. These dynamics show it clearly, to what important extent the role of participation in the international division of labour has grown in Hungarian economic development. As a consequence of the development trends emerging in the past ten years, almost 50 per cent of Hungarian national income is now realized through exports which indicates a very high degree of foreign trade sensitivity by international comparison, and particularly relative to the CMEA countries.

Although through foreign economic relations with the CMEA countries world economic effects reach Hungarian economy only in an indirect and softened form, and with a time lag, in relations maintained with Western countries the processes of the world market and world politics are directely reflected. From the aspect of the growth patterns of the Hungarian economy, its control system, and the development policy priorities, it is not at all an indifferent factor that Hungarian exports to the West realized about one-sixth of the national income in 1976, in comparison to the 6–7 per cent in the average of the 1950s. On the world average the ratio of exports to commodity production and services amounts to about 14–15 per cent. Hungary shows thus an above-average foreign trade sensitivity already on the basis of her trade with developed market economies, exposed to direct market effects.

The dynamics of Hungarian exports were accompanied by considerable *structural* transformation in connexion with international and domestic factors. In the total volume of Hungarian exports the share of industrial articles (with a view to international comparability now and in what follows the Standard International Trade Classification,

Table 1

Share of Hungary in	1938	1965	1970	1975	1976
	(percentages)				
– world exports	0.66	0.8	0.74	0.70	0.67
– total imports of developed market economies	–	0.2	0.2	0.2	0.2
– agrarian imports of developed market economies	–	0.6	0.7	0.56	–
– industrial imports of developed market economies	–	0.16	0.17	0.21	–
– CMEA countries' exports to Western countries	–	7.8	8.8	6.9	6.8

Source: UN Yearbook of International Trade Statistics; OECD Foreign Trade Statistics

SITC, will be used) went down from 74 per cent to 72 per cent between 1965 and 1976, while in Hungarian exports to developed market economies it rose from 36.6 per cent to 55.4 per cent. The structural transformation of exports indicates modification of the traditional Hungarian specialization: from the 1970s Hungary appears as an exporter of industrial articles also in the division of labour with Western countries, and her foreign economic relations are shaped mainly by the international *industrial* division of labour. The extent of this structural change is in itself an achievement remarkable also by international comparison.

The evaluation of results reflected by the transformation of the export structure is made easier by looking at the international market positions of Hungary.

The development of the international market positions of Hungary calls attention to several processes of high importance. Despite their dynamic growth and structural transformation the world economic importance of the Hungarian economy and its foreign trade has remained practically the same. This is a rather rare phenomenon in the group of small countries or in countries opening intensively towards the world economy. Since 1970 the share of the country has been decreasing in the total imports of the Western countries – particularly in their agrarian imports –, and also in their imports from CMEA countries.

Thus the structural transformation of Hungarian exports to the West reflects the increased export-orientation of Hungarian industrial development only partially. The decreasing market share is to some extent connected with the relative weakening of the agricultural market position, and with the consequences of the agricultural protectionism of the Common Market, or of Hungarian commodity supply problems. The development of the relative position on the market of industrial articles shows that the expansion of

Hungarian exports is more reflective of the Hungarian economic policy effects, frequently "forced reactions", and of a certain regrouping of resources than of an increasing international competitiveness. Hungarian positions in East-West trade also indicate that the development of relations with both the advanced Western and the developing countries, as well as with the community of the CMEA countries still hides unexploited market reserves.

Product pattern characteristics of Hungarian exports to advanced Western countries

The past ten years represented, with the exception of 1975, a dynamic period not only for the Hungarian foreign trade but also for world trade: the structural transformation of both has accelerated. That is why it is useful to closely examine the characteristics of specialization which play a role in the international market positions of Hungary. In the following we shall centre our attention on the trends emerging in the exports of industrial articles, since today these make up the bulk of Hungarian exports to non-socialist countries. Also the recent development trends of world economy have created a new situation mainly in the industrial division of labour, and this field is as yet much less surveyed than the trade in agricultural products.

The most important change in the product pattern of Hungarian exports is the disappearance of the one-time agrarian character, the reduction to half of the share of agricultural products, which reflect partly the fall in live-animal exports since 1973, and partly the stagnation of vegetable and fruit exports. These unfavourable market developments could not be counterbalanced by the expansion of Hungarian canned food, fodder, spice, and wine exports: the agricultural exports of 1976 did not reach those of 1973 even at current prices. On the other side, however, the export of primary energy and its share in exports have considerably grown.

As a consequence of the stagnation of agricultural exports, since 1974 it has been industrial products that constitute the larger share of Hungarian exports to developed market economies. The exports of chemicals have grown particularly fast, their share in trade has more than doubled, and surpassed even the share in world trade. The share of steel products has also been growing at a rate above the average, and surpasses the average share in world trade, too. The high share of light industrial consumer goods that had developed by the middle of the last ten years (one-eighth of exports) was further increased by the expansion of products of the clothing industry until 1974. As a result of the development rate of machinery exports far above the average, the share of this category in exports to the Western countries surpassed by the mid-1970s the Hungarian share of before World War II. It is particularly the exports of road motor vehicles, products of the shipbuilding industry, special industrial machines, television receivers, domestic appliances, electric mass articles and parts that showed a higher than average rate of development.

Table 2

Commodity pattern of Hungarian exports to advanced Western countries (in percentage of exports)

	1965	1970	1973	1976
Total exports (mill.$)	279	533	1099	1563
Agricultural products	47.8	40.2	38.1	25.2
Live animals	17.5	15.6	16.6	5.1
Meat and preparations	13.1	11.1	10.6	9.5
Dairy-products, eggs	3.0	1.3	0.5	0.8
Cereals	0.3	0.3	0.7	0.7
Fruit and vegetables	8.7	5.7	6.0	4.1
Spices	1.0	0.8	0.7	1.3
Animal feeding-staff	0.1	0.5	0.9	1.9
Beverages	0.8	0.9	0.1	1.0
Raw materials	9.7	11.6	9.3	10.3
Mineral fuels	3.2	2.6	1.7	7.9
Oils and fats	1.7	1.3	1.3	1.1
Chemicals	4.2	5.3	5.1	9.4
Organic chemicals	2.2	3.2	3.2	2.3
Pharmaceutical products	1.2	1.1	1.0	3.1
Fertilizers	–	0.1	0.3	1.5
Machinery and transport equipment	4.6	6.9	6.9	10.6
Power generating machinery	–	0.2	0.1	0.9
Metal working machinery	0.8	0.8	0.4	0.7
Electric power machinery	0.4	0.6	0.7	.
Telecommunications equipment	0.5	0.5	0.9	0.5
Electric bulbs	0.8	1.0	1.4	.
Road motor vehicles	0.0	0.3	0.3	1.2
Bicycles	0.3	0.3	0.2	.
Instruments	0.4	0.5	0.3	0.4
Other industrial articles	27.8	31.1	36.9	35.4
Iron and steel	8.7	9.9	9.2	11.6
Non-ferrous metals	2.1	2.6	4.1	3.5
Manufactures of metal	0.6	1.5	1.5	.
Furniture	1.1	1.0	1.2	1.2
Textiles	4.9	4.0	3.9	4.3
Clothing	3.8	5.9	10.5	6.0
Leather manufactures	0.6	0.7	0.8	0.9
Shoes	1.0	0.9	0.9	0.8
Total exports	100.0	100.0	100.0	100.0

Source: OECD Trade by Commodities, Series "C", 1965–70–73; Foreign Trade Statistical Yearbook 1976, Central Statistical Office, Budapest

I do not think it useful to examine the correlation between the profitability and structural changes in the framework of our present analysis, since profitability computations are usually made at current domestic prices, and are by no means free from the distortions of the price system, as well as from the deficiencies of the Hungarian income regulation methods applied to enterprises. It is, however, a remarkable international phenomenon that in the light industrial and metallurgical branches – supplying over three-fifths of Hungarian industrial exports – in the big Western countries the returns on capital investments fell to 0 to 3 per cent in the 1970s.

Examination of the structure according to the degree of *processing* reveals a certain improvement, e.g. within exports of the agrarian block the share of food products is on the increase, just as that of clothing within the textile and clothing sector. The present degree of processing, however, is still rather unfavourable by international comparison. One-tenth of Hungarian agricultural exports is made up of canned food. Hungarian exports of chemicals consist mainly of semi-finished products, pharmaceutical exports mainly of basic materials, and machinery exports mainly of mass products. The degree of processing of the dynamically rising Hungarian ferrous steel exports is well demonstrated by the fact that in 1975 the general unit price of Hungarian steel plate imports was DFt* 3708/ton as opposed to the export price of DFt 1963/ton of the Hungarian product, and in the case of tubes e.g. the average import price of DFt amounted to 16.913/ton as compared to an export price of only DFt 4609/ton. In general, in all items of Hungarian foreign trade in rolled articles the import prices surpassed considerably the export prices, which indicates first of all a low degree of processing. [1]

Raising of the degree of processing is of high importance not only from the point of view of increasing domestic net income, but also for the maximization of export earnings and the security of development. The continuous exports of manufactured products relying on import materials is gravely disturbed by the fact that it is raw materials and semi-finished goods whose price level shows the highest market sensitivity, and the socialist enterprises accustomed to the "stable" climate of planned economy can cope with the consequences of a fluctuating price level with much greater difficulty than do e.g. capitalist enterprises. Vertical industrialization based on processing local resources, and the corresponding specialization are – *ceteris paribus* – much more important for the small socialist countries than they are for developed market economies. It is a further problem that raw material import costs can be fully recovered in the exports of manufactured goods using imported materials mostly in the case only of a much better than average market activity and market organization. Vertical development may be neglected if the national economic profitability of the direct and indirect inputs of intermediate phases is unfavourable.

Specialization gives an indication also of the nature of the division of labour with advanced Western countries. Before World War II about five-sixths of Hungarian foreign trade meant an *intersectoral division* of labour: first of all between agriculture and

*(DFt = foreign exchange forint, the accounting unit used in foreign trade up to 1975.)

industry. Certain large enterprises, however, mainly in machine building, developed an increasing division of labour within the sector with their foreign partners. In the period following World War II the division of labour within the sector became the main driving force of world trade, first of all of foreign trade among industrially developed countries.

The intersectoral character of Hungarian foreign trade with developed market economies did not change practically up to the end of the last ten years. In his study "Commodity pattern of Hungarian foreign trade" [2] Márton *Tardos* stresses the low average ratio of intrasectoral specialization (22 per cent according to the input–output table for 1972) as a characteristic feature of Hungarian foreign trade; within the national average, however, exports directed to Western countries include relations within the sector to a much smaller extent.

The exported agricultural products and light industrial articles had a foreign exchange earning function: imports made up hardly 15 per cent of exports transacted in the categories in 1970. Substitution of Western imports for products not producible economically, satisfaction of new needs from import resources, exchange of assortments, and rationalization of the product pattern started on a large scale in the 1970s, but halted after 1973. Therefore, they can promote only to a limited extent that, beyond acquiring shortage articles and exporting counter items, foreign trade should also mean a division of labour, that it should release growth reserves, and that imports should serve the development of exports to a greater extent.

Specialization is well highlighted also by the *product concentration.* It is a general tendency that in the exports of countries joining the international division of labour on a larger scale the spectrum of products is, as a consequence of a sharper world market competition, necessarily smaller than in production. In small countries the product concentration of exports is much higher than in big countries. Its importance becomes evident particularly if a country participates in the international division of labour mainly with industrial products, since the latter react much more sensitively on the aspects of the economies of scale in the spheres of both production and trade, than do e.g. agricultural products. In the small West European advanced countries e.g. the most important export product makes up 10 to 30 per cent of exports, and the five most important ones make up 40 to 50 per cent. A more diversified export structure is characteristic generally of big countries.

In the case of Hungary the low degree of product concentration, i.e. the lack of leading export products indicates the weakness of export specialization. The share of siderurgical products in exports to Western countries amounts to 12 per cent, and that of the five most important groups of products (steel and petroleum products, clothing, live-animals, textiles) to 34 per cent. The aggregate share of a further ten important groups of products amounted to about 25 per cent of exports in 1976.

The low degree of concentration is particularly conspicuous in the category of engineering products in which, because of high specific commercialization costs, it is not worth doing exports below a certain trade volume, and the rational sales of an ever

increasing number of engineering products can be conceived only on markets with an absorption-capacity of many million dollars.

Although, as regards the whole of Hungarian machine exports, a considerable concentration is observable between 1968 and 1975, in exports to the West the value of the Gini-Hirschmann concentration coefficient remained unchanged and so did the number of the most important groups of products, i.e. 32. [3]

Small countries generally try to improve or influence their market position by intensifying concentration. Swiss positions on the international watch market are a consequence of product concentration, just as are Dutch positions on the market of electric therapeutical equipments and telecommunication appliances, Swedish positions in ball bearings, Spanish positions in ships and Finnish positions on the international paper market.

As a consequence of low product concentration the Hungarian market share in the imports of OECD countries reaches 5 per cent only on the not too important salami market, it approaches 3 per cent on the electric bulb market, 2 per cent on the tinned meat market, and about 1 per cent on the markets of aluminium, glass and clothing. Since 1965 the share of Hungarian articles in OECD imports fell from 0.5 per cent to 0.3 per cent in pharmaceuticals and shoes, from 0.5 per cent to 0.2 per cent in TV sets, from 0.8 per cent to 0.5 per cent in furniture, from 1 per cent to 0.7 per cent in sporting articles.

Hungarian market positions strengthened within OECD imports in organic chemicals (from 0.2 per cent to 0.4 per cent), steel products (from 0.4 to 0.6 per cent), household electric appliances (from 0 to 0.2 per cent), electric bulbs (from 1.5 to 2.7 per cent), tinned meat (from 1 per cent to 1.6 per cent), aluminium (from 0.7 to 1.2 per cent), clothing (from 0.5 to 1.1 per cent), and leather (from 0 to 0.5 per cent). On the whole, Hungary has had an unchanged 0.1 per cent share in the machinery imports of developed market economies since 1965, a 0.2 per cent share in chemical imports, and her share in the category of other industrial articles has been 0.3 per cent since 1970. Because of these marginal positions a market influencing role cannot be established and, thus, there is no alternative to a complete adjustment to market tendencies and requirements.

The index numbers of concentration and specialization may be complemented by an examination according to *sources of growth.* It is a general tendency with small countries that specialization relies – with a view to reducing the diseconomies of scale inherent in small national economic dimensions – to a much larger extent on advantages deriving from georgraphical conditions, and production traditions. Accordingly, in the concentration according to groups of products the share of agricultural products, raw materials, semi-finished and finished products having a local material basis is higher than the average would be according to development level. In the case of Hungary this tendency is marked first of all by the comparatively high share of agricultural and food industry products, and of aluminium. Round half of Hungarian exports to the western countries is still based on comparative advantages deriving from natural geographical conditions. The considerable weight of steel and chemical semi-finished products having

no local material basis is, however, exceptional, since the exports of these capital-intensive products with a pay-off period well above the average can be considerable on an international scale only in the case of highly favourable transport and energy production possibilities, a relative abundance of capital, or a particularly strong market organization. The similarly raw-material-intensive textile and clothing industry, and partly also the leather- and furniture industries are also built in Hungary on foreign raw materials. With no local raw material basis, specialization for exports of these products may be explained, in accordance with international experience, by labour intensity i.e. comparative wage advantages, and also by the fact that the competitiveness of products with lower technical requirements is usually guaranteed by a strongly depressed wage level. Data are not available for an international comparison of the labour-, capital, and natural resource-intensities of Hungarian industrial sectors and subsectors.

The most recent comprehensive picture of the factor-intensity of the most important products participating in international trade is provided by Béla *Balassa's* computations [4], covering factor-intensity on basis of the 1972 average of 184 product categories of 36 countries.

The factor-intensity proportions of the above-listed products making up over two-fifths of Hungarian exports to the West in 1973, and more than 80 per cent of exports of industrial arrticles show that about two-fifths of Hungarian exports of industrial articles are contributed by simple, labour-intensive, light industrial consumer articles of a lower sectoral wage level. Over half of the products in sectors with a wage level above the average (glassware, organic chemicals, medicaments, machinery, metallurgical products) are much more real capital-intensive than the average. From the point of view of the combined proportions of capital-intensity, wage level, and value added the TV, instruments, refrigerators, medical appliances and equipment, machine tools, medicaments and ships may be considered as favourable, these products make up, however, 8 to 12 per cent of Hungarian exports.

In general, international practice considers the following products to be most raw material- and energy-intensive, in the order as follows: chemicals, cement, metallurgical products, wood and paper products. The textile, clothing, leather, and food products demand simple labour, while aircrafts, ships, public transport vehicles, non-electric, and electric machinery require qualified labour. Aircrafts, electric machines, pharmaceutical and precision engineering products are research-intensive.

On the basis of international accounting methods about five-sixths of Hungarian exports are raw-material-intensive, half of which rely on a domestic raw material basis. Products that are highly energy-intensive on an international average (metallurgical products, chemicals, aluminium, certain agricultural products) constitute about 40 to 50 per cent of exports. Light industrial products requiring simple labour and using primarily imported materials make up about 15 per cent of exports.

A characteristic feature of Hungarian economic development after World War II was an intensive quantitative development of education and vocational training, and the development of research capacities of considerable proportions also on an international

Table 3

Factor-intensity proportions of the most important groups of products

Product	Real capital investment	Per capita human capital investment $1 000	Value added	Wages	Ratio of real to human capital investments $ (%)
Cotton fabrics	13.2	23.8	10.0	6.6	55
Women's and children's clothing	2.1	12.5	8.6	5.2	17
Leather	7.5	23.8	12.3	7.5	31
Shoes	2.2	1.6	9.0	5.6	141
Furniture	4.5	21.7	11.0	6.7	21
Glassware	35.6	49.7	23.1	11.1	72
Organic chemicals	75.4	48.7	37.1	11.6	155
Medicaments	17.7	42.3	38.9	10.9	42
Fertilizers	39.7	10.7	19.3	7.7	124
Ferrous steel metallurgical products	37.9	31.1	17.4	10.6	122
Aluminium	32.9	30.1	15.7	10.0	110
Metal products	6.9	27.3	13.9	8.6	25
Machine tools	11.6	41.4	16.5	10.9	28
Electromotors, generators	8.5	28.4	14.3	8.9	30
Radio and TV equipment	5.5	43.0	15.1	10.1	12
Electric lamps	9.8	13.1	17.8	7.1	75
Refrigerators	8.9	33.6	17.8	9.2	26
Transport vehicles	13.2	25.9	24.7	11.1	51
Bicycles	5.9	15.3	12.1	7.7	39
Ships	5.7	32.1	10.1	9.4	18
Scientific instruments	6.0	35.2	14.4	9.0	17
Medical appliances and equipment	6.5	25.2	16.8	8.0	26

scale. (The rate of research workers surpasses 1 per cent of those employed; research inputs amount to about 2.5–3 per cent of the national income.) The commodity pattern of exports to Western countries does not testify to the exploitation of comparative advantages latent in the qualification standards and the relative wage level of the Hungarian labour force. The weight of machine industrial sectors requiring much highly qualified labour (vehicle industry) reaches hardly 2 per cent, that of research-intensive sectors 8 per cent. The share of pharmaceutical products (mostly basic materials) having important traditions and highly research-intensive, is low.

We do not find such export-carrying products, in which Hungarian exports would rely on the advantages of mass production made in principle possible by the socialist large-scale industrial organization. At the same time, the weight of individual special products playing otherwise an important role in the specialization of small developed countries is marginal. In another approach, the share of products equally satisfying the criteria of technical-structural development and world market compatibility (e.g. machine tools, buses and parts, vacuum technical products, medical instruments, optical instruments) is also slight. Summing up: only about 30 to 40 per cent of Hungarian exports to the West are supported by such natural conditions or potentials of the qualification level which may be asserted also in the long run and adequate exploitation favourably influences the course of the economic development.

Of course, the product-centred, or sector-centred structural analysis does not give in itself, and particularly at a higher level of the division of labour, a full picture of the growth interrelations of specialization, and of the phase-level development of comparative advantage. The examination of foreign trade according to *value-added* provides interesting complementary proofs. Calculations made using the data of the 1971 input-output table show that Ft 1 million Hungarian exports to the dollar area engaged on average 15.4 workers Ft 1.96 million capital as opposed to the average number of 13 workers and Ft 1.53 million of capital in the productive branches on average and to the 14.6 workers Ft 2.01 million capital engaged in the substitution of imports from the dollar area. [5] Hungarian exports are much more capital-intensive than labour-intensive on national economic average, which is not at all favourable for a country poor in capital and wishing to rely on her advantages coming from a favourable endowment with skilled labour and the wage level. According to international experience, for a small country it is not self-evident, either, that the labour- and capital-intensity indicators of export-producing and import-substituting branches should be that close to each other. The proportions necessarily constraining the growth generating effect of exports also indicate that unexplored reserves are considerable in the field of specialization.

This multidimensional examination of the commodity pattern of Hungarian exports shows, therefore, that while the Hungarian export structure went through important changes during the last decade, it still shows a large number of *irregular features* in relation to the Hungarian sources of growth, its development level, and considering certain international norms of experience. The specialization features of exports are not at all exemplary, they do not reflect the particularities that would be expectable on the basis of the size of the economy, its development level, its endowment with growth resources, or considering the predominance of large-scale work organization inherent in the socialist system of economy, and it is only the extent of reliance on natural conditions that approaches what is desirable.

Effect of recent world economic developments

The world economic processes emerging since 1973–74, and the internationally large-scale deterioration in the terms of Hungarian trade up to the present day have made it dramatically obvious, to what great extent Hungarian socio-economic development depends on the character of the Hungarian participation in the international division of labour. As regards evaluation of these developments, however, interpretations differ. Certain views associate the problems of Hungarian economy and foreign trade only with exogenous factors independent of the country, such as the price explosion, recession, in Western countries inflation, and a certain cooling in East-West political relations, and they also expect the easing of problems of Hungarian foreign trade from changes in these international processes or in a weakening or modification of such effects. Certain opinions recommend import substitution as a remedy, with reference exactly to foreign economic conditions judged unfavourable in the long perspective, and to international protectionism.

Other analyses again call it to attention that the recent world economic problems could arise with such gravity only with the given technical development level, and with the given economic control system and economic policy attitude. [6]

The latter positions are supported also by several world economic developments. It is an undeniable fact that the world economic price effects of 1973–74 were much more unfavourable in the average of the OECD countries (-13 per cent), and particularly in the case of South-European countries, as well as in Japan, the German Federal Republic, France, Great Britain, Denmark and the U.S. than in the Western sector of Hungarian foreign trade. But the unfavourable consequences of the shift in relative prices could be lessened or counterbalanced by several strongly affected developed market economies through the transformation of their foreign trade structure. More lasting troubles arose mainly in South-European countries, as well as in Great Britain and France, which were less resistant to protectionist traditions and were struggling with uncertainty in decisions on economic policy and politics. Also the phenomenon points to the same direction that the level of Hungarian export prices within certain groups of products was rising slowlier than the world average. Thus e.g., according to a UN statistical investigation, [7] the export prices of developed market economies rose by 92 per cent between 1970 and 1975, and within this the prices of chemicals by 103 per cent, those of machinery by 88 per cent, and of other industrial articles by 76 per cent. The aggregate price level of the finished goods exports of developing countries remained essentially the same in 1976. Hungarian export prices expressed in dollars, however, rose by 85 per cent between 1970 and 1976, and within this the price level of machinery and equipment by only 38 per cent, that of chemicals by 49 per cent, and that of other industrial articles by 84 per cent, and of primary energy by 140 per cent.

Therefore, problems of the Hungarian foreign trade with Western countries cannot be explained solely with the crisis effects, i.e. with the stagnating economic development of the capitalist world. It is an undeniable fact that the economy of Western countries

was practically stagnating in the average of 1974–75, but since the last quarter of 1975 growth started again and in the second half on the present decade the expectable yearly rate of economic growth will lag behind the average of the preceding decade – considered as dynamic – by 0.5–1 per cent at the most. It is also remarkable that foreign trade relations did not diminish even at the trough of the crisis: the volume of imports of developed market economies grew by 12 per cent between 1973 and 1976. In spite of sales conditions becoming difficult, the absorptive capacities could be well used for augmenting exports and strengthening their market positions by countries pursuing dynamic and flexible foreign economic and structural policies as Japan, the Netherlands, the German Federal Republic, and a few other, semi-industrialized countries. It is typical that between 1973 and 1976 Hungarian exports to the West grew by 7 per cent as opposed to a 15 per cent growth of the exports in the Federal Republic. 22 per cent in Austria, 11 per cent in the Netherlands, 25 per cent in Ireland, 30 per cent in Spain, 32 per cent in Greece, 44 per cent in Japan, 46 per cent in Taiwan, and 82 per cent in South Korea, although all the above-mentioned countries, poor in raw materials, suffered from the consequences of deteriorating terms of trade more than the average and more than the Western relations of Hungary. Therefore, the objective world economic tendencies should not be considered as a calamity: they can be largely mitigated through adequate adjustment.

Finally, it cannot be left out of consideration, either, that the price explosion of 1973–74 was practically a natural reaction on the economic policy practice of the 1950s and 1960s, which neglected the development of the extractive sector all over the world and even expropriated most of its surplus value. As a consequence of the improving profitability conditions of the extractive industries, the increasing investment activities in these industries, and the raw material and energy saving technological developments, the terms of trade between raw materials and industrial finished products did not change much in the 1970s, and they became settled at the average level of the early 1950s.

Therefore, one of the most critical points in adjusting to the external conditions of Hungarian economic development is the *growing lagging behind and diminishing competitiveness of the* present *commodity pattern* of exports to the West. The large number of problems does not arise simply from unfavourable changes within the country, or from the slowing down of growth or decision-making, nor from recession effects, but they reflect the *acceleration of lasting structural changes in the world economy.* Without a consideration of these, however, no rational development policy and adjustment is conceivable.

Lasting structural changes influencing Hungarian exports to the West

The structural changes in the world economy and world trade could not be the real cause of any sudden market shock for most of the traditional Hungarian agricultural and food exports to the West. West European agrarian protectionism, and mainly the consequences of the agrarian regulations of the Common Market have been felt already for ten years, and shock effects came only if economic policy was caught unprepared.

The comparatively biggest change in market structure was represented by the expansion of the Common Market, the growing supply of Mediterranean countries in vegetables and fruits, and of Denmark and Ireland in meat products. The consequences of the protectionist agrarian policies of West European countries were, at the same time, counterbalanced to some extent by the growth effect: parallel with increasing incomes, the market of processed or special products satisfying higher quality demands has been very dynamical also in these years. Structural transformation of the Hungarian agricultural supply, and the quantitative and qualitative development of the food industry could guarantee a dynamic development of exports of the agrarian block and the utilization of Hungarian comparative advantages inherent in natural geographic potentials and production traditions also in the future.

From the aspect of the development of the Hungarian economy and exports the fundamental structural change is represented by the *changing conditions of joining the international division of labour.* At present, and in the years following, it is this effect that increasingly asserts itself in Hungarian economic growth. The main market problem of Hungarian exports of industrial articles consisting of light industrial and semi-finished products does not originate in the fact that these branches are structurally outdated and backward. In my earlier works [8] I referred to the fact that the products of branches lagging behind in production and on the home market are not so backward at all in world trade, since an increasing part of the demand for products that have become unprofitable within a national economy and are therefore repressed, is satisfied from import sources, which animates the international markets of products of the lagging behind branches for a long time. The validity of this tendency has not been eliminated by the large-scale structural unemployment with lasting effect that has developed in developed market economies since 1974. The economic policy of Western countries seems to have resigned to a 3 to 6 per cent of structural unemployment (which has, otherwise, always been the accompanying phenomenon of capitalist economic growth with the exception of the period of 1955 to 1973, and even with a much higher rate than the present one), a wider protectionism has not been introduced, and the imports of the sectors lagging behind have been growing dynamically also after 1973.

Changes in supply terms on the world market

Therefore, the rationality of specialization in Hungary's industrial exports is not influenced by the insufficiency and structural weaknesses of external demand, but rather by the changes in international *supply.* Specialization based on "following-up" sectors that were lagging behind in advanced market economies still guaranteed adequate dynamism, structural transformation and profitability for Hungarian exports in the past ten years, since our main competitors on the market of the so-called "price-sensitive" products were at that time the Western lagging behind sectors producing at a much higher cost level than in Hungary, and Japan and Italy. In our decade, partly because of the

changing character of world economic growth, and partly because of the foreign economic policy measures of Western countries, supply conditions have fundamentally changed: competition has grown more intense on the market of products representing over 90 per cent of Hungarian industrial exports.

Changing supply conditions are connected partly with the reassessment of development priorities in a large number of *developing* and *South-European* countries, i.e. their export-orientation. South-European countries have been gradually adjusting their system of incentives and management since the early 1960s to joining the international division of labour and have increased the production of exportable goods extremely fast, and developing countries have been doing the same since the mid-1960s.

Export-orientation in these countries was further promoted by the fact that in the 1970s developed market economies tried, on strategic as well as economic considerations, to attach the growth of semi-industrialized countries to themselves by granting economic policy preferences. Agreements concluded with countries of the Mediterranean region, preferences granted within the GATT and under bilateral contracts, as well as the Lome agreement of 1975 signed with 46 developing countries considerably reduced tariffs and quantitative restrictions on the industrial exports of developing countries. At the same time, chains of direct sales between exporters of developing countries and Western consumers began to build up with the mediation of multinational companies, industrial sectors moving out, as well as through wholesale enterprises and department stores, which facilitated the sales of industrial products of the export-oriented developing and South-European countries also on the micro-economic side.

This process evolved at a much faster rate than it was assumed by the economic policy of either Hungary or the other CMEA countries. The value of industrial exports of developing countries to OECD countries reached only $6.3 thousand million in 1965, and already $32 thousand million in 1976; estimations for 1985 reckon with industrial exports of $60–75 thousand million at unchanged prices. Industrial exports of South-European countries to advanced countries rose from $0,6 thousand million to about $8 thousand million between 1965 and 1976; estimations for 1985 reckon with a volume of about $20 thousand million. For comparison it may be mentioned that between 1965 and 1975 the total industrial exports of CMEA countries rose from $13 thousand million to $42 thousand million, and their industrial exports to developed market economies from $2 thousand million to $6.3 thousand million.

It is by no means indifferent for Hungary that the finished industral exports of developing countries rose fastest in the textile, clothing and metallurgical industries and in the engineering sectors manufacturing durable consumer goods to which also the Hungarian export structure shifted gradually in the past ten years. While in the mid-1960s developing and South-European countries still played a marginal role in satisfying Western countries' import demands, in 1975 e.g. 80 per cent of the clothing imported by the U.S.A. and 64 per cent of those of Japan came from developing countries, as well as 42 per cent of the shoe imports of the U.S.A. and 24 per cent of those of Japan. As for products directly affecting Hungary, in the past ten years the share of Spain, Brazil,

Taiwan, and South Korea grew considerably on the import market of shoes, that of Taiwan, South Korea, Hong Kong and Spain in sports articles, that of South-European, and East-Asian countries in clothing, that of Brazil and Argentina in tinned meat, and that of South-East Asian countries in television receivers. The semi-finished product export of chemicals and metallurgical articles of developing and South European countries just started will be well in progress by the early 1980s. As a consequence of their growing market share, developing countries increasingly influence and even determine the terms of delivery on the market in product categories that are of decisive importance for Hungarian industrial exports.

Thus, for the Hungarian export structure developed by the mid-1970-s the main competitors are no longer the advanced Western countries with their high cost level, but the low-cost developing and South-European countries. It may be stated without exaggeration that the competitiveness of Hungarian goods cannot be guaranteed in the long run through wage advantages against developing countries drawing on their own raw material resources and cheap labour, supported by Western techniques and market organization, and enjoying increasing tariff and trade policy preferences. The price to be paid for staying in the market in the intensifying competition can be thus but a falling price level, and decreasing export profitability (in some cases a loss). Such a way is not to be followed by a country realizing a large portion of her national income through exports; in this sense it is justified to speak about the "structural incompetitiveness" of Hungarian exports to the West. With a given structure, the easing of our foreign trade difficulties is not simply a function of the relationship between enterprises and central organs, but it is related first of all to the realization of a structural policy geared to the world economy, i.e. to a radical transformation of Hungarian export structure, which, of course, cannot be conceived without central efforts.

The radical nature and the urgency of the change in specialization is well demonstrated by the circumstance that Hungarian exports are threatened on the West-European markets by a particular "two-sided structural encirclement". The expanding supply of developing and South-European countries threatens with a strategical "outflanking" the Hungarian market position of structurally lagging behind light industrial products and semi-finished products, that is, structurally "from below". Supply conditions are threatened "from above", from the direction of structural progress, by the industrial free trade zone effective from 1977, which is the outcome of the agreement between the Common Market and the EFTA. This agreement improves the industrial export potentials of small countries of a similar or higher development level than Hungary in the category of light industrial products and consumer durables with high quality requirements. Thus, the Hungarian market positions cannot be further improved by always mending something on the export structure or by throwing in enterprise reserves; the change in structure must be quite radical in order to affect engineering product categories more resistant to tariff preferences, i.e. to attain higher quality standards.

Composition of Hungarian exports by countries

The structural problems of Hungarian exports cannot be treated independently of the structure of our trade with the West by countries. The structural features of world trade as well as of East-West trade indicate* that the participation of Western countries in the international division of labour depends mainly on the world economic *power* positions of each country, and on the rate and intensity of their *structural transformation.* Leading Western countries show, within their global world economic strategy, a greater propensity to industrial division of labour with both the developing and the CMEA countries. In structural transformation it is similarly the leading capitalist countries, as well as the Netherlands, Switzerland, and Sweden that are the most advanced. The structural parameters of Hungarian exports to South-European countries of latecomer industrialization are also more favourable than the average. In those countries, however, in which the technical-structural transformation progresses slowly because of general problems of growth, economic policy, and politics, the dynamics of evolving the industrial division of labour is not favourable, either.

The generally characteristic tendencies observed in international trade and East-West trade can be found also in Hungarian exports. The three leading Western countries, and, from among the small countries leading in structural transformation, the Netherlands and Sweden, and from the industrializing South-European countries Spain and Turkey offer terms much more favourable than the average for the expansion of Hungarian industrial exports and for the industrial division of labour. Also a more up-to-date structural framework for international economic cooperation, and the overwhelming majority of cooperations between industrial enterprises can be found in the leading Western countries. At the same time, the possibilities of developing industrial division of labour with Italy, France, and Austria are much less favourable than the average. In comparison with the general trends of geographic concentration Switzerland alone shows a negative deviation from the point of view of Hungary, and Great Britain an important positive one.

Obviously, in a phase of development when industrial products are becoming the main carriers of Hungarian exports, increasing the share of countries offering more favourable terms in the international division of labour also plays an important role in the realization of the objectives of foreign economic strategy and selective industrial development policy. The structure of Hungarian exports by countries cannot be considered as favourable from this point of view, since in the twenty-five years following World War II right to the beginning of the present decade the greater part of Hungarian exports to the West was directed to countries showing a lower propensity to an industrial division of labour. Hungarian efforts at developing foreign economic relations and mainly political relations were also centred on countries with comparatively less favourable potentials. It has been particularly the international developments of the recent 2 to 3

*See for details [9, 10].

Table 4

Structural proportions of Hungarian industrial exports to OECD countries

	1965				1976			
	Chemicals	Machines	Other	Industrial articles, total	Chemicals	Machines	Other	Industrial articles, total
USA	3.1	13.8	60.1	74.0	8.2	30.3	18.3	56.7*
Federal Republic of Germany	2.9	3.5	11.0	17.4	7.6	12.2	36.0	55.6
Japan	54.4	11.6	15.1	71.1	–	–	–	–
Holland	2.8	8.9	66.3	78.0	13.9	5.7	57.4	77.0
Switzerland	8.3	2.0	18.0	28.3	9.2	3.4	25.8	39.4
Sweden	2.0	12.6	61.9	76.5	4.0	20.6	57.0	81.6
Austria	8.4	3.5	22.9	34.8	11.9	5.0	20.7	37.6
Italy	1.4	1.1	14.5	17.0	5.7	5.6	19.5	30.8
France	3.7	3.9	14.0	21.6	5.1	11.4	35.4	51.9
Great Britain	1.9	5.6	48.0	55.5	11.3	18.3	45.1	24.7
Spain	16.1	5.9	38.8	60.8	–	–	–	–
Turkey	9.2	14.5	70.0	93.7	–	–	–	– –

Source: Foreign Trade Statistical Yearbook, 1976. Central Statistical Office, 1977, Budapest

*US Department of Commerce, Bureau of East-West Trade, May 1977

years that have thrown light upon the fact that also the world economic importance of the Italian, French and British economies struggling with permanent problems of growth and of economic structure is on the decrease. Their relative structural lag is reflected on the one side by stronger protectionism, and, on the other side, the forced exporting activities of their relatively lagging sectors struggling with market problems contribute "from above" to international excess supply and intensifying competition on the markets of an increasing number of products important also for Hungary. Since the development of market economies, and the expansion of its market capacity receive impulses mainly from the three leading Western countries, the structure of Hungarian exports by countries up to the recent past and extending into present times also contributes a constraint on foreign trade and industrialization.

Changes in the international terms of industrial cooperation

From the point of view of international industrial specialization a new situation is presented by the changes in the system of conditions of international *industrial-technical cooperation.* As a consequence of the sudden rise in specific (per unit) research and development costs, the pulling branches of technological and structural development have been concentrating during the past decade at an accelerated rate on the leading Western countries. The overall share in world trade of the USA, West Germany and Japan grew from 28 per cent to 29 per cent between 1960 and 1976, while in the research-intensive sectors it rose from 40–60 per cent to 50–80 per cent. On account of the oligopolistic positions developed in the sectors important for technological and structural progress it is increasingly the leading Western countries, and often the USA alone that determine the international terms of deliveries of up-to-date products. In research- and development-intensive sectors the leading countries are less and less willing to hand over the most advanced technologies int the form of simple trade or under licence deals. In the 1970s difficulties of acquiring the most advanced techniques have been growing, and modern techniques can be transmitted in most cases only within a close enterprise cooperation.

The concentration taking place on the technological market is reflected also by the *direct capital turnover.* In the 1970s direct capital exports went practically only to such modern branches in which the capital regulation system of the recipient country guaranteed majority ownership for the foreign capital, failing which, as is proved by the examples of Yugoslavia and the Andean countries, no foreign capital flowed into the advanced sectors. It is typical that in the foreign capital investments of DM50 thousand million of West Germany, the share of investments in new enterprises with a West Germany ownership less than 50 per cent is 0.5 merely per cent.

It is the other side of the picture that without enterprise intertwining, new industrial exporters can usually sell but consumer end products on the market of advanced Western countries. In the case of light industrial and electro-industrial products for final consumption a possible poor quality might be compensated by price reductions – the

dissatisfaction of the consumer might thwart further transactions. In the case of semi-finished products, productive machinery and pharmaceutical products the consequences of possible quality problems may cumulate and may exceed in value the direct import costs several times. Therefore, latecomer industrial exporters join the industrial division of labour in engineering sectors usually only in the framework of legally inter-enterprise cooperation, regulated by stipulations of property or contract law or through own affiliated firms (which is not very frequently done in practice) otherwise export performance is quite poor.

Thus the change in the international terms of industrial cooperation affected Hungarian specialization in two main zones. In spite of the modernization of Hungarian law in regard of foreign capital regulation, the inflow of foreign capital transferring the most advanced technologies has remained unimportant, since the investment decision of international capital are not motivated by the internal development dynamics of the Hungarian capital regulation system, but by world-scale possibilities and conditions. This factor has also played a role in that foreign technologies and capitals contributed but little to modernizing the Hungarian export structure.

It is a further problem that today's functions of inter-enterprise cooperation are of key importance not only in the phase of research and development, but also in that of *sales.* The selling of machines requires a complex market organization, different from that of light industrial articles or of those traded at exchanges. The Hungarian market apparatus, built up once according to the requirements raised by selling traditional articles, has no such adequate organization, nor have most of the developing and medium-developed countries. The weak Western positions of the modern export-oriented branch of Hungarian economy: the pharmaceutical industry relying perhaps the most on domestic factor endowment are also largely connected with the lack of a close cooperation, particularly marketing cooperation, since the pharmaceutical industry and trade are one of the sectors most oligopolistic and regulated through cooperation between large enterprises.

Apart from a few important positive examples of inter-enterprise cooperation established with West Germany and the USA, Hungarian machine- and chemical industrial exports have not relied on a wider cooperation (hardly one-tenth of Hungarian exports may be considered as the result of inter-enterprise cooperations), so that Hungarian finished products exports, necessarily of a more subordinate importance, have remained essentially of consumer articles and light industrial character. The present world economic conditions confront us, therefore, with the dilemma that either we shall make considerable efforts in order to improve the system of conditions of inter-enterprise cooperation, or we shall have to further reckon with increasing market losses coming from the present product structure.

Summary remarks

Hungarian exports to advanced Western countries started on a fast development from the late 1960s, partly owing to the favourable world economic situation up to 1974, and partly to the energies released by the reform of the Hungarian economic control and management system. Export expansion was concomitant with an important structural transformation: as opposed to the traditional agrarian exports industrial and particularly light industrial articles became prevalent. In spite of dynamic growth, Hungary's share fell both in East-West trade, and in the total imports of Western countries, which proves that Hungarian development in external relations was of a slower rate than that of other countries.

In the light of the world economic developments of recent years it may be stated that for the Hungarian trade it was not the application of the follow-up strategy in the technical-structural sense, but the "lagging behind in following up" i.e. our staying *behind the rate of structural transformation and evolution of international supply* that presented the problem. In the previous phase of the structural transformation of Western countries, i.e. in the 1960s, light industrial commodity supplies were still easily saleable at a profit, since then, however, the supply and the competitive advantages of the new exporters exerted an unfavourable influence on sales possibilities and profitability. It is in the present decade that a phase of international structural transformation is emerging that will offer more favourable possibilities to new latecomer exporters on the market of durable consumer goods, engineering mass products, and of semi-finished products. In the case of Hungarian exports a certain *structural phase delay* is observable. Our light industrial export commodity supplies grew in size by the 1970s, while our machinery exports are still unimportant. An increased supply in semi-finished product export is expectable also for the 1980s i.e. by the time of international excess supply. A similar economic policy delay is found in the field of capital regulation: rules that were apt to attract capital and technologies in the 1960s are already inadequate in the changed system of international conditions of the late 1970s when the bargaining positions of the exporteurs become harder.

The structural problems of Hungarian exports to the West cannot be considered as limited to that region. Experiences of recent years have shown that the tendencies starting from the developed market economies constituting the backbone of world economy and world trade make their appearance, although with a delay and in more indirect forms, also in other sectors of world trade, thus in relations maintained with CMEA countries and with the developing countries. Therefore, problems of structural character arise sooner or later also in other sectors, and if for no other reason, they need urgent remedy. As regards the direction, character, and intensity of this therapy, it is worth making the remark that the above-mentioned world economic structural changes have most affected Hungary and Czechoslovakia from among all CMEA countries. The finished product exporter G. D. R. encounters the disadvantegous consequences of international structural transformation today only in a narrow zone, owing partly to a

more favourable structure of its industrial exports and partly to its special cooperation constructions, and other CMEA countries have avoided them because of a lower degree of participation in the international industrial division of labour. As a consequence of their being affected to different degrees, the conditions of a joint action by CMEA countries will come about presumably only at a later date. In the meantime, however, Hungary has largely to resort to *special solutions.*

On the external economic side it is a fundamental requirement to transform the sectoral structure of Hungarian exports to the West. We can rest by no means content with the share in investments and technological development which is called upon to promote the development of Western-export-oriented sectors and activities and that has been practically the same for a long time and improving only slightly. In the distribution of development resources it will be expedient to pay special attention, beside the general viewpoint of profitability to accelerated world market adjustment partly on the basis of the Hungarian growth factor endowment, and partly on the basis of *structural changes on the world market.* Both the Hungarian growth potentials and the world market conditions urge, and would also allow a complex development of a few industrial sectors i.e. fields of activities (food industry, precision engineering, the vehicle-building industry, "the health block" etc.) guaranteeing for them to be always in the international forefront. At the same time, the most important task of expedient specialization in the coming 10 to 15 years could be solved by accelarating the structural "following-up". From this point of view the expediency of specialization is represented not simply by the structural development of each product, but by their competitiveness. Therefore, the Hungarian structural optimum in the following 10 to 15 years may be found in the not too wide zone which the most advanced countries have already started to leave, and which the medium-developed and developing countries with a lower cost level cannot yet attain for technical organizational, and qualification reasons.

The attainable results of the activization of Hungarian structural policy depend largely on the conditions to be brought about for specialization by foreign economic policy. In the *micro-sphere* the conditions of inter-enterprise cooperation, capital import regulation, and of the modernization of market organization have to be adjusted to the existing international conditions, and with such safety valves and reserves that are capable of neutralizing the eventual tensions arising from changes in the atmosphere of East-West relations. Hungary has primary interest in improving the conditions of cooperation at the macro-level, in settling her relations with the Common Market and the EFTA, in the reduction and elimination through foreign economic policy means of her growing institutional disadvantages in competition arising from the various regional cooperation efforts, and, beyond all this, in a certain structural policy cooperation on an international or continental scale.

Of course, the present Hungarian situation is not such as to leave open only one way for further development. The strategic main task: improvement of the foreign trade conditions of Hungarian socio-economic development might be approached from several directions and also through combined solutions. If the export structure cannot be transformed

for several reasons, cooperation with Western countries will have to be striven after first of all at macrolevel: in the field of tariff reductions and trade policy measures (enjoyed, as a matter of fact, by several CMEA countries under vaious titles). Yet a successful step toward a more up-to-date macro-structure less sensitive to trade policy discriminations requires a closer international cooperation at micro-level, modernization of inter-enterprise cooperation, and further development of the Hungarian enterprise decision structure. But there is no such world economic situation nor is one conceivable, which could guarantee further development of an acceptable rate and direction without our taking radical steps in the transformation of either the macro- or the micro-structures (possibly both).

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ОСНОВНЫЕ НАПРАВЛЕНИЯ СПЕЦИАЛИЗАЦИИ ВЕНГЕРСКОГО ЭКСПОРТА В РАЗВИТЫЕ КАПИТАЛИСТИЧЕСКИЕ СТРАНЫ

Б. КАДАР

В статье рассматривается изменение структуры венгерского экспорта в развитые капиталистические страны в период 1965–1976 гг. На основе анализа его специализации автор приходит к выводу, что большая часть прироста экспорта связана не с лучшим использованием венгерских ресурсов роста страны, с повышением степени обработки сырья, а с определенным расширением импортного сырья. На рыночных позициях Венгрии неблагоприятно сказался чрезмерно широкий товарный спектр экспорта, отсутствие в нем динамических ключевых отраслей. В нынешнем десятилетии центр тяжести товарной структуры венгерского экспорта смещается в сторону таких товарных категорий, предложение которых во все большей степени расширяется развивающимися странами, и странами Южной Европы. Предложение последних все более определяет условия рыночной реализации. Преобладающая часть экспортеров, конкурирующих с продукцией венгерской промышленности, уже пользуется в последние один-два года значительными торговыми и таможенными льготами на западноевропейских рынках, важных с точки зрения венгерского экспорта промышленных изделий. В статье указывается, что в нынешней ситуации уже недостаточно стремиться лишь к улучшению микроструктуры экспорта, т. к. при сложившейся структуре экспорта сомнительно, что в перспективе можно будет обеспечить количественный рост и поддержание рентабельности венгерского экспорта в развитые капиталистические страны. В статье подчеркивается неотлогательность ускорения процесса приспособления к структурным изменениям мирового рынка, ограничения – по возможности – неблагоприятных последствий таможенной политики других стран средствами внешнеторговой дипломатии, дальнейшего совершенствования системы условий международного сотрудничества промышленных предприятий.

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REVIEWS

I. DOBOZI

UNCTAD SEMINAR IN BUDAPEST ON ECONOMIC COOPERATION BETWEEN EASTERN EUROPEAN SOCIALIST COUNTRIES AND DEVELOPING COUNTRIES

An international seminar was organized jointly by the UNCTAD Secretariat and the Institute for World Economics of the Hungarian Academy of Sciences. It was attended by representatives of 7 developing countries (Algeria, Egypt, Ghana, India, Iraq, Panama, Sudan) and 6 Eastern European socialist countries (Bulgaria, Czechoslovakia, GDR, Hungary, Poland, USSR) as well as by 5 international organizations (UNCTAD, UNIDO, Afro-Asian Peoples' Solidarity Organization, Union of Banana Exporting Countries, Third World Forum). The seminar was held in Budapest from 6th to 10th March 1978.

The opening address was made by József *Bognár,* academician, Director of the Institute for World Economics, who emphasized the importance of expanding economic cooperation between the socialist and the developing countries, particularly under conditions of a common struggle being waged for a new international economic order. He pointed out that the world economy moved into a new stage in recent years, effects of many new factors should be reckoned with in the economies of both the socialist and the developing countries and this also called for a new approach to the methods of cooperation between the two groups of countries. József Bognár emphasized that deliberate efforts should be made to avoid a major duplication of industrial capacities in the socialist and the developing countries since the ensuing competition would have a detrimental effect on the fundamental community of economic interests of the two groups of countries, on existing good relations and would lead to an irrational utilization of investment resources.

The questions discussed at the seminar may be divided into three groups which can, of course, be hardly separated from each other: 1. Description and evaluation of the experiences gained so far in economic cooperation between socialist and developing countries. 2. Possibilities of and the need for expansion of economic cooperation in the future. 3. Improvement of the mechanisms and methods of cooperation between the two groups of countries.

Evaluation of the results of cooperation to date

Participants of the seminar found that recently economic cooperation between the socialist countries of Eastern Europe and the developing countries has been growing especially intensive and represented the most dynamic sector of the world economy. Many

factors contributed to make this dynamic development possible: economic policy measures taken by the socialist and developing countries to promote trade; a deliberate utilization of cooperation possibilities arising from economic complementarity between the two groups of countries; the stable and rapid economic development of socialist countries; the increasing importance of external economic factors for both the socialist and the developing countries; strengthening of the stable and long-term features of cooperation between the two groups of countries and an increasing use of modern forms of cooperation (industrial cooperation, joint ventures, etc.).

In spite of this favourable trend of development the present level of economic cooperation between the two groups of countries is substantially lower than desirable or possible. In 1976 trade between the socialist countries of Eastern Europe and the developing countries amounted to 20.7 thousand million dollars representing only 2.1 per cent of world trade, 11.7 per cent of the total foreign trade turnover of socialist countries and 4.4 cent of that of the developing countries. It was generally agreed that there were still substantial unexploited reserves for a further intensification of economic cooperation between the two groups of countries. According to the speeches delivered there are still several factors exerting a restrictive influence on economic cooperation, such as the fact that the majority of developing countries are still under the political and economic influence of countries with developed market economies, political prejudice and discrimination toward the socialist countries of Eastern Europe may be found in some of the developing countries, there is a lack of extensive experience and at times excessive caution and fear from undertaking risks on the part of the socialist countries as regards a wider spreading of new forms of cooperation.

Several participants (*J. Bognár, V. Kollontai,* UNCTAD Secretariat; *G. Skorov,* USSR) pointed out that the true significance of economic relations between the two groups of countries could not be judged merely by quantitative indicators. The new type of relations between the socialist and developing countries which are free from exploitation and are based on the equality of partners and mutual advantages point beyond cooperation between the countries concerned and favourably influence the stand and bargaining position of the developing nations in face of the developed capitalist countries. A number of participants (M. *Simai,* Hungary; V. Kollontai) stressed that economic and trade relations between the socialist and developing countries represented specific relations of the world economy which could not be classified according to the categories of so-called North–South relations.

Possibilities of a further intensification of economic cooperation

A complete identity of views emerged among the participants of the seminar on the point that further intensification of economic cooperation between the two groups of countries was necessary and possible. Some participants emphasized (P. *Mándi,* Hungary; U. *Rurarz,* Poland; M. *Davydov,* UNCTAD Secretariat) that in the coming period a new

and more dynamic stage of development than before would evolve in this respect. For this the following factors will provide a favourable basis:

– the common struggle for the new international economic order;

– the economic potential of both the socialist and the developing countries will grow dynamically, at a rate higher than the average for the world economy;

– priority will be given to development efforts aimed at satisfying basic needs and in these the socialist countries are much more suitable partners for the developing countries than the developed capitalist ones;

– the slow-down in the growth of developed capitalist economies, which appears to be a lasting phenomenon, and their equilibrium disturbances as well as the anticipated increase in protectionism on account of them;

– a further increase in the role of external economic factors in the economic development of socialist countries;

– mutual efforts by the socialist and developing countries aimed at perfecting the mechanisms and institutional system of cooperation and at placing it on long-term bases.

Several participants (T. *Szentes,* Hungary; Ismail-Sabri *Abdalla,* Third World Forum) pointed to the importance and desirability of economic cooperation between the developing and the socialist countries as a realistic alternative to the division of labour between developed capitalist and developing countries. In its framework there will be no such methods and mechanisms as are applied in the cooperation among market economies which allow the acquisition of unilateral advantages and the development of a system of asymmetrical relationships.

Application of new forms of cooperation

The participants of the seminar unanimously stressed: a practical realization of the favourable opportunities of economic cooperation between the two groups of countries will mostly depend on the extent to which they succeed in extensively applying the new forms of cooperation and in expanding and perfecting the institutional and legal frameworks of cooperation. In this field conscious, comprehensive and effective efforts should be made by the governments of both the socialist and the developing countries.

Representatives of Eastern European socialist countries (B. *Pichugin,* USSR; W. *Jurasz,* Poland; I. *Dobozi,* Hungary) considered it necessary that planned, long-term and stable cooperation should be further enhanced in the coming period. This is especially necessary in an external economic environment which is considerably more uncertain and less predictable than in previous periods, as a result of increased disorders in the operation of developed market economies and the growing instability of world markets.

Several delegates (L. *Zevin* and N. *Smelev,* USSR; M. Davydov) pointed out that the advanced planned economy of the Eastern European socialist countries has a substantial

influence on the possibilities and conditions under which cooperation might be expanded. Thus, the bases of long-term cooperation relations can be established especially with those developing countries which develop their economies by relying on medium and long-term plans and development programmes. Some initial results in planning cooperation with certain developing countries have already been achieved, but further mutual and energetic efforts are needed in order that the development and trade requirements of the developing countries should be incorporated into the medium and long-term plans of the socialist countries.

The Hungarian participants (J. *Bognár, I. Dobozi*) particularly stressed that conscious efforts should be made to prevent the socialist and developing countries from becoming competitors and thus undermining each other's market (sales) possibilities. Otherwise the developed capitalist countries will inevitably reap the main benefits from the creation of parallel, export-oriented industrial capacities while also the clash of economic interests between the developing and socialist countries might become significant. A number of delegates from developing countries (S. *Chishti,* India; Abdellatif *Benachenhou,* Algeria; Issam *El-Zaim,* UNIDO) put forward practical experiences in support of the recognition in respect of certain products and commodity groups that an undesirable competition may already be observed between the socialist and the developing countries on the world markets (especially on the markets of developed capitalist countries). In order to avoid such situations active use must be made of the possibilities inherent in planning and economic policy cooperation, which have so far been exploited only to a small extent.

Several participants (T. Szentes, Ismail-Sabri Abdalla, G. Skorov) pointed out that the division of labour between the two groups of countries must differ in principle from the industrial division of labour leading to one-sided dependence as established between the developing countries and the developed market-economy countries or transnational companies, respectively. Socialist countries have to support the creation of science- and technology-intensive branches and related research and development activities in the developing countries.

In the opinion of the representative of the UNCTAD Secretariat (M. Davydov) important results have already been achieved in industrial cooperation even so far, but there are still considerable reserves which might be exploited first of all by an increased application of new forms of industrial cooperation enabling the establishment of more modern, complex and lasting cooperation. Experiences of recent years have shown that industrial and technical cooperation has had especially advantageous trade-generating effect on the mutual turnover of industrial semi-finished and finished products. The so-called compensation (pay-back) transactions worked especially well. In the future, increased efforts should be made at *tripartite cooperation* in the industrial division of labour in whose framework the enterprises of developing, socialist and developed capitalist countries, respectively, would jointly participate, by pooling their resources, in the creation of industrial projects in the developing countries. This form of cooperation has begun to take shape in recent years and has had a favourable influence on the process

of technology transfer to the developing countries and on the increase of exports of manufactured goods by the developing countries.

Several delegates from socialist countries (N. *Smelev* and L. *Zevin,* USSR; I. *Angelis,* Czechoslovakia; H. *Faulwetter* and G. *Hübner,* GDR) considered it desirable to increasingly expand industrial cooperation between the two groups of countries through so-called *development centres.* The socialist countries are of the opinion that it is not rational to restrict industrial cooperation merely to the creation of individual enterprises or even branches. In addition to the creation of individual enterprises,cooperation may be extended to establish industrial and territorial, or industrial and agricultural complexes in which a group of enterprises form an adequately coordinated, vertical system. With the establishment of development centres it might be possible to avoid the creation of enclaves similar to those usually developing in the industrial division of labour between the developing countries and the transnational companies of developed capitalist countries. The development centre may become an integral part and dynamic driving force of the national economy. Practical experiences gained in this field are very positive.

In the course of discussions at the seminar the questions of increased *multilateralization* of economic relations between Eastern European socialist countries and the developing countries were often raised. In recent years there has been considerable development in the use of various forms of multilateral relations especially in payments. In other fields the forms of multilateral cooperation have been spreading to a smaller extent than would have been desirable. Participants of the seminar agreed that multilateral methods might provide new incentives for economic cooperation in those fields where the dynamic expansion of relations could no more be achieved by continued reliance on bilateral forms.

Some participants (S. *Chishti*; I. *Angelis*; N. *Harchan,* Iraq; H. *Vallejo,* Union of Banana Exporting Countries) pointed out that in many fields of cooperation between the two groups of countries not even the possibilities for the development of bilateral relations were fully exploited as yet. Beside further development of the multilateral system of payments, and a wider application of tripartite industrial cooperation already mentioned the socialist countries should increase – among other things – their multilateral cooperation in technical and economic aid for the developing countries and make it possible for the latter to participate in the activities of international organizations of the CMEA countries and also in joint projects of the member-countries.

Delegates from some socialist countries called attention to the necessity of making increased use in the future of the CMEA International Investment Bank's Special Fund in financing multilateral cooperation between the two groups of countries. The Soviet participants of the seminar were expecting favourable effects for economic cooperation from such multilateral cooperation agreements between the CMEA and certain developing countries as have been signed so far by the CMEA with Iraq and Mexico, respectively.

According to the participants of the seminar *factors hindering trade* between the two groups of countries should be thoroughly studied both at UNCTAD forums and within the individual countries concerned, and necessary measures have to be taken for

their elimination. In the opinion of some delegates from developing countries (Abdellatif Benachenhou; Issam El-Zaim; Sumitra Chishti) the socialist countries should pay greater attention to the export potential of developing countries in semi-finished and finished products and rely more intensively on developing countries as potential suppliers of such commodities. Eastern-European socialist countries should make it possible that products from developing countries may enter their markets without obstacles and on favourable terms. Relevant positive measures taken to this effect so far have favourably influenced the export possibilities of developing countries. However, one of the Hungarian participants (T. Szentes) felt it necessary to note that the preferences granted often benefited not the developing countries but the transnational companies established in their industries. It may be stated from the case studies submitted to the seminar by representatives of socialist countries and from the speeches made that in their long-term plans the socialist countries are providing for a dynamic growth of their imports of semi-finished and finished products from the developing countries. There will be a considerable rise in the share of these products in the imports of socialist countries.

According to Soviet participants and the representative of the UNCTAD Secretariat it is necessary that some developing countries should put an end to the discrimination against products from socialist countries and should give them at least the same treatment as is enjoyed by products from the developed capitalist countries. The Ghanian participant (B. K. *Kuma*) also stressed this point. It would be desirable that the socialist countries should be able to trade with all developing countries on the basis of the most-favoured-nation principle. It was raised at the seminar by a Soviet participant (B. Pichugin) that the developing countries should increasingly use the instruments of state promotion in the interest of making their trade with the socialist countries more dynamic. Some of the participants (I. Angelis; P. *Mándi*; W. Jurasz) emphasized that a greater part of the trade between the two groups of countries should be transacted directly, eliminating and reducing the intermediary trade still of considerable extent.

Some delegates from developing countries (B. K. Kuma; H. Vallejo) stressed that it would be desirable for Eastern-European socialist countries to participate in discussions at various international forums and take a more active part in international economic affairs in their own interests and in order to support the demands of developing countries more efficiently. This is a necessary condition for laying the foundation and for further strengthening the unity of action of the two groups of countries.

A number of participants from developing countries (S. Chishti, H. Vallejo, B. K. Kuma) emphasized the need to take measures for reducing the "information gap" existing between the two groups of countries since the present limited flow of information acts as a brake on cooperation. The participant from Ghana deemed it especially necessary to establish industrial information centres.

Improving the institutional framework for economic cooperation

The participants of the seminar took a stand in support of forms of institutional relations favourable for economic cooperation. *Joint intergovernmental commissions* should be set up for the practical realization of long-term economic and scientific-technical cooperation in as many fields as possible. Referring to practical experiences, the Indian delegate qualified the operation of these commissions as useful. In the opinion of Soviet participants favourable practical experiences suggest to increase the role of joint intergovernmental comissions.

One of the Polish delegates (W. Jurasz) and the Ghanian participant stressed that increasing direct contacts between enterprises of socialist and developing countries would be expedient, since the proportion of relations arranged on the official (administrative) level was too great. According to several participants from socialist and developing countries it would be desirable to rely more on *joint enterprises* in the development of inter-enterprise relations. Hungarian participants (T. Szentes, I. Dobozi) pointed out that enterprises of socialist countries are usually reluctant to establish joint enterprises abroad since this entails much bigger risk and uncertainty for them than domestic ventures. It would, therefore, appear desirable to carry out such modifications in the system of internal financial and economic regulation of socialist countries as would make their enterprises more interested in establishing joint enterprises in the developing countries. The form of joint enterprises considered most suitable by the Hungarian participants was the one where the (ownership) share of the socialist partner was restricted to a predetermined period or it was made possible that the share of the foreign (socialist) partner should be gradually eliminated through the profits of the joint enterprise.

The closing speech of the seminar was held by Mihály *Simai,* Deputy Director of the Institute for World Economics of the Hungarian Academy of Sciences who appreciated the work of the meeting as useful and successful. He expressed the opinion that it would be desirable to continue discussions on further development of economic cooperation between the socialist and developing countries at different forums.

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COMMENTS AND CRITICISMS

A. BRÓDY

PLANNING AND PLANNING

Some comments on Professor Wassily Leontief's proposals

The new volume of Prof. W. *Leontief** again indicates the magnificent span of his oeuvre. Two early papers give insight into the intellectual roots of input-output analysis, tying it to *Popov*'s statistical work – the first factual checker-board-type statistical exhibit of a real economy – and Cassel's "technical coefficient" – an early forerunner of activity analysis. A scientific break-through of the highest order, as we now recognize I. O., will, of course, unite much more and powerful strands of thought and some of the facets are neatly unfolded in the sequence of papers. Two, both of utmost importance, are already well known to the Hungarian public. The dynamic inverse, which helps to date all the inputs necessary to produce a given final bill of goods is already enrolled into the armoury of our planners and mathematical economists. The world growth project, as first stated in the Nobel Memorial Lecture also reached, both in its original and later, elaborated, versions the Hungarian public.

Though not yet translated, conoisseurs of the field do discuss and debate the questions related to the "Leontief paradox", raising practical doubt against the validity of much revered theories about the structure of foreign trade whether formulated according the classical Ricardian or marginalist Hecksher-Ohlin argument. Of, alas, lesser impact are the environmental approaches opened by I. O. theory, owing, perhaps, to the negligence in a rapidly industrializing society.

Again, Hungarian planners and mathematical economists, I believe, try to heed the admonitions expressed in the A. E. A. Presidential address in 1970. We try to penetrate the border toward more pertinent technological information; planning and model-building seldom rejects the help of engineers, social scientists, demographers etc., indeed our plans and work on economic incentives (the "reform of economic mechanism") seem to enjoy a true and broad cooperation of all the arts and sciences affected.

It is just this healthy scientific and practical climate that permits me to comment on Prof. W. Leontief's proposals for national economic planning for the United States.

To catch the real essence of planning an architectural analogy seems to be appropriate. In erecting a building – say the Parthenon – two phases of "planning" have to be discerned. First a blueprint of a "realistic dream" has to be made. Something, that is possible – but never existed before. Then a second phase: one computes the amount of

*Essays in Economics. Theories, Facts and Policies. New-York, 1977. M. Sharpe. 158 p. + index

necessary materials, their transport to the site, the number and quality of the necessary artisans, their salary etc. etc. Something, that can be done routinely. The first phase is arts, the second science, or applied science. If the first phase does not consider the second, the plan may become unreal and not feasible. Yet, no amount of technical calculation, tally cutting and double-entry book-keeping can replace Pheidias.

By proposing a "technical, nonpolitical" task force "loosely connected with the executive branch of the federal government" for the internal setup of the organization responsible for preparing the plan (or the alternative scenarios) the second phase of planning will be taken care of. Yet I see no solution and no place for the Maker, the Day-Dreamer – be it a single person or a collective body – who, in his daring imagination, must consider political, moral, historical, even aesthetic questions.

Let us not beat around the bush: a plan is a highly "political" issue. It must decide where the money comes from (putting its hand into my pocket and grabbing my money) and where it goes to (putting money, sometimes earmarked sometimes not into other people's pocket). And for this very reason it can be hardly left to the usual sort of politicians, who will promise whatever is popular, neglect all that is unpopular – and have a time horizon much shorter than the horizon considered in an economy-wide plan. I would not trust a decision, affecting my children's future, to transients.

On the other hand Prof. W. Leontief is very right in stressing that he sees "no reason to assume that tne introduction of national economic planning would require or could bring about a marked shift in the overall national balance of economic and political power". Our practice (and theory) shows that a plan is actually conserving the very power-structure that gave rise to it. This inbuilt stabilizing force might be at a premium in a country undergoing rapid industrialization – yet in a mature economy it may introduce a certain inertia, a dead weight that may become unconfortable. Some safety-valves for changing the plan when the power structure changes must be built in.

The anamnesis seems to be pertinent: "While monetary and fiscal measures have for years served as instruments of economic policy planning, the nearly exclusive reliance on these two tools, under the influence of the Keynesian, and perherps I should add Fiedmanian, doctrines can hardly be justified by the results attained", and to pinpoint the present, somewhat chaotic situation: "The real trouble is that, at present, not only does the government not know what road it wants to follow, it does not even have a map. To make things worse, one member of the crew in charge presses down the accelerator, another pumps the brakes, a third turns the wheel, and a fourth sounds the horn. Is that the way to reach one's destination safely? "

Yet – will a Plan improve on all this? In want of a "better than Keynesian" or "better than Friedmanian" monetary and fiscal theory the plan will be again based on theories (however bad) that we possess – input-output analysis hardly scratched the surface of monetary theory – moreover the existence of a plan will not end any squabbles among departments. The most exquisite war plan is unable to finish the "competition" between Army and Navy – because it is unable to change the root-causes.

Therefore again the "loose connection" with the executive branch comes under scrutiny. Headquarters ought to be H. Q. – otherwise concerted action is impossible. This again would mean a right to overrule economic decisions of other government departments – a right not yet granted even in our closely knit system.

These comments do not touch on the essence of the admirable argument Prof W. Leontief puts forward in discussing methods and problems of national economic planning. Reading the paper one can not but feel that he is thoroughly familiar with all the achievements and faults of the planning systems whether operated under capitalist or socialist circumstances. He is by no means a "theorising outsider" and when stressing some problems it is not as an antithesis. He himself is acutely aware of them – yet they do need further thought.

J. RÉDEI

THE POLITICAL ECONOMY OF EAST–WEST–SOUTH COOPERATION by G. ADLER-KARLSSON*

The name of the Swedish economist Gunnar Adler-Karlsson became known through his book "Western Economic Warfare 1947–1967" about ten years ago. This book provided a well-documented and objective description of economic warfare in the cold war period. He wrote his latest book at the Comparative Economic Research Institute of Vienna in 1973–74, reviewed its manuscript in late 1975 and found its conclusions to be still valid.

Adler-Karlsson's book differs in its conclusions from his earlier work, as it does in its genre. The present book is more ambitious: it wishes to draw conclusions for almost a whole historical period about the economic relations between East and West, and even more comprehensively, about economic competition between the two systems. He completes the analysis at several points with problems of the South, i.e. of the developing countries.

It is impossible to cram the large number of issues and theoretical theses raised by Adler-Karlsson into a brief review, the less so as part of his statements give rise to disputes. As it turns out from the preface of his book the author himself expected them.

One of the fundamental theses of Adler-Karlsson is that the capitalist system is still very strong in our days, presumably even stronger than ever, and the socialist system does not provide an efficient economic alternative to it. What is more, in recent years socialist countries have been obliged to adopt, with a view to their more efficient functioning, certain capitalist economic principles in their home economy. Further on: in the recent period the poor Southern states have won no ground as regards of their relative economic

*ADLER-KARLSSON, G.: *The political economy of East–West–South cooperation.* Wien–New York, 1976, Springer Verlag 208 p.

power. As a consequence, the Western capitalist system has preserved its leading role, and its position is jeopardized mainly by its inner conflicts and competitions.

The author found these conclusions still valid in 1975. He did take into consideration the effect of the rise in oil prices on the relations between developing and advanced countries, and his standpoint in this question – i.e. the oil crisis rendered some of the poor developing countries even poorer – is beyond dispute. But Adler-Karlsson neglects almost completely the problems of the capitalist world showing already in 1974: the slowing down of production, the sudden rise in prices, the increasing unemployment. It is well known that all these phenomena became more intensive in the following years. In view of the facts, it is hard to agree with the author in that the capitalist economic system is stronger than ever.

Do or do not socialist countries provide an efficient alternative to capitalism? With his negative answer to the question Adler-Karlsson comes into contradiction with himself. In comparing e.g. the industrial-economic cooperation of enterprises in advanced capitalist countries with the CMEA cooperation – qualifying the former as more efficient – he himself states the following: the socialist cooperation is hardly thirty years old, while the history of capitalist cooperation goes back to three hundred years. The socialist cooperation wished to create something radically new, which was a much more difficult task from the outset. Also the differences in development level between CMEA countries are a hindering factor. Finally: cooperation of the CMEA countries was not the result of an evolution as that of the Common Market, and in general, of Western cooperations. In its creation political necessity played an important role. And, citing Adler-Karlsson further: as for a desirable model, the poor countries of the Third World will also prefer to use the internal and external economic control instruments of the socialist economy, if they want to guarantee for the population what Adler-Karlsson calls the three E's (equality, employment, essentials), that is, socio-economic equality, full employment and provision with essential consumer goods.

Adler-Karlsson's introductory theses might be queried also on the basis of his own subsequent analysis. The short-term "realism" of these theses conceals the lack of a perspectivic historical approach and a more thorough analysis. Adler-Karlsson rediscovers that the Western economy is still unable – the extraordinary technical progress notwithstanding – to satisfy the basic needs of the population: what he calls the three E's. What then does economic superiority serve for, and who enjoys its advantages, if Westerners cannot guarantee social justice in their country on the one hand, and they have brought about such international economic conditions on the other hand, that developing countries, whom they lured with the bright prospects of free enterprise, are today relatively in a worse position than a hundred years ago?

Adler-Karlsson cites authors according to whom in 1870 per capita income in India was one-fifth, and that of Japan was half of that of the United States, and today the same ratios are one-seventeenth and one-eighth, respectively. In 1950 the difference in per capita income between OECD countries and the countries of Africa and Asia amounted to $1.400, in 2000 this difference will amount to $7000 at comparable prices. (p. 38)

Adler-Karlsson states that in order to increase efficiency, socialist countries were obliged to adopt capitalistic methods in their economy. He refers to the fact that in the system of economic control and management reforms were introduced by socialist countries, and later he mentions that close relations with Western firms have a demonstrative effect in socialist countries.

Adler-Karlsson deals little with the first question. He could hardly prove that the active role of commodity (market) and money relations, and the enterprises' independence in socialist economy have affected production relations. He himself holds rather the opposite view. If that is so, can it be asserted that socialist countries adopt capitalist methods? Commodity and money relations entirely correspond to the needs of socialism, and these methods are used exactly with a view to the fast expansion of production, with the socialist relations of production unharmed. The capitalist character of the methods could be proved if they changed the relations of production.

Has East-West trade a demonstrative effect? Of course it has: but this is a necessary consequence of the peaceful coexistence of the two systems. Also such elements of the Western way of life may penetrate through the economic as well as through cultural and touristic relations into the socialist countries as make the capitalist system seem better and more attractive than it is in reality. Technical superiority is often used as a mask to conceal attempts at smuggling in the idea of political superiority. This is exactly what the ideological fight between the two systems means. Yet what can do harm to the socialist system is not the Western demonstrative effect which is neutralized by the everyday Western reality, but if it cannot satisfy the fundamental needs of the population, or if it satisfies them worse and less justly than does the capitalist system. And Adler-Karlsson gives himself the answer to this question, when, in regard of the three E's, he clearly recognizes the superiority of the socialist system.

At the same time the author deplores the lack of economic efficiency and human rights. As for the former, there is some truth but also exaggeration in his judgement. In comparing systems, economic efficiency is a necessary but insufficient indicator. Social efficiency is the standard of comparison. In this regard socialist countries hold their own in the competition.

Thirty years against three-hundred – says Adler-Karlsson when he compares the cooperation between socialist and capitalist countries. If we compare the sixty years of the Soviet Union, burdened with blocades, intervention, and wars, while she has become the second economic power of the world, with the three-hundred years of the capitalist system, it will be still justified to remark that this comparison is unhistorical and one-sided. If only from the view-point of economy, why is the system efficient that cannot employ 5–6, or even a higher percentage of its labour force, and that disposes of up-to-date production capacities but is unable to use them? It may be not worth-while pursuing a discussion about human rights within the scope of this review, since such fundamental questions are involved, as the actual freedom content of the institutional system in the bourgeois system controlled by big capital.

In Adler-Karlsson's book there are, beside some apt statements, a few other disputable assertions. As has been mentioned, the author judges the situation of developing countries generally in a correct way. He dispels such illusions that the oil price explosion somewhat bettered the grave situation of the majority of developing countries, and presents aptly the harmful role of multinational companies in the third world. He clearly points out that the system of free enterprise, i.e. of laissez faire, is no way out for the developing countries, and he does not yield to any illusion about such integrations of developing countries as try rather to imitate than to follow the system of advanced capitalist countries. One can agree with Adler-Karlsson when he exposes the hypocritical accusations of Western monopolies about the alleged dumping of socialist countries and proves efficiently that these often serve only to protect the monopolistic prices of multinational companies. He refutes – partly correctly, but not fully – *Hayek's* reactionary theory about the superiority of the bourgeois democracy and about the economic failure of socialist countries which Hayek foretold and which, however, has not set in. Adler-Karlsson contradicts Hayek's suppositions in two important points. In Hayek's opinion liberal democracy leads to economic democracy. According to Adler-Karlsson this is not likely. Hayek's other assertion is that the socialist society does not reach its own goal: it does not lead to economic democracy, or at least does not lead there any faster than liberalism. According to Adler-Karlsson, socialist economy has proved its ability to do so in practice.

Finally, Adler-Karlsson perceives it correctly that the attempt of certain Western politicians and anti-socialist forces to obtain, in exchange for economic relations, certain political concessions from the Soviet Union and other socialist countries, and permission to interfere with their home affairs is merely a vain hope. The author recalls the failure of the embargo policy: the Soviet Union and the socialist countries were not inclined to any *quid pro quo* and in fact they did not give anything in exchange for a reduction of the embargo lists.

At the same time, one may argue with Adler-Karlsson in more than one questions. One of his most questionable statements is that in today's capitalist society ownership itself has lost importance, it is now not so important as are the functions practised directly or indirectly by the owner. He speaks about functions of production, finances, research and development, marketing and management, and, from the aspect of wielding actual economic power, he deems the controlling of these more important than nationalization. Even if nationalization takes place, there is no guarantee that the state can perform efficiently the above-listed functions – says Adler-Karlsson. From his analyses we must note the reality content in that he emphasizes: in today's capitalist societies multinational companies are so deeply involved with their activities in the whole economy, and they are often in such close symbiosis with the power positions of the state that it is impossible not to perceive the control of functions excercised by multinational companies in agreement with each other, or in complicity.

Without nationalization, however, there is even less guarantee of controlling the above-mentioned functions. Capital wants to escape nationalization, therefore, it builds

up a complicated system of relations so that even if a firm is nationalized it might keep control over the given sector of the economy. What it wants to defend itself against is nationalization; what it wants to protect is private ownership and its related functions. The only conclusion can be that nationalization must be done in a way that control over the functions should be guaranteed as well.

Otherwise, what is said in Adler-Karlsson's analysis, i.e. that the production and distribution of a very considerable group of products in a modern capitalist economy is under the control of a small number of firms, and that a multitude of international organizations is serving them, in spite of their apparent neutrality, is on the whole true. We say "on the whole" because this analysis simplifies the picture of modern capitalist society, in which today medium-sized and major companies still coexist with the multinational giants.

Finally, Adler-Karlsson's world concept approaches at several points the deliberate simplification that divides the world into rich North and poor South, at the most with as much correction that in respect of economic development he places the socialist countries somewhere between advanced Western states and the developing countries. As is taught to beginner statisticians: a categorization that divides population into women, men, and fair-haired people, is strikingly wrong. And it is also wrong to put into the same category advanced capitalist countries – oppressing developing countries also in Adler-Karlsson's opinion – with the socialist countries. Adler-Karlsson calls the reader's attention to this "caveat" but referring mainly to economic development level and not to these countries' social role in world policy and world economy. From this unpolitical conception follows the conclusion that, according to Adler-Karlsson, East-South economic relations are an "empty box", and that the Soviet Union and the socialist countries provide, in comparison with advanced states, only little help to developing countries. It seems to the author, that such economic relations are not even very important for them politically. The author comes into contradiction with himself, as he does in other places in his book. It is himself who writes that the activities of the multinational companies are very harmful for developing countries, he supplies figures to show how the extent of their economic intervention is growing, and gives data on the increasing difference in per capita income level between developing and advanced countries. What might be the importance of the amounts of capitalist aids and donations – which also include the supporting of corrupt half-colonial systems and military aid – against these facts representing the inexorability of economic dependence? Socialist countries would never take on the obligation to aid developing countries whose politics and economy are even today controlled by the former colonialists.

Adler-Karlsson makes the remark in his book (p. 99) that the aid granted to Angola may refute his thesis according to which socialist countries neglect the ideological gain – as he puts it – which they may realize in the third world. The history of developing countries up to our days proves – and the future will, no doubt, prove it as well – that what Adler-Karlsson calls ideological gain (we give, of course, a less business-like attribute to the concept), and what is in fact promotion of the social and economic liberation of

developing countries has been, and remains, a part of the fundamental politics of the Soviet Union and the socialist countries.

Adler-Karlsson's book provokes dispute. It is worth discussing the views of the author, since he is an economist who in his earlier book as well as in this one provides thought-provoking analyses.

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BOOK REVIEWS

PÉCSI, K.: *A KGST termelési integráció közgazdasági kérdései* (Economic questions of the CMEA production integration). Budapest, 1977. Közgazdasági és Jogi Könyvkiadó, 389 p.

The countries allied in the CMEA are at the present on the way of realizing the phase of integration based on coordinated economic cooperation; that is, plan decisions are taken at international centres, and common measures are implemented on the basis of interestedness. Cooperation of CMEA member countries in the production sphere is controlled through direct central plan directives in whose formulation commodity (market) and money relations play relatively little role. In view of all that, the author calls the present phase of CMEA integration a production integration.

The fact became clear already at the beginning that the domestic potential of the CMEA countries can be put to use only through a deliberate division of labour in the production sphere i.e. through cooperation and specialization. On examining developments in this sphere the author comes to the conclusion that both in specialization and cooperation initiated in the spirit of central decisions considerations of economic efficiency have played so far but a subordinate role. Specialization develops mainly in the manufacturing of finished products: results in the production of parts and semi-finished products are considerably smaller. This tendency is furthered also by the fact that in the trade of CMEA countries among themselves sellers' market is prevailing. Specialization and cooperation agreements have not always founded the most efficient division of labour within the whole of the CMEA, but were adjusted rather to the existing integration potentials and to the extensive phase of cooperation. Partly because of the lack of a long-term economic development conception to be applied in the most important economic fields, agreements were aimed at strengthening the production structure already existing (at bringing about in less developed CMEA countries production structures similar to those of more advanced CMEA countries), instead of initiating the regional division of available and expectable capacities. Member countries did not coordinate the purchases of Western licences among each other, either.

Turning his attention to the questions related to the functioning of the joint enterprises of the CMEA the author states that the relations between them (and the international economic organizations) and the national planning organs are still under discussion, particularly as regards economic regulators, norms, and the financing of the enterprises' activities. Considering the present state of the discussions, as well as the difficulties of settlements and credits originating in the bilateral system of the CMEA cooperation, the author forms the opinion that conditions have not yet matured of the organization on a large scale of joint organizations and enterprises, and that it seems to be most expedient to establish organizations of coordinative character.

Progress of the CMEA integration depends decisively on the improvement of cooperation in planning. Medium- and long-range planning in the CMEA countries have today two important tasks to solve: the consequences of the fast rise in raw material- and energy prices must be overcome, and intensification of production must be acceler-

ated. It is in the course of adaptation to the changing situation that the search for new forms and methods of planning has become important.

One such form is the drawing up of target-oriented programmes. The target-oriented programmes of CMEA dimensions cover the most important sectors of material production; an important criterion of their elaboration is complexity. They are called upon to serve the aim that the fundamental long-term supply difficulties of CMEA countries in a few important materials and products should be solved. The author underlines that in the context of the target-oriented programmes of raw material production two highly important principles are to be asserted: a rational location of production realized through the location of primary processing at the site of the deposits, and the principle that needs should be satisfied in a realistic and rational measure. While the former "formula" cannot be considered a general rule but only a circumstance to be decided by a case study, the latter may be conceived of only as a result of collective decision by the countries concerned. This is, however, such a requirement – the author emphasizes – whose fulfilment can be expected only at a highly advanced perspectivic stage of economic integration. In the light of experience with target-oriented programmes the author concludes that production integration has arrived at a new phase from the aspect of planning. The most important point is that the sphere of questions covered by multilateral co-operation is growing, and elements of common planning are beginning to appear.

In analyzing the system of financial settlements the author emphasizes that its position corresponds to the actual development level of CMEA integration. The regional socialist world market is divided into bilaterally separated, fragmented markets. The currency policy strategy represented by the accounting currency (transferable Rouble) has so far basically satisfied the interests of CMEA countries: it has been in agreement with the national systems of central planning. In the author's opinion introduction of a partial convertibility of the transferable Rouble is not to be expected in the near future, and the establishment of some common currency would require another kind of integration conception.

If the main feature of economic integration is the amalgamation of national markets, and the adoption of optimum- and efficiency criteria on community level, this will by all means result in a flow of capital among the member countries. In that case – the author points out – we have to set out not from the assumption that what is efficient for one country is efficient also for the whole community; but from the point that what is efficient on world scale is efficient also for the whole of the CMEA. The actual development difficulties of the CMEA integration are consequences of the fact that the suppression of commodity and money relations, the autarkic concept of production development, and the isolation of home markets from mutual economic effects and world market influence have allowed the assertion of the efficiency criterion in the above-mentioned sense only to a limited extent so far. According to the author, the only possible solution to the problem lies in the realization of production and trade integration.

P. HEGEDÜS

BETHKENHAGEN, J. – MACHOWSKI, H.: *Integration im Rat für Gegenseitige Wirtschaftshilfe – Entwicklung, Organisation, Erfolge und Grenzen.* Berlin, 1976. Berlin Verlag, 135 S.

Das kleine Buch, das augenscheinlich mit dem Ziel einer Darlegung verfasst wurde, widerlegt den Schein: den Anhang abgerechnet, werden – neben einer sehr prägnanten und gründlichen Beschreibung – von den Verfassern auf nicht mehr als 83 Seiten die Entwicklungsprobleme des RGW beleuchtet und auch Bestrebungen zur Erschliessung ihrer Bewegkräfte gemacht.

In der Entwicklung des RGW unterscheiden die Verfasser drei Etappen. Die erste dauerte von 1949 bis 1960, und wurde durch das Bemühen zur Ausgestaltung einer funktionsfähigen Organisationsform gekennzeichnet. In der zweiten Etappe (1961–1970) gaben die ersten Integrationserfolge der EWG einen Anstoss zur Weiterentwicklung des RGW: der Vorschlag über die Einführung einer überstaatlichen gemeinsamen Wirtschaftsplanung scheiterte zwar, aber die Mitgliedsländer nahmen das Dokument "Grundprin-

zipien der internationalen Arbeitsteilung" an; es zeigten sich Bestrebungen zur Nutzung der Ware-Geld-Beziehungen, zur Ausgestaltung der Kooperation. Die dritte Phase begann 1971: in dieser Phase wurde das Komplexprogramm angenommen. Das auffallendste Moment in der jüngsten Entwicklung des RGW besteht – den Autoren nach – darin, dass der RGW Ansätze zu einer Gemeinschaftspolitik gegenüber Drittländern macht.

Die Verfasser sind der Meinung, dass während das strategische Endziel der Europäischen Wirtschaftsgemeinschaft die Schaffung eines gemeinsamen Marktes ist, der RGW kein solches Ziel hat, sondern hier durch die Integration eine Reihe wirtschaftlicher, ideologischer und politischer Ziele erreicht werden sollen. Im Komplexprogramm sind keine Bestimmungen über die Priorität der Einzelziele enthalten.

Die Autoren stellen fest, dass die zwischen den Entwicklungsniveaus und Produktionsstrukturen der RGW-Länder bestehenden bedeutenden Unterschiede die Zusammenarbeit hemmen. Diese Unterschiede sind der Grund dafür, dass die Hauptmethode der Zusammenarbeit, die Plankoordinierung, sich im Wesen auf den bilateralen Austausch bezieht, und dass es kein einheitliches Interesse unter den Mitgliedsländern gibt neuartige Methoden der Zusammenarbeit einzuführen, weiters, dass die Lenkungssysteme der Aussenwirtschaft der einzelnen Länder bedeutend voneinander abweichen. Zum Ausgleich der Entwicklungsniveaus und Strukturunterschiede müssten die schwächer entwickelten Länder grosse Erweiterungs- und Modernisierungsinvestitionen tätigen. Die Mehrheit dieser Länder verfolgt aber derzeit eine Wachstumspolitik, die im Gegensatz zur Vergangenheit eine Erhöhung des Lebensstandards der Bevölkerung stärker betont.

Unter den Methoden der Integration ist die Plankoordinierung die wichtigste. Da sich ökonomisch begründete Wechselkurse nicht entwickelt haben, können von den einzelnen nationalen Planungsorganen Nutzen und Kosten der wirtschaftspolitischen Entscheidungen nicht erfasst werden. Deshalb beschränkt sich die Plankoordinierung – entgegen den ursprünglichen Absichten – auf den bilateralen Handel. Auch die Koordinierung der Pläne für 1976–1980 erfolgte zweiseitig: mehr als 95% des gegenseitigen Warenumsatzes wurden bilateral abgestimmt, und auch die Teilnahme an gemeinsamen Projekten auf diese Weise ausgestaltet. Die gemeinsame Planung einzelner Industriezweige zeigt wegen der übermässigen Selbständigkeit der nationalen inneren Planung keinen Fortschritt, die wirtschaftspolitischen Konsultationen üben – wie die Verfasser meinen – überhaupt keine Wirkung auf die Ausgestaltung der nationalen wirtschaftspolitischen Ziele aus: dies ist deshalb die am wenigsten intensive Methode.

Als Hindernis der Produktionsspezialisierung erwähnt das Werk mehrere Gründe. Die Länder fürchten sich vor der Abhängigkeit, wegen des anwachsenden Imports können sich Zahlungsschwierigkeiten ergeben, die Lieferungen der Partnerländer sind nicht zufriedenstellend, die Länder stellen ihre Eigenproduktion nur ungern ein. Das Interesse der Sowjetunion an der Spezialisierung ist nur gering, weil dort in Grosserien für den Binnenmarkt produziert werden kann.

Die Konvertibilität wird von den Verfassern für ein der Planwirtschaft fremdes Element betrachtet, da diese "... nichts anderes bedeutet, als ungeplante Ansprüche an das ausländische und – das ist das Entscheidende – an das eigene Sozialprodukt zuzulassen" (S. 57), d.h. die Konvertibilität würde eben gegen die Planwirtschaft wirken. Die in den einzelnen Ländern deklarierten Wechselkurse beruhen auf der Goldparität und sind ökonomisch bedeutungslos, schreiben die Verfasser ein wenig einseitig, erkennen aber einige Seiten später an, dass "um die monetäre Isolierung abzubauen, der traditionelle Preisausgleich abgeschafft worden ist. Mit Hilfe sog. Devisenmultiplikatoren werden die Export- und Importpreise umgerechnet." (S. 63)

Das Werk untersucht auch die internationale Bewegung der Produktionsfaktoren. Von den gemeinsamen Investitionen wird festgestellt, dass diese wegen ihrer naturalen Form einen Kapitalmarkt kaum ersetzen können. Obzwar die Festlegung naturaler Grössen die Vorteile und Lasten für die Partner überschaubar macht, kann doch wegen der naturalen Gebundenheit ein Interessenausgleich schwerer hergestellt werden, als in den monetären Beziehungen. Die internationale Bewegung der Arbeitskräfte stellt eine Reihe sozialer Probleme. Deshalb ist die Arbeitskräftemobilität zwischen den RGW-Ländern niedrig,

aber auch deswegen, weil wegen der Vollbeschäftigung der Druck auf die Regierungen Arbeitskräfte zu exportieren entfällt (allenfalls gibt es eine "versteckte" Arbeitslosigkeit).

Das Zentralproblem bei der Entwicklung des RGW erblicken die Verfasser in den zwischen den Ländern bestehenden Entwicklungsniveauunterschieden und Strukturabweichungen: deshalb kam es zwischen den Mitgliedsländern bisher nur selten zu abgestimmten wirtschaftspolitischen Aktionen, deshalb dominieren die bilateralen Beziehungen, die konservierend auf die gesamte Entwicklung wirken. Im Ausblick auf die Zukunft des RGW werfen die Verfasser zwei Variationen auf. Wegen der Ähnlichkeit der Wirtschaftsbedingungen halten sie eine regionale Teilintegration zwischen der DDR, der Tschechoslowakei, Polen und Ungarn für vorstellbar. Ein anderer, realistischerer Weg könnte die sektorale Teilintegration sein: die interessierten Mitgliedsländer könnten ausgewählte Sektoren der Wirtschaft gemeinsam planen, während die Organisationsformen für die Investitions-, Produktions- und Absatzpolitik entweder die gemeinsamen Betriebe oder die internationalen Wirtschaftsvereinigungen sein könnten. Die Erfahrungen des Gemeinsamen Marktes haben allerdings gezeigt, dass die sektorale Integration nur dann erfolgreich ist, wenn sie nicht auf einen Sektor beschränkt bleibt, und wenn dieser Prozess durch wirtschafts- und währungspolitische Massnahmen unterstützt wird. Im RGW fehlen aber für eine erfolgreiche sektorale Teilintegration gegenwärtig insbesondere die währungspolitischen Voraussetzungen. Die Währungssysteme der Mitgliedsländer behindern eine Berechnung der Aussenhandelsrentabilität, eine Gegenüberstellung des Nutzens und der Aufwendungen von gemeinsamen Investitions-, Kooperations- und Spezialisierungsabkommen. Die Konvertibilität steht am Ende eines langen Entwicklungsprozesses, dessen Etappen die folgenden sind: Preisreform, Ausgleichung der wirtschaftlichen Entwicklungsniveaus, stärkere Dezentralisierung der Produktions- und Absatzentscheidungen und ein ausreichendes Angebot an international gefragten Waren. Die Länder müssten ihre nur in den Grundzügen übereinstimmenden Planungs- und Lenkungssysteme in Richtung auf ein neues einheitliches System innerhalb des Integrationsprozesses verändern, ohne dass von vornherein gesagt werden könnte, in welcher Weise sich in diesem neuen System die direkten und indirekten Lenkungselemente zueinander verhalten würden. "Unter solchen Bedingungen wird die sozialistische ökonomische Integration nur auf einem mindestens ebenso langfristigen und dornenreichen Weg zu erreichen sein, wie das für die Wirtschafts- und Währungsunion in der EG gilt" – schreiben die Autoren.

Im Werk wird eine zweifältige Methode angewendet: die Informationen werden einerseits systematisiert dargelegt, andererseits werden sie kommentiert, "an ihren Platz gestellt" und Folgerungen daraus gezogen. Die Informationen und Angaben, obzwar meistens aus sekundären Quellen geschöpft, sind zutreffend. Bei der Benutzung der Quellen könnte man höchstens beanstanden, dass die Autoren in einigen Fällen ältere Informationen als unverändert gültig annehmen (z. B. die Fussnote 20 auf Seite 66). Was den analysierenden-wertenden Teil betrifft, besteht die hier angewandte Methode wiederum aus zwei Teilen. In ihrer Bewertung stellen die Verfasser die Entwicklung der RGW-Integration einerseits zu irgendeinem vorgestellten, abstrakten Modell, anderseits zur Entwicklung des Gemeinsamen Marktes ins Verhältnis.

Ein kennzeichnendes Beispiel bei der Gegenüberstellung zu einem abstrakten Modell ist, als das Grundproblem der Erreichung der Integrationsziele – die Abstimmung der nationalen Wirtschaftspolitiken – vom Wirtschaftssystem unabhängig betrachtet wird, wobei " . . . die daraus resultierenden Vorteile und Nachteile möglichst gleichmässig verteilt werden sollen. Daraus leitet sich die Frage ab, ob eine solche Politik der internationalen Annäherung unter Wahrung nationalstaatlicher Autonomie zu erreichen ist oder die Übertragung eines Mindestmasses an nationalstaatlicher Kompetenz auf gemeinschaftliche ("supranationale") Organe bedarf." (S. 20) Es bedarf aber keiner besonderen Beweisführung, dass ein abstraktes Integrationsmodell nicht existiert, da eben die Integration eines jener Gebiete ist, wo die politischen Faktoren und auch die Faktoren der Wirtschaftsordnung dominieren: das ist der Grund dafür, dass die Integrationen bisher immer zwischen solchen Ländern zustandekamen, die dieselbe oder eine ähnliche

sozial-ökonomische Einrichtung besitzen, weshalb auch die Integrationsziele und Methoden verschieden sind. Es ist zwar wahr, dass auch in der RGW-Integration eines der Ziele (präziser ausgedrückt: der Methoden) darin besteht die Wirtschaftpolitiken zu harmonisieren; dies gilt aber nicht mehr für die gleichmässige Verteilung der Vorteile und Nachteile, würde ja eben dadurch das grundlegende Prinzip der gegenseitigen Hilfeleistung, der Beschleunigung der Entwicklung der relativ zurückgebliebenen Länder Schaden erleiden. Die Wahl zwischen nationaler Autonomie und Supranationalität kann wieder nicht beliebig sein: sie wird durch die sozial-ökonomische Einrichtung der Länder und das Zielsystem der gegebenen Integration determiniert.

Eben wegen der Verschiedenheit der Systeme ist auch ein Vergleich mit dem Gemeinsamen Markt ein gefährliches Unternehmen: nicht nur die Ziele, die Dimensionen der beiden Integrationen sind verschieden, aber auch die Integrationselemente, Integrationsmethoden, die an der Oberfläche beobachtet werden können, haben ein abweichendes Gewicht: mit sozialistischen Augen die kapitalistische Integration danach zu beurteilen, ob dort eine Plankoordination bestehe und wie wirksam diese sei, ist offensichtlich genauso sinnlos, wie die sozialistische Integration nur aufgrund der Ware-Geld-Beziehungen zu bewerten.

G. BAKOS

LEBAHN, A.: *Sozialistische Wirtschaftsintegration und Ost-West-Handel im sowjetischen internationalen Recht.* Berlin, 1976. Duncker und Humblot. 495 S.

Ein besonderer Grund ist dazu notwendig, um in einer ökonomischen Zeitschrift über ein juristisches Buch zu schreiben. Das Buch Lebahns ist aber nicht nur seinem Titel, sondern auch seinem langen Untertitel nach ein Werk, das sich ausgesprochen mit dem internationalen Recht befasst: es verspricht die Entwicklungsgeschichte der Offenheit in dem Prozess zu geben, in welchem das die internationalen Handelsbeziehungen regelnde bilaterale Vertragssystem langsam durch die höheren Formen der multilateralen wirtschaftlichen Zusammenarbeit, die Kooperation in regionalen beziehungsweise universalen Organisationen ersetzt wird. Konkret handelt es sich hier um die Entwicklung der völkerrechtlichen Mittel der sowjetischen Aussenwirtschaft und die damit verbundenen prinzipiellen und praktischen Probleme. Der wahrscheinlichen Absicht des Verfassers nach will das Buch dieses Material in seiner Gesamtheit systematisieren, es an den Fragestellungen der internationalen Rechtsliteratur erproben, die offenen Probleme erschliessen, die Begriffe klären, und damit ein solches – sogar die Möglichkeit von Missverständnissen ausschliessendes – Bild zeichnen, das für den in der internationalen Wirtschaft tätigen Juristen im Westen, also für sein Begriffs- und Gedankensystem eindeutig zugänglich ist. Bereits aus dem bisher Gesagten zeigt sich also, dass hier von einer ausgesprochenen juridischen Arbeit die Rede ist. Als Leser können wir hinzufügen: sogar allzusehr. Hinter der gründlichen Analyse und Wertung der Dokumente und Hinweise der Fachliteratur fehlt, zeitweise auch zu sehr die Darlegung des wirtschaftlichen Hintergrundes, wenigstens ein Hinweis, welche wirtschaftlichen Bewegungen hinter den und mit Hilfe der abstrakten Formeln vor sich gehen, und welche wirtschaftliche Veränderung durch die beschriebene rechtliche Veränderung begleitet wird.

Trotzdem ist es doch begründet, dass wir uns mit dieser kurzen Besprechung, die auf das Buch aufmerksam machen soll, in dieser Zeitschrift melden. Das Buch hat nämlich in der vorherigen Erschliessung eines neuen Gebiets der Ost-West-Wirtschaftsbeziehungen, wo bereits die Integrationsorganisationen auch selbst auf die Bildfläche treten würden, seinen Platz und seine Funktion. Die von Lebahn aufgeworfenen Fragen, ja sogar die Struktur der ganzen Arbeit erhalten in diesem Zusammenhang eine besondere praktische Aktualität. Man könnte sogar sagen, dass das Verfolgen dieses Zieles auch seine zweifach einengende Methode rechtfertigt: das Nichtbeachten der Wirtschaftsfaktoren beziehungsweise das Konzentrieren auf das internationale Recht. Dass das Thema des Buches – die begriffliche Klärung des Instrumentariums im internationalen Recht – eine ausserordentlich aktuelle Teilfrage ist, wird noch besonders durch die als Vorwort erschienene Studie von *C.-D. Ehlermann*, Direktor

der Kommission der Europäischen Gemeinschaften, bestätigt. Diese Studie legt die Entwicklung der Handelspolitik der EWG und ihren heutigen Standpunkt gegenüber den RGW-Mitgliedstaaten dar. Diese "konkrete" Studie ergänzt die abstrakteren Ausführungen des Autors sehr gut. So sehr aber auch das Konzentrieren auf die internationalen Rechtsprobleme begründet sei, wäre es doch glücklicher gewesen, wenn der anderen Ebene der Beziehungen, der Zivilrechtsbeziehungen, ausser den sehr seltenen Hinweisen eine grössere Rolle zugekommen wäre. Hier denken wir nicht nur an das augenblickliche praktische Gewicht der letzteren, sondern auch daran, dass das Verhältnis der beiden Ebenen auch eine wichtige prinzipielle, und oft voneinander untrennbare Frage ist (z.B. im Zusammenhang damit, was das Verhältnis zwischen dem völkerrechtlichen Vertag des Staates und den diesen realisierenden zivilrechtlichen Verträgen ist, was die diesbezügliche Verpflichtung des Staates bedeutet usw.).

Die Gedankenstruktur des Buches ist folgende:

Die Arbeit geht von den sich auf den Ost-West-Handel beziehenden politischen und wirtschaftspolitischen Meinungen aus, und befasst sich, indem sie diese in den Rahmen der verschiedenen Interpretationen der friedlichen Koexistenz einordnet, ausführlich mit den ideologischen und praktischen Erwartungen, die sich an den Ost-West-Handel knüpfen. Zum rechtlichen Ausdruck der internationalen Wirtschaftsbeziehungen übergehend, legt der Verfasser am westdeutschen, beziehungsweise sowjetischen Beispiel den Einfluss der Gesellschaftssysteme auf das Instrumentarium dar. Er stellt fest, dass in der Sowjetunion die Frage des rechtlichen Mechanismus im internationalen Handel noch nicht endgültig entschieden ist: neben der Konzeption der Regelung durch völkerrechtliche Vertäge findet man auch die internationale privatrechtliche Regelung, die Nutzung der internationalen Wirtschaftsorganisationen für ein solches Ziel, beziehungsweise die Ausgestaltung eines komplexen "internationalen Wirtschaftsrechts". Das Buch befasst sich im weiteren mit den völkerrechtlichen Verträgen. Nach der Erörterung der prinzipiellen Unterschiede zwischen den bilateralen, den multilateralen, beziehungsweise den universalen internationalen Abkommen, behandelt es die wirtschaftspolitischen Folgen des Umstandes, dass sich die Sowjetunion in den Ost-West-Beziehungen hauptsächlich bilateraler Verträge bedient, die multilateralen Abkommen dagegen die rechtlichen Beziehungen der sozialistischen Länder charakterisieren. Gesondert befasst sich der Verfasser mit den westlichen, beziehungsweise sowjetischen Konzeptionen über die Rolle der UNO bei der Ausgestaltung der rechtlichen Ordnung der Weltwirtschaft. Der folgende grössere Block des Buches behandelt die Probleme der Offenheit. Eigentlich wird jener Widerspruch erörtert, der einerseits zwischen der formalen Offenheit, also dem freien Beitrittsrecht von Drittstaaten, beziehungsweise dem freien Austritt, anderseits mit den ihr zuwiderlaufenden Interessen der langfristigen wirtschaftlichen Zusammenarbeit besteht. Dieses Problem wird im vorliegenden Buch – überwiegend auf den RGW bezogen – als ein Widerspruch zwischen der in den grundlegenden Dokumenten niedergelegten formalen Offenheit und einer "sozialistischen Integrationsverpflichtung" konstruiert. Lebahn analysiert in den beiden letzten Kapiteln die Beziehung zwischen den sozialistischen internationalen Wirtschaftsorganisationen und dem RGW, und befasst sich mit der Rechtsfähigkeit und der eigenen Vertragskompetenz des RGW.

Es ist nicht Aufgabe dieser kurzen Besprechung eine ausführliche Wertung der Thesen des Verfassers zu geben, auch bestand bei der obigen Besprechung nicht die Absicht einer wirklichen – von einem im Völkerrecht bewanderten Juristen zu erwartenden – Rezension vorzugreifen. Einige methodologische Bemerkungen gehören dennoch zu dieser allgemeinen Orientierung. Auch im allgemeinen muss die ausserordentliche Gründlichkeit des Verfassers, das fast vollständige Erschliessen der vorhandenen Quellen hervorgehoben werden. Auch die Aufmerksamkeit der Wirtschaftsexperten soll auf die sich auf das Thema beziehende 60seitige Bibliographie "Rechtliche, ökonomische und politische Literatur" gelenkt werden. Der Autor benutzt auch diese Quellen; es muss aber gesagt werden, dass eine Gewichtung der Literatur dem Buch zum Vorteil gereicht hätte: der "sozialistische Standpunkt" wird nicht selten durch einen

unbedeutenden literarischen Hinweis vertreten. Auch der Verfasser selbst ist im klaren darüber, dass er in seinem Buch vielmals, und positiv die gewohnten Schranken der "Ostforschung" überschreitet. Besonders hervorzuheben sind das Suchen nach den selbständigen Merkmalen der sozialistischen Integration, und die Betonung dessen, dass im gesamten Problemenkreis des Werkes die einfache Anwendung der westlichen Kategorien irreführend sei. Das Buch hat auch dann vollständig recht, als es die sowohl in der sozialistischen, aber auch in der westlichen Literatur und im allgemeinen Bewusstsein erstarrten Schemata kritisiert, die die Wirtschaftspolitik des Ostens und des Westens oder gewisse Eigenschaften der Integrationen einander gegenüberstellen. Zugleich kann es sich selbst nicht von einem Gegenüberstellungszwang befreien, wozu sich zwar besonders die ältere Literatur fast anbietet, deren "Ausnutzung" und Darlegung aber das Werk oft doktrinär und schwerfällig machen. Es ist ja auch dem Leser bekannt, dass hier von bereits überholten Standpunkten die Rede ist – auf die neuere und gewöhnlich flexiblere Ansicht geht der Verfasser aber erst später über, nachdem er die alten von jedem Gesichtspunkt aus "behandelt" hat. All dies mindert aber weder die Nützlichkeit des Buches, noch die Tatsache, dass es selbst zur Weiterentwicklung dieser neueren, flexibleren Etappe beiträgt.

L. SÓLYOM

HENSEL, K. P.: *Systemvergleich als Aufgabe.* Aufsätze und Vorträge. Herausgegeben von H. Hamel. Stuttgart–New York, 1977. Gustav Fischer Verlag. XI+254 pp. – *BRD–DDR. Die Wirtschaftssysteme. Soziale Marktwirtschaft und sozialistische Planwirtschaft im Systemvergleich.* Herausgegeben von H. Hamel. München, 1977. Verlag C. H. Beck. 364 pp.

Sowohl die Herausgeberin, als auch der Themenbereich schaffen eine Brücke zwischen den zwei Büchern. Paul *Hensel,* dessen Schriften und Konferenzvorträge der erste Band vereint, gilt als prominenter Vertreter der Untersuchung verschiedener Wirtschaftssysteme. Unterschiedliche wirtschaftliche und politische Systeme als Gegenstand der Forschung sind im Westen erst in den letzten Jahren in den Vordergrund der wissenschaftlichen Analyse gerückt. Aufgrund einer unterschiedlich tiefgreifenden Darstellung versuchen ihre Vertreter Vor- und Nachteile des sozialistischen und kapitalistischen Wirtschaftssystems aufzuzeigen, um – fast immer, wie auch in den zu behandelnden Veröffentlichungen – die Überlegenheit des zweiten zu beweisen. Ohne die Nützlichkeit dieser Vergleiche ganz zu leugnen muss vorausgeschickt werden, dass sie unvollkommen ausfallen: viele systemimmanente Kennzeichen bleiben unberücksichtigt. Zwar bildet die Wirtschaft einen ausserordentlich wichtigen Bereich der unterschiedlichen Gesellschaftssysteme, kann aber allein die Systeme als solche nicht genügend charakterisieren. Andererseits sind Systemvergleiche immer mit dem Fehler behaftet, dass sie konkrete, historisch gegebene Zusammenhänge ausser Acht lassen, und nach formalen Merkmalen (wie das betreffende System aussieht) Schlüsse ziehen, die erst nach einer gründlichen Untersuchung der inhaltlichen Kennzeichen (welche Elemente dem gegebenen System zugrunde liegen, wie eigentlich das ganze System entstanden ist) gezogen werden könnten.

Hensels "Systemvergleich als Aufgabe" ist ein Band, der verschidene Artikel, Aufsätze, Vorträge des bekannten Forschers enthält. Sie wurden von einer seiner Nachfolgerinnen, Hannelore Hamel zu Ehren des 1975 plötzlich verstorbenen Begründers der Schriftenreihe "Schriften zum Vergleich von Wirtschaftsordnungen" zusammengestellt. Die Zusammenstellung folgt einem theoretischen Prinzip statt eines chronologischen. Darin besteht ihr Vor- und Nachteil. Vorteil, wenn man den Systemvergleich als eine Disziplin betrachtet, Nachteil, wenn man sich mit konkreten Ideen des Verfassers bekanntmachen möchte.

Der in fünf Hauptteile gegliederte Band beginnt mit methodischen Vorbemerkungen (erster Teil), und geht dann auf Ordnungsfragen über (zweiter Teil). Im letzteren werden auch heute aktuelle Probleme der Planwirtschaft, der Eigentumsfragen, Kontrollmöglichkeiten, Preisrelationen und der vieldiskutierten Mitbestimmung sowie die Rolle der Gewerkschaften in unterschiedlichen Wirtschaftssystemen beschrieben. Besondere Aufmerksamkeit wird der be-

treblichen Ergebnisrechnung in den sozialistischen Ländern gewidmet (Prinzip der Planerfüllung, Gewinnprinzip, Einkommensprinzip). Mit der Mitbestimmung stimmt zwar Hensel grundsätzlich überein, doch erwähnt er einen bisher nicht gelösten Zweifel: wie kann man "Bestimmungsrechte" verteilen, damit das Leistungsprinzip und der Entscheidungsmechanismus einer wirtschaftlichen Einheit nicht zu kurz kommen. Er spricht sich dafür aus, dass die Verantwortung unteilbar ist: diese Tatsache reproduziert immer wieder die alten Konflikte zwischen Gewerkschaften und Unternehmern. Eben in der heutigen Phase der Wirtschaftsentwicklung der westlichen Länder kann man dieser These nicht ohne Vorbehalt zustimmen: die neuen Kräfteverhältnisse und Probleme haben den "Spielern" der wirtschaftlichen Tätigkeit neue Lösungsvarianten aufgezwungen, mit denen sie natürlich nicht ganz vertraut sind, aber ein gewisser Lernprozess hat schon begonnen. Der etwas enger gewordene Spielraum (für alle Spieler gleichzeitig!) verleiht auch dem Demokratiekonzept eine neue Bedeutung, und belässt es nicht beim "Formalbegriff" oder beim "Gefühlsmoment" (wie die Demokratie wom Verfasser verstanden wird).

Der dritte Hauptteil bringt Artikel über Wirtschafts- und Staatsordnung, und setzt unter anderem das Thema der Demokratie und Wirtschaftsordnungen fort. Interessanter für den Leser sind aber der vierte und fünfte Teil, in denen die sozialistischen Wirtschaftsreformen bzw. die Konvergenzmöglichkeiten der unterschiedlichen Wirtschaftssysteme behandelt werden. Hensel stellt die These auf, dass die Reformen in der sozialistischen Wirtschaft systemnotwendig sind, und nicht als Übergangsschwierigkeiten beim Erreichen einer bestimmten Ordnung erklärt werden können. Daraus leitet er die Hypothese ab, dass sich solche Experimente ständig wiederholen werden. Reformen sind in der Tat überall (auch im kapitalistischen Wirtschaftssystem) notwendig: sie ergeben sich nicht aus dem statischen Zustand eines etablierten "Systems", sondern vielmehr aus der dynamischen Entwicklung desselben. Hier gelangen wir zu einem kardinalen Punkt, wo die Systemvergleiche meist aufhören: weil die Reformen (Wandlungen, Änderungen) nicht systembedingt, sondern entwicklungsbedingt sind, sollten vor allem die Entwicklungsbedingungen (in Vergangenheit, Gegenwart und Zukunft) untersucht werden: nur unter diesem dynamischen Aspekt kann man "Systeme" miteinander vergleichen. Auch Hensel fühlt dieses Problem, deshalb unterscheidet er zwei Reformvarianten: die systemerhaltende und die systemverändernde. Da er aber vom System ausgegangen ist, kann er die weitreichenden Reformen nicht mehr innerhalb des sozalistischen Wirtschaftssystems halten: nach seiner Meinung sprengen sie das System. Erhaltung oder Veränderung – diese Frage wird anhand formeller Merkmale gelöst: inwieweit die "administrative", d.h. zentral gelenkte Planung reicht, und wo die dezentrale Planung an Einfluss gewinnt. In der Tat wäre es zweckmässiger die Eigentumsverhältnisse zugrunde zu legen.

Aus dem systemerhaltenden oder systemverändernden Charakter der Wirtschaftsreformen folgt der logische Schluss: es gibt keine Konvergenz der Wirtschaftssysteme, man kann sich nur zwei Systeme vorstellen: entweder das sozialistische oder das kapitalistische: "Bei jedem der beiden Grundsysteme gibt es zwar zahlreiche und auch recht weitreichende Variationsmöglichkeiten der ordnungspolitischen Ausgestaltung, die für den aussenstehenden Betrachter zuweilen recht erstaunlich sein können; es bedeutet jedoch einen Fehlschluss, wenn man solche Variationen mit einer Transformation des Systems selbst, d.h. mit einer Veränderung seiner Fundamente, gleichsetzen würde." (S. 221). Es fragt sich nun, warum die sozialistischen Reformversuche nicht unter den "zahlreichen Variationsmöglichkeiten", die das System nicht verändern, vorstellbar sind? Warum sollte die Einführung der "sozialistischen Marktwirtschaft" in einigen sozialistischen Ländern das System zentraler Planung und Kontrolle beseitigen, und nicht verbessern?

Es ist vollkommen verständlich und begrüssenswert, dass neue wirtschaftliche Konzeptionen der sozialistischen Länder mit grosser Aufmerksamkeit verfolgt werden (übrigens auch innerhalb der betreffenden sozialistischen Länder), aus diesen Reformen systemverändernde Absichten herauszulesen, ist jedoch – und erwies sich auch dafür – verfehlt. Die Logik ist natürlich ungebrochen: der Ausgangspunkt selbst ist falsch, wenn formelle Merkmale für Wesens-

züge eines Wirtschaftssystems betrachtet werden, und jede Veränderung dieser Merkmale die Versuchung vergrössert, das ganze System in Frage zu stellen.

Der ebenso von Hannelore Hamel herausgegebene Band "BRD–DDR. Die Wirtschaftssysteme" ist in dieser Hinsicht konsequenter: er programmiert das Aufgehen des sozialistischen Wirtschaftssystems der DDR im kapitalistischen der BRD nicht mehr vor. Es handelt sich hier um Aufsätze, die verschiedene Teilbereiche des sozialistischen und kapitalistischen Wirtschaftssystems untersuchen, Vor- und Nachteile einander gegenüberstellen, und aus dem vielseitigen Vergleich einige wichtige Schlüsse zu ziehen versuchen. Nach einer einleitenden gesellschaftspolitischen Übersicht, in der Helmut *Leipold* die liberale kapitalistische Gesellschaftstheorie, die Konzeption der sozialen Marktwirtschaft und die marxistische Gesellschaftstheorie schildert, folgt eine interessante historische Darstellung der ordnungspolitischen Gestaltung der beiden Wirtschaftssysteme seit 1945. Hannelore *Hamel* erwähnt die Auseinandersetzung unterschiedlicher Wirtschaftskonzeptionen in den von den Westmächten besetzten Teilen Deutschlands, und folgert daraus auf die ausschlaggebende Rolle Erhards. In Wirklichkeit kam bei der Wahl der wirtschaftlichen Lenkung dem amerikanischen Einfluss die entscheidende Bedeutung zu. Die Amerikaner haben in Westdeutschland ein in ihrer Heimat seit langer Zeit erprobtes Wirtschaftssystem eingerichtet, das in Deutschland historisch kaum Wurzeln hatte. Erhards Währungsreform beseitigte in kurzer Zeit den Schwarzmarkt, brachte jedoch 1,5 Millionen Arbeitslosen mit sich. In der DDR begann man – nach sowjetischen Erfahrungen – eine zentralgeleitete Planwirtschaft einzurichten, in der die Prioritäten beim Aufbau einer eigenen Grundstoff- und Schwerindustrie, sowie bei Vollbeschäftigung und fixierten Preisen lagen. Das Privateigentum wurde allmählich eingeschränkt, während es in der BRD aufrechterhalten, ja sogar noch erweitert worden ist. Das Privateigentum begünstigte eine ungleiche Vermögensbildung, die die Gewerkschaften durch Mitbestimmungsrechte der Arbeitnehmer in den Betrieben auszugleichen suchten. Um die Mitte der 60er Jahre sind in beiden Wirtschaftssystemen Reformen fällig geworden. Nach der Rezession des Jahres 1966 sind in der BRD Bestimmungen gefasst worden, um die marktbeherrschenden Monopolien besser kontrollieren zu können. Gleichzeitig verschärfte sich der Importdruck auf nicht mehr wettbewerbsfähige Betriebe und Warengruppen, die staatlichen Subventionen wurden auf einige Sektoren begrenzt, aber in der makroökonomischen Steuerung kam dem Staat eine grössere Rolle zu (Schillers Wirtschaftspolitik der konzentierten Aktion). Die seit 1967 durchgeführten Reformen in der DDR vermittelten der Wirtschaftsentwicklung einen "Selbstlauf", der Nettogewinn stimulierte die Betriebe nicht immer auf die Erzeugnisse, die in den Volkswirtschaftsplänen enthalten waren. Die Reformgedanken traten nach 1971 wieder in den Hintergrund. Nach der weltwirtschaftlichen Rezession gab es viele Verordnungen in beiden Staaten, die das Verhalten der zwei Systeme noch klarer beobachten lassen. Leider geht der Aufsatz auf diese Elemente nur skizzenhaft ein.

Rudolf *Knauff* untersucht die Funktionsmechanismen der Wirtschaftssysteme. Er geht davon aus, dass beide deutschen Staaten mit demselben Problem zu kämpfen haben: wie das Angebot und die Nachfrage richtig aufeinander abgestimmt werden können. In der BRD häufen sich auf einzelnen Märkten Überschüsse auf, in der DDR gibt es Wartelisten und Angebotsknappheiten. Die Koordinierung von Angebot und Nachfrage durch Märkte und Preise in der Bundesrepublik und durch zentrale Planung in der DDR wird eingehend analysiert, ebenso wie die Leistungsanreize und Kontrollen in beiden Wirtschaftssystemen. Die Probleme liegen in der BRD vor allem in der zunehmenden Unternehmenskonzentration, in der die neugegründeten staatlichen Unternehmen an der Spitze stehen. Neue Ansichten über Wirtschaftsmacht, Monopolpositionen, "Mittelstandpolitik" wären insbesondere interessant gewesen, denn die Strukturschwäche einzelner Branchen formuliert zahlreiche Fragestellungen ganz anders wie in den "klassischen" theoretischen Ansätzen.

Aus den obengenannten Problemen zieht Helmut *Leipold* den Schluss: sowohl der Markt, als auch der Plan haben versagt (Planversagen versus Marktversagen). Er zitiert die wohlbekannten Argumente, wie und warum der Markt (und

der Plan) bei der Bedarfserfassung versagt hat. Gleichzeitig berücksichtigt er die externen Effekte, die er für ein "systemindifferentes Problem" hält (Rohstoffprobleme, Umweltverschmutzung, usw.). Teils hat er zweifellos recht, auch wenn man fragen könnte, inwieweit die betreffenden Wirtschaftssysteme für die Entstehung dieser Effekte verantwortlich gemacht werden können. Viel interessanter wäre es aber die Antworten zu untersuchen, die die jeweiligen Wirtschaften auf diese externen Einflüsse gegeben haben: diese Antworten sollen nämlich Kernelemente des Systems enthalten.

Die makroökonomische Stabilität als Ziel wird als systemindifferente Erscheinung behandelt. H. Jörg *Thieme* ("Makroökonomische Instabilitäten – Erscheinungsformen, Ursachen und Konzepte ihrer Bekämpfung") geht davon aus, dass sowohl die BRD, als auch die DDR an der Stabilität der Wirtschaft interessiert sind. Er beweist, dass eine zyklenartige Entwicklung in beiden Wirtschaftssystemen vorhanden ist. Die Kurven sind für die DDR jedoch abgeflachter als für die BRD, wenn man die Zuwachsraten des Bruttosozialprodukts vergleicht. In der Investitionstätigkeit gibt es in beiden Ländern grosse "Sprünge" und Rückfälle. Die Preisentwicklung kann nur indirekt interpretiert werden: die Preise in der DDR sind stabil, was noch kein ausreichendes Argument gegenüber der Inflation ist (die Spareinlagen der Bevölkerung nehmen sehr rasch zu). Das aussenwirtschaftliche Gleichgewicht konnte in der DDR nicht erreicht werden, während dieses Ziel in der BRD "überkompensiert" wurde (kräftige Überschüsse in den Rezessionsjahren). Die Zukunftschancen der Stabilisierungspolitik sind nach dem Verfasser in der BRD nicht besonders günstig. Gleichzeitig bezweifelt er, ob die institutionellen Rahmenbedingungen des zentralen Planungs- und Lenkungssystems in der DDR die diagnostizierten Instabilitäten auf die Dauer beseitigen könnten.

Im letzten Aufsatz des Bandes beschäftigt sich Reinhard *Peterhoff* mit sozialpolitischen Problemen ("Sozialpolitik – Rahmenbedingungen und Strukturen"). Er vergleicht die Sozialausgaben und -struktur der BRD mit denen der DDR. Er prognostiziert die Verschärfung des Verteilungskampfes, teils durch das Hinzukommen neuer Elemente, teils durch die Akzentverschiebung einzelner Aktivitäten innerhalb des traditionellen sozial-politischen Tätigkeitsfeldes (Umweltschutz, berufliche Umschulung, usw.). Die "gesellschaftliche Verantwortung" nimmt zu Kosten des individuellen Verantwortungsgefühls zu. Diese Entwicklung ist nicht unproblematisch: es bleibt die Frage, "inwieweit das, was von den jeweiligen Machtträgern im 'gesellschaftlichen' oder 'sozialen' Interesse durchgesetzt wird, tatsächlich den Interessen der Bürger einer Gesellschaft entspricht" (S. 322).

A. INOTAI

SZENTES, T.: *The political economy of underdevelopment.* (Third, revised and enlarged edition.) Budapest, 1976. Akadémiai Kiadó. 346 p.

The work of T. *Szentes* has been published for the third time since 1971, this time in an enlarged form. Starting from a detailed critical analysis of bourgeois development theories, this book contains a comprehensive conception about the nature of underdevelopment, its historical, social, and economic roots, and the mechanism reproducing international dependence and drawing away income, the internal aspects of underdevelopment (i.e. the disintegration of economy and the heterogeneity of society), and finally, about the possibilities of making up for underdevelopment.

The new edition is complemented with an Annex which has become necessary according to the introduction because since the late 1960s, when the book was first written, new, neocolonialist forms of the capitalist international division of labour have come to the foreground, and important changes have taken place in international economic relations. The new chapter – added with a view to evaluate new phenomena and tendencies – presents the changes caused in the system of international division of labour by the new investment policy of multinational enterprises in connexion with the scientific-technical revolution. In this context it speaks about the strengthening technological dependence, the coming into the foreground of collective neocolonialism, and about the change in the profit

motive of international monopolies. Economies of developing countries are joining a world-wide capitalist vertical integration, as its dependent, "lower links of the chain".

In connexion with changes on the raw material market the author explains that the price elasticity of the typical raw material products of developing countries depends largely on the tendency of price movements (their decrease or increase) exerting a considerable differentiating effect. The neo-colonialist rearrangement of the international division of labour, and the changed function of certain regions of the periphery also accelerate the differentiating tendencies in the third world.

The capitalist world mechanism of reproduction has – Szentes explains – plunged into a new crisis in our days. The strengthening of state monopoly capitalism, and the integration of advanced capitalist countries, while allowing an indirect influence on the economy of the peripheric countries, have not made possible the control of world economic processes. Serious contradictions are developing between the national character of state monopolistic intervention and the international activities of multinational companies.

All this urges the establishment of a new type of world economic order, based on democratic principles, in which the content of international cooperation would change, and accordingly, so would the institutional system.

P. FARKAS

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HENDERSHOTT, P. H. – KOCH, T. W.: An empirical analysis of the market for tax-exempt securities: estimates and forecasts. New York University. Graduate School of Business Administration. Center for the Study of Financial Institutions. Monograph Series in Finance and Economics. 1977–4, 73 p.

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Acta Oeconomica Vol. 20 (3), pp. 205–227 (1978)

P. KÖVES

THEORY OF INDEX NUMBERS AND ECONOMIC REALITY

The author starts with opposing the views which connect the acceptance of the economic content of index formulae with the possibility of their demonstrative interpretation. He reviews the conceptions and the approaches developed in the history of index theory. He discusses the conception based on the investigation of the distribution of individual indices and the one based on tests. All the above are called atomistic approaches by R. Frisch and "statistical" by H. Theil and others as against the functional or economic approach of the index problem.

In the centre of the study there is the critical examination of "economic" indices based on indifference curves. The author analyzes, among others, the role of the homothetic and non-homothetic utility functions, discussed in Samuelson's and S. Swamy's study in 1974. In addition, he discusses other procedures of index computation which stress the importance of starting from economic theory. Of these he analyses van Yzeren's methods serving for international comparisons. He points out that they are very near to the average of the results of comparisons carried out by pairs with the "ideal" Fisher formula. In the course of this he refers also to other aspects of ICP investigations aiming at the comparison of 10 countries.

As a final conclusion the author stresses the necessity of an integrated index theory based on the non-contradictory results of both the statistical and economic conceptions.

Trends in the theory of index numbers

In 1936 Ragnar *Frisch* distinguished two main schools in the theory of index numbers: 1. the *atomistic* and, 2. the *functional* approach. The atomistic approach considers q_i quantity and p_i price data of the individual products ($i = 1, 2, \ldots n$) to be independent variables. The task is to find such a functional of the 2n independent variables that shows the changes in the price level and in total volume in an acceptable manner. "In the functional approach certain *characteristic relations* are assumed to exist between prices and quantities. This changes the whole nature of the problem. While in the atomistic approach a logical and unique definition of the index number is impossible, such a definition becomes. . . possible in the functional approach."

In the foreground of the functional approach we find *the utility functions* of the form $u(Q) = u\,(q_1, q_2 \ldots q_n)$, rooted in the neo-classical economic theory and the *indifference curves and surfaces* derived from them. If the u(Q) utility function is given, each of the indifference curves belongs to a given u(Q) level of utility and represents the aggregate of those combinations of goods (Q vectors) where the choice is indifferent to the consumer.

The distinction quoted from Ragnar Frisch may be found, among others, also with *H. Theil,* under different terms: he distinguishes *statistical and economic* schools.

A different kind of division can be found in an article written jointly by *P. Samuelson and S. Swamy* in 1974. The authors of this article divide the school called by Frisch atomistic and by Theil statistical into two parts, distinguishing the search for a central tendency (average) of the changes from the approach relying on index tests. Thus, inclusive of the economic index theory they mention *three schools.* According to the treble division, the main conclusion of the first school is that individual indices follow a *lognormal distribution* and, therefore, the *geometrical mean* should be applied. The adherents to the second school, following *I. Fisher,* search for the formula of a good index number on the basis of mechanistic tests.

I, for one, *do not agree with the confrontation of the two or three kinds of approaches, nor with the blame put on the statistical school(s).* From the circumstance that the formulae of the statistical index theory assume initially 2n variables, and from the fact that the formulae do not assume certain relationships from the outset, it does not follow that the *final results* of such an approach leave these relationships out of account. The formulae of index numbers which take into account every important data of the economic reality constituting the subject of the examination are capable of taking account also of the stochastic relationship developing between the changes in the q_i quantities and p_i prices. The direction and partly the extent of the deviation between the numerical results of the most frequently used *Laspeyres and Paasche formulae* are determined precisely by the said stochastic relationship.

The problematic nature of confronting the statistical and the economic schools is well illustrated by the case of the index formula of Divisia. F. *Divisia* published his formula based on infinitesimal procedure, giving an extreme and exact realization of the "idea" of chain indexes in 1925.

In his review of 1936, R. Frisch classifies the Divisia-index (with an approving commentary) as a product of the statistical index theory, though Divisia was among the first to declare war on the statistical index theory and to advance the slogan of founding the indexes on economic theory. But Divisia was looking for the economic-theoretical basis not in the indifference curves, but in the quantity theory of money. A further curious feature is that I. Fisher, who was both a founder of the quantity theory of money and a classic of the statistical index theory, did not attribute any serious importance to the formation of chain indices and did not reach the idea of the Divisia-index. Otherwise for the justification of the Divisia-index the quantity theory of money is not necessary at all.

It seems that as regards the relationship between economic theory and the theory of index numbers *various illusions blur the clarity.* Most of the illusions are related to the indifference curves, whose role in the economic schools based on neo-classical traditions is greater than their bearings on the theory of index numbers.

Systematic survey of the formulae of the statistical school

For the time being, the problems of index formulae will be examined with the following two restrictions: 1. Only two periods (in more general formulation: two situations) will be compared. 2. Only the changes in the price level will be examined, that is, only *price indices* will be computed. The volume index will be mentioned – where necessary – only in subordination to the computation of the price index. (By changing the p and q signs, however, the formulae of the price index numbers may be interpreted also as index numbers of volume.)

In his classical work published in 1922 I. Fisher listed 134 formulae of price index numbers. He systematized them mainly from the viewpoint of their being able to stand the index-tests and also qualified them accordingly.

Setting out from the systematization of Fisher, and by rationalizing it *we may compile the family tree of the index-formulae brought about by the statistical school of the theory of index numbers (Fig. 1). Three "generations" may be distinguished in it: 1. the simple, or unweighted,* 2. the *weighted* and 3. the weighted and *crossed* generations of the formulae. Beside distinguishing the generations, we may delimit the blocs of *additive* and *multiplicative* structures.

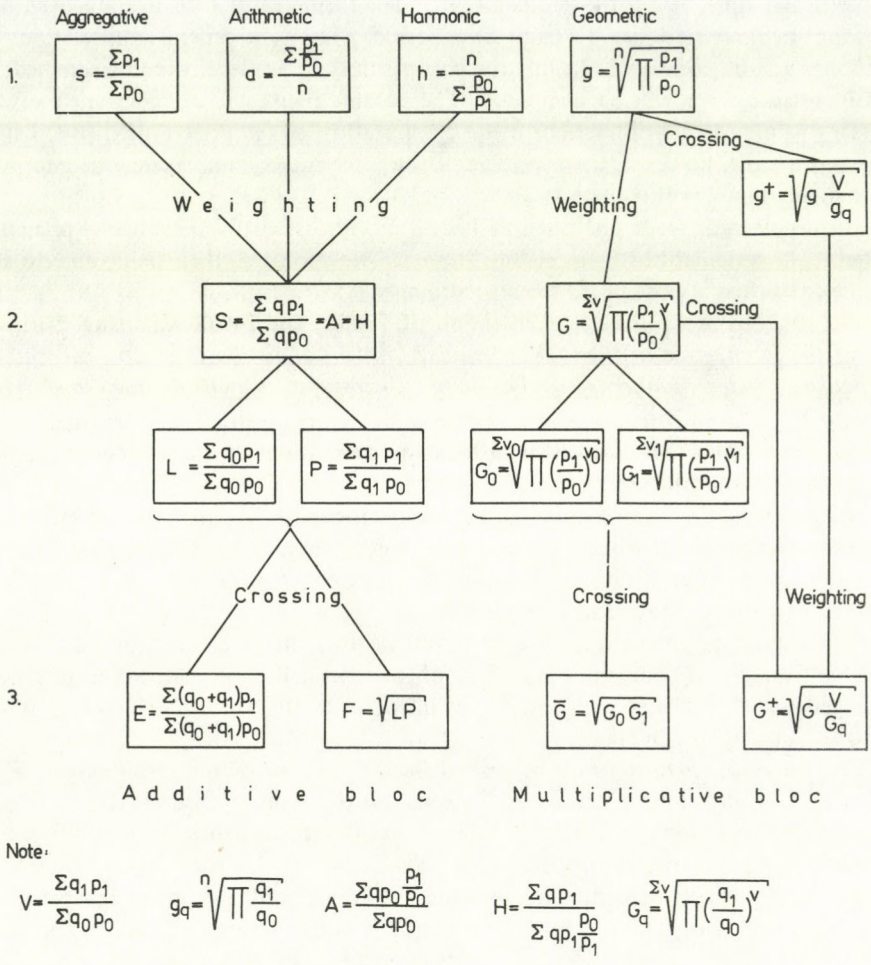
First-generation, unweighted price index formulae are the simple aggregative indexes produced as a quotient of the sums of unit prices in the two periods, as well as the various unweighted means of the individual indices p_1/p_0 to wit, the arithmetic (a), the harmonic (h) and the geometric (g) means.

We may call "first-and-half" generation the formula g^+ created by the "crossing factor antithesis". (From the viewpoint of our present systematization it may be challenged whether Fisher was justified in introducing the "crossing factor antithesis" also to the unweighted indices.)

The *second-generation* may be essentially rationalized over Fisher's system. Fisher combined the various kinds of means with four possible value weights (q_0p_0, q_1p_0, q_0p_1, q_1p_1). If we consider that in the case of identical q quantity weights the *weighted* variants of the first-generations, a and h are equal to each other (S, A, H), then only the q_0 and the q_1 quantity weights and the corresponding value weights should be attributed importance. In the same manner as $S = A = H$ are the basic type of the formulae with *additive* structure, G is the basic type of the formulae with *multiplicative* structure. As against Fisher, our family tree derives from the basic type not four but two specified versions (G_0 and G_1), where $v = v_0 = q_0p_0$, or $v = v_1 = q_1p_1$. The specified versions of the additive basic type are the well known Laspeyres and Paasche formulae (L and P).

The *third-generation formulae* have come about from the second-generation weighted formulae by way of crossing time antithesis or crossing time and crossing factor antithesis. E.g. the *Edgeworth-Marshall* formula is the result of a crossing time antithesis insofar as in the E price index with an additive structure the quantitative weight is an average of the quantities of two periods: $q = 1/2(q_0 + q_1)$. Here the quantitative *weights*

The family tree of two-situation formulae of price indexes



Note:

$V=\frac{\Sigma q_1 p_1}{\Sigma q_0 p_0}$ $g_q=\sqrt[n]{\Pi \frac{q_1}{q_0}}$ $A=\frac{\Sigma q p_0 \frac{p_1}{p_0}}{\Sigma q p_0}$ $H=\frac{\Sigma q p_1}{\Sigma q p_1 \frac{p_0}{p_1}}$ $G_q=\sqrt[\Sigma v]{\Pi (\frac{q_1}{q_0})^v}$

Fig. 1.

have been averaged, but E may be simultaneously written also as the weighted average of the L and P *index numbers* computed with the weights of the wo periods. The F formula called "ideal" by Fisher is an average of *index numbers* from the very outset, to wit, the geometrical mean of L and P. But this averaging means here not only a crossing factor antithesis as well.

On the multiplicative branch of the family tree $\overline{G}$ is the geometrical mean of the *indexes* G_0 and G_1, but $\overline{G}$ can also be produced by weighting with the arithmetical mean of the *value weights*, $w_0 = v_0/\Sigma v_0$ and $w_1 = v_1/\Sigma v_1$. Thus, here only a crossing in time occurred. As can be seen from the family tree, G^+ may come about through the derivations $g \rightarrow g^+ \rightarrow G^+$ and $g \rightarrow G \rightarrow G^+$ as well. If in the latter $\overline{G}$ is a concrete variant of G, the $\overline{G}^+$ thus coming about possesses the advantageous properties of both kinds of crossing, (similarly to F): it satisfies the requirements both of the time reversal test (the index numbers computed by interchanging the periods are each other's reciprocals: and of the factor-reversal test (the product of the volume index by the price index is equal to the value index).

It should be noted that the requirement of a further important test: *the proportionality test or average test* (the price index is some average of the individual indices p_1/p_0) are satisfied by every first and second generation formula as well as by E and F, but they are not satisfied by the g^+ and G^+ indices coming about through crossing factor antithesis and with a multiplicative structure.

Passing now to *comparisons of more than two periods,* two kinds of *the multi-situation index* computation systems are distinguished: the *open and the closed* systems. In the former case the value of the indexes computed from the data of r number of periods does not change if the computation is extended to r + 1 periods. We may obtain *an open system of index series* in the simplest way by fixing the base period and computing the value of a two-situation formula for each period. Another possibility to get index numbers with a fixed base comes about by multiplying chain indices comparing "neighbouring" periods. If we reduce the size of the time units to be compared and thus incrase the number of the links in the chain ("observatory stations"), we approach the Divisia-index.

From among the two-situation formulae only the poor-quality s, g and g^+ formulae are *transitive,* that is, it is only these which satisfy the requirements of the *circular test and the chain test.* (E.g. $g_{1/0} \cdot g_{2/1} = g_{2/0}$). If, in the manner mentioned above, we do not apply two-situation non-transitive formulae in the open-system index series, by forming derived index numbers (computing chain indices from indices with fixed base, or conversely) we may secure transitivity in an artificial manner. In the closed systems to be mentioned below we compute transitive indices from the outset.

In the case *of a closed system multi-situational crossing* takes place. If we average the q data not of two but of $r > 2$ periods (all periods drawn into the investigation), we arrive at formula $\overline{E}$ instead of E. If we compute a geometric mean from the price indices of additive structure worked out with the q data of each of the r periods, we arrive at the multi-situational versions of F, at the formula $\overline{F}$. The multi-situational version of G will be denoted by $\hat{G}$. F satisfied the requirement of the factor-reversal test, but $\overline{F}$ does not satisfy it. $\hat{G}$ is no longer expected to satisfy the test, since even its two-situation "predecessor", i.e. $\overline{G}$ did not yield the value index V if multiplied by $\overline{G}_q$. But there is no obstacle to adjusting our multi-situational formulae to satisfy the factor-reversal test. The crossing factor antithesis of $\hat{G}$ is $\hat{G}^+$ and of $\overline{F}$ it is $\hat{F}$. The formula of the

latter, if we wish to compare the price level of period t to that of period b, is as follows:

$$\hat{F}_{t/b} = \sqrt[r]{\prod_{j=1}^{r} F_{j/b} F_{t/j}} \tag{1}$$

It can be shown that the value of the expression

$$\left[\sum_{t=1}^{r} \sum_{b=1}^{r} (\log \alpha_{t/b} - \log F_{t/b})^2 \right] \tag{2}$$

is minimum, that is, a transitive price index denoted by α approximates in all relations the non-transitive F indexes by pairs, in the best manner, if $\alpha_{t/b} = \hat{F}_{t/b}$. This interrelation was simultaneously proven in a Hungarian (Éltető–Köves) and a Polish (Szulc) study. Referring to the two studies, the index formula denoted here by $\hat{F}$ is mentioned in several places as the EKS formula. It was applied in a comparison covering 10 countries (ICP International Comparison Project, Kravis and associates, 1975).

In Fig. 2 I present the behaviour of some open and closed system index series relying on the annual data of two articles on the Budapest markets between 1960–1970.[1] The figure shows also some formulae which will be mentioned only later. The figure does not illustrate the values of the index series on a 1960 basis, but values which underwent a double transformation. On the one hand, the basis is the average of 11 years (each year is compared to the geometrical mean of the indices computed on 1960 basis), and, on the other hand, the value of every index series is compared to the value of the Divisia-index. (More exactly, this is an estimation of the Divisia-index, worked out as the geometrical mean of products of chain indices computed according to the formulae $\overline{G}$ and F. What the relative values of the indices thus transformed now show reflect tendencies deriving from the individual properties of the example only to a minor extent, they mostly illuminate the general properties of the index series of different types. We shall return to this problem.

On the "economic" school of the theory of index numbers

The pioneer of the functional index computation was *A. Konius,* who expounded his relevant ideas in an article published in the Soviet Union in 1924. Partly independently of him, partly also relying on his studies which became known rather late, several other students of economic theory, statistics and econometrics contributed to the

[1] The basic data and further results of the computations – covering several articles – are to be found in Köves (1977).

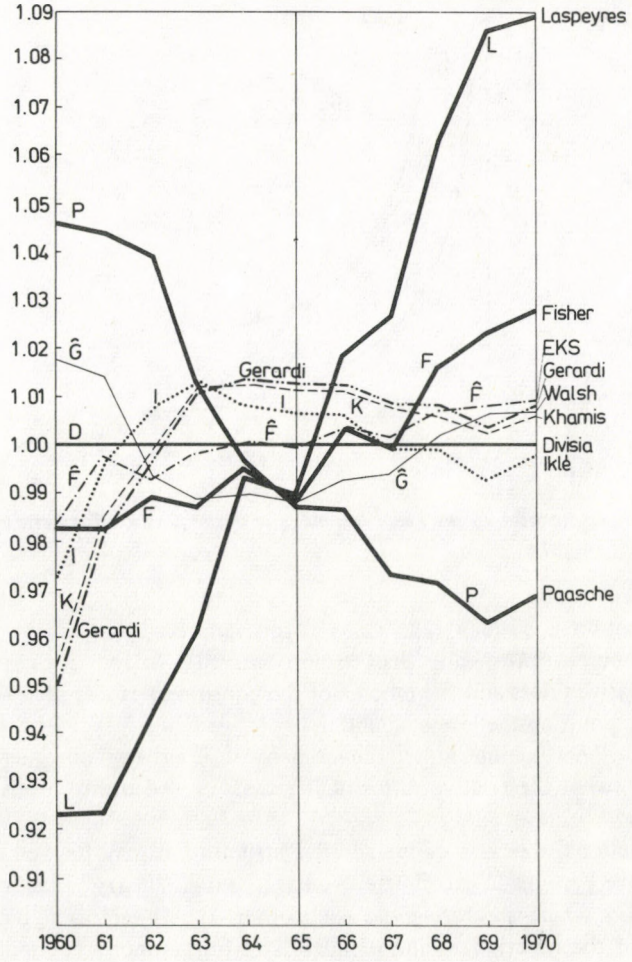


Fig. 2. Open and closed-system series of index numbers

development of the theory of index numbers called, by the term coined by Frisch, functional.

We have already touched upon the meaning of the u curves to be found in Fig. 3. The various straight lines in the Figure also have an interpretation. The angle of the lines starting from the origin and connecting it with some consumption point Q, with the axes reflect the relative consumptions of the two products. The distance from the origin of a straight line, connecting two points on the two axes, shows some Σ qp total consumption (income). The slope of such a line shows the proportion of the prices of the two products.

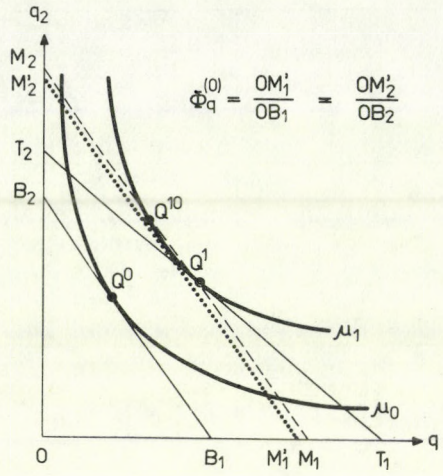


Fig. 3. Comparison of the Laspeyres index with the functional volume index

The function u(Q) may take many forms, and according to the functional index theory this concrete form, too, "has to be observed". In Fig. 3 the two straight lines (expressing relative prices and the income of the consumer) can be seen which determined a consumption point on the levels u_0 and u_1.

The functional volume index (denoted by Φ_q) answers the question, assuming a given vector P, what the relative ratios of the costs of two utility levels (e.g. u_0 and u_1) are.

The functional index is of an additive structure, it may be well compared to the classical additive "atomistic" formulae. While L_q and P_q "marry" in a fictitious aggregate Q and P vectors which are foreign to each other, the Q vector in the numerator and denominator of the functional volume index is in full harmony economically with the P vector constituting a scalar product with it, the pattern of consumption is always in correspondence with the price structure.

If, by analogy of the formula L_q, we assume that the fixed $P = P^0$, with such relative prices the consumer would have consumed in the period observed not the quantities Q^1, but the equivalent quantities Q^{10} situated on the same u_1 utility level, on the same indifference curve, corresponding to the "cheapest" Q vector with P^0 prices.* The functional volume index $\Phi_q^{(0)}$** relates the costs of the Q^{10} consumption to the actual costs in the base period, instead of working out the costs of Q^1 at P^0 prices foreign to it, as does L_q.

*In Q^{10} 1 denotes the utility level, O the relative prices taken for basis
**The upper index (0) denotes the price level taken for basis

It is easy to see, and this is illustrated in Fig. 5, that $Q^{1\,0}P^0 < Q^1P^1$, and thus the ratio of costs of $Q^{1\,0}$ and Q^0 (at P^0 prices), that is, the functional index, is smaller than the ratio of the costs of Q^1 and Q^0 (at P^0 prices), that is, than the Laspeyres index.

If, by analogy of the formula P_q, we fix the price vector P^1, the consumer would have chosen prior to the consumption Q^1 on level u_1 the combination of goods $Q^{0\,1}$ instead of Q^0, since it is cheapest with the relative prices p^1 on level u_0. In this case the functional volume index may be computed as the quotient of the costs of Q^1 and $Q^{0\,1}$ at p^1 prices. This index number is greater than P_q:

$$\Phi_q^{(1)} = \frac{Q^1\,P^1}{Q^{0\,1}\,P^1} > \frac{Q^1\,P^1}{Q^0\,P^1} = P_q \tag{3}$$

The functional *price index* (Φ_p) is the quotient of the two costs to be found on the same indifference curve, at prices P^0 and P^1 necessary for buying the combination of goods conforming to the relative prices P^0 and P^1.

Also the fixed utility level may be of several kinds. If e.g. we fix the level Q^0, then

$$\Phi_p^{(0)} = \frac{Q^{0\,1}P^1}{Q^0P^0} \tag{4}$$

Here too it is valid, *mutatis mutandis,* what we have stated with the volume index in respect of the relation to the formulae L and P.

In most cases we may expect that the numerical values of the Laspeyres and the Paasche formulae flank on both sides the values of the two analogous functional index numbers. In the case of definite types of utility functions (and indifference curves derived from them), the functional index is invariant, that is, its value does not depend on the price vector used in computing the volume index nor on the utility level when computing the price index.

Marxist theoretical economists did not discuss the theory of indifference curves for quite a while, we may say they exhibited a certain degree of indifference. As far as I know, the works of Robert *Hoch* published in 1960 and 1962, as well as the survey of bourgeois theories by Antal *Mátyás* illuminating also the role of the indifference curves may be considered as pioneering not only in the Hungarian literature. From the aspect of computing indexes it was the Polish economist W. *Welfe* who dealt with the indifference curve with the intention of a Marxist critique, and also the works of prof. M. *Dobb* of Cambridge University should be mentioned.

In agreement with R. Hoch's analyses, A. Mátyás believes that an ordinal interpretation ". . . does not further demand theory any more than its derivation through a cardinal interpretation of utility." "The representatives of the system of indifference curves, while pretending to neglect the cardinal interpretation of utility, in reality smuggle it back into the theory." According to R. Hoch the theory of indifference curves ". . . is an attempt at saving the theory of marginal utility that failed."

Hoch criticizes the concept reflected by the indifference curves, according to which the basic relationship between consumer articles is substitutability, and explains that total consumption is composed of groups of goods satisfying needs which are independent of each other. The consumer ranks first of all his comprehensive, independent needs (food, clothing, dwelling, furnishing, cultural needs etc.) *and determines the pattern of his outlays first of all according to the corresponding comprehensive, independent groups of goods. The determination of the demand proportions of substitutes is in general secondary.* The ranking of independent groups of goods occurs according to the intensity of these needs. The changes in relative prices within the comprehensive groups influence the demand proportions between "true" substitutes.

I agree with the critiques of R. Hoch and of A. Mátyás raised against the idea of general substitutability and with the motives of the critique. In what follows, however, we still have to take into account the distinction between homothetic and non-homothetic utility functions.

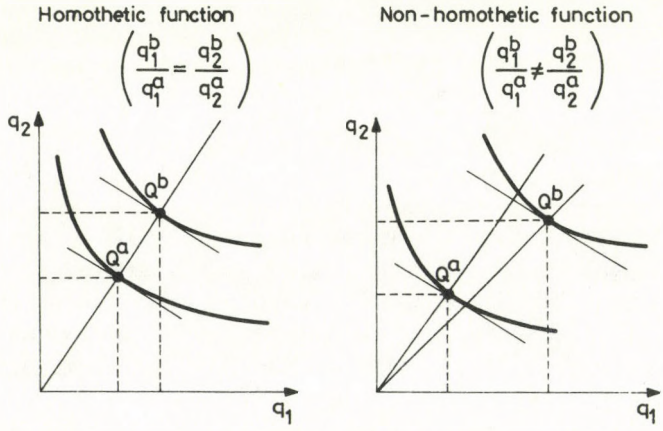


Fig. 4. Indifference curves derived from the homothetic and the non-homothetic functions

In the case when *homothetic* functions are valid, the income elasticity of every article is 1, that is, with unchanged prices a given rate of increase in income involves a proportionate increase in the consumption of every article. In a given period the pattern of consumption of both poor and rich will be the same. With *non-homothetic* functions the income elasticity differs by articles as it does in reality. But with this type of function there is no guaranty that the *average* of the elasticity coefficients is unity.

In their common article Samuelson and Swamy promise an investigation of the relationship between invariant economic index numbers and canonical duality. The distinction between homothetic and non-homothetic functions plays an important role in the paper.

The authors call canonical the

$$q(Q) = \lambda^{-1} q(\lambda Q)$$

form of the utility function $u(Q) = q(Q)$, in which, as matter of fact, the validity of the proportionality test is stated. (The utility level corresponding to the vector Q multiplied by λ is equal to an λ -fold utility level.) Duality emerges in several respects.

The authors show that an invariant index number is obtained only if the utility function is a homothetic function of the first degree and of canonical form.

They show that the invariant index numbers satisfy the following Fisher tests: a) average test, b) time-reversal test, c) circular test, d) determinateness test, e) "weak" factor-reversal test. ("Weak" means here that the product of the volume and price index numbers computed according to different formulae is equal to the value index.)

According to the authors innumerable homothetic utility functions may be formed; but what do they say about the non-homothetic functions which, as we have seen, may be considered to approximate reality more truly?

As regards the tests, the situation changes relative to the homothetic case. The proportionality test holds only for the price index, but not for the volume index. The other tests, however, are satisfied. It has already been mentioned that the index numbers of the non-homothetic functions are not invariant. Also the invariance of the Divisia-index relating to the path between the end points is lost.

A lopsided result is quite usual in the "atomistic" jungle of index numbers. But in the "exact" theory of index numbers the theorem that the price index is the average of individual indices, but this is not true for the volume index sounds rather dissonant.

I have already mentioned that, relative to the difference between L and P, the quantitative effect of invariance is in general essentially smaller. This circumstance may partly help in eliminating such illusions that the L and the P formulae have independent messages, and the remaining invariance introduces – less dramatically – the same problems into the economic index theory which the statistical index theory has to face.

Let us remember that, for the time being, *the statistical* index theory has the irrefutable advantage *that, up to now, practically useful index numbers could be computed only on this basis.* Thus, it is an important corollary of the economic theory to examine what statistical formula can approximate the "theoretically correct" economic index. Samuelson and Swamy do mention the problem of approximation. They state that in the homothetical case the "symmetrical averages" of L and P, among them F, yield very good approximations. After having addressed – according to the traditions of the cultivators of the economic index theory–several galling remarks to Fisher, the authors write ". . . we can a little vindicate Fisher in his choice of the "Ideal" index number. . ." (p. 581). It seems, for the time being, that the practical final conclusion of the economic theory may be that in the interest of the best approximation of the theoretically correct index number such formulae should be used which are considered best also by the statistical theory of index numbers.

In this respect, the situation does not essentially change if we pass to the *non-homothetic* case. Under the subtitle "Nonoptimality of Ideal Index for non-homothetic Case" (p. 585) the authors illustrate with an example relating to the function

$$u(Q) = (1 + q_1)\, q_2$$

that in the case of a non-homothetic function the "true" index does not necessarily fall between L and P. The example relies on the failure of the average test. Taking the two individual indices to be equal, L, P and F are also equal to them. Thus, the index number not bound by the average test and situated "within" the interval of zero dimension of the individual indices may step out of the L–P interval, which equally has no dimension. The subtitle quoted announces for the "conservative" reader (and to his no small satisfaction) again the "failure" of F, but it should be obvious that also L and P "have failed". The authors do not recommend a better approximative formula.

Cultivators of the economic index theory had to face also the problem that consumer preferences, "tastes" change over time, thus the utility function u(Q) itself changes. The authors discuss also this aspect. Their final practical conclusions centre on recommending the chained F formula, and index numbers similar to the Divisia-indices. This is not much "news" from the vantage point of statistical index theory.

On international comparisons

Let us examine the formulae of volume and price indices used for international comparisons from the viewpoint of their relations to the schools of index theory. In some instances we have already indicated that the comparable situations may be not only periods, but also territorial units, among other things, countries. For such purposes generally the same index formulas may be used as for the comparisons in time. But some formulae owe their "career" to international comparisons.

Such is e.g. the *Geary–Khamis multi-situational, asymmetrical index computation system of the closed type.* Asymmetry means that the formulae of the volume and the price index numbers are not uniform. A similar one is the volume and price index proposed by *D. M. Iklé,* theoretically one step ahead, but neglected in practice.

These procedures are based on the averaging of the weights, but the averages of the q and the p data are worked out in a more complicated manner than e.g. in the case of the E or $\bar{E}$ formulae.

The Geary–Khamis method works out the $K_{t/b}$ price index number as the (reversed) quotient of such K_t and K_b price indices, whose formulae are:

$$K_t = \frac{\Sigma q_t p_K}{\Sigma\, q_t\, p_t}, \qquad K_b = \frac{\Sigma q_b p_K}{\Sigma\, q_b\, p_b}. \tag{5}$$

These price index numbers relate an average price level to the price levels of the given situations.

The formula for the average price level for a definite article is:

$$p_K = \frac{\sum_{t=1}^{r} q_t p_t K_t}{\sum_{t=1}^{r} q_t} = \frac{\sum_{t=1}^{r} v_t K_t}{\sum_{t=1}^{r} q_t}. \tag{6}$$

With the aid of the price index K_t the corrected prices reduced to the average price level ($p_t K_t$) have been averaged with the aud of q_t weights. After the correction the function of averaging is only to level out the differences in relative prices. This procedure prevents that the relative prices of situations with a higher price level (in international comparisons there are also differences in currency) should "suppress" those of others.

The t/b price index is

$$K_{t/b} = \frac{K_b}{K_t}. \tag{7}$$

It may be seen that the formulae of the price index and the average price depend on each other mutually. Therefore, their computation requires a difficult mathematical procedure.

The formula of the Geary–Khamis volume index is:

$$K_q = \frac{\Sigma q_t p_K}{\Sigma q_b p_K}. \tag{8}$$

We have a series of absolute figures $\Sigma q_t p_K (t = 1, \ldots, r)$, from which we may compute (transitive) volume indices for any relation.

Of course, the Geary–Khamis index numbers may be reduced to two situations, and while in the case of several situations we can arrive at a solution only by solving a complicated system of equations, for two situations a direct formula may be given. It turns out that the weights q_K are proportionate to the harmonic mean of the q_t quantities.

We have already seen from the multi-situational formula that in forming the average price the effect of differences in absolute price levels has been eliminated. With the quantities this reassuring moment is missing. The ratios between average quantities are nearer to the quantitative relations of the situation with the smaller volume. (If we

compute from the weights not harmonic but arithmetic means, as e.g. in the formula E, the ratios of the situation with greater volume will dominate.*

The method of Doris M. Iklé may be considered as *a further improvement* of the formulae K_p and K_q in which, however, the two-situational procedure is also more complicated. The Iklé procedure secures the elimination of differences in level between spatial or time situations not only in respect of prices, but also in respect of quantities. Thus, the average quantities of an article between situations allow the assertion of average quantative ratios.

Here, too, only the volume index has a direct multi-situational formula. It differs from the formula K_q in that another value has to be substituted for p_K. We note that while Khamis reduced the unit prices of the individual situations to identical price level by inserting a general price level, Iklé worked with a fixed basis chosen from among real situations. Thus, in Iklé's formula we find price and volume indices of t/O relation:

$$p_I = \frac{\sum_{t=0}^{m} v_t I_{qt} I_{pt}}{\sum_{t=0}^{m} q_t I_{qt}} = \frac{\sum_{t=0}^{m} v_t V_{t/0}}{\sum_{t=0}^{m} q_t I_{qt}}, \tag{9}$$

where $t = 0, 1, \ldots, m$.

Extension to many situations involves difficulties with K and I. Khamis and Iklé "generalized" the two-situational formula of the volume index (observing its transitivity) without a similar generalization of the price indices being made possible obeying the factor-reversal test. Thus, the price index can be expressed only indirectly, either as the quotient of the value index and the volume index or by assuming an intermediate (average or other) abstract price level:

$$\frac{\Sigma q_t p_t}{\Sigma q_b p_b} : \frac{\Sigma q_t p}{\Sigma q_b p} = \frac{\Sigma q_t p_t}{\Sigma q_t p} : \frac{\Sigma q_b p_b}{\Sigma q_b p} \tag{10}$$

where p may be either p_K or p_I.

It follows that the multi-situational *K and I price index numbers do not satisfy the requirements of the average test,* the indirect results are not strict averages of the individual indices.

*Since, however, the formula p_K averages the corrected prices in a weighted form, the average price ratios will be nearer to the one from the p_0 and p_1 ratios to which a greater q series belongs. In this manner from the volume and the price indices one will be nearer to the L, the other to the P formula, if the change in volume is substantial between the two periods.

The specialists engaged in the international comparison of Common Market countries found the computation of the Geary–Khamis index numbers too complicated, but they insisted on the possibility of analysing the structure of the aggregates by means of distribution ratios in harmony with the index numbers worked out (which is allowed in the case of computing with average prices). They adopted the proposal of the Italian *Gerardi,* advocating a weighting with the geometrical mean of the prices expressed in the currencies of the different countries. The unweighted geometrical mean is free from the distorting effects of the arithmetical and harmonic means which are mitigated or eliminated in the Geary–Khamis and the Iklé formulae by means of complicated weighting. Figure 2 illustrates also the behaviour of this formula.

The price index numbers of additive structure computed with formulae with average weights are characterized by the fact that they produce high values "in the middle" and low ones on the "wings". This is now best shown by I relative to D. K and the Gerardi price index show extremely low values only at the beginning of the time series.

Why are the price indices mentioned relatively higher "in the middle"? Where the price index is relatively high, the volume index is relatively low. Thus, the former question may be put also by asking why the volume indices are low "in the middle". The weights are now average p values. Around the middle of the time series also the relative ratios between the quantities are on the whole close to these mean values in the periods observed. If the individual volume indices are of an "average per non-average" nature, and the weights are of "average" nature, our index number of additive structure will be a "quasi-Paasche" one, that is, of relatively low value.

Earlier I showed that in the case of a low level of volume the K_q volume index gives a relatively high value. The K price index behaves contrarywise. This is the explanation why K sinks low at the start of the time series even in comparison to its already justified declining tendency, while at the end of the time series the declining tendency is counterbalanced by the factor just mentioned.

We may examine also the behaviour of the $\hat{G}$ formula in the figure, which was used in the ICP under the name of *Walsh-formula.*

In the ICP also a formula of the Dutch professor *J. van Yzeren* was used, which had been already applied in 1955 for comparison between the countries of the European Coal and Steel Community. We will now investigate this procedure of index computation.

As a matter of fact, J. van. Yzeren created three interlinked methods, and three index formulae, to be denoted hereafter by Y', Y", and Y.

With the notation just introduced, *the method of* van Yzeren is aimed at computing Y'. The author calls this procedure the method of *heterogeneous groups.* For understanding the method one should think of four groups of persons, consisting each of a typical inhabitant of countries A, B, C and D. Each of the groups moves into one of the four countries. The consumption pattern of the individuals corresponds to the original consumption developed in their own countries. The consumption of the four persons

meeting in the four countries in turn is equal, according to some – for the time being unknown – conversion coefficient Y'_i (i = a, b, c, d). In his own country the inhabitant A spent Y'_a units of A francs, and the others, similarly in their own country, Y'_b, Y'_c, Y'_d units of B, C and D francs.

The problem consists in working out the Y'_i conversion coefficients. Relating them to each other we then obtain the $Y'_{b/a}$, etc. price index numbers expressing the relative purchasing power. The author presents an iterative procedure for working out the conversion coefficients and shows that if the model consists of two countries only, the Y' = F.

The author calls *the method II, the method of homogeneous groups.* Four groups are formed whose members originate from the same country. Each group spends the same amount. The members of the group are dispersed in the different countries where they consume according to their own original consumption habits. But this time the conversion coefficients have to be such that each original group should spend the same amount.

The computation again occurs by help of an iterative procedure. In the case of two countries Y" = F, similarly to the first method.

The method III is the so-called *balanced one.* It is based on the wish that the conversion coefficients worked out in method I and II in different ways would be equal to each other. The way of computation is similar to the former ones. In the case of two countries Y = F.

Comforming to the basic idea of this study, *the reference to the economic contents may be now too confronted with the earlier results of the "statistical"theory* of index numbers. Remembering also that all three methods of van Yzeren are reduced to the "ideal" Fisher formula if there are two countries, it will be examined whether Y', Y" and Y do not "resemble" some known formula.

If in van Yzeren's model we exchange the additive type of summation (averaging) for a multiplicative one, there will be negligible change in the quantitative results – as will be shown later.

In a Hungarian language study of mine published in 1977 I showed that method I of van Yzeren, called the method of heterogeneous groups and having a *palpable economic background* is very near to the formula $\overline{F}$ already mentioned, which may be considered to be a typical product of the "statistical" theory of index numbers. The essential difference between the two is that the computation of Y' requires a complicated iterative procedure, while for $\overline{F}$ we have a direct formula.

The value obtained by method II through a similar procedure is nothing else but the „factor-antithesis" of $\overline{F}$, that is, the value index divided by the volume index $\overline{F}_q$.

With method III we get through the transformation $\hat{F}$ for Y.

From the three van Yzeren methods only the third one was used in the UN comparison, of which it may be now stated that it *is a near "relative" of the $\hat{F}$ formula* (EKS method).

In order to prove that Y', Y" and Y are indeed very near to the formulae $\bar{F}$, $V/\bar{F}_q$ and $\hat{F}$, in Table 1 I give the numerical results of the index numbers in van Yzeren's schematic example (basis is the A franc).

Table 1

Comparison of van Yzeren's indices with their "relatives"

Country	Additive methods			Multiplicative methods		
	I (Y')	II (Y")	III (Y)	I ($\bar{F}$)	II ($V/\bar{F}_q$)	III ($\hat{F}$)
A ...	1	1	1	1	1	1
B ...	0.4937	0.5830	0.5364	0.4937	0.5819	0.5360
C ...	0.6604	0.7871	0.7210	0.6613	0.7855	0.7208
D ...	0.6540	0.6965	0.6746	0.6499	0.6985	0.6738

Turning from the schematic example to the UN statistics, let us see how the results worked out with the different formulae compare relative to the USA. In order to increase the exactness of the comparison I applied two transformations. First I converted the index numbers given on the basis of the USA to indices related to the average of the ten countries as a basis (to the geometrical mean of the indices) and then compared every such result obtained by countries to the results of a selected formula, to wit, to those of $\hat{F}$. Table 2 shows the index numbers published by the UN and those obtained through the double transformation.

The most conspicuous result is precisely that the differences between Y and $\hat{F}$ are disproportionately the smallest, even negligible in comparison to the differences between the other indices. Only in the case of Kenya do we find a major deviation, but this has a special reason: with the low volume index the result, given with an exactness of two significant digits, corresponding to one thousandth of the US level, is a very rough rounding. This assumption may be proven if we perform the comparison for the price index of Kenya also with a price index having three significant digits. Then $Y = 3{,}79$ and $\hat{F} = 3{,}80$, the difference is negligible.

Relying on the confrontation of the index numbers we may state that *Y does not yield any additional information in comparison to the essentially more easily computable* $\hat{F}$.

Omitting Y, the results of Table 2 are illustrated in Fig. 5 also graphically. The data of the countries ranked according to the per capita GDP have been connected with (a rather voluntary) continuous line.

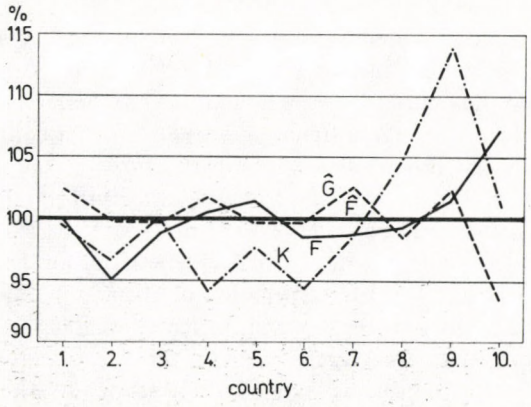
On the basis of the statements made earlier about the properties of the individual formulae we might examine the differences between the results of the various formulae. I would stress here only the most conspicuous one: the value of K_q deviates in the case of

Table 2

Index numbers of per capita consumption of ten countries in 1970

Country	Geary–Khamis	Walsh	EKS	van Yzeren	Fisher
	K	$\hat{G}$	$\hat{F}$	Y	F
	UN indices				
1. USA	100.0	100.0	100.0	100.0	100.0
2. France	75.0	75.3	77.3	77.6	73.5
3. Germany (Fed. Rep.)	74.7	72.4	74.4	74.4	73.5
4. United Kingdom	60.3	63.3	63.8	64.0	64.0
5. Japan	61.5	60.9	62.6	62.7	63.6
6. Italy	45.8	47.1	48.4	48.4	47.7
7. Hungary	40.3	40.7	40.7	40.8	40.2
8. Columbia	15.9	14.5	15.1	15.1	15.0
9. India	7.1	6.2	6.2	6.2	6.3
10. Kenya	5.7	5.1	5.6	5.7	6.0
	Transformed indices				
1. USA	99.6	102.5	100.0	99.9	99.9
2. France	96.6	99.9	100.0	100.2	95.0
3. Germany (Fed. Rep.)	100.0	99.8	100.0	99.9	98.7
4. United Kingdom	94.1	101.7	100.0	100.2	100.2
5. Japan	97.8	99.8	100.0	100.0	101.5
6. Italy	94.3	99.8	100.0	99.9	98.5
7. Hungary	98.6	102.5	100.0	100.1	98.7
8. Columbia	104.9	98.4	100.0	99.9	99.2
9. India	114.0	102.5	100.0	99.8	101.5
10. Kenya	101.4	93.4	100.0	101.7	107.0

some countries, particularly India, from the results of the other formulae. It follows from our earlier statements that the volume index computed with the *formula* K_q *is inclined to overvalue the situations of low volume and undervalue those of high volume.* In this case, indeed, the formula K_q raises most the index number of the three countries with the lowest per capita consumption, lagging behind the others, i.e. those of Columbia, India and Kenya.



Note: On the horizontal axis we find the serial numbers of the countries as they appear in Table 2.

Fig. 5. Index numbers of per capita consumption relative to the formula $\hat{F}$

On the economic contents of the formulae. – For an integrated theory of index numbers!

Many believe that a given formula of an index number has an economic content only *if it can be palpably interpreted.* From this point of view it is the second-generation formulae with additive structure that are most adequate. The adherents to the "economic" school link the economic contents of the index formula to the indifference curves. We also meet with strivings that, allowing with the formulae of the "statistical" school more complicated mathematical procedures, the procedure for computing index numbers is based on some more complex but *still palpable economic abstraction,* making the appearance that the "purely statistical" ideas have been successfully transcended. An example may be the van Yzeren procedure.

Those cultivating the "welfare economics" need the indifference curves. It follows that they also necessarily subordinate the theory of index numbers to the indifference theorem. It seems that *it is not primarily the theory of index numbers that needs the indifference curves, but rather the theorem of indifference curves is seeking for its justification also in the theory of index numbers.*

In my opinion the confrontation of the "statistical" approach with the "economic" theory of index numbers (reflected also by these denominations) is not correct. *We need an integrated theory of index numbers which uses every tool which has proven to be useful. The approach called statistical has possessed the necessary economic foundations from the very outset.* Alerady the second-generation formulae (those with an additive structure) palpably reflect the basic economic interrelations which are significant from

the viewpoint of the purpose of computing index numbers. The degrees of development of the system of formulae reflected an ever fuller grasping of economic reality. *An integrated theory of index numbers would possess a richer armoury of instruments than the individual approaches separately.* There is no danger that the integrated theory would be eclectic since the real results of the different approaches are not contradictory.

The integrated theory *should link the investigation of the properties of the formulae with a study of the properties of reality, constituting the subject of index computation.* But this reality may be described not only with the aid of functional but also with *stochastic models,* and, as a matter of fact, the latter are nearer to reality. We have to make an empirical study of the distribution of changes in volume and in prices, the stochastic relationship between the two, and the factors shaping this connection, that is, *the statistical structure of the aggregate changing in time, the various types of this structure.* In realizing these objectives every known school of the theory of index numbers will obtain a role.

Different types of aggregates may be distinguished, e.g., depending on whether the dispersion and correlation of the indiviual indices are stronger in the short or in the long run. For the sake of simplicity, let us think only of the dispersion. Thus, in the case of the one type the individual indices move considerably away from each other in the longer run, while in the short run only the part of the long-term development falling to the given period causes dispersion. In the case of the other type there is a big fluctuation in the short run, but in the course of this big movement the earlier ratios are restored again and again. In the first case the multiplication of the chain indices may be favourable, while in the second case it may be more advantageous to compute index numbers with constant or average weights.

The economic reality constituting the subject of the computation, the statistical structure of the given aggregate, are usually such *that the crossed multi-situational formulae, systems of index computation (not least the Divisia-index) yield nearby results.* Reality is relatively near to those theoretically definable "regular" structures, in which the more advanced formulae or a part of them yield identical results. In the case of real aggregates it may be investigated in what respect the aggregate differs most from "the regular" one and, in view of this, and considering also the practical viewpoints as well as the demands of those "commissioning" the analysis, one may choose from among the formulae.

One of the most important factors in the properties of the aggregate is the *correlation* between the individual indices. There are many arguments to consider this correlation as basically of a negative type. This is shown by empirical data in both temporal and territorial comparisons, and this follows also from the convex indifference curves.

When we explain in our textbooks and handbooks the bases of index computation, *we always start with a two-situation case* and then pass to multi-situational ones. *Let us now reverse the problem and divide at the same time the simplification of the complicated reality into two parts.*

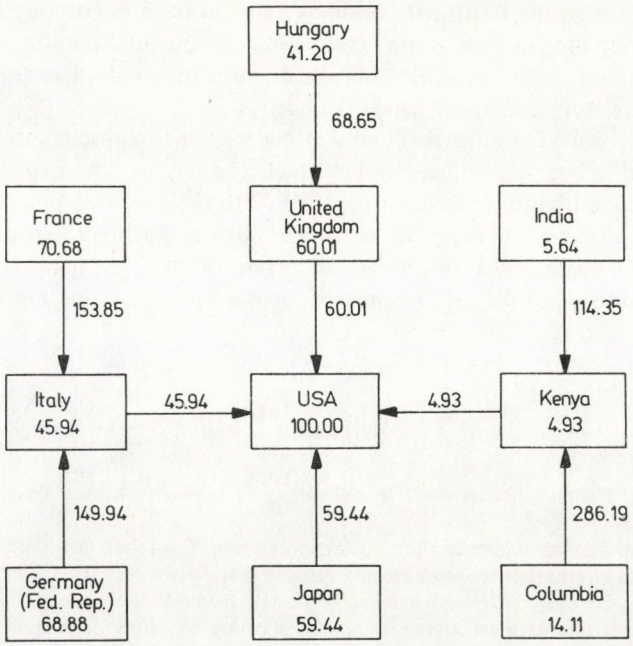


Fig. 6. The optimal graph of the ICP index numbers

As the first step, let us remember that the quantities and prices of every product develop continuously, that is, they have a time series. Our objective is to reduce the sets of both the q and the p time series to one time series each.

As the second step we put the question what the ratio is between two values at optional dates of some reduced time series. This ratio is the index. If we have data only for optional dates, we cannot expect "absolutely correct" results. *The two-situation index is not the elementary and the simplest case in this sense, but the most simplified case of index computation.*

This reminds us, of course, of the Divisia-index. But now we do not intend to create a procedure for the computation of index numbers, but are engaged in deriving the index problem. If we accept this derivation, it naturally offers itself as a solution, and also appears in a more favourable light, than its historical acceptance in the development of the theory of index numbers. But we also see now that the idea of simplifying reality used in the first step may be also utilized in improving the computational procedure of index numbers, which may help perhaps also in eliminating the problem of the invariance of D (relating to the development path).

In the comparison of territoral units (countries) the chain index is not used. But in literature we may meet also with such ideas, and in practice with procedures pointing in

this direction. But in the territorial "chaining" the problem is not only linear ordering. When constructing the "optimal graph" countries with similar structures should be placed beside each other. For this an objective measure may be the quotient of Paasche/Laspeyres type indices by pairs of countries.

Performing some reproductive computations with the published results of the ICP, I could work out bilateral F indices and "Paasche/Laspeyres" quotients (which do not agree with the computational results of the ICP). With their aid was prepared an "optimal graph". In the figure we find along the arrows the value of the direct F index corresponding to the link in the chain, and below the name of the countries the index number obtained through multiplication of the indices, relating them to the USA. (See Fig. 6)

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ТЕОРИЯ ИНДЕКСОВ И ЭКОНОМИЧЕСКАЯ ДЕЙСТВИТЕЛЬНОСТЬ

П. КЕВеШ

Автор полемизирует сначала со взглядами, представители которых связывают признание экономического содержания индексных формул с возможностью их наглядной интерпретации. Затем производит обзор сложившихся в истории теории индексов направлений, способов приближения, в том числе направлений, основывающихся на исследовании распределения индивидуальных индексов, а также на тестах, которые Р. Фриш называл в целом атомистическим, а Х. Тейль и другие – статистическим приближением, в отличие от функционального или экономического приближения индексной проблемы. Автор отмечает, что Ф. Дивизия, критикуя статистический подход, ввел образуемую с помощью инфинитезимальных цепей индексную формулу, в то время как другие причислили автора этих индексов тоже к статистическому направлению. Автор настоящей статьи подвергает критике также другие случаи противопоставления статистической и экономической теории индексов.

Центральное место в настоящей статье занимает критическое исследование «экономических» индексов, основывающихся на кривых безразличия. Наряду с прочим автор анализирует роль гомотетических и негомотетических функций полезности, которые были изложены в опубликованном в 1974 году совместном очерке Самуэльсона и Свэми. Кроме этого автор останавливается также и на других способах исчисления индексов, авторы которых считают важным наличие исходного экономического теоретического обоснования. Среди них ван Изерен анализирует методы для международных сравнений, показывая, что они равнозначны усреднению результатов сравнений, выполненных попарно с помощью «идеальной» формулы Фишера. В связи с этой критикой автор касается также других аспектов Проекта международного сопоставления (ICP), охватывающего 10 стран.

В конечном итоге автор приходит к выводу, что существует необходимость в интегральной индексной теории, учитывающей в равной мере но противоречащие друг другу результаты статистического и экономического направлений.

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GY. VARGA

ENTERPRISE SIZE PATTERN IN THE HUNGARIAN INDUSTRY

The break of a new epoch in world economy made it necessary to analyse and update the economic management and organizational methods and conditions which would serve better adaptability. Within this context increased attention has been paid to the enterprise size pattern of the Hungarian industry, a factor of consequence from the point of view of flexible adaptation to the quickly changing conditions.

Some features of the Hungarian industrial development

Socialist industrialization is conventionally attached to large enterprises; in this age big organizations are the best framework for the utilization of modern production equipment and of the achievements of the scientific and technical revolution. In a number of industrial branches – especially in the production of basic materials, in branches doing primary processing, and in those manufacturing durable consumer goods in big volumes – efficient industrial production usually requires large concentrated organizations capable of making efficient use of the costly and high-performance equipment, of sacrificing big funds for research and development, and able to afford the market costs involved by the sale of big volumes of products.

Although the pre-war economic development histories of East European countries show many common features and similarities, it is worth mentioning that Hungary inherited from the capitalist era a relatively backward industrial culture. This was manifest not only in technological respects but also in the structural pattern of the industry and in the *standards of organization and management.*

Most of the Hungarian industrial enterprises were not above the small-scale range before the first war. This was one of the development trends of the industrial enterprise structure. The other symptom was a particularly marked concentration of a large scale industry of relatively narrow volume. This duality was due to a single cause stemming from the same root: economic backwardness. "The 'pyramid type' . . . industrial . . . structure, where a steadily decreasing range of increasing factory sizes is built on the broader basement of smaller factories is not found in Hungary. . ."[1]

The small-scale forms were preserved in Hungary until the middle of the 20th century almost intact. "Between the two wars. . . nearly half of the industrial workers were employed in . . . and about a quarter of the industrial output was produced by . . . small scale industries. . . The process of concentration gained new impetus from the

thirties on. By international standards the Hungarian industry belonged to the most concentrated ones also before the second world war. In 1938 only 94 factories turned out 42 per cent of the output of the manufacturing industry."[2]

True, in most cases these big factories did not have a technical basis corresponding to the standards of the time, and also the degree of specialization was low. The feature characteristic of the growth of these large factories was not modernization based on capital investment but rather amalgamation and monpolization of markets. Most of these big enterprises consequently resembled enormous general stores, the big organizations were practically conglomerates of small plants.

The people's democracy thus inherited a technically and economically rather backward industry, of a *specific dual enterprise structure, the extreme poles of which* – the backward small-scale plants and the powerfully concentrated big industrial enterprises – *were established, but a system of various enterprise size categories connecting these poles was missing.* May I reiterate, however, that the majority of the big industrial enterprises did not show the marks of contemporary European standards either. There nevertheless existed developed "islands" in that state of affairs too, such as the Ganz group, the Tungsram Incandescent Lamps Works, or the Standard, run with foreign capital participation. These enterprises represented up-to-date European standards in the technology of production, in production organization and marketing, and in the methods of management alike.

I believe this outline of the prehistory of the development of industrial enterprises is necessary also for understanding what happened in this field in the period of industrialization after World War II. A survery of the 30-year history of socialist industrialization, i.e., industrial development, *shows that it has unmistakably proceeded towards concentration and centralization.* *

The prehistory of industrial development in Hungary actually ended with the termination of World War II, which has led to the shrinking of industrial production to about a third of the 1938 output, and to the loss of mainly the big enterprise capacities.

In the initial period of post-war reconstruction and industrialization the most rational way of utilizing the scarce resources at disposal was to build and put into operation the big factories. The Soviet compensation orders gave work to the big factories; the reconstructions carried out with great efforts were also favourable for the development of the big enterprise forms, since iron, steel, casts, structural materials, vehicles, building materials, etc. were required.

Nationalizations and the transition to planned economy was already accompanied by considerable structural changes in the industry with the aim of putting an end to the "general store" character of the enterprises and of developing specialization in production. The amalgamation of enterprises into various structural schemes was also dictated by a certain emergency, namely, the lack of cadres capable of managing. In the

*Both notions are used as categories of Marxist political economy, showing the differences between the two basic methods of the accumulation of capital.

growth of the size of the enterprise organizations the cold war also played a not negligible role; preparation for war and a shift to strategic production, in case of need, seemed more feasible with fewer but larger enterprises.

The system of economic control based on the central breaking down of the plan indicators encouraged for increased enterprise sizes, since it was simpler and easier for the planning authority to survey, to break down the plan targets by fewer industrial organizations, i.e., to control their implementation, or to bring about the system of plan-relations between enterprises.

No change could be observed in the fundamental tendency of the indusrial enterprise size pattern till the mid-seventies. Let us see the pertaining statistical data.

Distribution of the enterprises in state industry according to employment (per cent)*

Year	Min. 50	51–100	101–300	301–500	501–1000	1001–2000	2001–5000	5001–10,000	over 10,000	Total
	employees									
1960	8.1	10.4	32.7	15.4	18.7	9.1	4.4	0.7	0.5	100.0
1965	5.5	10.2	26.2	14.6	13.2	13.6	12.0	3.5	1.2	100.0
1970	5.0	5.7	23.4	12.2	18.3	15.8	14.3	3.7	1.6	100.0
1975	5.6	3.5	19.9	14.5	19.9	16.2	15.3	3.3	1.8	100.0
1977	4.9	2.8	13.5	12.4	22.5	19.2	18.3	4.4	2.0	100.0

*Workers only

Source: Statistical Yearbooks

Note: 94 to 95 per cent of the combined gross output of the state and the cooperative industry is turned out in Hungary by the state industry

In Hungary the number of state industrial enterprises (including trusts and unions) was 1338 in 1960, it decreased to 840 in 1970, while in 1977 only 712 were recorded in statistics. Owing to mergers the number of industrial cooperatives dropped from 1251 to 701 between 1960 and 1977. In 17 years the number of economic units in the industry decreased by 40 per cent and therein the number of the state-owned industrial enterprises by almost 50 per cent.

The outstandingly fast process of concentration and centralization, even by international comparison, had a powerful influence upon the change in the enterprise size pattern.

As statistics evidence, the growth of enterprise sizes was practically continual in Hungary, though the process was sometimes slackening and sometimes accelerating. The three waves of amalgamations were carried out in the manner of big campaings at the end of the 1940's and the early 1950's, in 1963–64, then in the first half of the 1970's. The process resulted in a marked decrease of the proportion of enterprises employing not

more than 500 (from 66.6 per cent in 1960 to 33.6 per cent in 1977), while the proportion of enterprises belonging to the ranges employing 1000 or more multiplied: from 14.7 per cent in 1960 it increased to 43.9 per cent in 1977.

The extensive rearrangement of enterprise size is indicated, beside employment data, also by those expressed in terms of output. According to these, in 1965 31.7 per cent, in 1970 40 per cent and in 1976 almost 65 per cent of the workers, employed in the state-owned industry, worked in enterprises with a value of annual output exceeding Ft 1 billion.

It should be noted that the number of self-employed artisans in the private sector decreased from 169,000 in 1948 to 60 thousand in 1960, to 43 thousand in 1970 and to 35.6 thousand in 1977, while that of their employees decreased from 162,000, similarly in 1948, to 7500 in 1977.

As a final outcome of the whole process, the dual character of the Hungarian industrial enterprise pattern ceased in a relatively short time, and a specific enterprise size composition developed. A comparison with international data shows how unique this size pattern is. Though with different dimensions and conditions, it is still remarkable that in the United States of America, the country of big industrial corporations, 69 per cent of the enterprises of the manufacturing industry employ 1 to 19 people, and 88 per cent of the enterprises are run with less than 1000 workers.[3]

In the Common Market countries the proportion of industrial enterprises working with less than 500 employees is 45 to 55 per cent, except for Great Britain were this is 32 per cent. In the Netherlands, which is near to Hungary as regards her area and population, the proportion of small and medium-sized industrial enterprises (employing 10–49, and 50–400 workers) remained unchanged in ten years (68 and 29 per cent, resp.), and the proportion of workers employed by them decreased by only 2 and 4 per cent, resp.[4] In the Austrian industry (excluding utilities) from 6830 enterprises there are only 75 where the number of employees is over 1000, and these employ 16–27 per cent of the industrial total.[5] (In the Hungarian state industry this proportion is 84 per cent!)

While in a number of economically advanced Western countries the process of concentration was encouraged by government economic policy interventions in agriculture, in monetary institutions and in commerce; in the industry rather protective and often protectionistic measures were taken *in the interest of small enterprises.* In several countries (Japan, Italy, the United States and Great Britain) the state organized special consulting services for the small enterprises, and a specific system of institutions was also established for their financing.

Factors affecting the size of the industrial enterprise

In the socialist countries industrial economics treated mainly the scientific problem of the *optimum factory (plant) size.* No or little attention was paid to the scientific problems of the optimum *enterprise size.* While the predominant factors of the optimum

factory size are engineering and technical problems and production costs, the development of the optimum enterprise size is under the complex influence of the technical, environmental, and human factors. Thus even if the definition of the optimum factory size may be considered a relatively easy job, the determination of the optimum enterprise size is very complicated and hard to approach. This is all the more true, because the enterprise operates in a constantly changing social and economic medium, under changing market conditions, and these environmental factors affect also the adaptability of the economic organization. The change in environmental factors induced a certain drive for adaptation in the enterprises, and this has a bearing on their growth opportunity, i.e., on the type of growth as well.

Hungarian economic literature does not abound in papers on enterprise sizes. In fact, the first treatises noting the overcentralization of the Hungarian industry in the light of international comparison were published in the year when the reform of economic control and managament was introduced, i.e., in 1968.[6, 7] These signals in the literature were followed by reiterated warnings after two years,[8] then long years elapsed again and science began to deal with the problem of enterprise sizes only in 1976, that is, after the completion of the third big wave of mergers. It is remarkable that no scientific analyses giving the reasons for bigger enterprise sizes were written.

Without a claim to completeness, I venture to summarize the factors which – apart from the technical and production conditions – affect the size structure of the industrial enterprises:

1. *Historical antecedents of industrial development.* In countries with traditions of a dual industrial enterprise pattern the combination of various enterprise sizes is observable up to now. In countries where though there are traditions of small-scale industry, of small enterprises, but which missed the main streams of development (for example the South European countries) the small enterprise still marks the feature of the industry, and there are only few, internationally competitive big enterprises representing the contemporary vanguard technology.

In countries which were relatively late-comers to industrialization, where, on the contrary, almost exclusively big industrial organizations operate (for example in numerous South Latin American countries), the pyramid of the enterprise size structure, whose base is constituted by the small and medium-sized enterprises, has historically not been established. In these countries the engine of industrialization is the state or foreign capital. Both of these set up big industrial organizations.

2. *The pattern of industrial production.* In countries in whose industrial pattern the extracting industries, the primary processing of raw materials, the motorcar industry, the chemical industry, the production of durable consumer goods based on mass production represent a great weight, the share of big industrial organizations is high.

The establishment of the heavy industry is the basis of the socialist countries' industrialization policy. This fact in itself has considerably affected the enterprise size pattern.

3. *The size of the country.* Experiences show that in big countries the smaller enterprises represent a higher proportion than in small countries. The likely reason for this is that a greater area offers more opportunity for producing and service enterprises to satisfy only local requirements, while in smaller countries this opportunity is more limited; it is, however, a more important circumstance that the economies of smaller countries are more open, they depend more on international trade, and this works in the direction of increasing the enterprise size.

In the industrially advanced *small* countries it is typical that the few, but really large, often multinational or transnational enterprises are surrounded by many small and medium-sized enterprises, whose average size is usually above that of the small factories of the big countries, and with less importance also in industrial production.

4. The enterprise size pattern can be explained also in terms of *the product life cycle model.*[9] The first phase of the life cycle of the product is usually characterized by high cost and high live labour intensity of production. Therefore the producers, to decrease the costs and the uncertainty of production, try to reduce the fixed capital input to the minimum. They are particularly reluctant to install special machines and equipment. Instead they rely on smaller specialized sub-contractors, on smaller enterprises in the manufacturing, test production and testing of the new product. *It follows that the efficiency and adaptability of the enterprise manufacturing the new product* (the product entering into its first life phase) *may be increased if it can avail itself of the services of sub-contractors, suppliers, and enterprises offering special services.* The terms under which the small enterprises are available powerfully influence the cost level of the producers of the end product, as well as the assortment of the products they can turn out competitively.

As the market is getting saturated the product enters the third, so-called *mature* phase of its life cycle. The growth of sales first slows down then stagnates, production is carried out according to uniform standards, elaborated and mostly consolidated technologies; innovation is slackening. Production becomes more capital-intensive than in the previous phases, and the optimum scale of production is growing. The number of manufacturers decreases, concentration and centralization incrase. In this phase of the product's life cycle competitivity is virtually determined by the scale of mass produtction.

The enterprises joining this commodity market are usually large ones; on the other hand, it is expensive to quit the market because the specialized equipment and machines usually cannot be converted to the production of other commodities.

The economically advanced small countries can be competitive mainly in the production of new and mostly individually made products for special uses. The relatively smaller possibilities of the small enterprises forces them to select carefully and, in harmony with their resources, to strongly restrict the range of products that can be manufactured competitively.

It follows then that the size pattern of the industrial enterprises is under the combined influence of numerous factors. True, some tendencies, some typical trends of

development can be detected, and the enterprise size structure can be judged only by analysing the actual conditions of the given country. The enterprise size does not lend itself to as generally acceptable and unequivocal statements as the definition of the optimum factory size.

This is one of the reasons why one cannot derive conclusions from the international comparison of the enterprise size categories without an analysis of the concrete conditions; mere numerical differences on themselves, especially in the case of data pertaining to the whole of industry, are indeed not suitable for drawing far-reaching conclusions.

Since statistics have been mentioned, it must be noted that the various enterprise size categories have not yet been defined in this study. What is meant by small, medium and big enterprises? When is an enterprise *small* and when is it *medium*-sized? These are simple questions but – especially in view of the aforesaid – they are not so simple to answer.

For statistical observation some quantitative indicator (indicators) must be agreed upon. This may be the staff, the volume of sales, the capacity, the value of assets or some combination of these. In the Hungarian and the international routine categories are determined on the basis of employment and sales. This does not provide a sound delimitation since in some industrial activities an enterprise with 100 or 200 workers may be considered a big one, while in other activities even one with a staff of 800–900 qualifies only as a medium-sized enterprise. However, from the point of view of our subject, the objective is not to study the static state but to trace the trend.

Enterprises may be classified according to their system of mangement, too. An enterprise may be qualified to be small usually as long as a hierarchy of management is not inserted between the leader and the directed workers; as long as there are direct contacts between the leadership and the operation of the enterprise.

I could probably carry on with the various criteria of classification and qualification. This is also why international literature normally classifies on the basis of employment (i.e., a factor independent of the price and valuation systems of the countries) although the drawing of the demarcation line between the small and the big does not show an unambiguous picture. There are not, in Hungary either, any uniformly accepted quantitative or qualitative criteria for the delimination of the enterprise size categories.

Let us now return to the analysis of the Hungarian conditions.

The growth of enterprise sizes in Hungary and its aftermath

The mergers of enterprises in the first half of the sixties were affected first of all by strivings of an administrative-centralizing type. The most usual method of the mergers was to *amalgamate* enterprises with essentially the same line of production and similar in size. As a result of the horizontal integration process trusts and so-called national

enterprises were set up, sometimes representing a whole branch of industry. The mergers were expected to deepen specialization and to eliminate superfluous parallel production.

Along with the development of the system of economic control and management in 1968 some big horizontal organizations – especially some trusts – were dissolved, though in the changed economic conditions the idea of further mergers of enterprises arose again and was followed by action. The merging of smaller enterprises into bigger ones was characteristic of the process in the 1970's.

Changing economic conditions caused changes in the factors motivating the mergers. Fusions were hoped to result in:

– an easing of the labour shortage (the majority of enterprises suffered from it);

– rehabilitation of enterprises struggling with grave financial difficulties;

– saving enterprises manufacturing outdated products from the procedure of rehabilitation;

– gaining areas and capacities for production.[10]

Disproportions cropping up in the national economy, *external and internal imbalances,* affected the operational conditions of the smaller or medium enterprises unfavourably. The managements of small and medium-sized factories were under detrimental influences from the aspect of purchases, supply and costs; while the strivings after increasing the scale of production were encouraged. *Economic* – and therein financial – *regulations,* "tailored" to suit the big enterprises performing mass and high series production, also stimulate in this direction. The financial regulations almost preclude that a small or medium-sized enterprise should take up only individually made and small series production. These enterprises are not in a position to finance such type of production, the manufacturing of so-called cost-carrier mass products or serial products is indispensable to produce the funds required for continous operation, for the maintenance of their liquidity.

All these circumstances encourage the small and medium-sized enterprises to increase the enterprise size.

Concerning the mergers in the seventies it should be noted that this was the period of the unions, i.e., fusions of a great number of small enterprises, industrial cooperatives and enterprises controlled by local councils.

The small enterprises' urge to grow is also an expression of the striving after getting a share from the scarce resources. Namely, the small enterprises are usually in an unfavourable position when the allocation of resources is also affected by considerations other than economic efficiency and competitivity, and they feel their smallness to be particularly disadvantageous when the role of various exemptions and allowances incrases in the development chances of the different enterprises. They justly have an "inferiority complex" if special materials or foreign machines are not as readily available to them as to the large enterprises. The big enterprises are also in the focus of the branch ministries' attention, while the small ones are out of sight.

Under such conditions it is a natural conduct of the small enterprises and a sort of a defence weapon to strive after rapid growth, and one of the apparently relatively simple ways is to unite.

The other remark I should like to make is that the striving after administrative centralization as a symptom that accompanied the merger process in the 70's too. True, the central agencies were then not stimulated by the expected simplification of controlling the breaking down of the central plan and of plan fulfilment, but by the wish to "settle" certain problems which were difficult for them to solve (e.g. the substitution of cooperation relations between the enterprises by increasing internal vertical links). In the treatise by Annamária *Inzelt*[10] it is shown that among the *initiators* of enterprise fusions the supervisory authorities represented a higher ratio than the enterprises.

It is a fact that the problems encountered from time to time in the Hungarian economy were thought to be solved more than once through organizational transformation instead of changing the methods of planning and economic control which virtually influence the economic processes. However, these structural transformations usually disturbed the economic processes, and the actual effects of planning and of economic control could not be really assessed. In most cases the organizational transformations forced us to keep waiting, and at most served for exploring certain "hidden reserves", but proved to be unsuitable for a radical solution of the unfavourable symptoms and problems. Let alone that following the merger campaigns the administrative staff usually increased and so did bureaucracy inside and outside the enterprise.

The increase of the *administrative ballasts involved by management* is another spur to incrase the enterprise's size, since the "keeping" of the staff requires a certain size. The methods of enterprise control are not matched very well to the enterprises' activities and, consequently, to the "natural" size of the enterprises – the case is usually the contrary; the enterprises increase their size to be able to meet the requirements raised by the control agencies, this is a reason, among others, why it is impossible in Hungary to think of setting up enterprises with 10 or 20 employees. Last but not least, the *social practice* of rewarding the enterprise leaders and appreciating the enterprise also plays a role in increasing the enterprise as much as possible. These motives and ambitions are characteristic of the cooperative industry as well.

The enterprises were united virtually upon outside suggestion or instruction, and in the manner of campaings, that is, a big number of enterprises were affected by the structural changes in a short time span.

As one of the ensuing consequences, it was not always possible to make thorough preliminary analyses of the enterprise policies; in many cases no opportunity was given for studying *whether with their given organizational frameworks and size the enterprises utilized all the chances for growth or not,* and this is how it could happen finally that the enterprise mergers and fusions affected each branch of the industry in the same manner, irrespectively of the type of the branch, the production fuction and the measure of the market.

Consequently, the difference between the concentration level of industrial branches producing basic materials and durable mass produced consumer goods and that of the other branches of industry is less than in other countries. E.g. in the Hungarian wood processing industry 18 per cent of manual workers (in Austria 83 per cent), in the textile industry 2.8 per cent (in Austria 67 per cent), in the textile garment industry 5 per cent (in Austria 94 per cent), in the food industry 10.4 per cent (in Austria 77 per cent) are engaged by *enterprises with not more than 500 employees.*

In the Hungarian industry, perhaps except for metallurgy and vehicle production, enterprise centralization is powerful in those branches in which more flexible and smaller companies are typical abroad. At the same time, the *domestic big enterprises still do not prove big enough in view of the attained level of technical and production concentration for gaining more advantageous positions in the international competition.*

Thus – by international standards – the typical size category of the Hungarian enterprises is intermediary and may be qualified as "medium" big.

The second outcome of the enterprise mergers carried out by way of campaigns is that the following process of concentration was dragging.

This is shown by the mere 20 per cent decrease of the number of plants in the state industry between 1960 and 1976. True, the ratio of industrial plants employing bigger staff increased, but the rate of this rearrangement was relatively slow. From 1960 to 1977 the proportion of industrial plants employing not more than 100 manual workers decreased from 76 per cent to 63 per cent, while the proportion of workers employed by them only from 10.2 per cent to 8.1 per cent. At the same time, from 1960 to 1976, the proportion of employees in enterprises engaging not more than 300 manual workers decreased from 24 to only 22.5 per cent.

From the 1158 plants of the state engineering industry 595 employ not more than 100 manual workers. On avarage nearly seven plants belong to each state industrial enterprise. Within this the number of industrial plants of one enterprise is above ten in the food industry, eleven in the light industry, and six in the engineering industry. Within the engineering industry the number of plants per one precision engineering and one telecommunication and vacuum technical enterprise is more than ten.[11]

Thus in the framework of big enterprises there is very often a fragmented production, and there have been smaller efforts at developing optimum factory (plant) sizes than at uniting the enterprises. On these grounds our qualification regarding the increase of the enterprise size can be stated with greater precision: *the primary feature of the nature of the process was the centralization of management;* the specialization of production and its concentration on the basis of the division of labour developed much less. This is shown e.g. by the fact that 80 per cent of enterprises belonging to the Ministry of Metallurgy and Engineering have their own tool shops, but most of these are typically small: 50 per cent of them employ less than 35 workers, and only 11 per cent of the workshops have more than 100 manual workers.[12]

It is characeristic of *a part* of the big enterprises that they have *remained conglomerates of small and medium-sized factories;* neither the closed technological

systems characteristic of large-scale production and based on specialized production, nor the infrastructural conditions enhancing the effective functioning of big systems developed in them.

Although it had been established earlier by economic research work that the domestic enterprise pattern is not everywhere in conformity with the types of the many kinds of industrial activities pursued in the industry, it was the urge for adaptation to the new world economic situation that brought about a recognition of the role the small and medium-sized enterprises might play in *structural adaptation.*

The microeconomic rules are equally valid for the small and the big enterprises. Still we can not endorse the "generous" treatment of this problem by science and practice, and that in renounced exploring the *specific features* of the socialist small enterprises. The often extreme judgement of the role of the small enterprises may be ascribed partly to this: underestimation and neglect on the one hand and overestimation and excessive stressing of their particular features on the other.

According to international experiences such powerful rate of concentration and centralization as took place in Hungary is usually not typical of the post-war period of industrial development. Though this process advanced also in the industrially developed countries, it was not at all accompanied by the extinction of the small and medium-sized enterprises. Except for Czechoslovakia and Romania, this process is slower also in most of the socialist countries than in Hungary. *Contemporary industrial development is characterized by the combination of various enterprise sizes,* that is, big national and international undertakings, medium-sized and small enterprises are all found, and in accordance with the technology used, with the type of the product (service) and with the market. That is, the dual structure of industrial enterprises has been maintained in the overwhelming majority of the industrially advanced countries.

I should have mentioned among the circumstances stimulating for increasing the enterprise sizes, but I will note it here due to its prominent significance, that the general shortage of goods, i.e., the development of *mass production* aimed at bringing this shortage to the earliest possible end, was characteristic of the CMEA member countries for years. A considerable part of the output of our enterprises was sold in the *highly absorptive* and fundamentally homogeneous CMEA markets. This was the case in the engineering industry, in several branches of the light industry, and in other fields too. However, the economic and market conditions have changed, and these changes are gathering momentum.

Earlier a country which undertook to manufacture a short supply product attained realistic advantage in the CMEA. The advantage derived from the mere existence of the product, simply from the fact that some country ventured to produce it. Today, at least in manufacturing, it is hardly possible to develop through such "undertakings", since the range of scarce products or those in short supply has been reduced. The CMEA market is becoming more and more diversified, and changes are witnessed also in the type of market relations which *enhance the requirements towards adaptability.*

The increased dependence of the Hungarian economic growth on the rate at which we can adapt ourselves to the changes taking place and consolidating in the world economy, on our flexibility in keeping pace with the increasing technological and market requirements also structurally, will operate in this direction in the future. With the rising standard of living also the domestic demands differentiate; there will be increasing demand for special, small-series products. The market background is thus changing, and there is less and less possibility for asserting the earlier advantages implied by simple mass production in the old way. The lack of small enterprises must be studied from this point of view.

Role of the small and medium-sized enterprises

The lack of small enterprises retards first of all *the process of innovation.* The small enterprise may fulfill an important role in many fields especially in the initial stage of the innovation process: special knowledge, market sensitivity and the fact that in small organizations development is closely related to production, mean a great stimulating force for the development of initiatives based on innovations and inventions, whereas their lack hampers the use of many product development and service technologies for small initial volumes which are usually not attractive for the big enterprise pursuing mass production. A part – and who knows how big a part – of such innovations and development results are lost. In the framework of small enterprises the production of new products and services – if marketable – could be advanced to such a scale at which either the enterprise size were expanded or production (the "line") would be overtaken by some big enterprise, while the small one could set itself a new undertaking. N. B.: many of the present-day world companies (e.g. Xerox, Polaroid or Sony) began to work a few decades ago as small enterprises. . .

The lack of small enterprises hampers the development of a relatively wide ranging but *specialized basis of components and parts.* In Hungary, on the contrary, an autarky of big enterprises coupled with a considerable engagement of resources developed (e.g. in the industry about 90 per cent of the tools are designed and manufactured by the approximately 200 users themselves[13]*).

Since in the big industry of this age, especially in the engineering industry, the competitivity of the end product is much determined by the productivity in producing its component parts, by their quality and efficiency, the lack of the specialized cooperating enterprises – the background industry – has a most disadvantageous influence on the

*A leader of a big machine tool manufacturing company holds that about half of the total labour input is such as should be done by specialized enterprises. Owing to frequent changes in the "shortage list" specialization is difficult to accomplish even inside the enterprise, thus the advantages of the big enterprise cannot be really exploited. According to the director of a precision engineeering enterprise the competitivity of its products is greatly impaired because about 50 per cent of the components have to be made by themselves, while the main competitor abroad produces only some 10 per cent of the components, those which are the most sensitive and the most sophisticated units[13].

competitivity of the enterprises turning out end products. A considerable part of their resources have to be engaged for such activities, and with poor efficiency, which ought to belong to *separate enterprise organizations* in the contemporary system of the division of labour. To avoid any misunderstanding, I should like to add to the aforesaid that the background industry i.e. suppliers, cannot be identified with the small enterprises. In the field concerned, however, the small enterprises may play an inevitably important role, especially if we bear in mind that beside the engineering industry also other branches suffer from the lack of background industry, such as the garment industry, shoe production, the furniture industry, the food industry, the pharmaceutical industry, etc.

The lack of a background industry greatly *hampers the adaptation of big enterprises to changing conditions.* Utilization of the results of production and product development carried out by big organizations is retarded by the lack of external conditions of implementation (decorating elements, binding elements, special tools etc.), and also the shaping of the range of continuous production to match the market requirements is retarded, since this adaptation is the burden of the big enterprise; the requirements involved by adaptation should be rolled along the entire vertical system.

The *production service* function (e.g. maintenance of machines, buildings, etc.) is performed at present also by the big enterprises themselves, thereby a parallel organization utilized with poor efficiency is created which could be substituted far more effectively e.g. by a network of small mobile service bases organized according to regional considerations, furnished with adequate technical equipment.

The role and viability of the small enterprises is inherent, above the foregoing, in the important role they could be given in the competitive manufacturing of products for *special* requirements, and for unforeseeable and (or) *local* needs.

The lack of small enterprises very likely increases the problems in the allocation of development funds. The point is that, owing to the system of technological relations, the development of industrial enterprises with a big stock of assets requires big capital inputs. The efficient running of large organizations raises increased requirements towards the development of infrastructure which is again capital-intensive. The big economic organizations raise mostly novel requirements towards the transport and communication systems, the water and power supply networks, and towards storage inside and outside the organization. Not only additional infrastructural capacities are reuqired but the big organizations have been found to partly or totally eliminate the old infrastructure since it is incapable of operating the changed organizational structure. There is thus a need to replace the ousted capacities and plants too. Beside the development of the infrastructure of production the big organizations occasionally interfere with the living and working conditions of smaller or bigger groups of people, and these changes must be followed up by the development of the non-industrial infrastructure as well. This means, at the same time, that *the creation of big industrial organizations necessarily changes the structure of investments, through increasing the capital intensity of direct investments in production, and by increasing the infrastructural inputs.*

It is an advantage of the small enterprises that they are *capable of assuring their competitivity with relatively less capital engaged per unit of output, and usually at a lower level of technological equipment,* making use of their greater flexibility and the advantages deriving from specialized production. For a country with scarce development resources utilization of the advantages offered by the dual industrial enterprise structure is especially worth considering.

The "lopsided" enterprise structure is one of the reasons why the organizational frameworks of a *healthy competition* could not develop; in small countries it is normally not the sphere of big enterprises where the conditions of competition come about, since the large economic units represent a branch of industry or a branch of production. Between the small and medium-sized enterprises, on the other hand, there is relatively vigorous rivalry for relations with the big enterprises, for the consumer, for exports. This feeds the spirit of innovation, buoyance in adaptation, and risk-taking. From the viewpoint of society competition in this sphere involves hazards and losses incomparably smaller, if any, than the damage caused by the lack of small enterprises.

As noted above, there are a number of methodological problems which make an international comparison of the various enterprise size patterns difficult; the methodological difficulties are no smaller if we want to compare the performance data of enterprises of different sizes in the domestic industry. It will be sufficient to note only one circumstance to illustrate this: while a considerable proportion of the products turned out by the largest state enterprises in Hungary fall under relatively strict price control, i.e., these enterprises may not utilize the advantages deriving from their greatness and perhaps monopoly position, the small enterprises and industrial cooperatives may at the same time make better use of the possibilities inherent in a flexible price control. On the other hand, the receipts and profitability positions of the big enterprises are sensitively exposed to the various state preferences and taxes. These methodological difficulties notwithstanding, it will be interesting to compare some data characterizing the performances of the "small" and the "big". To simplify matters, the sphere of big enterprises was identified with the state industry, and that of the small enterprises with the scope of the cooperative industry.

Calculated on the basis of gross output the index number of production (at comparative prices) was 297 in the state and 445 in the cooperative industry in 1977, relative to 1960. The value of productive fixed assets per one employee, computed at current prices in thousand Forints, was 155 in the state engineering industry, 68 in the cooperative engineering industry, 654 in the state chemical industry, 93 in the cooperative chemical industry, 179 in the state light industry, and 28 in the cooperative light industry at the end of 1976. The level of technological equipment is of course adjusted to the size of the enterprise, i.e., the differences existing in technological equipment may be interpreted in themselves favourably as well. Criticism is justified when the growth of technological equipment has not been warranted by the growth of the enterprise size on the basis of economic rationality, and, as a result, the efficiency of capital inputs deteriorates.

The net social income per 100 forints of the "normative" (expected) returns on resources* was 171 forints in the state industry and 346 forints in the cooperative industry in 1976. The main indicators of the 49 biggest industrial units have been separately recorded by Hungarian statistics since 1973. If the net social income per 100 forints of the "normative" returns on the resources is analysed for these units in the different industrial branches and for the whole branch, the 1976 data are as follows: in the engineering industry as a whole 274, in the biggest units 254; in the chemical industry 258, in the biggest units 249; in the light industry 190 while in the biggest units 157 forints.[14]

The comparative data hint that as regards economic efficiency the big enterprises do not have advantages or superiority over the small and especially over the medium-sized enterprises.

Analyses based on representative samples indicate that the quality of products manufactured by medium-sized enterprises is superior to that of the products of big enterprises.

Losses deriving from quality deficiency in percentage of the profit in 1976*

Branch	Big enterprises	Medium-sized enterprises
Textile garments industry	9.5	4.2
Knitwear industry	17.7	10.4
Furniture industry	2.3	0.6

*Loss: downrating, penalty, etc.

Source: A kis- és középvállalatok helye és szerepe a fogyasztói igények jobb kielégítésében (Position and role of small and medium-sized enterprises in the better satisfaction of consumer demands. A study commissioned by the National Board of Technical Development), 1978

It would be misleading, however, to infer from the above that the small enterprises have advantages over the big ones. This would be just as wrong as to claim large size to be the only redemption. *Size in itself cannot be the criterion, neither from the social nor from the economic point of view, of the 'goodness' or 'badness' of a given economic organization.* This is shown by the foreign researches based on long time series which found that there is no detectable relationship showing that enterprises of larger size would be more lucrative than small and medium-sized enterprises. Small enterprises may

*This indicator expresses whether the net income realized reaches at least the amount which, with the effective economic regulations, the branch is in principle expected to produce as a minimum. This minimum consists of the following: 25 per cent of wage costs, depreciation, and 5 per cent of the value of assets.

usefully *complement* the large-scale industry in numerous fields of production as well as in productive and consumption services.

Size is an integral part of the industrial development and enterprise strategy, and the viability and efficiency of an enterprise belonging to any size category *depends on the appropriate selection of function and strategy.* The enterprise size is a component, though a not negligible one, among the multitude of factors with a bearing on competitivity. Thorough analyses should therefore be made on the *actual* influence of the enterprise structure (the composition by size) upon competitivity, on how much it allows for quick adaptation, how much it encourages or discourages initiatives and the readiness for renewal. A painstaking job, since the organization affects the processes not in itself but through its position *in the system of the given set of economic conditions,* and this is a circumstance which must not be disregarded. (E.g. this accounts for the fact that also the small and medium-sized enterprises and industrial cooperatives exhibit in Hungary a behaviour characteristic of the big ones.)

Improvement of the relative enterprise size proportions depends on the industrial development policy and the subordinated investment policy on the one hand, as well as on the resources available on the other hand. But also the opportunity should be given to factories and plants which could make better use of their chances to grow and (or) which are for one reason or another a burden for the big enterprise that they *occasionally secede* from the big organizations and get organized into independent enterprises.

Last but not least it is worthwhile to analyse how a system of institutions (bank system, foreign trade, sectoral management, etc.) in fact tailored to the big economic organizations could adapt itself better to the special norms of behaviour, requirements, risk factors, etc. which are (or should be) specific of the small enterprise organizations.

Competent state authorities took a position in 1976 stating that the established enterprise organization is suitable for implementing the objectives of the industry and there may be no further mergers of enterprises.

Economic research in Hungary has paid lately increased attention to the scientific analysis of the problem of enterprise size; in the routine of credit policy, the transactions of small enterprises are followed with attention by the banking organizations, and increased support is given to them in their creditworthy operations; the Hungarian Chamber of Commerce put the analysis and solution of the special foreign trading problems of small enterprises on its agenda, etc.

So the task we have to face is a complex one, and its solution cannot dispense with the drafting of the ordering *principles* relying on which our decisions concerning the competitive enterprise size could be better supported.

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ВЕЛИЧИНА ПРЕДПРИЯТИЙ В ВЕНГЕРСКОЙ ПРОМЫШЛЕННОСТИ

Д. ВАРГА

После второй мировой войны народно-демократический строй унаследовал от капиталистической Венгрии своеобразную двойственную структуру промышленных предпрятий, в которой сложились крайние полюсы – отсталые кустарные предпрятия и сильно концентрированные крупные промышленные предприятия, но отсутствовала связывающая их система предприятий различных категорий. Социалистическая индустриализация и развитие промышленности сопровождались сильной концентрацией производства и централизацией предприятий. В этом значительным и в международных масштабах процессе быстрой концентрации и централизации можно выделить три крупные кампании: в конце 40-х, начале 50-х годов, в 1963–1964 гг. и затем в первой половине 70-х годов.

Окончательным итогом этого процесса было то, что в короткое время исчез двойственный характер структуры венгерских промышленных предприятий и сложилась весьма своеобразная гамма величин предприятий.

Научные исследования в области экономики промышленности в социалистических странах прежде всего занимались вопросами оптимальных размеров производства и не уделяли или почти не уделяли внимания проблемам оптимальности величины предприятий.

На величину промышленных предпрятий одновременно воздействуют многие – исторические, географические, культурные, экономические, технические – факторы.

Хотя на основании анализа международной истории промышленности можно вывести определенные тенденции и типичные направления развития, судить о структуре размеров предприятия можно только на основе анализа конкретных условий данной страны. О величине предприятии в меньшей степени могут быть сделаны общие и однозначные выводы, чем об определении оптимальных размеров производств.

Нынещняя система экономического регулирования в Венгрии не благоприятствует мелким и средним предприятиям. Мелкие предприятия также вынуждены увеличивать свои размеры, чтобы обеспечить для себя необходимые ресурсы.

Из слияний и объединений предприятий, носивших характер кампаний, следует, что такой реорганизации не мог предшествовать тшательный анализ хозяйственной политики предприятий, изучение того, использовали ли предприятия все возможности для экономического роста при данных организационных рамках и размерах. За процессом централизации весьма медленно следовала концентрация, основанная на специализации производства. Величина предприятия сама по себе не может быть ни в социальном, ни в экономическом смысле критерием того, «хороша» или «плоха» какая-либо хозяйственная организация. Жизнеспособность и эффективность предприятий, относящихся к различным категориям по размерам, зависит от правильно выбранной функции и стратегии.

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S. BALÁZSY:

THE "UNSOLVABLE" DILEMMA OF REGULATING EARNINGS IN HUNGARY

Reviewing the history of regulating earnings the author states that the frequently changing solutions performed adequately only one group of the functions they were expected to fulfil. If the regulation succeeds in creating equilibrium, stimulation is pushed into the background, and conversely. Many consider this contradiction to be an unsolvable dilemma. The article challenges this opinion.

Under the 5th Five-Year-Plan (1976–1980) the main demands on the system regulating earnings in Hungary were – according to relevant documents – the following ones:

– it should stimulate efficient management of every production factor, and particularly a rational utilization of labour;

– it should enable a flexible management of wages and earnings, and a differentiated remuneration of individual accomplishments;

– it should guarantee that the outflowing purchasing power be kept within planned limits;

– it should guarantee a socially acceptable development of relative wages and earnings.

The main demands include further that the regulation of earnings

– should promote the increasing of state revenues badly needed for the improvement of the budget balance.

These demands are not at all new. As a matter of fact, we would like the system to function with such effects ever since it has been in existence in Hungary. Whenever the necessity arises to reform (amend, adjust, perfect) the regulation of earnings – in itself or within the whole of the system of economic control –, it is practically always the above-listed set of effects that we wish to achieve through the changes just to be implemented. Yet the periodically recurring demand for changes signals, at the same time, that the version of earnings regulation *last* tried has again not fulfilled the hopes cherished at its introduction.

It would be futile to deny: earnings regulation is one of those "evergreen" problems in whose solution we have been unable to achieve any genuine results. That these problems are unsolved is clearly indicated by the fact that they are permanently on the list of important tasks; we attempt a solution again and again, but are not surprised ourselves if the latest attempt brings again little result, or perhaps even failure.

Looking back now on almost three decades of struggles with the phantom of regulating earnings, it is not difficult to recognize the cause which is apparently as an inevitable necessity behind the permanent half-success equivalent to failure: this is the dilemma-character of the problem. As a matter of fact, we do know the way in which it is (or would be) possible to efficiently stimulate, and we have got an adequate armory for keeping the total purchasing power within planned limits, as well as for the socially acceptable development of relative earnings. Yet our instruments have proved to be alternative: they are apt to solve either the first group of tasks, or the second. Up to now we have not found the way to efficiently stimulate and simultaneously to regulate according to the plan the level and relative proportions of earnings. It is as if we could cut off with our sword always only three or four of the heads of the seven-headed dragon out of the fairy-tale (because the rest of the heads are invulnerable *to this sword*) and, if we take the other sword, effective against the remaining heads, those formerly cut off will grow again and, against them this second sword is ineffective.

Those for whom the dilemma is unsolvable can do nothing else but, depending on the actual economic policy situation, put the emphasis now on one group of regulation objectives at the expense of the other group, or the other way round, accepting that the objectives qualified as secondary will not be achieved. At present e.g. when the Hungarian economy is struggling with extremely difficult equilibrium disturbances, economists and economic policy makers participating in the development of earnings regulation do not in the least deny that, for the sake of balancing tasks, the stimulating functions have been driven back. This is, however – they say – not the fault of earnings regulation; in such an economic policy situation only such a solution of the dilemma is conceivable.

This argument is partly justified, and partly it is not. True, it is an extremely important task to improve the equilibrium situation, at the expense of which the stimulating functions should by no means be intensified. But is it also true that they are definitely mutually exclusive or even mutually weakening functions? Is it true that no such mechanism can be elaborated for regulating earnings as would give free play to stimulation so much necessary for accelerating Hungarian economic development on the one hand, and which would simultaneously satisfy the requirements of equilibrium and proportionality on the other hand?

I shall try to answer these questions in what follows.

Analysis of the existing system regulating earnings. Evaluating the experience gained with the existing system since its introduction on 1st January 1976, it is quite an unanimous opinion in expert circles that from the aspect of an efficient management of the factors of production this latest version of earnings regulation has also failed to bring substantial improvement. As regards a better management of live labour, productivity has increased (as it had also increased earlier), but the revealing of existing inner labour reserves is still proceeding slowly. This has not been changed even by a wider application of the wage-bill regulation. As it is stated by Pongrácz: "Since the wage level can be raised by more than 6 per cent only at a very high cost, it is not worth to create its wage cover by reducing labour reserves either."[1] No

remarkable change can be mentioned in the management of embodied labour (materials and fixed assets), either, though in these we have also considerable reserves, most of which could certainly be revealed gradually through sensible stimulation.

The cause is again usually indicated by the "expensiveness" of raising the wage level.* Experts have come practically to the same conclusion at the Economic Research Institute, when they examined, within a general analysis of the experience of the regulation system in 1976, the mechanism of regulating earnings.

To state the "expensiveness" of raising wages remains, however, too much of a general character; besides, as we shall see later, it is only one aspect of the truth. More is needed for an understanding of the real mechanism of earnings regulation: an exact investigation of *when, depending on what factors, and how expensive a wage-increase is.*

The "price" of a wage-increase in its relation to the rise in wage level realizable free from tax can be characterized by the additional output required for it, and in its relation to the rise in wage level above this limit by quantifying the costs and taxes concomitant with the rise. The application of the two kinds of "price setting" techniques is necessitated, because the Hungarian system regulating earnings has preserved (up to a certain limit) the principle of a tax-free rise in wage level "almost" proportional to various indicators – practically of productivity type –, but it does not absolutely insist on keeping the levels allowed by the indicators. It allows the overstepping of these limits (what is more, it sometimes even encourages it), yet at the same time it uses differentiated taxes in order to deter from utilization of this possibility. The wage-level can be increased, theoretically, according to liking, but steeply rising taxes must be paid for it. Let us see now, what are the burdens of wage-increases.

Guaranteed rise in wage-level. In the relative forms of wage regulation the wage level can be raised by yearly 1.5 per cent, and in the central forms of wage regulation by yearly 4.5 per cent without any requirement attached. In some enterprises also higher rises in wage-level have been enabled by individually granted wage preferences, the burden on the guaranteed rise in wage-level is zero.

Relative wage-level regulation. In Hungary enterprises in the category of the relative form of wage-level regulation can raise their wage-level free from tax also above the guaranteed rise, to an extent allowed by the so-called wage-rise indicator, but at most up to 6 per cent. We can get this indicator by correcting the part above 100 of the index number of wages plus profit per head of labour employed by the so-called wage-rise coefficient. The coefficient is 0.25 with the majority of industrial enterprises. If e.g. per head wages plus profit have grown by 8 per cent, a further $8 \times 0{,}25$ per cent, i.e. 2 per cent increase in wage-level is possible tax-free, in addition to the general 1.5 per cent. Now, by how much should the output of an enterprise be increased in order to be able to pay 1 Ft of additional wages tax-free upon the basis of this indicator (assuming an unchanged staff)? We shall see that in the case of paying 1 Ft additional wage the total

*This conclusion is reached e.g. by O. Pirityi[2], Cs. Szilárd[3] and the same thing follows from the above-mentioned article of L. Pongrácz.[1]

wage-bill will grow (as compared with the base period) by *wage-bill* × 100. Since the staff is unchanged, the average wage will grow in the same proportion. For accounting this average wage-increase free from tax, the wages + profit per head must be increased at the rate of 1/0.25 = 4 and, if the staff is unchanged, also the total of wages and profit. Therefore, the expected increment of wages and profit is: 4 × 1/wage-bill × (wage-bill + profit), which will be, after possible reductions: 4 + 4 profit/wage-bill Ft. If we substitute in the formula the average data of 1976 (profit: wage-bill = 1,3256), we obtain the result that for the payment of 1 Ft of additional wages the aggregate total of wages and profit must be increased by Ft 9.30. Out of this 1 Ft is caused by increasing the total wage itself by 1 Ft, i.e. the profit must be increased by Ft 8.30. *Above* this a further Ft 0.35 must be produced to cover the wage-tax growing proportionately to total wages.

That is to say, in order to enable the payment of 1 Ft of tax-free additional wage, the enterprise has to meet the following output requirements:

cover for the cost of wage-increase	Ft 1.00
cover for the 35 per cent wage-tax	Ft 0.35
"obligation to increase profit"	Ft 8.30
Total	Ft 9.65*

Thus, in general, if the enterprise wants to pay 1 Ft of additional wage by improving the wage-rise indicator – within the limit of 6 per cent – it has to produce Ft 9–10 of additional output.

A much larger output requirement must be met if the wage-increase is above the zone allowed by the wage-rise indicator, or beyond the limit of 6 per cent. This is because on additional wages of such character a progressive wage-rise tax is levied to the debit of the sharing fund to be accumulated after payment of a similarly progressive tax, and the source of the latter is the profit reduced by various linear taxes. Let us sum up all these taxes in a Table and add to them the increased wage cost caused by additional wage and the proportionate wage-tax. That is because all these together must be covered by the additional output, in other words, all these together represent the output requirement of the wage-increase. These output requirements are shown in Table 1**

*Of course, the numerical measure of the "obligation to increase profit" may be smaller or larger depending on the ratio of the wage-bill; the figures given reflect the industrial average of 1976. Also, the actual numerical values may be modified if the coefficient applied in calculating the wage-rise indicator is better than 0,25. (It has to be noted that a better coefficient is usually permitted in cases when the profit/wage-bill ratio is disadvantageous from the point of view of the enterprise.

**The following explanation must be given to the Table: in the row of *wage-rise tax* we find the payment obligations charged in the given zone, and the rates of this are 150, 200, 350, 500 and 600 per cent. In the row of *tax on the sharing fund required thereto* the tax to be paid in accumulating the sharing fund has been calculated, the rates of which are 0, 200, 300, 400, 500, 600, 700 and 800 per cent. (The columns for the first two rates of the tax have been omitted, because the accumulated sharing fund surpasses 4 per cent of the total wage-bill practically in every enterprise.) The wage-rise tax and the tax on the sharing fund required thereto give together the *net profit requirement of the*

In calculating the output requirements of a wage-increase it must also be taken into consideration that the growth of profit enables the raising of wages *ceteris paribus* by two rights: 1. because of improvement of the wage-rise indicator; 2. because additional profit creates coverage for a wage-increase liable to taxation.

According to the foregoing deduction the condition of a tax-free payment of 1 Ft additional wage is the earning of Ft 8.30 of additional profit. If this Ft 8.30 is spent on further – now taxable – wage-increase, a further Ft 0.64 at most, and Ft 0.08 at least* will be payable (depending on what wage-rise tax is to be paid by the enterprise, and what progressive profit tax is levied on the formation of the sharing fund).

Accordingly, in the case of achieving an additional profit of Ft 8.30, not 1 Ft wage-increase, but one of Ft 1.08–1.64 becomes possible. Converting these, we receive a value between Ft 5.06 and 7.69 as the corrected output requirement of 1 Ft additional wage.**

Relative wage-bill regulation. In Hungary the enterprises under relative wage-bill regulation form can raise their wage-level tax-free, if 1. they stay within the limits of the usable wage-bill, 2. the increase of the wage-level (average wage) does not exceed 6 per cent in the given year. The usable wage-bill is determined in proportion to the growth of the value added by the enterprise, applying generally a coefficient of 0.4. E.g., if an enterprise increased the amount of the value added in the year under discussion by 10 per cent, its total wage-bill can be 4 per cent higher than the basic wage-bill. (In certain sectors even higher coefficients: of 0.5 or 0.6 may be used. The most frequent coefficient is, however, 0.4.)

Under the wage-bill regulation *one type* of wage-increase – that within the basic wage-bill in the zone 6 per cent – is very "cheap": the output requirement of the wage-increase is the saving of only 1 Ft of other wages. A wage-increase is much more "expensive", if its coverage is the increment of the wage-bill to be acquired through increasing the value added. Namely, for raising the usable total wage by 1 Ft the value added has to be augmented by Ft 2.5 X value added/wage-bill (if the coefficient is 0,4). In 1974 the value added was 2.14-fold of the total wage in industry, therefore, the output requirement of raising the usable total wage by 1 Ft can be taken for 2.5 X 2.14 = Ft. 5.35. From this Ft 5.35, Ft 1 is additional wage, Ft 0.35 its tax, and the remaining Ft 4 are additional profit, depreciation, and different taxes. Additional profit can be used also in this case for the taxable increase of the total wage-bill, or for raising the wage-level by more than 6 per cent. In the most favourable case: if the whole Ft 4 is profit, out of this Ft 4 a further additional total wage of Ft 0.07 – 0.30 can be financed – above the original 1 Ft additional wage. Therefore, if the output requirement of Ft 5.35 is met, a

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wage-increase. Gross profit requirement is the total profit of which the necessary net profit is the remainder after payment of the local (town, village) tax, the general profit tax and the replenishing of the reserve fund.

*8.30 X 0.1311 = 0.64; 8.30 : 0.107 19 = 0.08

**8.30 : 1.08 = 7.69; 8.30 : 1.64 = 5.06

Table 1

Output requirements of 1 Ft additional wage under conditions of the relative wage-level regulation (in Fts)

Denomination	Zone of the sharing fund formation, in percentage of the basic wage-bill					
	4–6	6–8	8–10	10–12	12–14	above 14
If transgression of the wage-level is below 1 per cent, or it is allowed by the wage-rise indicator but the actual rise of the wage-level exceeds 6 per cent:						
Wage-rise tax	1.50	1.50	1.50	1.50	1.50	1.50
Tax on the sharing fund required thereto	4.50	6.00	7.50	9.00	10.50	12.00
Net profit requirement	6.00	7.50	9.00	10.50	12.00	13.50
Gross profit requirement	11.76	14.70	17.64	20.58	23.52	26.46
Increase in wage cost	1.35	1.35	1.35	1.35	1.35	1.35
Total output requirement	13.11	16.05	18.99	21.93	24.87	27.81
If transgression of the wage-level is between 1–2 per cent:						
Wage-rise tax	2.00	2.00	2.00	2.00	2.00	2.00
Tax on the sharing fund required thereto	6.00	8.00	10.00	12.00	14.00	16.00
Net profit requirement	8.00	10.00	12.00	14.00	16.00	18.00
Gross profit requirement	15.68	19.60	23.52	27.44	31.36	35.28
Increase in wage cost	1.35	1.35	1.35	1.35	1.35	1.35
Total output requirement	17.03	20.95	24.87	28.79	32.71	36.63
If transgression of the wage-level is between 2–3 per cent:						
Wage-rise tax	2.50	2.50	2.50	2.50	2.50	2.50
Tax on the sharing fund required thereto	7.50	10.00	12.50	15.00	17.50	20.00
Net profit requirement	10.00	12.50	15.00	17.50	20.00	22.50
Gross profit requirement	19.60	24.50	29.40	34.30	39.20	44.10
Increase in wage cost	1.35	1.35	1.35	1.35	1.35	1.35
Total output requirement	20.95	25.85	30.75	35.65	40.55	45.45
If transgression of the wage-level is between 3–4 per cent:						
Wage-rise tax	3.50	3.50	3.50	3.50	3.50	3.50
Tax on the sharing fund required thereto	10.50	14.00	17.50	21.00	24.50	28.00
Net profit requirement	14.00	17.50	21.00	24.50	28.00	31.50
Gross profit requirement	27.44	34.30	41.16	48.02	54.88	61.74
Increase in wage cost	1.35	1.35	1.35	1.35	1.35	1.35
Total output requirement	28.79	35.65	42.51	49.37	56.23	63.09
If transgression of the wage-level is between 4–5 per cent:						
Wage-rise tax	5.00	5.00	5.00	5.00	5.00	5.00
Tax on the sharing fund required thereto	15.00	20.00	25.00	30.00	35.00	40.00
Net profit requirement	20.00	25.00	30.00	35.00	40.00	45.00
Gross profit requirement	39.20	49.00	58.80	68.60	78.40	88.20
Increase in wage cost	1.35	1.35	1.35	1.35	1.35	1.35
Total output requirement	40.55	50.35	60.15	69.95	79.75	89.55

Table 1 (cont.)

Denomination	Zone of the sharing fund formation, in percentage of the basic wage-bill					
	4–6	6–8	8–10	10–12	12–14	above 14
If transgression of the wage-level exceeds 5 per cent:						
Wage-rise tax	6.00	6.00	6.00	6.00	6.00	6.00
Tax on the sharing fund required thereto	18.00	24.00	30.00	36.00	42.00	48.00
Net profit requirement	24.00	30.00	36.00	42.00	48.00	54.00
Gross profit requirement	47.04	58.80	70.56	82.32	94.08	105.84
Increase in wage cost	1.35	1.35	1.35	1.35	1.35	1.35
Total output requirement	48.39	60.15	71.91	83.67	95.43	107.19

total wage-increase between Ft 1.07 – 1.30 can be achieved, which means that the corrected output requirement of 1 Ft additional wage is Ft 4.12–5.00.

The wage-increase is "more expensive", if it takes place within the usable wage-bill, but the rise of the average wage is higher than 6 per cent. The wage-increase is about as expensive also if the rise of the average wage is lower than 6 per cent, but the wage-bill exceeds the usable amount. The "price" that the enterprise has to pay under such circumstances for 1 Ft additional wage is quantified in Table 2.

Central wage-bill management. The output requirements linked to wage-rises paid when the wage-bill and the wage level are exceeded are identical with those calculated in connexion with the relative wage-bill regulation. The type of wage-increase is missing, however, whose source is the increment of the total wage to be achieved through increasing the value added. (As has been calculated, the output requirement for 1 Ft additional wage was to increase the value added by Ft 4.12–5.)

With the central wage-bill regulation the raising of the total wage-bill is implemented by decision of the approving authority, without its being linked to a requirement.

I shall mention it here that with the wage-bill regulation (whether relative or central) it may happen that on some additional wage a tax is levied under two different titles: because of exceeding the wage-bill, and because of a higher than 6 per cent rise in the wage level. In that case the corresponding output requirements also add up.

Central wage-level regulation. Here again the type of wage-increase is missing whose source is the surplus of wage level to be achieved through increasing the amount of wages + profit per employee. (The output requirement for 1 Ft additional wage was Ft 5–8 with this type of wage-increase.) Under central wage-level regulation the raising of the wage-level is implemented by decision of the approving authority, again without to be linked to an output requirement.

Let us now sum up, what output requirements the Hungarian enterprises must meet under each of the earnings regulation forms. For the sake of an easier survey I shall not go

Table 2

Output requirements of 1 Ft additional wage under conditions of the relative and absolute wage-bill regulation (in Fts)

Denomination	Zone of the sharing fund formation, in percentage of the basic wage-bill					
	4–6	6–8	8–10	10–12	12–14	above 14
In case of exceeding the wage-bill, between 0–1 per cent:						
Tax on account of the excess	1.50	1.50	1.50	1.50	1.50	1.50
Tax on the sharing fund necessary thereto	4.50	6.00	7.50	9.00	10.50	12.00
Net profit requirement	6.00	7.50	9.00	10.50	12.00	13.50
Gross profit requirement	11.76	14.70	17.64	20.58	23.52	26.46
Increase in wage cost	1.35	1.35	1.35	1.35	1.35	1.35
Total output requirement	13.11	16.05	18.99	21.93	24.87	27.81
In case of exceeding the wage-bill, between 1–2 per cent:						
Tax on account of the excess	2.00	2.00	2.00	2.00	2.00	2.00
Tax on the sharing fund necessary thereto	6.00	8.00	10.00	12.00	14.00	16.00
Net profit requirement	8.00	10.00	12.00	14.00	16.00	18.00
Gross profit requirement	15.68	19.60	23.52	27.44	31.36	35.28
Increase in wage cost	1.35	1.35	1.35	1.35	1.35	1.35
Total output requirement	17.03	20.95	24.87	28.79	32.71	36.63
In case of exceeding the wage-bill, above 2 per cent:						
Tax on account of the excess	3.00	3.00	3.00	3.00	3.00	3.00
Tax on the sharing fund necessary thereto	9.00	12.00	15.00	18.00	21.00	24.00
Net profit requirement	12.00	15.00	18.00	21.00	24.00	27.00
Gross profit requirement	23.52	29.40	35.28	41.16	47.04	52.92
Increase in wage cost	1.35	1.35	1.35	1.35	1.35	1.35
Total output requirement	24.87	30.75	36.63	42.51	48.39	54.27
If the increase of wage-level exceeds 6 per cent, between 6–7 per cent:						
Tax on account of the excess	1.00	1.00	1.00	1.00	1.00	1.00
Tax on the sharing fund necessary thereto	3.00	4.00	5.00	6.00	7.00	8.00
Net profit requirement	4.00	5.00	6.00	7.00	8.00	9.00
Gross profit requirement	7.84	9.80	11.76	13.72	15.68	17.64
Increase in wage cost	1.35	1.35	1.35	1.35	1.35	1.35
Total output requirement	9.19	11.15	13.11	15.07	17.03	18.99
If the increase of wage-level exceeds between 7–8 per cent:						
Tax on account of the excess	2.00	2.00	2.00	2.00	2.00	2.00
Tax on the sharing fund necessary thereto	6.00	8.00	10.00	12.00	14.00	16.00
Net profit requirement	8.00	10.00	12.00	14.00	16.00	18.00
Gross profit requirement	15.68	19.60	23.52	27.44	31.36	35.28
Increase in wage cost	1.35	1.35	1.35	1.35	1.35	1.35
Total output requirement	17.03	20.95	24.87	28.79	32.71	36.63

Table 2 (cont.)

Denomination	Zone of the sharing fund formation, in percentage of the basic wage-bill					
	4–6	6–8	8–10	10–12	12–14	above 14
If the increase of wage-level exceeds above 8 per cent:						
Tax on account of the excess	3.00	3.00	3.00	3.00	3.00	3.00
Tax on the sharing fund necessary thereto	9.00	12.00	15.00	18.00	21.00	24.00
Net profit requirement	12.00	15.00	18.00	21.00	24.00	27.00
Gross profit requirement	23.52	29.40	35.28	41.16	47.04	52.92
Increase in wage cost	1.35	1.35	1.35	1.35	1.35	1.35
Total output requirement	24.87	30.75	36.63	42.51	48.39	54.27

now into the details of output requirements. The effect of the fact that the tax rates are differentiated according to the proportion of the sharing fund formation to wages, and depending on the extent to which the wage level or the wage-bill are exceeded, will be indicated only by giving the from–to limits of the output requirements. Besides, with a view to a more palpable presentation of the burdens represented by the requirements I shall give also the inverse of the output requirements, i.e., how much of Ft 100 of achievable output is allowed by the wage-regulations to be spent on wages (i.e. on stimulation).

On the basis of our compilation, the possibilities of wage-increases can be categorized into the following groups:

1. To some of the wage-increasing possibilities no output requirement is linked; such a possibility, in itself, does not stimulate a more efficient management.

2. Another part of the wage-increasing "possibilities" is linked to extremely high – practically unattainable – requirements. An unattainable output requirement again does not stimulate a more efficient management, it just puts a ceiling on the wage-rise (and, at the same time, on output!).

3. A third part of the wage-increasing possibilities is linked to such output requirements which can be *generally* fulfilled. Such is first of all the case of live labour saving realized in the framework of the wage-bill regulation (below a 6 per cent rise in the wage level).

4. The fourth part of the wage-increasing possibilities is linked to such output requirements which can be fulfilled *in some* of the cases. They are not suited to mobilize, however, the larger part of the revealable reserves, because in many cases they cannot be fulfilled. To this category may be listed the wage-payments above the guaranteed wage-bill, but within the level corrected with the production indicator (where the output requirement of 1 Ft additional wage is Ft 4–5) in the framework of the relative wage-bill regulation, and the wage-payments within the wage-rise indicator (where the output

Table 3

Output requirements of 1 Ft additional wage under conditions of central wage-level regulation (in Fts)

Denomination	Zone of the sharing fund formation, in percentage of the basic wage-bill					
	4–6	6–8	8–10	10–12	12–14	above 14
If the approved wage-level is exceeded by 0–1 per cent:						
Tax on account of the excess	1.50	1.50	1.50	1.50	1.50	1.50
Tax on the sharing fund necessary thereto	4.50	6.00	7.50	9.00	10.50	12.00
Net profit requirement	6.00	7.50	9.00	10.50	12.00	13.50
Gross profit requirement	11.76	14.70	17.64	20.58	23.52	26.46
Increase in wage cost	1.35	1.35	1.35	1.35	1.35	1.35
Total output requirement	13.11	16.05	18.99	21.93	24.87	27.81
If the approved wage-level is exceeded by 1–1.5 per cent:						
Tax on account of the excess	2.50	2.50	2.50	2.50	2.50	2.50
Tax on the sharing fund necessary thereto	7.50	10.00	12.50	15.00	17.50	20.00
Net profit requirement	10.00	12.50	15.00	17.50	20.00	22.50
Gross profit requirement	19.60	24.50	29.40	34.30	39.20	44.10
Increase in wage cost	1.35	1.35	1.35	1.35	1.35	1.35
Total output requirement	20.95	25.85	30.75	35.65	40.55	45.45
If the approved wage-level is exceeded by 1.5–2 per cent:						
Tax on account of the excess	3.50	3.50	3.50	3.50	3.50	3.50
Tax on the sharing fund necessary thereto	10.50	14.00	17.50	21.00	24.50	28.00
Net profit requirement	14.00	17.50	21.00	24.50	28.00	31.50
Gross profit requirement	27.44	34.30	41.16	48.02	54.88	61.74
Increase in wage cost	1.35	1.35	1.35	1.35	1.35	1.35
Total output requirement	28.79	35.65	42.51	49.37	56.23	63.09
If the approved wage-level is exceeded by 2–2.5 per cent:						
Tax on account of the excess	4.50	4.50	4.50	4.50	4.50	4.50
Tax on the sharing of fund necessary thereto	13.50	18.00	22.50	27.00	31.50	36.00
Net profit requirement	18.00	22.50	27.00	31.50	36.00	40.50
Gross profit requirement	35.28	44.10	52.92	61.74	70.56	79.38
Increase in wage cost	1.35	1.35	1.35	1.35	1.35	1.35
Total output requirement	36.63	45.45	54.27	63.09	71.91	80.73
If the approved wage-level is exceeded by more than 2.5 per cent:						
Tax on account of the excess	6.00	6.00	6.00	6.00	6.00	6.00
Tax on the sharing of fund necessary thereto	18.00	24.00	30.00	36.00	42.00	48.00
Net profit requirement	24.00	30.00	36.00	42.00	48.00	54.00
Increase profit requirement	47.04	58.80	70.56	82.32	94.08	105.84
Increase in wage cost	1.35	1.35	1.35	1.35	1.35	1.35
Total output requirement	48.39	60.15	71.91	83.67	95.43	107.19

Table 4

Output requirements linked to payment of additional wages under the different forms of wage-regulation

Denomination	Additional output needed for 1 Ft wage (Ft)	Wage payable from Ft 100 of additional output (Ft)
Relative wage-level regulation		
Guaranteed wage level increase		
Up to 6 per cent within the wage-rise indicator	5– 8	12.50–20.00
Above 6 per cent within the wage-rise indicator	13– 28	3.57– 7.69
Beyond the wage-rise indicator	13–107	0.93– 7.69
Central wage-level regulation		
Guaranteed increase of wage level	0	
Wage-level increase exceeding the guaranteed rise	13–107	0.93– 7.69
Relative wage-bill regulation		
Wage-increase realized to the debit of the guaranteed wage-bill increase owing to central measure	0	
Wage-increase within the guaranteed wage-bill, below 6 per cent rise in wage-level,, enabled through reduction of staff	1	100
Above the originally guaranteed total wage, but within the level corrected with the production indicator, below the 6 per cent rise in wage-level	4– 5	20 –25
The same, but above 6 per cent	9– 54	1.85–11
Above the wage-bill corrected with the production indicator, but below the 6 per cent rise in wage-level	13– 54	1.85– 7.70
Above the corrected wage-bill, beyond the 6 per cent wage-level	21–111	0.90– 4.76
Central wage-bill regulation		
Wage-increase realized to the debit of the wage-bill increase resulting from central measure	0	
Wage-increase within the approved wage-bill, below a 6 per cent rise in wage-level, enabled through reduction of staff	1	100
Wage-increase within the approved wage-bill with a higher than 6 per cent rise in wage level	9– 54	1.85–11
Above the guaranteed wage-bill, but below the 6 per cent rise in wage-level	13– 54	1.85– 7.70
Beyond the guaranteed wage-bill and the 6 per cent rise in wage-level	21–111	0.90– 4.76

Table 5

Changes in the wage-level of industry in 1976, according to forms of wage-regulation

	Ratio of staff within the industrial total	Average wage of 1976 in percentage of that of 1975
Relative wage-level regulation	41.5	105.49
Central wage-level regulation	21.5	105.65
Relative wage-bill regulation	31.4	106.33
Central wage-bill regulation	5.6	106.06
Total	100.0	105.82

requirement of 1 Ft additional wage is Ft 5–8) in the framework of the relative wage-level regulation.

The system of conditions of wage regulation has become apparently more differentiated since 1976. This seems to be further proved by the fact that the output requirement changes – as we have seen – between very wide limits. Practically, however, there are only three kinds of output requirement: 1. no output requirement (wage-increase granted without conditions), 2. there is an output requirement, and it can be also met, 3. the output requirement is unattainable (it is of prohibitive character). The increase of the average wage above 6 per cent is linked practically everywhere to unattainable output requirements. It is therefore quite natural that the enterprises did not exceed this limit, if it was possible, or only with reluctance (except the case when, having received preferential conditions, they could raise the average wage above 6 per cent without paying high progressive taxes, or if they had from the outset a profit coverage for the payment of high taxes).*

Owing to the uniformly asserted ceiling on increasing the wage-level it has become much less important, to what form of wage regulation an enterprise belonged. With each form the wage increasing possibilities as well as the "efforts" needed for a wage-increase were about the same.

As regards realized wage-increases, in 1976 they were close to the 6 per cent ceiling – a little below or a little above it. (See Table 5.)

As for efforts made to support wage-increases, their role was very modest. In 1976 over three-quarters of the rise in nominal wage level (5.7 per cent on the national economic average, without agricultural cooperatives) drew on resources available without meeting any requirement: 0.5 per cent was covered by wage preferences, 1.3 per cent by uses of wage-rise reserves (brought over from the previous year), 2.6 per cent by centrally

*This is not contradicted by the wage rises of 1977 – of a higher rate than earlier ones. Some of the enterprises implemented, namely, also "non-self-financing" wage-rises, because they were afraid that if they incrased the development fund, part of it would be "frozen".

guaranteed wage-increases. With resources derived from increased output only 1.3 per cent of the wage-increases was realized. (More could have been implemented, but enterprises used a large part of resources derived from grater output for accumulating reserves for the next year.)

Let us now examine, how the aims thought to be attainable through the modifications of wage-regulation are realized.

It is only the forms of the wage-bill regulation that exert a satisfactory stimulating effect on a rational economy with labour, but even these only as long as the average-wage-brake does not start to become effective. With the other forms of wage-regulation, and partly – because of the average-wage-brake – also with the wage-bill regulation the wage-incrase aiming at labour saving runs against unattainable output requirements. It is quite probable that a performance wage that wishes to "stimulate" 1 per cent additional output by 0.1 or 0.2 per cent additional wage has no chance at all for success. Nor is it possible to make work-groups interested in performing the same task with a reduced staff, if only one or two-tenths of the wages saved are offered. The hopelessness of such an "offer" is clear to every workshop manager; they do not even suggest such a thing, but rather accept the fact that a large part of labour rationalization possibilities remain unused.

The well-known harmful by-effect of the average wage control: the interest in "diluting" the structure of the staff (by employing workers with low wages) could not be eliminated either. The wage level regulation *linked to the average wage,* i.e. the *average-wage-brake* connected with the wage-bill regulation continues to make the enterprises interested in such development of the staff structure with which the average wage goes down or at least does not rise. It is a well-known fact that a change in the composition of the staff may entail a change in the average wage of the enterprise even if the wage of individual workers has not changed at all. There is dispensable labour in many enterprises, whose transfer would contribute to an increase of profits and the sharing fund. Dispensable labour is, however, usually paid lower wages than the average, and thus their leaving would cause a "technical rise in the wage-level". And the burdens of this are much larger than the additional output to be achieved through saving labour.

If an employee with a lower than average wage leaves an enterprise and is not replaced (by another employee of a similar wage), it has the same effect on average wage as if – with an unchanged staff – the wages had been raised by as much as the wage of the leaving employee stayed below the average wage. E.g. in an enterprise with an average wage of Ft 3000 the leaving of an employee receiving a wage of Ft 2400 entails the same burdens – in regard of indirect burdens not accounted in production cost – as if the wages of one or several employees were raised by Ft 600 in all. It has been demonstrated already, that the burdens of 1 Ft additional wage can be covered by additional profit of Ft 5–8 below the 6 per cent limit, and by one of Ft 13–28 beyond this limit. Thus the "technical" wage-level rise of Ft 600 following the resignation of the employee in our example raises an aditional profit requirement between Ft 3000 and 16,800. The saving realizable in wage cost is, however, only Ft 3240 (Ft 2400 + 840). Therefore, we can

agree with L. Pongrácz's statement: "The wage-level regulation still has the feature that the leaving of employees with lower wages has an unfavourable effect on the enterprise's possibilities to raise wages. Therefore, it is worthwhile for the enterprise to prevent low-wage employees from leaving, or, if they do leave, to replace them. This feature, though not strongly effective towards increasing the staff, hinders in any case the meeting of requirements concerning the reduction of needs"[1].

The situation is perhaps even worse from the viewpoint of a rational management of embodied labour (first of all materials), since in this field there exists no such favourably stimulating form of saving as the reduction of staff with an unchanged total wage. An enterprise working in the framework of relative wage-bill regulation can pay 1 Ft additional wage (if it remains within the Ft 6 average-wage-brake) for the saving of 1 Ft of another wage. But for the saving of 1 Ft of materials it can pay even in the best case, only Ft 0.20–0.25 additional wage. Thus it is not worthwhile for the enterprise to perform such additional operation, which will enable saving of materials amounting "only" to threefold of the necessary additional wage.

The regulation of wages and earnings also has the important task of keeping the outflow of purchasing power within planned limits. Statistical data of 1976 and 1977 support that the wage regulation system fulfilled this function all too "well". The 1976 plan expected, namely, that the enterprises would pay considerable wages over the guaranteed level and that allowed by the wage-rise indicator. However, a wide circle of enterprises judged as prohibitive – not without grounds – the tax-burdens on wage-rises above the guaranteed wage-rise and that allowed by the wage-rise indicator, or that above the 6 per cent level. The consequences were on the one hand that the wage-plan was not fulfilled, and on the other hand that, without adequate incentives, important reserves remained unrevealed, both in the management of the production factors and in performances.

A further important task of this regulation system is the *mitigation of disproportions in earnings* i.e. the prevention of certain enterprises from excessively raising the level of earnings of their employees and thus increasing social tensions. The regulation does fulfil this task, but in such a way that it prevents those staying behind the average level from approaching the average the same way as it prevents those exceeding the average from departing from it. That is so because the regulation system does not attach taxes to the *levels* attained, but to the *development* showing against the level attained in the base period. This character of the regulation stiffens unreasonably the relative proportions of earnings developed earlier between sectors and enterprises and also restrains the modernization of the product pattern. With the same level of earnings the tax burden of one enterprise may easily be a multiple of that of another enterprise, only because the former started from a lower basis. This is one reason why it becomes necessary to help those staying behind from time to time by preferences and centrally guaranteed wage-increases. (These preferences are, however, given without any output requirement attached.)

The regulation system has the task, not to be underestimated, to promote the *increase of income earned in production, and the centralization of an appropriate part* in the state budget. Factual experience as well as logical deduction equally show that the system regulating earnings do not adequately fulfil this task. This is proved also by the fact that in 1976 a large part of the planned wage-rise tax and of the revenues planned on account of progressive profit tax (on the sharing fund) were not realized. The cause is obvious: the over-exaggeration of the tax-rates. The rates of taxation used in wage regulation are mostly of a prohibitive character: they annihilate their own sources. Such tax rates are entirely unreasonable from the viewpoint of revenue, since budgetary revenues could be larger exactly with moderate tax-rates. If taxes take away 90, or even 95, 96, 97 per cent of the attainable additional output, and only 10 (or even 5, 4, 3) per cent is left at the disposal of the producing collective, there will be a mass renouncing of the realization of possible additional outputs. Of course, the budget receives nothing of the outputs crushed at birth through over-taxation. The conclusion seems obvious: if the producing collective could keep a fair part of the achievable additional profit, and thus adequate incentive could come about for the realization of the possible additional incomes, the budget could also get its shares. At the same time, it should have to grant less preferences to enterprises, because more of the latter could settle their wage-problems from their own resources.

It may sound unbelievably, but the statement stands proof that tax-burdens may consume even 99 per cent of the additional income. The degree of over-taxation is even more unbelievable if the tax-rate is compared with the payable wage: in an extreme case the total tax that may be levied on a wage-increase may reach 11,000 (eleven thousand!) per cent of the additional wage. (It is true that such tax-rate never gets asserted; the prohibitive effect stops the increase of wages much earlier, in the lower tax-zones.)

Rates of the *aggregate* tax-burdens are, of course, not indicated in the orders, only the rates of each phase of the cumulating taxation. They are themselves very strict (tax-rates range from 100 to 800 per cent), but they are made absurd by cumulation. Namely, in the wage regulation system multifold tax cumulation takes place: the *progressive wage-rise tax* is to be paid from the sharing fund; a *progressive profit tax* must be paid after the formation of the sharing fund; the source of the sharing fund as well as of the progressive profit tax payable upon its formation is the profit reduced by the *general profit tax, local* (town and village) *rates,* and *obligatory reserve.* After all this the further cumulation may hardly be worth mentioning: that on the additional wage a wage-tax and a social insurance contribution must also be paid.

The wage-bill management is no solution

The fact that the earnings regulation system does not provide the desirable incentive in its actual form is mostly recognized and acknowledged by economists dealing with the subject. They draw, however, different conclusions.

Many are inclined to accept the fact of unsatisfactory incentive, seeing the dilemma of stimulation and maintaining equilibrium, and recognizing the priority of equilibrium. They feel, of course, the defeatism of accepting the fact of failure and, to justify this, they advance the "argument" that it is not possible to elaborate a perfect system for regulating earnings that would meet all demands. What should we think of this argument? An absolutely perfect solution does not exist, of course, for anything, anywhere. This follows from the continuous development of the world, and in it of society, economy, and the methods of management. But is there a reference to the unattainability of absolute perfection sufficient for socialist economists to feel themselves freed from the task of solving the problem how to regulate earnings? I think it is not. And, particularly, it cannot follow that the search for an effective solution should be considered a vain effort from the outset.

Others, looking for a way out, suggest a further extension and development of the wage-bill regulation.[4, 5]

Yet the wage-bill regulation is not an adequate solution, even though it improves the situation in a comparatively narrow field of the management of resources. This can be understood from the following arguments:

The wage-bill regulation assumes that separate live labour utilization limits should be stated for each enterprise (under this form of regulation), by indicating the utilizable total wages in absolute or relative terms. At the same time, producer prices have the effect of aggregate norms limiting the utilization of *total social labour,* and the profit incentive makes enterprises try to save as much of social labour as possible in comparison with this norm. The basic idea of the conception of profit motive is not to control each kind of input separately, but their aggregate, because this is the only way to enable enterprises to look for and find the optimum resource combinations (the comprehensive management of total social labour). This is a cardinal point also of the Hungarian reform of economic control of 1968. The wage-bill regulation is a step backward in the direction separately regulating the utilization of each resource, and thus it necessarily impairs the efficiency of managing total social labour.*

What is good in the wage-bill regulation is that in the case of a parsimonious management of one kind of resource (i.e. if the staff is reduced) it frees the output thus created from the prohibitive tax burdens otherwise characteristic of wage regulation, and thus enables the use of this output for wage-increases, as long as the average-wage-brake does not start to function. Thus, it is due to the partial protection that wage-bill regulation may provide against over-taxation, why its propagators cherished hopes in its regard, as well as why enterprises tried to get under this form of regulation. This positive effect of the wage-bill regulation is weakened, however, by several unfavourable factors.

1. To the wage-increase realised to the debit of the reduction of staff number – swinging to the other extreme – *too little requirement* is attached: for 1 Ft additional wage a saving of 1 Ft is sufficient through reduction in staff. This is little because, it is not

*This statement does not hold for budget-financed organizations.

indifferent for the national economy, with what rise in wage level a given total wage is used in an enterprise. The reason is that a rise in wage-level in some enterprises leads sooner or later to wage-increasing demands in other fields of the economy, among them at places where the coverage for a wage-increase cannot be produced from own resources (i.e. by increasing the efficiency of production). Therefore, in the productive sphere able to increase productivity it is justly expected from wage-increases that, in addition to produce the coverage for their own wage-increase, they should adequately contribute to covering wage-increases that become simultaneously necessary in other fields. (That is the rational meaning of the frequently repeated statement that wage is a "special cost".)

2. The wage-bill regulation – while too liberal in one field – raises also further exaggerated output requirements on wage-increases in other fields. Thus it allows too small part of the additional outputs revealed by saving embodied labour* and increased enterprise performance to be spent on wage-increases, and the stimulation of staff reduction enabled by it also becomes insufficient as soon as the rising wage-level runs against the average-wage-brake.** Thus it is apt to mobilize but a small part of the objectively existing and revealable reserves. (The live labour costs amount only to 10–12 per cent of the total inputs of enterprises, and the wage-bill regulation exerts an effect stimulating rational economy only on a small part of it, too.)

3. There is a demonstrable causal relationship between the initial exaggerated liberalism and the later asserted exaggerated rigour: regulation is *obliged* to tread on the average-wage-brake even by sacrificing the apparently rational stimulation, because previously it allowed – with too much indulgence – to spend 100 per cent of the wage saving originating from staff reduction on wage-increases.

4. Thus the wage-bill regulation cannot do without the average-wage-brake (it is timely that those wishing to get rid of the average-wage-brake realize the vanity of such hopes as soon as possible). However, the average-wage-brake is an instrument linked to an average value and thus sensitive to staff structure. Therefore, the interest in "diluting" (or in keeping diluted) the staff which is inevitably concomitant with the average-wage control also casts a shadow on the wage-bill regulation.

Relying on the foregoing facts it can be definitely stated: extension of the wage-bill regulation is *not suited for an adequate* (objectively achievable and absolutely necessary) *intensification of the stimulating effect of earnings regulation.*

*Therefore, the question is not whether the relative wage-bill regulation stimulates *at all* economizing on every production factor. I agree with J. Lőkkös[5] in that it *does* exert such a stimulating effect. But – and that is what I deem important – this stimulating effect proves to be entirely ineffective in certain respects.

**J. Lőkkös[5] is entirely right in that an important task of earnings regulation is to stimulate for saving labour. The difference of opinion between us springs – among other things – from the fact that, in my view the existing form of the wage-bill regulation is unable to fulfil adequately even this task.

A feasible way of solving the dilemma

After criticizing the existing system regulating earnings and rejecting the conceptions which hope to find a remedy in the extension of the wage-bill regulation the author is now justly expected to put forward his positive suggestions. The remaining part of my article deals exactly with these. The suggestions that will follow here-under make a part of the comprehensive conception – covering the price system regulation of development, the systems of exchange rates, taxation and credit – elaborated and put forward several times by the Economic Research Institute in various committees dealing with the further development of the regulation system. This time only those elements of this complex conception – constituting a consistent system – will be discussed however that are concerned with or closely connected to the regulation of earnings in enterprises.

In my opinion the regulation has to be transformed according to the following principles:

1. To every wage-increase in the productive sphere capable of increasing its productivity an output requirement must be attached. (Let me remind the reader of the fact that over three-quarters of the 1976 wage-increases came from resources not linked to output requirements.)

2. Assertion of the output requirement should take place through imposition of a *single tax,* accountable in production costs. The present cumulation of taxes must be brought to an end, since it increases tax-burdens to an absurd extent and makes regulation unduly complicated.

3. The basis of assessment should be – instead of the wage-increment of the year under discussion resulting from the increase of the wage-level (or the wage-bill) – the zone of individual wages above a uniformly determined wage level (e.g.: the total wage-zone above monthly Ft 1800 or 2000). This could eliminate that the regulation of earnings should rely on individual bases different for each enterprise and changing every year.* At the same time, the linkage of regulation to *average* value might also be eliminated, along with its well-known staff-diluting effect (today rather encouraging the maintenance of existing dilution). The tax could be called *additional wage-tax,* since it would be levied only on the zone of the wage-bill above a definite wage level.

4. The *rate* of the tax should be high enough to reflect the consequences to be borne by the national economy because of wage-increase demands induced in other field of the economy, and to serve at the same time as coverage for meeting those demands. But it should not be higher than necessary, in order to allow the realization of additional outputs revealable through stimulation in the widest possible sphere. According to my calculations in industry a tax rate of 100 or 120 per cent would correspond to these requirements. In these sectors where, owing to the character of activity, there is only a slight chance that the growth rate of outputs should exceed that of wages, a lower rate ought to be applied, or even full exemption from the additional wage-tax could be

*The wish to get rid of the "basis" is to be found in the article by D. Bonifert[6]

granted. (E.g. in the servicing sectors, in which stagnation of productivity or its lower growth rate than of wages must be accepted as facts.)

If the above-mentioned principles were asserted, the stimulating effect of earnings regulation could quickly emerge. The method suggested combines the positive traits expected from the different previous earnings regulation techniques, without their deficiencies. It is a wage-bill regulation, since tax is to be paid on the upper zone of the total wage and if the total wage increases more tax is to be paid. But it also has a wage-level regulating effect, since on the *rise* of the wage-level a tax well above the average is levied. This effect might be considered also as a wage-level-brake, yet this brake acts smoothly and gradually; it does not "jam", as the existing one.

The suggested regulation system really and sufficiently stimulates for economizing on every production factor. It has the further great advantage that it helps to free the regulation of earnings from the well-known "diluting" effect of the average wage control.

The fact that the tax burdens on wages (and on their increase) become easily calculable is not just a technical relief to enterprises, but also an important condition for the orientation effects to be achieved by earnings regulation to emerge in practice without distortion. (The existing regulation is so complicated that an exact investigation of these effects on enterprise level is hardly possible. What is more, not even the functional organs elaborating the system could reveal beforehand the full effect mechanism of the regulation.)

At the same time, there are some special problems which should also be taken into consideration. Such problems arise from the fact that enterprises have initial profit of different sizes, and that profit does not depend solely on the performance and management standards of the enterprises but also on other factors, independent of the enterprises.

It is obvious that the utilization of initial profit for wage-increases must be generally prevented. The source of wage-increases can be practically only the *increment* of output. Earnings regulation tries to assert this requirement even today by assigning relatively favourable conditions only to wage-increases in proportion with the *improvement* of output, while prohibitive taxes are levied on wage-increases above this. The measures outlined under par. 2 and 3 eliminate the effect of earnings regulation aimed at creating interest in an increment, which is indispensably necessary for stimulation. On the other hand, the use of initial profits for wage-increases must still be made impossible because, if that were allowed, the stimulating effect of the whole system would be lost, unjustified disproportions in earnings would become possible and, at the same time, important budget revenues would be endangered.

The problem may be solved in a way that the consumption of initial profit for wage-increases should be prevented in the future not by earnings regulation, but with the instruments of general enterprise income regulation. The form of this may be: 1. taking away the initial profit (or the bulk of it) abailable at the start of the new regulation by means of a production tax; 2. degressive profit taxation, taking away most of the initial profit, but imposing only a low tax on the increment of profit; 3. requirement of

maintaining the total profit, maybe in a way that in case of decreasing profit the bonuses of top higher executives cannot be paid, profit-shares at the end of the year are withheld, etc.

It may also cause a worry that in some enterprises profit may grow or decrease under the influence of factors independent of its work. Such factors are e.g. considerable market fluctuations* of export prices, or price increases on the home market beyond a measure necessary for compensating the inevitable rise in costs.**

It would be wrong if enterprises could use their additional outputs of such character for wage-increases. I think that for the neutralization of these parts of the increment of profit the increase of production taxes is an adequate instrument, or if the payment of bonuses and profit shares at the end of the year are made dependent upon attaining a profit higher to a certain extent than that attained in the base period. (If enterprise outputs decrease under the influence of factors independent of the enterprise, the procedure is, naturally, the reverse.)

After all, the problem is that we try to make a distinction between two groups of the value added achieved by the enterprise: the additional value added resulting from better performance and outputs created independently of this, and we allow to spend on wage-increases (and on the related tax) only the additional value added resulting from improvement of performance.

I close my suggestions by saying that the principles explained refer, *mutatis mutandis,* also to the income regulation of agricultural cooperatives. E.g. I deem important and necessary to eliminate the so-called regulative tax and to replace it by a kind of tax similar to the additional wage-tax explained in the preceding.

*

*Neutralization of changes in profit owing to considerable market fluctuations or other reasons independent of the enterprise is not at all a new thing. Financial organs cannot dispense with it even today. If profit grows considerably – for external reasons – a production tax is imposed (or it is augmented), or the export refund is decreased. The decrease of profit due to external reasons is counterbalanced by similar measures – of the opposite sign – such as tax abatement and/or granting higher subsidy.

Thus the suggested regulation of earnings requires only the *maintenance* of the now existing system of individual differentiation and not the introduction of some entirely new profit regulating element. A change in this field would be brought about only by the fact that, instead of today's many kinds of individual financial differentiations of different signs, a *single individual income regulating tax* should be functioning. It is desirable that this income regulating individual tax should be amended as rarely as possible (only if perfectly justified), and that amendment should be made, if possible, in advance. Frequent and, particularly, ulterior amendments of the individual production tax are expressively alien to the conception.

**The taxing away of profit resulting from a rise in home prices beyond the necessary (justified) measure is not a new thing, either: upon the basis of prescriptions concerned with unfair profit we use this instrument also today. A partially new element might be if there were, beside the suggested regulation, such a home market price increase as could not be termed unfair, yet the additional profit coming from it should be centralized by taxation. Such price increase could also be in the interest of the producer enterprise, if it helps to restore market equilibrium or enables a faster pay-off of new capacities.

The final conclusion to be drawn from the foregoing reasoning may be summed up in the following: we have a realistic possibility for a reconciliation of the requirements of stimulation and equilibrium and for their simultaneous assertion. What is more, an intensification of stimulation is the only instrument to really restore the national economic equilibrium within a reasonable time. My analysis expounded in this article, as well as my conclusions drawn therefrom, and my propositions will certainly be disputed by many, and from many aspects. Maybe in the course of discussions I shall see the incorrectness of one or another of my arguments, or that further points of view must also be considered. I doubt, however, if anybody could prove that the socialist system is not suited by its nature for a simultaneous and mutually strengthening assertion of the requirements of stimulation and equilibrium. There may be no absolutely perfect earnings regulation, but a regulation can certainly be devised that is free from the extremely sharp contradicitions of today's methods. I put forward such a regulation model in my suggestions.

There is, of course, a great obstacle to having the propositions accepted: it is that they infer an essential change, *considerable modifications of existing principles* in earnings regulation, income regulation and the connected tax systems. I know and understand that this will be difficult for many to accept. Yet for years every experience has shown that the existing instruments, varied in whichever way, do not help us to come out of the vicious circle in which we are moving: on the old base we are unable to solve the dilemma of stimulation and equilibrium. This is I think a sufficient reason to seriously consider the revision of earnings regulation down to the fundamental principles.

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„НЕРАЗРЕШИМАЯ" ДИЛЕМА РЕГУЛИРОВАНИЯ ЗАРАБОТКОВ В ВЕНГРИИ

Ш. БАЛАЖИ

Рассмотрев историю регулирования заработной платы в Венгрии автор констатирует, что различные, часто меняющиеся варианты регулирования всегда отвечают лишь некоторой части предъявляемых к этому регулированию требований. Когда регулирование заработной платы отвечает задачам по обеспечению народнохозяйственного равновесия, то на задний план отодвигается функция стимулирования, и наоборот. Многие считают это противоречие уже просто неразрешимой дилеммой. Автор в статье оспаривает это мнение.

Автор приводит подробные расчеты, показывающие, какие налоги являются для предприятия «ценой» повышения средней заработной платы. Налоговое время рассеивается в необоснованно широком диапазоне: часть приращения средней заработной платы не связывается ни с какими требованиями повышения эффективности; в относительно узком диапазоне заработной платы связано с реально выполнимыми требованиями; выше же определенного условия повышение средней заработной платы наталкивается на невыполнимые (запретительные) требования по повышению экономической эффективности. Этот предел пердприятия обычно не переступают. В 1976 году более трех четвертей прироста средней заработной платы было осуществлено за счет источников, имевшихся в распоряжении предприятий независимо от выполнения каких бы то ни было требований.

Таким образом, регулирование заработков не может надлежащим образом выполнять свои задачи. Даже регулирования общей суммы фонда заработной платы недостаточно поощряет рациональное использование рабочей силы, из-за тормозящего эффекта налога на прирост средней заработной платы.

Не удалось элиминировать и отрицательный эффект регулирования средней заработной платы, «приводящий к раздуванию» численности работников.

В области рационального использования материалов и капитала положение еще хуже. Однако для целей ограничения покупательной способности населения регулирование заработной платы оказалось вполне пригодным. С точки зрения поступлений в госбюджет запретительные налоги оказываются непродуктивными: высокое, многократное обложение ликвидирует саму основу обложения.

Многие считают подходящим решением распространение метода регулирования фонда заработной платы. Но и в этом случае требования, предъявляемые к повышению заработной платы, варьируются в слишком широком диапазоне: то они являются слишком либеральными, то слишком строгими; причем эта система не может обойтись без тормозящего действия и вредных последствий обложения налогом прироста средней заработной платой.

Действительным решением явилось бы, если 1. любое повышение заработной платы связывалось бы с определенными требованиями по повышению хозяйственного эффекта; 2. это производилось бы путем применения единого налога, что исключило бы многократное обложение; 3. налогом облагалась бы часть заработной платы, превышающая определенный минимум (1800 или 2000 форинтов); 4. ставка налога была бы 100–200%, что было бы посильно для предприятий и достаточно для бюджета; 5. не разрешалось бы повышать заработную плату за счет исходного уровня прибыли и конъюнктурных добавочных прибылей.

Таким образом представляется реальная возможность для разработки эффективной системы регулирования заработной платы, равным образом отвечающей требованиям как стимулирования, так и обеспечения народнохозяйственного равновесия.

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J. LŐKKÖS

A FEW PROBLEMS OF REGULATING EARNINGS IN HUNGARY AND POSSIBILITIES OF ITS IMPROVEMENT

In Hungary no uniform opinion has emerged about the functioning of the economic control system. Neither the evaluation of the past nor opinions regarding what ought to be done in the future are unanimous.

Staying within the sphere of wage- and earnings regulation, the author wishes to contribute to a clarification of the questions under discussion. In the first part of the study he gives a brief historical survey, in the second he treats today's (1976–78) most important problems, and in the third he outlines the possibilities of further development and its direction he deems expedient.

Development of the regulation of earnings

One of the most disputed and most frequently changed element of the economic regulation system in Hungary is the regulation of wages and earnings. Ever since 1968 more or less important changes have been implemented in the system every year. According to subsequent evaluation, the tendency of the changes may be considered positive, even if some of the changes were short-lived. The most important tendency of the changes is, in my opinion, the gradual gaining ground of the wage-bill regulation.

I think the introductory remark is necessary that no regulation system exists independently of time, circumstances, and economic development level; the main requirements made on wage-regulation also change from time to time. Along with the development of the economy different types of wage regulation forms may fulfil a positive role. Thus, in judging any form of wage-regulation, it is not indifferent whether the economy is in an extensive, transitory, or intensive stage of development. Of course, the stages of economic development are not separated from each other by any sharp dividing line: there are intensive elements also in the extensive development period, and conversely. The task is always to establish and implement in practice a wage-regulation system most appropriate for the given period.

An avarage-wage control system, or, in other words: a system regulating the wage-level has been functioning in Hungary since 1957. At the introduction of the system the national economy was in an extensive stage of development. On the one-hand demand for labour was growing fast, on the other hand labour supply was also abundant, even prior to the collectivization of agriculture. The wage-level regulation augmented the labour absorbing capacity of enterprises and thus facilitated extensive development.

Before adopting the wage-level regulation (in early 1957) large-scale wage policy measures were taken: a 35 per cent wage-increase in mining, a 26 per cent one in the

building industry, and 10 to 15 per cent increases in other sectors. One purpose of the introduction of the wage-level regulation was to maintain the sectoral wage proportions thus formed. The possibility of average wage-increase remained in later years 1.5–2.0 per cent annually – with practically unchanged consumer prices – which may be considered in general the lower limit of incentive. This yearly average wage-increase was granted to every enterprise, independently of their production tasks.

In the early 1960s, following the collectivization of agriculture, the yearly flow of tens of thousands of unskilled workers into industry and other sectors of the national economy enabled the enterprises to raise the average wage of their basic staff at a rate higher than the above-mentioned yearly 1.5–2.0 per cent. Namely, the flow of agricultural workers with a lower wage level into industry and other sectors of the economy automatically reduced the average wage of enterprises, and the difference could be spent continuously on wage-increases.

By about the mid-1960s the extensive development period of the Hungarian economy came to an end. A transitory development period began in which characeristics of extensive and intensive development assert themselves parallel to each other. Since then the functioning of the wage-level regulation system has also been hampered. Between 1965 and 1967 continuous corrections and various (absolute and relative) constructions stimulating the saving of labour were applied.

The 1968 reform of economic control and management retained practically the form of average wage-regulation applied since 1957, with two changes: 1. approval of the enterprise average wage plan ceased, 2. the possibility of the yearly average wage came into a close, function-like relationship with the growth of profit of the year. At the introduction of the reform fear from a large-scale unemployment – unjustified, as it turned out later –, as well as the danger of a possible upsetting of the established average wage proportions justified the maintenance of the wage-level regulation (the form of wage-bill regulation was used only in state-owned agriculture and forestry).

The new system made it "more expensive" for enterprises to increase the average wage, and "cheaper" to increase the staff. With a view to dampen the negative effects of the wage-level regulation system in 1968–69 (large-scale, sometimes unjustified, increase of staff, reduction of productivity, etc.) constructions stimulating the saving of labour – similar to those of 1965–67 – were adopted in 1970. Further important elements of the corrections of regulation introduced on 1st January 1970 were the following: the method of dividing the sharing fund was changed; in a number of fields (the canning-, cold-storage- and sugar industries, railway transport) the wage-level regulation was replaced by wage-bill regulation. In 1971 the scope of wage-bill regulation was further extended.

After the amendment of the 1st January 1971, the wage-level regulation made the yearly average wage-increase dependent on the increase of profit. The average wage could be raised upon favourable terms on the basis of the so-called wage-rise indicator (in proportion to the rise of per capita enterprise wage + profit). The system stimulated – or rather prompted and forced – the enterprises to increase the profit regularly and considerably every year, which entailed also a price-raising effect not to be

understimated. The amended system continued to tax the average wage-increase of enterprises coming from changes in the composition of the staff by qualification. Enterprises often counterbalanced this by conserving the composition: they tried to engage new employees in a similar composition to those who had left, in order to avoid the "technical rise" of the enterprise's average wage because of a change in composition. This became the main motive – beside fulfilment of production tasks – of new employments, and further sharpened the competition for labour among enterprises. Thus, in spite of existing inner labour reserves in enterprises, a state of labour shortage developed. The labour shortage intensified the wage–price–wage competition whose inflation generating and wage-proportions distorting effect is well-known.

The form of wage-level regulation applied from 1971 did not prove suited–even though the growth rate of industrial employment went down under the effect of other factors – to stimulate a more efficient utilization of the available labour, though this became one of the key questions of Hungarian economic development. As opposed to this, in the fields where the wage-bill regulation was employed a more labour-saving management was observable.

Summing up, we may draw the conclusion that the system of average wage (wage-level) regulation may function with comparative success in the stage of extensive development, while in the transitory period it needs continual corrections. And in the intensive development period the negative features of the average wage-regulation become predominant, increasingly hampering more efficient work and a more rational management of labour.

In 1973 the close dependence of wage-increases on the growth of profit ceased in coal mining and in the electric energy indusry: central wage-level regulation was adopted instead. Simultaneously, sixteen industrial and construction enterprises and cooperatives started experimenting with the wage-bill regulation.

In the course of further developing the economic regulation system in 1972–73 the following problems of primary importance were to be solved:

– the connexion – proved to be too close – between wage-increase and profit had to be loosened;

– it had to be allowed that enterprises get some possibility for a wage-increase also independently of their success in economy (profit): guaranteed wage-increase, its extent being 1.5 per cent;

– it ought to have been achieved that the changes in the structure of staff and their influence on the average wage should not stimulate enterprises for employing low-wage workers not absolutely necessary for production.

The above-mentioned problems were solved in the adopted wage-regulation forms, with one exception: the changes in staff composition remained effective in all forms of wage-level regulation (or forms containing also a wage-level regulating element).

The reason is that the enterprise's average wage is inevitably affected by the composition of staff according to qualification, etc. In the case of changes in the composition of staff the enterprise's average wage changes automatically, even if

individual workers get no wage-increase at all. Elimination of the effect of staff structure is, in principle, a proper measure. Yet it was not done in practice, since it would require a highly complicated administration, and besides, it might give rise to various manipulations.

Since 1976, because of the different conditions and economic circumstances of sectors, and the different national economic requirements in each field, several wage regulation forms of equal rank have been functioning parallel in the national economy. They are the following: 1. wage-level regulation linked to enterprise output (relative wage-level regulation); 2. wage-bill regulation linked to enterprise output (relative wage-bill regulation), 3. central (absolute) wage-level regulation; 4. central (absolute) wage-bill regulation.

In a few fields the latter two forms of wage regulation are also functioning with a certain relativity.

The 5th Five-Year-Plan (1976–1980) raised the following requirements towards the wage regulation system:

– it should keep the outflowing pruchasing power between the limits projected in the plan;

– it should guarantee a socially acceptable development of relative wage- and earnings proportions;

– it should stimulate for efficient economy with every production factor and, in particular, for a rational management of labour;

– it should allow enterprises a flexible wage economy and a differentiated financial recognition of performance and individual achievements.

Out of the enumerated requirements the first two are satisfied by all four forms, while the last two ones are better satisfied by the forms of wage-bill regulation. With the latter both stimulation and compulsion promote labour saving, there are more favourable conditions for intensifying internal incentives, for applying more stimulating forms of wage-payment, and for incrasing individual performances. In the case of wage-level regulation, however, it is exactly in this latter field that a further sharpening of contradictions is expected. This also determines the direction of further development i.e. further steps to be taken.

In the period of the previous Five-Year Plan the number of those receiving piece wages fell, not incidentally, while the number of those working for time-wages grew; also most of the remaining piece wages took degressive forms. This can be explained only by the fact that enterprise management was obliged to constrain individual achievements in order to "maintain" the wage-level (more exactly: the enterprise's average wage). Namely, higher individual achievements would have led – even with realistic performance requirements – to higher individual and enterprise average wages.

To avoid misunderstandings, I wish to make it clear that the problem is not that each form of wage-regulation requires different performance, but that the effect-mechanisms are different: in one case the worker stops in achieving a certain performance, and in the other case he does not.

It is not true, either, that with an identical volume of output more wage flows out in one wage form of regulation, and less wage in the other one. The total of outflowing wages and purchasing power is identical. In one case, however, individual performance is higher, which shows also in a higher individual average wage (which, otherwise, better promotes the attaining of real wage targets), while in the other case the same amount of wage flows out with a restrained individual performance, to a larger staff, or prolonged in time i.e. during a longer period.

Due to the requirements concomitant with the transition to the intensive development period – in consideration also of the narrowing labour resources – the exploitation of reserves latent in individual achievements cannot be dispensed with. And this is much more promoted by the system regulating the wage-bill than by the one regulating the wage-level.

The situation and problems of today

The ratio of enterprises and cooperatives (without agricultural cooperatives) operating under the wage regulation forms developed as a result of the changes reviewed above is shown, on the basis of employment labour, in Table 1:

Table 1

Percentage distribution of those employed in the state and cooperative sector according to forms of wage-regulation

Denomination	1968	1971	1973	1976	1977	1978
Relative wage-level regulation	93	82	75	34	29	15
Relative wage-bill regulation	7	9	12	35	40	55
Central wage-level regulation	–	3	7	21	21	15
Central wage-bill regulation	–	6	6	10	10	15
Total	100	100	100	100	100	100

As it appears from the 1st January 1978, over two-thirds of enterprises and cooperatives have been operating under the wage-bill regulation forms. With the exception of a few enterprises and special sectors, practically only home trade (retail trade, catering) and foreign trade remain within the scope of the relative wage-level regulation system.

In 1976 the system regulating wages and earnings practically guaranteed that the outflowing purchasing power should be kept within planned limits i.e. it should be proportionate with the growth of national income. In 1976 average wages in the

enterprise sphere grew by 5.7 per cent, and average earnings (wages profit shares) by 4.8 per cent over 1975, while the level of consumer prices rose by 5 per cent. The growth of staff stopped, and in a number of sectors it even decreased, thus in most sectors production was entirely the result of higher productivity.

The dispersion of the 5.7 per cent average wage-increase – average deviation from the average – amounted to 1.5 per cent in 1976, while in 1975 the average dispersion was 2.5 per cent with a 6.2 per cent average-wage-incrase. That is to say, as regards average wages and average earnings, the regulation fulfilled the requirement that it should moderate the dispersion of the growth rate between sectors and enterprises.

One of the requirements raised towards the regulation of earnings and wages during the fifth Five-Year-Plan (1976–1980) was to mitigate the dispersion of the rate of increase of earnings. In 1975 a part of the enterprises could raise wages by 10–15 per cent against the 6.2 per cent average, while in the majority of the enterprises the wage-level could be raised by 4–6 per cent only. The sharing fund disbursed moved between 0 and 80 days' wages. In 1976 four-fifths of the enterprises (reckoned by employment) raised wages by 4–7 per cent, while the average was 5.7 per cent. The sharing fund disbursed showed a dispersion between 6 and 30 days' wages (it was higher than 30 days' wages only in the foreign trade companies).

The year 1976 was one of transition. Total profit was less than in 1975. In my opinion, in the coming years the dispersion will incrase also without a change in the regulation system, and so will the differentiation among enterprises. Besides, with appropriate standards of management there is enough possibility to differentiate between wages of individuals on the basis of the work accomplished even with a decreasing dispersion of the sectoral and enterprise wage-increases.

The annual rate of average wage-incrase in economic units operating under the different forms of wage regulation was the following:

– in relative wage-level regulation	5.5 per cent
– in relative wage-bill regulation	6.2 per cent
– in central wage-level regulation	5.6 per cent
– in central wage-bill regulation	5.2 per cent

The dispersion within the 5.7 per cent average rate of average wage-incrase is not considerable in this grouping, either.

The data so far given allow the statement that in 1976 the rise in enterprise wage levels became more even. There was no important change – as a matter of fact, within a year there could not be – in relative wage proportions.

Experience with the relative wage-bill regulation is favourable. Enterprises recognized the demands of wage-bill regulation comparatively fast, which resulted in changes in accordance with national economic interests: in a more efficient utilization of live labour, in a better exploitation of working hours, and generally in the approach to and the practice of wage-economy. It can be clearly stated that the efficiency of piece-wages and

incentives has improved. E.g. employment construction decreased – in spite of a planned incrase – (for the first time for years), while the number of working hours per head has grown. The growth rate of productivity surpassed the growth rate of production almost everywhere.

In enterprises under the central wage-bill regulation the large extent of staff increase characeristic of earlier years was followed in 1976 by a small decrease.

The relative wage-level regulation also stimulated enterprises efficiently – in consideration of given conditions – to increase their performance. The enterprises in this category of wage-regulation tried, however, to increase their staff – where it was possible.

The experience of 1976 proved the assumption that the system of central wage-level regulation does not exert any stimulating effect on saving labour, thus the efforts at increasing employment remain strong in this category.

This is proven by the following Table:

Table 2

Labour employed full-time in a breakdown according to forms of wage-regulation 1975 = 100

Denomination	
Relative wage-level regulation	100.3
Central wage-level regulation	101.4
Relative wage-bill regulation	98.7
Central wage-bill regulation	99.6

For an evaluation of the index number in the row of central wage-level regulation one must know that the index in coal mining – representing a great weight within this category – is 98 per cent, which means that the rate of incrase in staff in other fields is larger than the average shown. It is characeristic e.g. that the staff of home trade enterprises working under relative wage-level regulation grew by 2 per cent in 1976, while in home trade enterprises working under the central wage-level regulation it increased by 3.3 per cent.

The year 1976 was in many respects a year of transition. The ratio of profit (to assets and the value of output) and its absolute amount both decreased (the latter by 11 per cent). Elimination of the obligatory division into two parts of the profit,* as well as political and economic intentions concerned with maintaining the 6 per cent average-wage-brake influenced considerably the behaviour of enterprises. Besides, the weight of state subsidies in profits grew at a higher rate than what had been planned, and therefore

*into parts going to the sharing and the development funds – ed. note.

wage-rise indicators were also growing at a rate somewhat higher than planned. At enterprises and cooperatives wage reserves corresponding to about a 3 per cent wage-increase (i.e. of half a year) accumulated.

Experiences of 1977 are favourable. The 15–20 per cent rate of growth of profit in which, unfortunately, subsidies larger than planned still played a role – enabled to undertake the payment of higher taxes than before. (E.g. in 1976, enterprises paid about Ft 0.5 thousand million of wage-rise tax in the whole year, while in 1977 they paid as much in the first six months.)

According to preliminary data of 1977 the production targets of the 1977 plan will be reached with a smaller staff and higher productivity than had been estimated. The increase of average wages is expected to surpass 6 per cent, and will make with preference and wage-policy measures 8 per cent. Average earnings will grow by about 6 per cent.

In 1976 (computed on the basis of employment) about one-fifth of the enterprises implemented wage-increases between 6–7 per cent, and one-tenth went over 7 per cent. These rates are expected to be considerably higher in 1977, which proves that, in spite of progressive taxation it is possible for enterprises working with high efficiency to increase wages by more than 6 per cent, and to pay differentiated wages proportionate to the higher performances.

The most important problems related to the wage-regulation system, and suggestions for their solution as well as the actual measures of 1978 may be summed up in what follows.

No essential comment was made on the *indicators* used (the wage-rise indicator and value added). Sectors and enterprises are unanimous in that the earlier much disputed indicator of value added is suited to serve as a basis of comparison of the relative wage-bill regulation.

It has been suggested by several experts that *the extent of the guaranteed wage-increase* (now 1.5 per cent in the relative forms of wage-regulation, and 4.5 per cent in the central forms of wage-regulation) ought to be raised. It was not possible to accept these suggestions. On the one hand, in the further years of the 5th Five-Year Plan the increase in consumer prices is expected to be near to what was planned and, on the other hand, such a measure would strengthen the distribution function of wage-regulation at the expense of its incentive effect. Nor is it justified to raise the rate of 4.5 per cent, since enterprises controlled in this form raised their wages at a rate by about 1 percentage point higher in 1976, and this is expectable also for the coming years. Besides, if this rate of 4.5 per cent were raised, it would become immediately necessary to suggest the raising of the yearly 5 per cent rate of wage-incrase in budget-financed institutions.

Deviating opinions have emerged in regard of the looseness of the *wage-coefficients*, and the size of *reserve wages* accumulated in but not used by enterprises.

In enterprises under relative wage-level regulation the extent of the reserve (in percentage of the wage-level) rose from 1.5 per cent in 1975 to 2.7 per cent in 1976, and within this in the chemical industry from 3.7 to 5.9 per cent, in total industry from 2.1 to 3.6 per cent, and in home trade from 0.5 to 1.1 per cent.

With enterprises under relative wage-bill regulation the extent of the reserve (in percentage of the wage-bill) rose from 1.9 to 4.0 per cent, and within this in the light industry from 1.1 to 4.9 per cent, in construction from 3.9 to 5.5 per cent.

The stimulating effect of wage regulation is weakened by accumulated reserves, if they are large: if, however, they are of a reasonable size, they allow a safer enterprise wage policy in the remaining years of the fifth Five-Year Plan. The size of reserves corresponds, on average, to an increase in average wages of half a year. (It is true that at a few enterprises reserve wages of several years have accumulated. But every considerable amendment of the regulation system is concomitant with such dispersions, and regulation is to produce the targets of the national economic plan on an average.)

In the disputes about experience with wage regulation in 1976 the opinion was characteristic on both sectoral and enterprise level that the 6 per cent brake applied in the relative forms of wage-regulation should be raised. It was impossible, however, to generally raise the 6 per cent wage-brake, for the following weighty reasons:

– a general raising of the 6 per cent wage-brake would augment the purchasing power flowing out automatically and could consume the cover of the necessary central wage-policy measures;

– even a 1 per cent raising of the wage-brake would exempt the enterprises from paying several hundred million Forints of wage-rise tax. Since the majority of enterprises accumulate by all means 5–6 per cent of profit shares in proportion to wages (corresponding to about three weeks' pay), the exemption would affect the zone above it – otherwise to be accumulated with a 400 per cent tax. Thus exemption from the payment might increase the enterprise development funds by several thousand million Forints, which would produce further tensions in this field.

– The 6 per cent wage-brake caused tension in 1976 because of two factors: first, because of the 5 per cent rise in the consumer price level; second, because the total profit fell below the level of 1975, while the accumulation of the sharing fund was charged a strongly progressive tax. The pressure of both factors slackened already in 1977, and this is expected to continue in the coming years.

– Behind the wish to raise the 6 per cent rate we find the debatable enterprise conception which attributes an efficiency-stimulating power only to such wage-increase on which no tax is levied. And yet over the 6 per cent limit it is justified to expect the fulfilment of higher efficiency requirements.

Summing up: the wage- and earnings regulations system has practically satisfied the demands made by economic policy on these regulating instruments. Further work on the regulation of wages- and earnings should be centred on how to develop a more efficient *incentive* effect in the regulation system.

Further development possibilities

The phase of further development that can be asserted in 1978 is closed, and it seems likely that no essential change will be implemented in 1979 or even in 1980. Therefore, as regards further developments, it is the system to be asserted in the sixth Five-Year Plan (1981–85), or maybe from 1980 that is worth discussing.

In the discussions about the further development of earnings regulation *three major tendencies* took shape in Hungary:

1. Wage-increases should not be linked to any output indicator (wage-rise indicator, value added), but an "open and centrally operated wage-level regulation" should be applied.

2. In the sphere of material production an output requirement should be linked to every wage-increase, and this ought to be asserted through the imposition of a single tax, to be accounted in production costs (for details see the article "The 'unsolvable' dilemma of regulating earnings" by Sándor Balázsy in the present issue of Acta Oeconomica).

3. Wage-increases should be linked also further on to an indicator expressing output (performance). Out of the two indicators used (the wage-rise indicator in wage-level regulation, and the value added indicator in wage-bill regulation), it is the value added of the wage-bill regulation that is to be preferred, in my opinion.

Representatives of the first and second tendencies consider the wage-bill regulation to be an unsuitable system in a longer perspective. Gábor Révész, a representative of the first tendency says the following in one of his contributions:[1]

"Expectations regarding the expansion and 'sharpening' of wage-bill regulation are illusory under existing conditions. What is justified to envisage is the general assertion of an open and centrally operated wage-level regulation.

A generally asserted wage-bill regulation may be more or less operative in a longer perspective in a system of plan directives, or in a "self-management" system, (in the so-called forms of gross incentive). Applied as an exception, for a short period, and definitely as tactics, it may be successful also under our existing conditions.

Collective enterprise incentive should be asserted in the form of non-guaranteed profit shares. The size of shares should be made dependent on the level of the rate of profit.

Such form of incentive can be well reconciled with rational price system solutions, and eliminates economically unfavourable tendencies connected with interest in a "good base" (of comparison) and in "increments" (of output or profit).

Because of the limitations of the present article I cannot comment upon each detail of the above-cited opinion. I shall content myself with criticising the most important arguments.

The main argument advanced against wage-bill regulation is that it is wrong to pick out one factor i.e. live labour out of the three resources playing equal roles in the economy (live and embodied labour, and foreign exchange), since this leads to wasting of the other two factors and to deterioration in their joint efficiency. If the wage-rise is

linked to this indicator, it attributes the total output to live labour and thus differentiates requirements towards the yields of assets. The forms of wage-regulation linked to the indicator evaluate the utilization of live labour in itself and they do not measure or appreciate whether the other production factor substituting live labour is an efficient substitute for it. This is, in the opinion of several experts, increasingly true in regard of the relative wage-bill regulation.

As a solution, such systems, different in their form but identical in their main point, are suggested as *influence the whole economy in a complex manner* and are apt to reduce simultaneously the tensions present in production factors. This infers the formation of such producer's prices and price proportions and thereby the accumulation of such profits as are expressive of the differences between those working with different efficiency, and correctly orientates enterprises in their decisions. Such conception can be (what is more: must be) fully agreed with. (It is another question, what problems it will cause, if the price system is the result of compromises, and the profit incentive also bears this mark.)

Beside agreement with the basic principle, there is a doubtful element in the proposed solution, and this is the relation between parts and the whole. The principle may be accepted that the *totality* of economic regulators must stimulate for everything: for more efficient work, for economizing on all elements of the factors of production, and that the single measure of this is the most complex indicator i.e. profit. This is, however, not contradicted if we emphasize that within the totality of the economic regulation system each partial regulation element has to fulfil a separate partial task.

Each element within the economic regulation system cannot stimulate for everything with equal efficiency. What is required is, and if it can be fulfilled, we can rest content, that economic regulators should – both in their totality, and each element separately – stimulate for more efficient management.

Yet the totality of economic regulators can stimulate for more efficient management only if each element stimulates expressly for a rational management of the factor of outstanding importance in the given field (e.g. wage regulation for that of live labour).

Within the system of economic regulation on the system of wage-regulation the demand must be made that it should sitmulate for efficient management of every production factor and, within this, it *should stimulate with particular stress for a rational management of live labour.*

The system of wage regulation cannot be indifferent to the labour situation and labour management.* In the next Five-Year Plan period reduction of demand for labour and a rational employment of the available staff will be still aims of primary importance.

Also with a realistic valuation of resources the substitution of labour by other production factors is not only a question of choice or of efficiency but also a necessity. Between 1950 and 1970, along with the large-scale mechanization of agriculture,

*See: L. Pongrácz [2]

hundreds of thousands flowed into industry and construction where productivity was higher. The process was necessary: society bore the "costs" involved.

Between 1970 and 1990 satisfaction of the demand for labour of the labour-intensive tertiary sectors is coming to the foreground. With labour resources becoming scarcer this is possible only if the production tasks of industry, construction and agriculture are solved with a reduced or stagnating staff and higher productivity. This is a necessary and inevitable process, however "expensive" the release of labour may be.

Hungarian society has no other choice. Labour is less replaceable, and probably also more "expensively", in tertiary sectors than in those of material production. Therefore, the idea seems contradictory that in the sectors of material production there ought to be a greater possibility for choice among elements of production factors. Although in this process the primary role is not played by wage-regulation, it is by no means indifferent, whether the applied wage-regulation system (form) stimulates or slackens and hampers the process.

A wage-regulation system indifferent from this aspect would further intensify the competition for labour, it would cause distortions in relative wage proportions, and so on, while a wage-bill regulation moderating the demand for labour may result in a quieter labour market.

With the elimination of the obligatory division of profit (i.e. into enterprise development fund and sharing fund) financial resources may be gradually created for the release, i.e. the substitution, of labour. Financial resources accumulate gradually, and the wage-bill regulation form of the average-wage-brake exerts its effect in accordance, since it makes enterprises interested in a rational, well-grounded and gradual reduction of staff instead of a sudden cutting down.

It is a strange argument in connexion with wage-bill regulation that, since it expressly stimulates for economizing on one production factor i.e. on labour, it inevitably opens the way to wasting other production factors. First – though this is not an economic argument, it must be remarked – where one factor is handled economically, the wasting of other factors is generally not characteristic. Second, one of the most important elements of wage-bill regulation, i.e. the increase of the wage-bill degressively proportionate to value added does not allow a wasteful economy with other production factors either. In the case of a 1 per cent increase of the indicator the wage-bill may generally increase by 0.4 per cent. In the case of wasting embodied labour the dynamics of the wage-bill will also be slowing down in proportion with the value added indicator, what is more, since the indicator functions also in the opposite direction, even an absolute decrease in the utlizable wage-bill may follow.*

I have the following remarks still to make on the solution suggested by Gábor Révész:

*The value added contains also the depreciation allowance, and thereby guarantees, on the one hand, additional wage necessary for the operation of the bigger assets (which is necessitated also by the changes in staff composition), and, on the other hand, in the year of running-in it makes up for smaller result. Higher depreciation becomes a base in the next year.

Relying on the rich experience of the ten-year functioning of the economic system of regulation it is justified to pose the questions: should it be allowed – with dwindling labour resources – to leave the management of live labour in enterprises solely to the profit incentive, when wage costs behave as a "special" cost?

Within earnings the ratio of wages and profit-shares is today about 92 : 8. The revealing of inner reserves, and stimulation for the achievement of higher individual performance are done today, correctly, by means of wages. To a given yearly growth of national income there belongs a given growth of earnings. Would it be to the purpose to largely reduce the role and weight of wages within the stimulation, and to considerably increase those of profit shares?

We know today about the *wage-bill regulation,* what it is suited for, and how it fulfils the most important requirements made on wage-regulation. The outlines of its further development and its becoming even more stimulative are also beginning to emerge, or there exist suggestions to this effect.

Finally, I repeat: it is my conviction that the wage-bill regulation – completed with other forms of wage regulation – can be the main form in the next Five-Year Plan period, and it can be organically fitted into the then existing income regulation and profit incentive system. The "theoretical" objections against the wage-bill regulation system can be refuted. And a further argument to be advanced from the practical side is that it would be hardly expedient to basically change the system which takes full effect in 1978–79. Therefore, in my opinion, in the course of further development it is not necessary to amend the fundamental construction of the wage-bill regulation. Efforts must be made at rendering it more stimulative: this is possible by changing the "measures".

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НЕКОТОРЫЕ ПРОБЛЕМЫ РЕГУЛИРОВАНИЯ ЗАРАБОТКОВ В ВЕНГРИИ И ВОЗМОЖНОСТИ ЕГО УСОВЕРШЕНСТВОВАНИЯ

Я. ЛЕККЕШ

Одним из наиболее спорных и наиболее часто меняющихся элементов системы экономического регулирования в Венгрии является система регулирования заработной платы и заработков. Наиболее важным направлением изменений – в последние десять лет – было постепенное распространение метода регулирования общей суммы фонда заработной платы. В 1968 году в этой системе работало 7% всех предприятий, в 1978 году – 70%.

За последние десять лет было много дискуссий о механизме действия и круге применения систем регулирования среднего уровня заработной платы и совокупного фонда выплачиваемой заработной платы. В Венгрии система регулирования средней заработной платы применяется с 1957 года. Введенная в 1968 году реформа хозяйственного управления по существу сохранила систему регулирования уровня заработной платы с той разницей, что средний уровень заработной платы предприятий не является директивным показателем.

При введении системы регулирования средней заработной платы венгерское народное хозяйство находилось на этапе экстенсивного развития, для которого характерно значительное предложение рабочей силы. Регулирование уровня заработной платы способствовало увеличению численности занятых на предприятиях, облегчив этим экстенсивное развитие. По окончанию этапа экстенсивного развития функционирование системы регулирования уровня заработной платы уже не было бесперебойным. Несмотря на наличие на предприятиях внутренних резервов рабочей силы в стране в целом сложилась ситуация нехватки рабочей силы.

Система регулирования совокупного фонда выплачиваемой заработной платы является формой регулирования заработной платы на этапе интенсивного развития. Она стимулирует рациональное использование рабочей силы, на предприятиях способствует применению стимулирующих индивидуальных форм оплаты труда и позволяет более дифференцированно оценивать индивидуальную выработку.

Сегодня в венгерской экономической литературе развертывается новая дискуссия, в первую очередь, о том, какую систему регулирования заработной платы применять в период шестого пятилетнего плана на 1981–85 гг. Учитывая требования перехода к этапу интенсивного развития – принимая во внимание и иссякающиеся источники рабочей силы – нельзя отказываться от более полного использования резервов, кроющихся в возможностях предприятий и работников. Этому регулирование общего фонда заработной платы отвечает в гораздо большей мере, чем регулирование ее уровня.

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G. RÉVÉSZ

REGULATION OF EARNINGS IN HUNGARY

The debate in Hungary about the evaluation of the system regulating earnings* and about the development of its rational and feasible construction began with the preparation of the 1968 reform of the economic mechanism – even then not without preliminaries – and has been going on practically ever since. I have been participating in the debate with articles, books, papers submitted to committee discussions, proposals and contributions almost from the very start. Now, in the new and public phase of the debate I shall try to outline my views mainly from the practical aspect.** In outlining my views and grounding my propositions – more exactly, a somewhat amended version of the one formulated and submitted as the proposition of a working committee dealing with the perfection of earnings regulation in the spring of 1972.*** I shall rely first of all on the two polemic articles[3, 4] published in the present issue of Acta Oeconomica.

Dilemma of solving the dilemma

Sándor *Balázsy*'s propositons are rooted in old grounds. The original proposition – at least as far as I can remember – was published as early as in 1969.[5] In that article Balázsy presented his objections against the regulation restraining the rise of the enterprise's wage level (and the outflow of wages from that side). Beside others, he also pointed out in his article the unfavourable effects, the tendency of "staff dilution", and the fact that such regulation makes the raising of individual wages (earnings) much more "expensive" for the enterprise – in terms of output requirements –, than does the additional wage (earnings) to be paid in consequence of an increase in staff. Balázsy explained already in that article that – under the conditions observed in working out the reform of the mechanism – such a strongly differentiated, almost administrative, constraint on the outflow of wages (earnings) and on raising the enterprise's average wages was irrational and should be eliminated. He further suggested to create – as a rationally applicable economic constraint – the construction of an additional wage-tax (surtax). The constraining power of the wage-surtax would be in that it would be a progressively

*The problem is the domain of regulation that directly influences, i.e. keeps between limits, the global amount an enterprise pays or can pay out as personal incomes of its employees.

**From the theoretical aspect I have not much to add to what I explained in my book published in 1972[1] and in my article published in 1973[2]

***The document was signed by five experts: I. Antal (Ganz-MÁVAG Works), L. Antal (Ministry of Finances), Mrs. L. Bodnár (National Planning Office), F. Vögyesi (Ministry of Labour) as members and myself as head of the Working Committee.

changing element of enterprise costs* to an extent depending on the amount of individual wages and – as a further advantage – a cost element that would equally be asserted in every enterprise, whether employment increased or decreased. With the wage surtax enterprises could apply really stimulating wage systems without having to fear that finally they would not be able to bear the consequences of a rationally stimulating wage system (as in the framework of the strongly restrictive regulation they are unable to produce – above a certain level – the wage-fund necessary for the remuneration of individual achievements according to the wage system otherwise valid in the enterprise).

The objection was raised already against the original proposition – as it is still raised – that the wage surtax would not sufficiently constrain the outflow of wages, and therefore, as it is usually put, it would not fulfil the function of earnings regulation "to keep the outflowing purchasing power between planned limits", and what is more, for the same reason it might cause exaggerated (intolerable) differentiation in earnings. If, however, we renounce that function, or interpret it in so loose terms as does Balázsy in his suggested solution, it would be possible to operate also the earnings regulation system introduced in 1968, or the actually applied "relative wage-level regulation" and the "relative wage-bill regulation with average-wage-brake" with conditions less drastic from the point of view of stimulation and generally of enterprise management.** In that case, of course, also those irrational features of the now functioning controls would appear much less characteristically which, among others, Sándor Balázsy also points out and quantifies in his article.

Still, Balázsy's suggestion for applying the wage surtax could be (and may be even today) considered as *feasible and realistic****, on condition that the socialist (state) enterprises function in a sufficiently profit-orientated manner, that they create themselves the resources necessary for development or can themselves bear the burden involved by the repayment obligations of development credits. Such conditions would give rise already in enterprises to appropriate efforts that such wages should be paid only whose returns exceed the sum of wages and the wage surtax, that is, a rational wage- and labour management would be encouraged. With this, and using other levers of planned economy, a balance between demand for and supply of labour could be achieved, which would promote a more advantageous functioning of the quasi-labourmarket, and would work towards levelling the wages of workers possessing identical abilities (with equal performance) – as it is said, towards the assertion of distribution according to work.****

*In the case of a construction applying a 100 per cent tax rate on the part of the wage above Ft 2000 the tax-burden is 33 per cent on an individual wage of Ft 3000, 50 per cent on Ft 4000, and 60 per cent on Ft 5000.

**E.g., to introduce the "average-wage-brake" only beyond a 15 per cent rise in the average-vage, etc.

***What is more, in a much looser framework than that applied today for restraining the outflow of enterprise purchasing power, Balázsy's suggestion would be much better than the constructions applied today with looser conditions.

****Among the studies dealing with perspectives of the functioning and further development of the Hungarian economic mechanism it was perhaps the works of Márton Tardos that best outlined the

Yet the wage surtax can be fitted into the framework also of a different system of conditions. It may be said: in a socialist commodity-producing economy enterprise income is more or less expressive of the contribution of each enterprise collective to the whole social income i.e. national income. And the requirement of distribution according to work can be interpreted also in a way that *the personal incomes of each collective should be differentiated according to their relative contribution to the national income.* That is how the collectives making up the autonomous units of the economy become duly interested in the possible most efficient management of the means available to them and of their own labour (as a social resource), and, further, in a continuous care for the development of the conditions of their economic activities.* Under such conditions Balázsy's wage surtax may be an adequate instrument. This tax would, namely, on the one hand, have a temperating effect on the differentiation that would take place, as a matter of course, among personal incomes of the collectives of economic units, while, on the other hand, with given price- and wage-relations, it would prefer the utilization of income for accumulation to its use for personal income.

Although Balázsy does not explain the operational condtions of the wage surtax, I gather in from his other works that he considers this construction primarily as an element of the system of conditions of socialist enterprise management mentioned first. It is clear, however, from his works, that he considers the wage surtax – the most characteristic element of his suggestions concerning the regulation of earnings in the strict sense – as an instrument not to be used alone *in the given conditions*: he deems necessary a simultaneous application of a number of *other elements.* Let us see these (auxiliary?) elements, how much their introduction will amend the character of the regulation applying the wage surtax as described above.

The first auxiliary element is connected with the so-called *initial profit.* It is obviously the profit the enterprise expects to realize in the year of transition to the regulation of earnings operating through the wage surtax. This profit (i.e. most of it) should be taxed away (a definite amount, or a percentage?) according to Balázsy's suggestion as individual production tax. The amount (rate) of this tax would be determined – as it is usually the case, since it cannot be done otherwise – by the control authorities individually, relying on the calculations (annual plans) of enterprises, i.e. on

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conditions in which a duly profit-oriented management of socialist (state) enterprise could evolve. Tardos pointed out that for this aim, as well as for a rational operation of the autonomous capital allocation processes of the economy, important changes and a novel distribution of tasks must be implemented in the institutional organization and structure of the economy.

*It is not difficult to identify this system of conditions with the model described by A. Vacić – in my opinion an exaggerated generalization of the Yugoslav conception and practice – as an adequate model of the socialist commodity production. In his explications Vacić says that "division of income into funds, firstly, into funds for personal incomes and funds for internal production (accumulation) ... is effected, in principle, independently by the producing units on the basis of the decision of the producers creating the income"... "On the basis of experience of Yugoslavia it may be stated that, in the interest of a balanced and stable economic development, the framework and criteria of distribution must be regulated socially by all means."[7] Cp. in addition the article of K. Szabó[8]

their revision, taking into consideration also, what "residual profit" is needed by each enterprise as a cover of obligations charging the development fund, and of the planned increase in nominal wages, etc. Obviously – since it cannot be otherwise – enterprises would reckon with their possibilities parsimoniously in their plans submitted, and the controlling authorities, prepared for this enterprise behaviour, would try to raise and raise again the amount (percentage) of the amount to be taxed away.

What should happen later with the production tax – of an individual character from the outset – taxing away the initial profit? Balázsy does not discuss the question, but any specialist having at least some practice in the functioning of regulators in Hungary, working either in a controlling authority or in an enterprise can provide an exact answer. The problem will arise again and again that the conditions upon whose basis the control authorities imposed the production tax on enterprise X or Y have become considerably worse, quite independently of the enterprise. Therefore, without its reasonable reduction (cancelling) the enterprise cannot fulfil its credit repayment obligations, it has no means to cover even the minimum increase of average wages planned and partly already implemented.

With the enterprises Z and Q, however, the controlling authorities will initiate relying on enterprise accounts, the raising of production tax, because the conditions upon whose basis the production tax was determined have become in the meantime more favourable independently of the activities of the enterprises, so that the enterprises Z and Q might increase wages unduly, or would obtain additional unjustified and uncovered development funds, and so forth.

It is worth following Balázsy and recall why it is necessary – logical, otherwise, under the given conditions and in the framework of Balázsi's suggestions – to tax away initial profit. It is needed, because"The use of initial profits for wage-increase must still be made impossible because, if that were allowed, the stimulating effect of the whole system would be lost" (?) "unjustified disproportions in earnings would become possible and at the same time, important budget revenues would be endangered".[3]

That is, the additional wage-tax would not prevent in itself "the use of profits for wage-increases." Further, if differences in profit (let it be differences in initial profit) cause differences in the earnings of the enterprise employees, these have to be considered as disproportionate earnings. Yet what can guarantee that enterprises will not excessively "use for wage-increases" the additional profit resulting from improved management, changes in prices, adjustment to market conditions, etc., and that no "unjustified disproportions in earnings" will emerge from the necessary rearrangements of enterprise profits?

There is such a guarantee! Let us just follow further the partial elements of Balázsy's earnings regulation:

"It may also cause a worry that in some enterprises profit may grow or decrease under the influence of factors independent of its work. Such factors are e.g. considerable market fluctuations or export prices, or price increases on the home market beyond a measure necessary for compensating the inevitable rise in costs. It would be wrong if

enterprises could use their additional outputs of such character for wage-increases. I think that for the neutralization of these parts of the increment of profit to increase production taxes is an adequate instrument . . . (If enterprise outputs decrease under the influence of factors independent of the enterprise, the procedure is, naturally, the reverse.) "After all", the problem is that we try to make a distinction between two groups of the outputs achieved by the enterprise: the additional output resulting from better performance and outputs created independently of this, and we allow to spend on wage-increases (and on the related tax) only the additional profit resulting from improvement of performance."[3]

That is, Balázsy's system would require the *separation of the parts of output* attributable to various factors, and the indication of which part of output is to be considered as independent of the enterprise, and which as the result of its actual performance! But such separation of parts or factors of output could never be done so far – with the exception of a few isolated cases – in the history of socialist planned economy. It is my conviction that such separation is a *theoretical absurdity under the conditions of commodity production* and, accordingly, under those of socialist commodity production.

Finally, what is left of Balázsy's earnings regulation founded on the wage surtax? The role of the additional wage-tax – reasonable in itself and, as has been demonstrated, rational and feasible under certain conditions – becomes unimportant in it. *The main role is necessarily assumed by the individually differentiated and constantly changing production tax** that permanently corrects and manipulates the initial tax and the enterprise profit necessarily changing in the course of activities, and that is perfectly suitable *to become the central element of the continuous "regulation bargain"* substituting the "plan bargain" between enterprises and control authorities. I do not think that this suggestion would promote the strengthening of normative regulation (i.e. one with a minimum of individual solutions), the intensification of enterprise independence and responsibility, a stronger assertion of market effects on enterprise activity, in short, a better functioning of the Hungarian economic mechanism – by encouraging and forcing enterprises to do more efficient work. It would much rather – although in my opinion quite independently of the proposer's subjective intentions – entail an institutionalized carrier and perfected form of a "regulation bargain" substituting the "plan bargain".**

*In Balázsy's work the "requirement of maintaining the total profit" is indicated as an alternative of the production tax levied on profit, i.e. such an alternative according to which the payment of bonuses and of yearly shares is conditional upon the achievement of a profit appropriately higher than with the base period. It must be hardly explained separately that what has been said about the production tax suggested by Balázsy holds also for these alternatives.

**Balázsy's work allows to draw the conclusion that his conceptions are not without a certain "incremental approach". He writes e.g.: "The source of wage-increases can be practically only the increment of output", On the macro-economic level, of course, this is evident. But on the micro-economic (enterprise) level this proposition is not true, and it is even disorientating. I shall later revert to questions concerning the interest in increments.

Adequate wage regulation of the intensive development period?

An ancient form of wage-payment i.e. of remuneration for performance is the agreement between the parties concerned: for such work (specified in detail) such wage is due. This form is called the simple task wage; it may be applied to individuals as well as to groups. The agreement can be formulated also in the following way: every 1 per cent growth of output relative to a certain base is remunerated by > 1, < 1 per cent higher wage than a determined amount (progressive, linear, or degressive task wage contruction). Such and similar forms of wage-payment are easy to survey, and their stimulating character – under definite conditions – is doubtless.

The situation becomes more complicated, if, beside an exactly definable volume of output, quality is also important, or if output can be increased at the expense of material consumption, by straining the machine etc., that is, if it is not only the volume of output that matters but also an efficient management of resources. In such cases, as it is taught already at basic courses, various complicated and less complicated time-wages (subject to conditions, linked to bonuses, maybe "simple") are applied.*

We know of such form of socialist enterprise management, in which the working conditions of the enterprise are similar to those of workers (groups of workers) rationally employed for task wage. The yearly production task is given (such and such a volume of products, in such and such an assortment), as well as the quantity of utilizable materials, etc. It is also known that this task can be fulfilled by a definite number of workers with definite wages. Therefore, let us make an agreement with the enterprise, i.e. with the working collective; a given amount of wage-fund is at their disposal independently of the number of workers fulfilling the task.** The wage agreement with the enterprise can be made also in another way: with given conditions of material supply, investment, etc. the enterprise can use a given wage-fund for each unit of enterprise output (reckoned in physical units of measurement or in Ft). A further form similar to this one: with given conditions of material supply, etc. the enterprise is entitled to >1, 1, or <1 per cent higher wage fund for every per cent of output over that of the previous year. And here you have the strongly stimulating, simple and clear task wage system on the enterprise level. It is called the absolute or relative wage-bill regulation.

Of course, similarly to the wage-payment of individuals and small working groups, these simple, clear and stimulating forms of wage-payment can be effective also on the enterprise level only if the tasks and operating conditions of the enterprise (I avoid

*If, under such conditions, the application of task-wage is enforced, it will sooner or later defeat its purpose: it will appear that the simple, clear and stimulating wage form because of not corresponding to the situation gives rise to irrational effects, e.g. it causes damage – much higher than the growth of returns attributable to high performance – through deterioration of quality, wasting of materials, over-exploitation of machines, etc.

**This is essentially the form applied in the USSR in the so-called Shchokino-experiment (or method).

deliberately to mention "management' conditions) *are defined in sufficient detail.* I do not mean thereby an economic management based generally on plan directives and on "breaking down" the plan, but only that these forms can be applied in case the conditions and tasks are given, so to say, in "physical terms" and output also its quality can be unambiguously defined and measured. I can imagine that e.g. in the building of large houses from prefabricated elements in determined conditions it could be laid down that for such a number of flats of such a quality such a wage-fund is due.

Yet most Hungarian enterprises have to work, under the given conditions, in a market-oriented manner; taking into account also the fact that their final products are valued, up to the half of the national income, by the world market (incl. the CMEA market that follows more or less world market prices). Although under the direction and influence of the national economic plan, in more than one case implementing central decisions, they have practically to set themselves their production and sales tasks, to choose the combinations of production factors to be used and to amend them, and primarily they have themselves to maintain the efficiency of their capacity, to continuously modernize and develop it. They have to determine, which is the most efficient way of contributing to the achievement of the centrally defined aims, and how they can join the centrally decided i.e. approved special programmes by utilizing their resources to the best effect. And under such conditions – as I shall demonstrate it in what follows – the earnings regulation model which seems to be so simple and unambiguous from a distance, so apt for "stimulation with particular stress for a rational management of live labour"[4], p. 27, and which J. *Lőkkös* declares to be maintained and further developed, and handles as an adequate regulating tool of the intensive growth period functions in many ways irrationally from the aspect of enterprise management as well as from that of macro-economy.

Let us take in turn each of the most important harmful effects on enterprise management of the regulation, supported with so much determination by J. Lőkkös.*

The main argument: the live labour saving effect

According to János Lőkkös's article the "main argument advanced against wage-bill regulation" is that out of the resources fulfilling an equal role in economy "it is wrong to pick out one factor . . . since this leads to wasting of the other two factors and to deterioration in their joint efficiency".[4] p. . .

I claim in fact (as I claimed in my earlier works) that the wage-bill regulation proclaimed to be advantageous *irrationally prefers the saving of live labour in the*

*The demonstration will be done partly with the aid of examples. Although a discussion using mathematical deductions and formulas is more elegant, I renounce it if only for the sake of brevity. In the examples I assume the regulation functions with a 0.4 coefficient i.e. the utilizable wage-fund rises by 0.4 per cent with a 1 per cent growth of the value added, or, it goes down by 0.4 per cent in case of a decrease.

production phase of the given enterprise, because it simultaneously prefers the wasting of every kind of embodied labour input of the given phase, such as the imported materials used and investment made in the given phase, as well as the live labour and capacities used in the preceding production phases.

Under this regulation, from the aspect of the effect on the wage situation of the enterprise 1 Ft wage used in the given enterprise phase is equivalent to Ft $(v_0 + m_0)/(kv_0)$* embodied labour cost. Let us take two enterprises. Let m_0/v_0 be 1 with the first, and 2 with the second.** Accordingly, in the first enterprise 1 Ft live labour is equivalent (from the point of view of wage situation) to Ft $(1 + 1)/(0.4 \cdot 1) = 5$ embodied labour, and in the second to Ft $(1 + 2)/(0.4 \cdot 1) = 7.5$. Therefore, from the point of view of the wage situation, in the first enterprise every action is favourable in which 1 Ft wage cost can be saved by an additional material input smaller than Ft 5. In the second enterprise it is favourable, too, if 1 Ft wage cost can be saved by additional material input less than Ft 7.5. Or, from the point of view of the wage situation, it is favourable to achieve the saving of 1 Ft wage (live labour) cost by "simplifying" the final processing operation, even if the price loss suffered because of a lower degree of processing, poorer quality, etc. is below Ft 5 in the first enterprise, and below Ft 7.5 in the second. Looking at it again from another side: the wage situation is affected unfavourably by every such action in which 1 Ft additional wage allows to achieve "only" a material saving less than Ft 5 or 7.5.

Let us now assume that we have a material whose price structure corresponds to the industrial average i.e. the total wage-content (covering every production phase) and the total net income-content of the price are approximately identical, or, the total wage-content of a material worth 1 Ft is Ft 0.5. Substituting this ratio into the data of the preceding paraghraph it turns out that in the first enterprise it is not worth to undertake payment of 1 Ft additional wage, if the saving of live labour utilized in preceding production phases that can be achieved is less than Ft 2.5; and in the second enterprise, if the saving achieved in live labour utilized in preceding production phases is less than Ft 3.75.

This is how the wage regulation looks like that is claimed to be particularly stimulating for a rational management of live labour!

Let us now take the case when the enterprises in question consider *investments intended to save live labour.* Let us take it into account that the yearly depreciation costs

*v_0 indicates the wage-bill, m_0 the net income, – both in the year taken for basis – more exactly, the amount in the base-year of that part of the value that makes up the indicator (value added) above the wage-bill. k is the value of the follow-up coefficient, 0.4 in our case. In my further explanation, with a view to a simpler discussion, I shall not specify that the charge on assets as well as the depreciation costs must also be taken into account in the indicator applied.

**These are not at all extreme (exaggerated) cases, but rather common ones. The value added figuring in the table published in Figyelő about the division of the sharing fund (1978/5) is 2.2-fold of the amount of wages and the taxes levied on it. In manufacturing the position m_0/v_0 5 is not infrequent.

and the charge on assets together amount to 10 per cent of the amount invested i.e. 0.1-fold of the value invested appears as yearly cost of embodied in labour. With these conditions in the first enterprise every wage-saving investment "will pay", in which the investment necessary for the saving of 1 Ft wage is below Ft 50, and, in the second enterprise, below Ft 75.* From another aspect this interrelation means that in selecting from among investment variants every variant becomes more favourable for enterprises functioning under the relative wage-bill regulation system in which – with otherwise identical indicators in everything – the saving of yearly 1 Ft wage cost can be achieved by an investment amount below Ft 50 (or Ft 75).

Let us now revert to János Lőkkös's article. What does he do with the "main argument advanced against wage-bill regulation" that I have just been developing? He emphasises practically two answers i.e. counter-arguments.

One is the following: "Yet the totality of economic regulators can stimulate for more efficient management only if each element stimulates expressly a rational management of the factor of outstanding importance in the given field (e.g. wage regulation for that of live labour).[4] p. . . That is an interesting answer! It is worth having a closer look at it.

In proportion to the live labour used wage costs and related taxes arise in enterprises. In the financial situation of the enterprise and in judging the same profit fulfils an important (though, unfortunately, not sufficiently important) role. In this way, this special element of the economic regulators (i.e. the presentation of wages and taxes as costs) "expressly stimulates more efficient management of the factor of the given field i.e. live labour", it expressly stimulates in the same way as the accounting of the value of materials used in production as material costs "expressly stimulates" rational management of material inputs, etc. Is it possible that this customary, common incentive is not sufficient here? It is true that live labour is the special factor. But which live labour? Only the one which is used in the production phase of the given enterprise? Or is it also the live labour that operates in other phases of production, i.e. in the preceding phases? If, in a similar sense, also the live labour belonging to preceding phases is considered as a special factor of production (just as the one operating in the given enterprise phase), such regulation ought to be suggested as "*expressly* stimulates, as a special partial task" rational management of live labour (and of the existing capacities) of preceding production phases and of live labour (and capacities) operating in the production phase of investment goods. Accordingly, partial regulation elements stimulating economic use of materials and saving of fixed assets should be introduced. Such a rule e.g. according to which the material supply available for the enterprise, as well as the value of available fixed assets should degressively increase or decrease as a function of changes in the value added.

*It has not been taken into account that, according to the rules, the indicator contains also the depreciation cost and the charge on assets. If this is considered, the sharp irrationality in the relative valuations of live labour saving and the utilization of embodied labour shows even more clearly.

I shall stop here. And now, I shall give answer to János Lőkkös's rhetorical question: "should it be allowed – with dwindling labour resources – to leave the management of live labour in enterprises solely to the profit incentive, when wage costs behave as a "special" cost? "[4] p. . . . I think it should be allowed, and much more than to stimulate for wasting with the relative wage-bill regulation, alien to the conception of the given economic mechanism, and fitted into it at best only as an exception. What is János Lőkkös's second counter-argument? "Between 1970 and 1990 satisfaction of the demand for labour of the labour-intensive tertiary sectors is coming to the foreground. With labour resources becoming scarcer this is possible only if the production tasks of industry, construction and agriculture are solved with a reduced or stagnating staff and higher productivity." Hungarian society has no other choice. Labour is less replaceable, and probably also more "expensively", in tertiary sectors than in those of material production. Therefore, the idea seems contradictory that in the sectors of material production there ought to be a greater possibility for choice among elements of production factors.[4] p. . . .

A conception which would expect in the framework of national economic planning working with large aggregates, in the given demographical situation and in the given phase of development that employment in the sectors of material production would considerably grow between 1970 and 1990, would be in fact highly contradictory. But such a conception is not at all contradictory, even precisely corresponding to declared economic policy objectives, that the healthy labour mobility will intensify, and that enterprises will initiate – also under the effect of a rational economic mechanism (and in it of wage-regulation), or one that can be made more rational – ever newer actions in order to maintain and improve their efficiency. Among other things, this can be done in a way that – trying, as it were, to find an enterprise optimum and at the same time that of the national economy as well – they amend continuously the relative proportions of production factors used, and the functioning and operating conditions of the latter. Such efforts are, however, hampered by a regulation that stimulates for saving live labour utilized in the enterprise phase in such a way that in the meantime, as I have demonstrated, it pushes towards waste, and within it towards wasting the live labour utilized in earlier phases from the viewpoint of the whole enterprise management.

Of course, it would not be correct to say – with some exaggeration – that the extremely high import-intensity of economic growth, the low efficiency of material processing, unfavourable foreign market prices, and the almost unlimited investment-intensity of production development may be all atrributed to the irrational functioning of regulation (that is, to the relative wage-bill regulation that is being criticised here). And it can be further brought up that there also are such elements in the construction of enterprise incentive which work against the emergence of such tendencies, e.g. the profit motive. Yet what I am now criticising is not a suggestion that speaks for a fuller realization of the enterprise's profit motive, but a suggestion that would realize (or realizes) the assertion of a collective wage incentive by bringing the amount of the wage fund available for the enterprise into a degressive relationship with the yearly change in

the value added. Relying on what has been said, I insist on the statement that the effect-mechanism of this regulation strengthens the above-mentioned unfavourable tendencies (otherwise intensively fed from a number of other sources), and exerts by no means a conrary effect.

Capacity utilization, "growth compulsion", selection

Let us go further and examine the other irrational features of wage-bill regulation. However, in regard of the limitations of the present article, I shall discuss them in fewer words and detail, and less polemically.

I claim (and I claimed in my earlier works referred to) that the form of wage-bill regulation promoted by J. Lőkkös *has an irrational influence on the utilization of enterprise capacities.*

In my earlier examples I touched upon this feature already. I demonstrated that from the aspect of wage situation every such action is favourable for the enterprises in which the saving of 1 Ft wage is opposed to the loss of less than Ft 5 or 7.5 of price-receipts. This means also that the enterprise is interested – from the aspect of its wage situation – in irrationally reducing its capacity utilization. On the other side, the wage situation of enterprises deteriorates by every such action as a result of which – e.g. by relying on a more perfect execution of the finishing operations – 1 Ft additional wage will help to achieve "only" a growth in price-receipts less than Ft 5 or 7.5 *Rational development* is also hampered: such development action, e.g., whose returns amount to "only" Ft 4 or 6 in relation to 1 Ft wage affects unfavourably the wage situation of enterprises.

Is there something wrong in Hungary with the extent of capacity utilization? I do not know. I think that it cannot be very well judged in general. Do enterprises strive for a full utilization of their capacity? As regards the number of workplaces and the labour situation of the country, it seems they do, very much. Of course, enterprises do not act solely under the effect-mechanism of wage regulation: they are exposed to thousands of other effects. Yet this does not alter the fact that wage regulation itself exerts its influence in the manner explained, and, similarly to what was presented in our examples, it diverts enterprise efforts into an irrational direction also in practice.

I claim (and I claimed) *that the "growth compulsion" resulting from the regulation does not fit into the normal functioning of enterprise management* nor into its necessary fluctuations in time, and therefore *disturbs it unreasonably.*

Enterprise management moves simultaneously in three dimensions: production and sales have to be done today; developments that are to be the foundations of tomorrow's profitable production and sales have to be implemented today; finally, conceptions and preparations have to be made today for such developments as will be implemented by the enterprise tomorrow, with a view to the profitability of production and sales after-tomorrow. In this never-ending process, i.e. in the permanent changes of the customary and the new. tide and ebb are inevitable. Therefore, a temporary reduction of the yearly profit and of

the yearly value added should be considered a natural phenomenon. What is more, an enterprise – otherwise, let us assume, working excellently – cannot be blamed even if, in the course of executing important development and sales policy actions, sometimes through several years, the level of its profit is falling, i.e. the value added indicator is going down. If that happens today, the enterprise will get into a difficult situation with the regulation exerting a "growth compulsion". It is true that it can refer to the clearly profitable character of the developments in course, and it may ask for preferences in order to overcome its temporary difficulties in wage-payment. Yet the "growth compulsion" (though not exclusively and not even primarily) will hamper enterprise initiative and strenghten the reluctance to take risks and to take up such actions as promise considerable economic success for tomorrow, but may cause difficulties and reduction of incomes today.

So far I have outlined a few characteristics of regulation from the point of view of the management of only one enterprise. Yet what has been said warns us that we shall find new contradictions if we consider, in *what way this regulation affects the different enterprises,* which are affected advantageously and which less so.

In our examples it has been shown that with enterprises having a higher m_0/v_0 ratio i.e. working more efficiently under similar conditions the requirements on actions are higher. And it is more advantageous from the national economic point of view if an outstandingly profitable enterprise just maintains continuously its standards, than if an enterprise with low profitability improves somewhat its situation. Further on, it is clear, too, that with the criticised wage-bill regulation the wage situation of the enterprise reducing its staff may improve also if the *per capita* value added goes down, while the wage situation of the dynamically developing enterprise increasing its staff will not deteriorate only if the specific output interpreted for increment i.e. the ratio surplus of value added/surplus of staff exceeds the basic value at least by $1/0.4 = 2.5$-fold. Therefore, it can be safely stated (and I stated it earlier) that the existing form of wage regulation *prefers enterprises with low profitability* to those with high profitability, and it prefers *enterprises with stagnating or declining staff to those that develop dynamically,** and for these reasons it does not select in accordance with the signalling role of efficiency, i.e. profitability.

*This latter characteristic was taken into consideration by competent authorities in the 1976 amendment of the regulators: mostly those enterprises were put under the relative wage-bill regulation for which a stagnating or diminishing employment was prognosticated. That is why the references of Lőkkös's article are not convincing in which conclusions are drawn to the stimulating effects of each wage regulation form with reference to experiences of 1976. Lőkkös demonstrates that in 1976, as compared to 1975, employment grew by 0.3 per cent in enterprises under the relative wage-level regulation, and by 1.4 per cent in those under the central wage-level regulation, while in the category of the relative vage-bill regulation the staff diminished by 1.3 per cent, and in that of central wage-bill regulation by 0.4 per cent. What happened in fact? Central organs estimated, in which enterprises (subsectors) staff would be increasing,, and in which ones decreasing. They placed the enterprises accordingly under the rule of this or creasing, and in which ones decreasing. They placed the enterprises accordingly under the rule of this or that form of wage-regulation. Finally (supported also by the functioning of the administrative methods of labour management), what happened was really what the central organs expected: the staff decreased in the wage-regulation forms into which the enterprises with stagnating or decreasing staff were put.

The "average wage brake", preferences

This is, roughly outlined, the nature of the wage regulation that János Lőkkös deems to be maintained and to be further developed in an even wider sphere. I think that the characteristics presented prove sufficiently that this regulation cannot be viable in the conditions of a developing autonomous enterprise management, and that, even for that reason it creates a number of correcting mechanisms (an extensive auxiliary system) or infers them from the outset. It is known that these *correcting mechanisms* exist in fact. A correction function is fulfilled by the so-called average-wage-brake built into the system of wage regulation, by the extensive system of wage preferences and finally, by the indirect (often invisible, intangible) system of preferences which is expressed often in the particular use of other regulators, with a view to effects on the wage position of the enterprise (enterprises) concerned.*

The necessity of use of the average wage brake** is usually justified by stating that enterprise potentials are different in respect of asserting or making use of the possibilities offered by the relative wage-bill regulation. Since this could lead to serious distortion in wage proportions if not prevented, some safeguard, i.e. upper limit, has to be built into the regulation.

This justification is true in itself, but, I think, it reveals only part of the truth. As we have seen, the regulation distributes advantages and disadvantages to enterprises irrationally. It is obvious that some safeguard is needed also against the assertion of unjustified advantages, or the use of such an advantageous situation.

The "average-wage-brake" and the preference system are related also to a more general, "more social" sphere of problems. Since 1968, i.e. since the collective interest of workers was asserted also in wages, under the conditions of autonomous enterprise management, a strong social resistance has been developing against differentiation of wage-increasing possibilities among enterprises. This social resistance was felt in Hungary already in the years when the yearly real wage-increase amounted still to 3.5–4 per cent. Not only for this reason, but also under this effect the correcting mechanisms adjusting to the current actual regulation were continuously built up. And these prevented in fact – considering a period of several years (2–3 years) – that important and characteristic changes resulting from differences in efficiency of different enterprises should show in their wage-increasing possibilities. In Hungary, for reasons that cannot be specified here, no such situation has emerged, in which workers, and medium-level leaders, or even the "old-guard" can be made interested in wages in a way that, aware of consequences, they

*I consider as part of the preference system such action of the directive authorities when they operate the regulators (within them, of course, wage- and profit regulation) – often in the form of an order – with special conditions in some enterprise, or in a small group of enterprises.

**As a result of the "average-wage-brake" the principle of wage-bill regulation is asserted only within a certain domain of the enterprise average-wage-increase: in practice in the domain below 6 per cent, above this the increase of the enterpise's average wage is practically prevented by a prohibitive tax also in the enterprises under wage-bill regulation.

should feel responsible for the efficient or less efficient functioning of their enterprise. Social tolerance to differentiation of wage-increasing possibilities was further reduced by the fact that the possibilities of raising real wages diminished in the meantime. Therefore, I do not find the feature of the regulation valid since 1976 surprising in itself that it applies strongly restraining taxes in the zone above the general increase of nominal wages.

By inserting the average-wage brake and by means of the related prohibitive taxes (applied also in the wage-level regulation) the basic contradiction of the regulation has been *partly* solved: how wage-increasing possiblities can be linked to "the success of enterprise management", and how it can be prevented at the same time that disproportions between earnings should develop among enterprises, and how a continuous rise in real wages can be guaranteed for every layer of workers. This solution is in fact a safeguard against extremities, so that it prevents the development of disproportions on this side.

Under the given conditions, such possibilities are further needed that,

– if justified, the wage-increase may be outstandingly high in a few enterprises or with a views to certain targets;

– if the necessary or justified wage-increase is hindered in a few enterprises for reasons other than their own fault, such difficulties may be overcome;

– if an enterprise cannot give due wage-increase to its employees for several years – either because of its own fault, or because of a disadvantageous economic situation – and therefore the workers start to leave, but the enterprise is not going to be liquidated, the wages of the workers innocent in the unsatisfactory functioning of the enterprise may be raised to the level corresponding to, or approaching, the national economic average.

All these justified and economically not objectionable aims are served by *direct and indirect preferences.*

An outsider can have but fragmentary knowledge about the actual functioning of the various open and concealed preferences, therefore, I have no comprehensive view of these. I find it, however, remarkable that whenever I talk to enterprise executives who are experts in wage matters they always mention preferences as a factor having a *considerable* influence on the wage situation of the enterprise and that, according to data of several years, most enterprises where I made inquiries attained a wage-incrase very near the national economic average, even if with some yearly fluctuations.* Finally, I suspect that what Jenő Wilcsek wrote – polemizing with me, too – six years ago, has been firmly proved. "With some exaggeration we might say that the increase of the wage-level in Hungary does not depend on profit, but the other way round, profit has to be so much that it can guarantee the increase of the wage level".[14] To me it is obvious that the obligation of guaranteeing the wage-increase largely contributed to the fact that "enterprises could achieve so far average income with relative ease, even without any real improvement in efficiency, e.g. . . . with central support obtained in

* E.g. the articles [11, 12, 13] offer a survey of the functioning of the preference system.

order to counterbalance poor performance."[15] I may add; such a situation renders difficult to operate other regulators according to their own rules, since it must always be taken into consideration, how they influence the wage situation of the enterprises concerned.

The proposal

Relying upon our experiences and their manysided analysis by Hungarian economists, I believe that we are now in a position to outline a construction for the regulation of wages and the collective interest in personal income, which promises to be more or less rational and viable and, in the given conditions, will not bring about (at least not generally) self-naturalizing correcting mechanisms. In that construction practically three questions have to be answered: 1. to what i.e. to what "indicator" the collective enterprise interest manifesting itself in personal incomes should be linked; 2. which element (or elements) of personal incomes should be covered by the collective interest, and in what manner; 3. how can the outflow of wages be kept between planned limits.

ad 1. It is not my task to "protect" i.e. justify in this article that under the conditions of socialist commodity production profit is really *the* synthetic indicator of the efficiency of the independently managed enterprise, and, therefore, of its evaluation. This has been a hundred times justified and proved by theoretical and practial works dealing with price theory and the functioning of the economic mechanism, as well with national economic programming.

Keeping this in mind, it is given also from the practical side that, in harmony with the price system, profit should be in the centre of the collective incentive, more exactly, its level related to the value of assets engaged, since it would lead obviously to confusion and irrational quality, if the evaluation by the price system fulfilling the role of general standard of value, and that according to collective interests would essentially differ from each other. Interest in the increment of profit can function *only* defectively in the case of autonomously managed enterprises, operating on an organized market, because it gives rise to "growth compulsion" and gives preference to the enterprise working with relatively small profit as opposed to the enterprise whose profit is larger but not increasing, even though the latter is in fact the better and more efficient enterprise – according to the generally valid evaluation.

ad 2. Should the workers' collective income incentive cover wages; should (or could) wages lose their guaranteed character and their guaranteed increase with development? Or should the collective incentive in enterprises be centered on profit-shares, and should the regulation of wages, more exactly, the keeping between limits of the outflow of wages be solved separately, detached from the assertion of the collective interest in personal incomes? I think I have succeeded in demonstrating, how today's regulation (incl. the relative wage-bill regulation) generates every day and every hour the open and concealed preferences levelling out the wage situation of enterprises, and how all this contributes to the operation and distortion of other regulators. Further, I think that in

analysing Balázsy's suggestion, I could demonstrate, how his system would generate an institutionalized "regulation bargain" whose task would be to tax away the part of profit exceeding the wage-increase (and the development fund formation) which is considered as realistic by the center.

Someone may say that these phenomena are rooted in subjective faults: the directive organs were too soft-hearted, they did not insist enough on principles in judging claims for preferences; let us in future really assert the principle that, in case of otherwise identical conditions, that enterprise should be able to pay higher personal incomes which works better according to the valuation by the system of collective incentives.

However, I do not believe in the "subjective" origin of "faults" that have been present on a mass scale permanently for ten years. I do not think, either, that – let us say up to the early 1980s – the formal and contentual marks of the system of relations between enterprises and economic control organs, or the size of enterprises, or relations within enterprises could be *essentially* changed. Therefore, and taking it into consideration also that real wages will continue to increase at a moderate rate, I do not think it possible to abandon the existing guaranteed character of enterprise wages and wage-increases. Maybe a "hardening campaign" would have a certain temporary effect – for one year, or perhaps two – but after that the sources of open and concealed preferences levelling out the differences in the wage situation of enterprises would start to spout with all the greater abundance.

And, relying upon such considerations, the following has to be said: the collective incentive ought to be asserted only in respect of profit shares (in this scope the development and maintenance of differences between enterprises are easier to carry out), but not in respect of wages. It also speaks for the creation of interest in profit-shares (non guaranteed bonuses, etc.) that this source represents a greater part in the earnings of executives, medium-level leaders, and of the "old guard", therefore, the differentiation among enterprises affects mostly those who have (may have) a greater influence on the activity of the enterprise on the one hand, and, as a consequence of their closer ties with the enterprise, they are more compelled to try to find possibilities for augmenting their earnings within their enterprise on the other hand.[17]

Therefore it is expedient to link the shares with the level of profit related to the assets engaged. This can be done e.g. by stating that in the case of attaining a certain profit level shares corresponding to the wages of a certain number of days can be paid (e.g. shares corresponding to 6 days' wages belong to a 2 per cent rate of profit, 30 days' wages to 10 per cent, and 60 days' wages to 20 per cent). From their sharing fund enterprises could pay special bonuses to workers during the year, but would not be allowed to pay wages from it.

ad 3. What would regulate wages? If a separate regulation is needed – and it is indispensable under the given conditions –, there is, in fact, no other reasonable solution than to indicate as a central administrative rule, what percentage the nominal wage-increase can be in the given year. The rate should be stated with general validity for the whole economy (the whole manufacturing industry), indicating the exceptions that have

become topical in the given year following from a plan covering several years, on the basis of labour management and wage policy considerations.

This solution would not basically differ from today's practice. In the framework of the national economic plans we determine the wage-increasing possibilities of the enterprise sphere even today, and then, by means of the regulators, preferences, average-wage-brake, etc. we achieve that, let us say in the average of three years, the overwhelming majority of enterprises implement the nominal wage increase thus worked out. In my opinion an open administrative regulation would make the situation more unambiguous, it would facilitate the development and realization of differentiations which really have a wage policy character and, primarily, it would allow that a reasonable and realizable incentive for the enterprise collective connected to profit-shares should develop.

To this conception a large number of considerations concerning details is connected.

The wage regulation outlined above does not overcome the old "curse" i.e. sensitivity to changes in the structure of staff, which – whether "cheap labour has been exhausted" or not – makes it clearly more difficult for an enterprise to increase the ratio of qualified workers. As a solution to this problem, enterprises ought to be given the right that, in the case of such change in the staff structure as alters the wage level so as to exceed e.g. 0.5 per cent, they can validate this effect in their accounts, announcing it in advance, and submitting their accounts to tax control.

What will happen if, with such regulation, the enterprise average wage exceeds what is prescribed? I think it has to be maintained that such transgression can be redeemed to the debit of profit through strongly progressive taxes. But the higher wage-level should not become a "basis", etc.

In the disputes so far the strongest attack on the suggestion has been the following. With the existing regulation enterprise managers are compelled to raise the indicators linked to the wage-increase, while in the system suggested this pulling power would be missing: the enterprise wage-increase would be distributed "free", without any requirement.

This objection does not stand the proof, because it simply ignores the real functioning of the regulation (economic mechanism) – in my opinion determined by given conditions. As I have said earlier, the wage-increasing possibilities do not develop in practice as a function of enterprise management; enterprises that get into difficulties with wages necessarily receive from the control authorities (open or concealed) wage-increasing possibilities guaranteeing their further functioning; against outstanding differences in wages the regulation itself contains – again necessarily – an institutional safeguard. Besides, enterprises themselves refrain, with reason, from achieving "exaggerated" wage-increasing possibilities or utilizing them. Taking a period of two or three years in consideration, the wage-increasing possibilities of enterprises level out. Enterprise behaviour regarding wages is determined by that fact. It is exactly the aim of the suggestion that the collective interest in an efficient enterprise management – influencing

also the level of individual incomes – should really assert itself, at least in the differentiation of profit-shares.

The extent of the interest in shares is already a question of "calibration". This extent should be determined depending on how we judge the possibility of assertion.

Yet let us perhaps ask those who are for a strong enterprise collective incentive through wages, what percentage of wages beyond profit-shares is – in their opinion – to be considered as dependent upon the efficiency of enterprise management. Or, putting the question in another way: how much the difference can be between the wage-levels of the "good" enterprise and the "bad" one. Let us assume that, according to the answer, 6 per cent of wages may be considered variable from the point of view of collective incentive. If we wish to assert such measure in the framework of the system I suggested, the average extent of profit-shares should be doubled against the present one – taking total earnings for 100 the system should be calibrated in a way that 88 per cent are the guaranteed wage, and, on average, 12 per cent are the shares dependent on enterprise profits. However, starting from today's situation (in which 94 per cent are practically guaranteed wages and 6 per cent are the average shares) such proportions can be attained but gradually. And, during the process, the extent of the centrally determined wage-increase would be lower than what is taken into account by the plan from the point of view of raising earnings. E.g. in the given case with a yearly 6 per cent nominal increase in earnings the extent of centrally determined (and at the same time guaranteed) wage-incrase would be 4 per cent, and the difference would be produced by the continuous increase of the extent of the average profit-share accumulating in a differentiated manner. This would also entail the consequence that the differentiation of earnings among enterprises would be slowly growing.

The example is presented not as a suggestion, but only to indicate the calibration possibilities of the system. Thereby I wish also to demonstrate that *the regulation suggested can be calibrated with extreme sharpness* i.e. with great "stimulating force". Obviously, the larger the ratio of earnings covered by shares, and the more differentiated the profit that can be accumulated as a function of the relative size of profit, the sharper the system is calibrated. Further possibilities are inherent in the fact that the average size of profit-shares within total earnings may be smaller or larger with the different groups of enterprise workers. E.g. in the framework of the system, naturally, the worker's earnings may also contain a considerable extent of profit-share element – payable, as I have said, also during the year. However, great care is needed in calibrating the extent and differentiation of profit-share: *exclusively such* extent should be asserted i.e. *the system must be calibrated to such differentiation of earnings as can be really maintained.*

Finally, the question may be asked: how much does my suggestion contain temporary elements destined only for a few years' functioning, and how much is it to be considered feasible also in a longer perspective?

In elaborating my suggestion I started from the possibilities prognosticable for the early 1980s. This is reflected first of all in that I do not think a strict administrative central regulation of wage-increasing possiblities can be dispensed with. That part of my

suggestion, however, according to which profit-shares should depend on the rate of the enterprise's profit is, in my opinion, rational and feasible also in a longer perspective.

The administrative regulation of wages and wage-increasing possibilities does not conform with the basic conception of the Hungarian reform of the economic mechanism. *The lifting of the coercive administrative regulations cannot be founded, however, in the field of earnings regulation:* this would need a major change in the general management conditions of enterprises and in the established methods of economic control.

I wish only to indicate that there are two possible directions for the completion of the reform. On the one hand we may approach the Yugoslav model, in which case the incentive role of profit-shares mentioned in my suggestion would gradually extend to the whole of the earnings (incl. wages). On the other hand, we may move in the direction of the "profit-oriented enterprise economy", in which case the strict administrative methods of wage regulation might be mitigated, i.e. neglected, as profit-orientation, and a more balanced and more efficient labour market introduce from the outset a certain restraint into enterprise decisions on wage-outflow.

I do not consider it my task to give even an indication of the most important task related to, or the conditions, and criteria of these two ways of evolution. Yet I wish to emphasize that for both solutions *considerable* changes have to be made in the national organization of enterprises in the institutional system controlling the enterprises and, finally, in the system of relations between political organs and enterprises. Without such changes in the operation and functioning of the economic mechanism we cannot get beyond ill-matched solutions in selecting the construction of each regulator.

Implementation of such type of considerable changes is conceivable, however, only in the framework of a comprehensive programme outlining the perspectives of the whole economic mechanism and taking into account also political an economic policy implications.

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О РЕГУЛИРОВАНИИ ЗАРАБОТКОВ В ВЕНГРИИ

Г. РЕВЕС

В связи с развернувшейся в Венгрии новой дискуссией о системе регулирования заработков автор в данной статье излагает свою собственную позицию.

Предлагаемое Ш. Балажи решение (см. его статью в данном номере журнала) автор считает в определенных условиях рационально применимым. Однако при нынешних условиях венгерского народного хозяйства недостаток этого решения состоит в том, что оно не способно должным образом воспрепятствовать чрезмерной – в народнохозяйственных масштабах – выплате заработной платы. Поэтому предлагает Балажи устанавливать отдельно и дифференцированно для каждого предприятия изъятие «чрезмерной прибыли», возникающей при изменении условий. Автор указывает, что определение размеров такого индивидуального обложения превратилось бы в форму «своеобразного торга о регуляторе», заменяющего «торги о плане», между центральными органами и предприятием, не считает поэтому предложения Балажи удовлетворительным.

Система «регулирования относительного фонда заработной платы с применением налога на прирост средней заработной платы» уже и сегодня функционирует на многих предприятиях в Венгрии. Автор оспаривает мнение Я. Леккеша (см. его статью в данном номере журнала) о положительном эффекте такого регулирования. Он отмечает, что такая система регулирования способна функционировать в том случае, если условия деятельности предприятия и его задачи заданы как бы натуральными параметрами. Однако это регулирование оказывает на

самостоятельную хозяйственную деятельность предприятий иррациональное воздействие и ведет к возникновению системы необоснованных льгот и дотаций.

По мнению автора материальную заинтересованность коллективов предприятий следовало бы связывать с относительным уровнем прибыли (с величиной «нормы прибыли») таким образом, чтобы при более высокой норме прибыли возрастал бы и фонд поощрения. При нынешних условиях нельзя отказаться от административного регулирования заработной платы. Поэтому государство должно каждый год определять, насколько можно повышать среднюю заработную плату на предприятиях.

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Г. С. ЛИСИЧКИН

О ПЕРСПЕКТИВАХ РАЗВИТИЯ ОТНОШЕНИЙ СОЦИАЛИСТИЧЕСКОЙ СОБСТВЕННОСТИ В СЕЛЬСКОМ ХОЗЯЙСТВЕ*

В условиях развитого социализма проблема совершенствования отношений социалистической собственности выдвыгается на одно из главных мест. Это объясняется тем, что каждый работник, занятый в народном хозяйстве, вооружен сейчас средствами производства стоимостью в десятки и сотни раз большей, чем это было прежде. От сознательного, квалифицированного и бережливого отношения к социалистической собственности, от инициативности в принятии хозяйственных решений теперь, как никогда, зависит успех развития социалистической экономики, рост национального богатства, более того – гармоническое развитие ричности. Такое отношение нельзя выработать одними призывами к трудящимся: работать добросовестно, относиться бережно к социалистической собственности, надо так построить хозяйственные отношения, чтобы каждый трудящихся осязаемо ощущал, что он, по словам Ленина, «работает на себя».

Наблюдаемое в настоящее время в Советском Союзе развитие процессов межхозяйственной кооперации со всей остротой ставит вопрос о дальнейшем развитии социалистических производственных отношений, на селе, о перспективах развития кооперативно-колхозной собственности, в частности. Проблема эта имеет сейчас не только важное теоретическое, но и практическое значение. Межхозяйственная кооперация определяет пути дальнейшего организационного оформления межхозяйственных объединений, определяет тем самым судьбы колхозов, все более глубоко втягивающихся в процесс кооперирования.

Практические работники настойчиво ищут ответа на вопрос: «Что же будет с колхозами?». В ответах на него пока нет единства в среде советских экономистов. Например, *Я. Кронрод* считает, что « . . . как бы ни велика была роль кооперативной формы собственности, сыграв свою роль в относительно более или менее длительный исторический период, она еще при социализме сойдет со сцены.» [1]. *В. Черковец* тоже считает, что колхозная собственность может быть поднята до уровня обшенародной еще при социализме. [2]. В то же время *Г. Зинченко*, комментируя приведенные высказывания, подчеркивает, что «эти поспешные выводы идут вразрез с жизнью. Опыт последнего десятилетия показывает, что колхозы и кооперативно-колхозная собственность полностью отвечают требованиям современного уровня развития производительных сил.» [3]

*На основе работы автора «Развитие кооперативно-колхозной собственности и проблема статуса межхозяйственного объединения», опубликованной в сборнике «Межхозяйственная кооперация и ее проблемы». Изд-во «Штиинца», Кишинев, 1976, с. 123–175.

Не достигнуто единство и в оценке природы собственности межхозяйственных объединений. Поскольку они основаны на средства группы хозяйств-пайщиков, то некоторые ученые ставят, по существу, вопрос о возникновении новой формы собственности – сообственности этих кооперировавщихся хозяйств. [4].

Бытует также мнение, что межхозяйственные объединения, хотя формально и являются представителями кооперативно-колхозной собственности, но по сути на их базе должны развиваться производственные отношения, характерные для предприятий государственных. Так, *И. Ф. Суслов* пишет, что межхозяйственные предприятия, «как и колхозы, базируются на кооперативной форме собственности ... Однако члены трудовых коллективов в системе межколхозных объединений, как правило, не являются колхозниками. Они работают на основе трудовых соглашений, аналогичных тем, в которые вступают рабочие и служащие на государственных предприятиях. Система организации и оплаты труда, принципы социального обеспечения для них применяются те же, что и на государственных предприятиях.» [5]. Отсюда делается вывод, что те положения, инструкции, акты, которые распространяются на государственные предприятия, должны действовать и в отношении межхозяйственных объединений. Такое мнение об огосударствлении межхозяйственных объединений достаточно распространено, и его пытаются порой провести в жизнь.

Если учесть, что многие экономисты ставят знак равенства между понятием «общенародная собственность» и «собственность государственная», то тем самым статус межхозяйственного предприятия, а также и самих колхозов, предлагается, с их точки зрения, развивать в направлении полного стирания различий в тех нормах его хозяйствования, которые пока отличают их от предприятия государственного. Совершенно очевидно, что без выяснения природы межхозяйственной собственности трудно определиться в вопросах дальнейшего совершенствования организационных форм межхозяйственного кооперирования. Поэтому представляется целесообразным рассмотреть специально вопрос о перспективах совершенствования отношений социалистической собственности в сельском хозяйстве.

О правомерности отнесения кооперативно-колхозной собственности к разряду «низшей», групповой

В условиях развитого социализма выдвигается на первый план задача совершенствования отношений социалистической собственности. Однако успешному решению данной проблемы мешает, в частности, само понимание границ той области, где должна развертываться вся эта деятельность. Так, некоторые экономисты считают, что собственность является лишь одним из элементов в системе производственных отношений – отдельной и самостоятельной по отношению к ним категорией. То есть оба понятия отделяются друг от друга. В этом случае задачи совершенствования производственных отношений и отношений собствен-

ности не идентичны, т. е. вполне возможно предпставить себе одно без другого. *Маркс* подчеркивал, что на вопрос о собственности «можно было ответить только критическим анализом *политической экономии,* охватывающей совокупность этих *отношений собственности* не в их *юридическом* выражении как *волевых отношений,* а в реальной форме, то есть как производственных отношений.» [6].

Если же собственность рассматривать как самостоятельное общественное отношение, то, с одной стороны, теряется материальная сущность производственных отношений, а с другой – понятие собственности переводится тогда в политико-юридический план, и деятельность по совершенствованию производственных отношений оказывается ограниченной принятием тех или иных правовых актов и мероприятий по организационной перестройке управленческого аппарата. Не случайно поэтому, что во многих работах, написанных с таких позиций, совершенствование отношений собственности никак не связывается с изменением системы оплаты труда, формами кредитования, ценообразования, расширением участия трудящихся в управлении государством и т. п.

Собственность может быть правильно понята лишь как совокупность производственных отношений, которые охватывают сферу производства, обмена, распределения, потребления и проявляются *в определенной форме присвоения* экономических благ. Экономическое существо собственности проявляется наиболее рельефно в присвоении, в характере распределения произведенного продукта (дохода). Экономическая категория собственности и собственность как категория правовая далеко не всегда и не полностью совпадают друг с другом, т. е. «экономический собственник» и «собственник правовой» могут быть разными лицами. Так, правовым собственником рабочей силы при капитализме выступает труженик, однако в условиях наемного труда экономическим собственником создвнного им продукта является капиталист. Точно так же в рамках одной формы правовой собственности может существовать несколько разных форм экономической собственности, т. е. общая форма присвоения может подразделяться на ряд различных своих подтипов. Например, в рамках частной собственности существуют, как известно, такие формы присвоения, формы собственности, как индивидуальная собственность (основанная на личном труде); мелкая частная собственность (личный труд с привлечением наемного); капиталистическая собственность; групповая капиталистическая собственность; государственная капиталистическая собственность. Кроме того, частная и групповая собственность имеет и разные формы в зависимости от того, кто является носителем присвоения (рабовладелец, феодал, капиталист).

Следовательно, приступая к проблеме совершенствования кооперативно-колхозной собственности, следует также учитывать то обстоятельство, что правовая форма собственности и собственность в экономическом смысле слова развиваются во времени разными темпами. Последняя – собственность в экономическом смысле слова – является более динамичной, подвижной, реагирующей более чутко на развитие производительных сил. Таким образом, теоретически

можно считаться с возможностью существования и разных форм общественной собственности, меняющихся во времени гораздо быстрее, чем правовой их статус.

До недавнего времени широко было распространено мнение о том, что в социалистическом народном хозяйстве существует «высшая» государственная, общенародная, собственность и, соответственно, «низшая» групповая, кооперативно- колхозяная. Тем самым утверждается, что общественная собственность на средства производства может иметь будто только одну-единственную форму – государственную. Ведь ставить знак равенства между понятием «групповая» и «общественная» собственность совершенно невозможно, не впадя в элементарную ошибку понятийного свойства: «группа» и «общество» не совпадают между собой ни количественно, ни качественно. Постараемся прежде всего выяснить, почему кооперативно-колхозная собственность получила такую характеристику, почему иногими признается ее групповой характер. Насколько это оправдано?

Такое определение ее характера получило широкое распространение в экономической литературе в начале 50-х годов. В частности, в ней говрилось о «колхозно-групповой собственности» или «групповой колхозной собственности» как «низшей» форме социалистической собственности в противоположность собственности государственной, которая отнесена к разряду «высшей».

Если согласиться с такой постановкой вопроса, тогда следовало бы признать, что при социализме действует два принципа распределения благ в обществе: один – в государственном секторе, где все средства между трудящимися делятся по труду и только по труду, т. к. отдельные трудовые коллективы не имеют своей собственности; другой – при распределении благ между всем обществом и предприятиями, находящимися в групповой собственности. Здесь, очевидно, к оплате, если существует групповая собственность, принимается не только труд. Тот кооператив, который располагает большей массой собственности, неизбежно должен и получать от общества больше благ. Такой принцип действовал в кооперативах европейских социалистических стран, где в первое время после их создания оплата осуществлялась по труду и внесенному паю земли.

Только в нашем случае отклонения от социалистического принципа распределения были бы уже не внутри предприятия, а на уровне отношений государства (общества) – кооперативного предприятия. Следовательно, тогда был бы оправдан прежний взгляд на колхозы как на помеху движению к коммунизму, поскольку нетрудовые доходы несовместимы с системой социализма. Тогда было бы непонятно и отнесение кооперативно-колхозной собственности к одной из форм социалистической собственности.

Групповая собственность и социализм с точки зрения научного социализма – понятия несовместимые, поскольку основным принципом социализма, как известно, является распределение всех благ по труду. Поэтому там, где появляются элементы отношений, типичных для групповой собственности, происходит нарушение упомянутого принципа, но оно может происходить не только в колхозах, но и на предприятиях государственных. Совхоз, имеющий лучшие земли, получив-

ший от государства много современной техники, оборудования, удобрений, будет иметь высокие прибыли и крупные отчисления в фонды, выгодно отличаясь от тех, кто обеспечен всеми общественными благами хуже, хотя и работает во много раз лучше. В убыточных современных совхозах так часто и происходит. Следовательно, и в этом случае трудовой коллектив имеет возможность присваивать в свою пользу часть того, что принадлежит не ему, что создано не его трудом.

Элементы групповой собственности могут возникнуть всюду, где недостаточно четко работает экономический механизм, где возникает монопольная возможность обращения в свою пользу результатов использования общественной собственности. И наоборот, кооперативно-колхозная в правовом смысле слова собственность может быть в значительной степени огосударствлена, если при помощи цен, налогов и т. п. механизмов подавляющая часть продукта (дохода) будет изыматься государством, а потом в форме кредита, регулярно списываемого, возвращаться кооперативному предприятию. Так оно и было с рядом хозяйств до недавнего времени.

Итак, на каком же основании кооперативно-колхозная собственность относится к разряду собственности групповой, т. е. к «низшему» разряду? Как известно, роль кооперативных организаций в строительстве социализма была раскрыта в одной из последних работ *В. И. Ленина* «О кооперации». Он подчеркивал, что значение этих организаций в экономике страны резко возрастает в связи с переходом от «военного коммунизма» к НЭПу, т. е. в связи с познанной необходимостью широко использовать товарно-денежные отношения. В кооперации, писал Ленин: «... мы нашли ту степень соединения частного интереса, частного торгового интереса, проверки и контроля его государством, степень подчинения его общим интересам, которая раньше составляла камень преткновения для многих и многих социалистов» [7]. В этом соединении социализма с необходимостью использовать товарно-денежные отношения В. И. Ленин, как видим, усматривал главное преимущество кооперации, которое призвал без страха использовать для создания нового общества, т. к. считал, что «при нашем существующем строе предприятия кооперативные отличаются от предприятий частнокапиталистических, как предприятия коллективные, но не отличаются от предариятий социалистических, если они основаны на земле, при средствах производства, принадлежащих государству, т. е. рабочему классу.» [8].

Следовательно, Ленин приравнивает кооперативное предприятие к предприятию социалистическому. Правда, в приведенном высказывании есть оговорка о том, что земля и средства производства кооперативной организации должны принадлежать государству. Поэтому, если колхозные средства производства считать собственностью групповой, то такого знака равенства ставить нельзя. Мы постараемся дальше показать, что для подобной их оценки нет никаких оснований. В работах Ленина нельзя найти указаний на «второсортность» кооперативных организаций. Это, так сказать, наслоение позднейшего периода. Такое отношение к кооперативным предприятиям было у Ленина не вообще, а в связи с конкретно

создавшимся положением – завоеванием пролетариатом государственной власти и переходом средств производства в руки рабочего класса. Именно это обстоятельство сразу же меняло отношение к значению кооперации. Более чем странно, но и сейчас встречающиеся предложения о широком использовании в наших условиях кооперативных принципов в хозяйственном строительстве некоторые ученые склонны изображать как призыв к «кооперативному социализму», как будто кто-либо из советских экономистов ставит под сомнение необходимость сохранения власти в руках трудящихся и замахивается на общественную собственность на средства производства. В этом проявляется, на наш взгляд, то непонимание качественного отличия значения кооперативных идей в новых условиях, о котором в свое время как раз говорил Ленин.

Ленин замышлял кооперацию широко и предлагал использовать ее принципы не только для преобразования мелкотоварного сельского хозяйства, но и в целом как форму общественной организации. Он писал: «...в настоящее время тот общественный строй, который мы должны поддерживать сверх обычного, есть строй кооперативный.» [9]

Как видим, речь идет об общественном строе, а не только о преобразовании мелкотоварного сельского хозяйства. Тем не менее до последнего времени значение работы В. И. Ленина о кооперации многими сужалось как во времени (лишь период перевода крестьян к кооперативному принципу хозяйствования), так и по обьему (только для сельского хозяйства). Между тем значение идеи работы Ленина «О кооперации» сохраняется в полной мере и в наши дни, поскольку и *в наши дни острым вопросом остается вопрос об эффективности связи частного интереса с интересом общественным под контролем и проверкой государства.*

По ряду объективных и субъективных причин идеи Ленина о кооперации не были в полной мере использованы в деле строительства социализма в СССР. Прежде всего помешали те чрезвычайные условия, в которых пришлось развиваться нашей стране. Подобно тому, как окончание гражданской войны и выход из периода «военного коммунизма» сделали актуальными кооперации, так обстоятельства предвоенных лет и Великая Отечественная война потребовали ориентации на нормы хозяйствования, несколько отличные от тех, что характерны для кооперации. В этих условиях и зародилось то отношение к кооперативным нормам хозяйственного строительства, которое можно охарактеризовать как негативное, подозрительное; во всяком случае кооперативно-колхозная собственность стала изображаться чуть ли не как главная помеха на пути движения нашего общества к коммунизму. За ней прочно укоренилась характеристика – «групповая собственность». Это в свою очередь послужило основанием для того, чтобы объявить кооперативно-колхозную форму собственности менее зрелой по уровню обобществления. Попытаемся уяснить, что же под этим имеется в виду.

Прежде всего вся экономическая жизнь в СССР направляется по единому государственному плану, подчиненному главной задаче – обеспечению роста благосостояния трудящихся. Кооперативноколхозные организации не стоят в сто-

роне и активнейшим образом подключены через систему планов к общей деятельности. В этом смысле нет никаких оснований говорить, что они ниже по уровню обобществления, будто лишь часть их усилий направлена на цели общественные, а другая – на какие-то другие, узкокорыстные цели.

Отрицать степень подключенности колхозов к решению общенародных задач, подчеркивая групповой характер тех целей, к достижению которых направлена их деятельность, можно лишь в том случае, если не верить в эффективность планирования, интегрирующего усилия общенародного интереса. Но для этого нет никаких оснований. Благодаря народнохозяйственному плану снимается групповой характер кооперативно-колхозной собственности. Тогда какой же другой смысл заключен в утверждении, будто кооперативно-колхозная собственность ниже по уровню обобществления, чем государственная?

Когда говорят об этом, то обычно имеют в виду не экономическую сторону дела, а правовую: колхозы не обобществлены в том смысле, что не входят в ту систему управления, которая непосредственно руководит предприятиями государственными, *распределяя и перераспределяя все их доходы,* вновь созданную ими стоимость. Достаточно поэтому одного распоряжения о переводе того или иного колхоза в совхоз, как уровень такого его обобществления сразу поднимается на должную высоту. В данном случае мы не говорим об экономической целесообразности такого шага, однако важно подчеркнуть, что разные отрасли народного хозяйства и даже отдельные предприятия одной и той же отрасли находятся на разном уровне экономического обобшествления и поэтому по разному подготовлены к вступлению в организацию того или иного масштаба централизованности. Тот уровень подлинного, экономического обобществления, который существует, скажем, на предприятиях энергетических, диктует одну систему их централизации, совсем другой уровень экономического обобществления производства, взаимозависимости существуют в овощеводческих хозяйствах. Поэтому, и уровень централизации управления ими должен быть иным. Когда уровень организационного обобществления обгоняет уровень обобществления экономического, тогда, как показывает опыт, экономике наносится большой ущерб.

Средства производства находятся в нашей стране исключительно в *общественной собственности,* в двух формах ее: кооперативно-колхозной и государственной. Каждая из них имеет свои специфические черты, свои особенности, которые надо четко представлять себе, чтобы видеть положительные и отрицательные стороны, присущие и той и другой, чтобы понимать логику их дальнейшего развития. Однакок наряду с отличиями обе эти собственности имеют и одну главную общую черту. На их базе, хотя в разной форме, осуществляется социалистический принцип распределения по труду, причем не только на уровне предприятия, но и на общества в целом. Общественный же характер тех средств производства, на базе которых производится продукт, исключает при правильном управлении экономикой такое положение, когда та или иная группа трудящихся присваивает себе часть продукта (часть дохода), используя фактор собственности, присваи-

вая себе то, что по праву принадлежит всем, что не заработано трудом. Конечно, автоматизма здесь нет. Выполнение этой задачи требует большого искусства при использовании экономических рычагов управления и составлении планов развития народного хозяйства. Однако допускаемые здесь промахи, вызывающие к жизни элементы группового характера в кооперативно-колхозной собственности, не дают оснований для отнесения вообще кооперативно-колхозной собственности к разряду групповой, «низшей». Это лишь отклонения от нормы, а нормой является общественная природа этой формы собственности.

Концепция сближения «низшей» и «высшей» форм собственности

Отнесение каждой из двух форм собственности соответственно к «высшей» и «низшей» категориям в ложном свете представляет, на наш взгляд, и перспективу сближения двух форм собственности, способы их слияния в единую общенародную собственность. *А. Г. Корягин* пишет по этому поводу: «Практика экономического строительства нового общества неоспоримо показала, что высшей формой социалистической собственности является собственность государственная. Именно она выступает коммунистически преобразующей силой по отношению к собственности кооперативно-колхозной. Являясь подлинно общенародной, государственная собственность при социализме позволяет целенаправленно развивать народное хозяйство по единому плану, определяет все стороны производственных отношений, их социалистическое содержание» [10]. Такого рода высказывания распространены довольно широко.

Каков смысл этой позиции? Очевидно, поскольку государственная собственность является «высшей формой» социалистической собственности и уже стала «подлинно общенародной», то сближение и слияние двух форм собственности состоит исключительно в том, чтобы кооперативно-колхозную собственность превратить постепенно в собственность государственную. Такая точка зрения ведет к тому, что основная деятельность по совершенствованию отношений собственности в сельском хозяйстве начинает представляться также лишь в юридическом, организационном плане. Отсюда, в частности, рождается стремление ускорить перевод колхозов в совхозы, вместо выявления резервов их экономического роста.

На мартовском (1965 г.) пленуме ЦК КПСС *Л. И. Брежнев* говорил: «На современном этапе наша обязанность состоит не в том, стобы ускорить превращение одной формы в другую, а всемерно способствовать развитию и процветанию обоих типов общественного хозяйства.» [11]. Действительно, сам факт преобразования колхозов в совхоз мало что меняет в производстве. Порой такая реорганизация лишь затушевывает подлинные причины недостатков в ведении дел того или иного хозяйства.

Другой разновидностью того же подхода к совершенствованию кооперативно-колхозной собственности является механическое перенесение норм и методов

хозяйствования, распространенных на государственных предприятиях, на колхозы и межхозяйственные объединения, хотя эти нормы и методы сами, по общему признанию, нуждаются еще в существенном улучшении. Тем не менее из самого факта применения в кооперативном секторе организационных на государственных предприятиях, делается вывод о возрастании зрелости кооперативных организаций. Это наносит определенный ущерб их развитию, поскольку сковывает инициативу поиска оптимальных решений и направляет его в русло простого копирования определенной хозяйственной практики. Очевидно, что заимствование тех или иных организационных решений неизбежно, но оно должно осуществляться не из тех соображений, что чем быстрее будут вообще ликвидированы особенности кооперативной формы хозяйствования, тем лучше, а из расчета установления более эффективного соответствия между уровнем развития производительных сил и производственными отношениями.

Характеристика государственной собственности как яковы уже «подлинно общенародной» мешает видеть реальные перспективы развития и государственной собственности. Она тоже оказывается тогда статичной, достигшей потолка в своем развитии. Причем качественная сторона отношений государственной собственности также начинает исчезать из поля зрения. Если же к характеристике той или иной формы собственности привлекать не только фактор владения, но и (в первую очередь) уровень развития производственных отношений, то и развитие государственной собственности получает широкую перспективу на длительный период, в течение которого должно происходить все более активное вовлечение трудящихся в систему непосредственного управления государственной собственностью и превращения ее на этой основе в общенародную не только по признаку владения, но и по самой сути своей.

Отнесение той или иной формы собственности к «высшей» или «низшей» категории должно, видимо, основываться в первую очередь на показателях эффективности того производства, которое на ее базе развивается. Показательно, что фондовооруженность одного работника в 1968 г. в колхозах Молдавии была 1464 руб., а в совхозах – 3066 руб., т. е. вдвое больше, а продукции в этом же расчете было произведено соответственно на 1812 и 2066 руб., т. е. разница в пользу совхозов составила всего 12%. [12]

Это явление отнюдь не только молдавское. В свое время начальник Ставропольского статистического управления *Н. Цогоев* писал: «В 1965 году совхозная продукция обошлась (по Ставрополю – Г. Л.) государству с учетом бюджетных ассигнований примерно на 10–12 процентов дороже, чем колхозная. Спрашивается, почему же совхозная продукция обходится гораздо дороже, чем колхозная? Почему совхозы, как государственные предприятия, рентабельны менее колхозов, хотя они и призваны быть образцом организации крупного социалистического производства?» [13] Ответ автора таков: хозяйственная жизнь совхозов занормировала «сверху», что связывает инициативу и мешает предпринимать хозяйственный маневр.

Такое же явление наблюдается и в некоторых областях Казахстана. Первый секретарь Уральского обкома партии *Б. Жумагалиев* пишет: «Совхозы области имеют основных производственных фондов, техники и помещений значительно больше, чем колхозы . . .

Товарный продукции было получено на 100 рублей основных производственных фондов в совхозах на 43 рубля, а колхозах – на 80 бурлей». «Совхозы, – продолжает *Б. Жумагалиев,* – приобретают техники больше чем колхозы, и самое тревожное – хуже ее используют. Финансируя совхозы, государство дает им необходимые средства на расширение основных производственных фондов, независимо от результатов их хозяйственной деятельности. Техника, а также помещения для животных обходятся совхозам, по существу, бесплатно. Отсюда и стремление некоторых недальновидных директоров как можно больше, иногда без необходимости, получать тракторов, комбайнов и другой техники. В колхозах же дело обстоит иначе. Колхоз ведет расширенное воспроизводство, прибретает технику, строит производственные, культурно-бытовые объекты, формирует основное стадо за счет собственных средств, получая иногда лишь банковские кредиты." [14]

Автор, как видим, не только констатирует меньшую эффективность государственных предприятий по сравнению с кооперативными, но и объясняет причины, порождающие такое явление.

Это мнение подтверждают и секретари Кургансткого обкома партии *Ф. К. Князев* и *С. А. Яковлев* в беседе с корреспондентом «Правды» *А. И. Волковым* [15]. Колхозы этой области интенсивнее используют землю (в 1968 г. – 14,6 тыс. руб. сопоставимой валовой продукции на 100 га сельхозугодий против 12,6 тыс. в совхозах), у них выше отдача производственных фондов (124 руб. на 100 руб. фондов против 105 в совхозах). Они отстают пока по выходу валовой продукции в расчете на чел.-день, поскольку оснащены слабее, хотя и здесь быстро догоняют с совхозы. Каковы же причины этого явления? «Правда» разъясняет их словами С. А. Яковлева: «Поскольку колхоз всегда жил тем, что коллективно заработано, приложение труда для колхозников отнюдь не ограничивалось одним полем: колхозник в принципе никогда не был безразличен к тому, сработало ли хозяйство себе в убыток или с хорошим доходом, а новых порядок планирования и экономического стимулирования хозяйств повысил этот интерес к производству.»

В приведенных выше высказываниях практических работников фиксируются не частные ошибки, а вскрываются причины, их порождающие, обнажаются реальные проблемы, решение которых упирается в совершенствование отношений государственной собственности.

Если государственная собственность равнозначна собственности общенародной, если она «высшая» форма социалистической собственности, тогда нет объяснений тем фактам, которые упомянуты выше, нет объяснения и фактам бесхозяйственного, порой преступного отношения к социалистической собствен-

ности, встречающимся в нашей жизни. Они целиком переносятся в этом случае в область морально-этическую. Для совершенствования социально-экономических условий в целях искоренения таких явлений места уже не остается. С этим нельзя согласиться.

Разделение двух форм социалистической собственности на «высшую» и «низшую», на «групповую» и «общенародную» ведет к соответствующей недооценке ряда экономических принципов, используемых в кооперативном секторе, но требующих своего распространения на многие другие области народного хозяйства. Речь идет, в частности, о преимуществах кредитования капитального строительства перед системой бюджетного финансирования, применяемой на государственных предприятиях; о более эффективном распределении средств производства и материалов по каналам оптовой торговли, чем по принципу их фондирования, как это имеет место в государственном секторе народного хозяйства; об опыте более широкого привлечения трудящихся к управлению производством, накопленном у кооперативных организаций, и т. д. Предложения об использовании такого рода методов хозяйствования, вносимые рядом экономичтов, начинают казаться тем, кто кооперативную собственность толкует как разновидность собственности групповой, своеобразной попыткой разрушить собственность государственную, превратив и ее в групповую. В этом случае и пытаются [16, 17] изобразить сушествующую будто бы опасность распространения идей так называемого «кооперативного социализма», хотя для этого, как было уже сказано раньше, у нас нет никаких оснований, поскольку власть находится в руках трудящихся и народнохозяйственное планирование направляет деятельность каждого трудового коллектива в русло общенародных интересов.

Ставить знак равенства между собственностью государственной и общенародной нельзя и с чисто теоретических позиций. Как известно, Ленин, русуя перспективы развития управления социалистическим обществом, пимал в работе «Государство и революция» о том, что «все общество будет одной конторой и одной фабрикой с равенством труда и равенством платы.» Тут же он добавлял: «Но эта фабричная» дисциплина, которую победивший капиталистов, свергнувший эксплуататоров пролетариат распространит на все общество, никоим образом не является ни идеалом нашим, ни нашей конечной целью, а только *ступенькой,* необходимой для радикальной чистки общества от гнусностей и мерзостей капиталистической эксплуатации и для *дальнейшего* движения вперед [18]. Ленин говорил о постепенном отмирании государства, о широком вовлечении трудящихся в систему управления государственной собственностью, что как раз и должно привести постепенно к ее превращению в собственность общенародную. Ставить знак равенства между понятием «общенародная собственность» и «собственность государственная», возводить последнюю в ранг «высшей» нельзя, очевидно, без того, чтобы не отказаться от «дальнейшего движения вперед», о котором говорил Ленин, нельзя не отказываться тогда от стимулирования процесса отмирания государства.

Исходя из ленинского учения о государстве, в Программе нашей партии говорится об «общественной», о «социалистической» собственности в двух ее формах (да и предприятия называются у нас «государственными», а не «общенародными»). Программа лишь предусматривает, что «произойдет постепенный переход к единой общенародной собственности». В Программе партии четко записано, что «развитие социалистической государственности постепенно приведет к преобразованию ее в общественное *коммунистическое самоуправление*, в котором объединяются Советы, профессиональные, кооперативные и другие массовые организации. Этот процесс будет означать дальнейшее развитие демократии, обеспечивающей активное участие всех членов общества в управлении общественными делами ... Органы планирования и учета, руководства хозяйством и развитием культуры, являющиеся сейчас государственными, утратят политический характер и станут органами общественного самоуправления». [19]

Таким образом, об увековечении системы государственных отношений нет даже и речи. Речь идет об обратном, о том, что еще предстоит сложный переход от отношений собственности государственной к системе отношений общественного самоуправления. Изображать дело так, что такой переход будто уже совершен, было бы неправильно, хотя бы уже потому что это снижало бы величие тех целей, которые ствит перед собой советский народ и коммунистическая партия. Государственная собственность так же, как кооперативно-колхозная, должна, следовательно, пройти сложный и глубокий процесс совершенствования на пути своего превращения в общенародную. В настоящее время проводятся поиски более эффективных форм функционирования государчтвенной собственности. Они касаются прежде всего не юридического, а экономического ее существа, т. е. форм присвоения созданного продукта (дохода). Большой интерес в этом отношении представляют такие меры, как перевод совхозов на полный хозрасчет, щекинский эксперимент, опыт работы по злобинскому методу, практика безнарядных звеньев и т. д. Вся деятельность, осуществляемая сейчас в этом направлении, свидетельствует о том, что отношения собственности и в государственном секторе переживают процесс быстрого, динамического развития.

Таким образом, при регулировании процесса сближения двух форм собственности нет никаких оснований для механического перенесения норм хозяйствования, распространенных в государственном секторе, на практику деятельности колхозов и межхозяйственных организаций. Этот легкий путь не сулит ничего хорошего.

Способы соединения трудящихся со средствами производства и их развитие

Анализируя отношения собственности, марксисты в первую очередь обращали внимание на способ соединения производителей со средствами производства.

Поскольку основное различие между кооперативно-колхозной собственностью и собственностью государственной видится чаще всего лишь в уровнях обобществления, а также и оттого, что ряд экономистов вообще отрицает причастность форм соединения товаропроизводителей со средствами производства к характеристике собственности, то проблема эта редко рассматривается в связи с анализом развития двух форм собственности.

Тем не менее, существо отличий двух форм собственности, если брать собственность в экономическом, а не правовом значении, состоит, на наш взгляд, как раз в способах соединения трудящихся со средствами производства. Поэтому проблема сближения двух форм собственности может быть решена, видимо, не путем перевода колхозов в совхозы или, наоборот, не механическим перенесением государственных форм хозяйствования в кооперативно-колхозный сектор, а лишь на основе изучения реально существующих форм соединения трудящихся со средствами производства, проверки их эффективности и последующего выбора направления развития тех из них, которые эту проверку выдержали.

Итак, постараемся определить главные отличия кооперативно-колхозного предприятия от предприятия государственного. Их, пожалуй, можно свести к следующим:

1. *Мотив деятельности.* Как известно, цель деятельности капиталистического предприятия – получить максимум прибыли. В условиях же социализма у государственного социалистического предприятия мотив деятельности – производство продуктов по качеству и ассортименту, требуемому обществом. Государству не безразлично, однако, какой ценой будет произведен для продукт. Оно заинтересовывает поэтому трудовой коллектив предприятия в экономии затрат, устанавливая те или иные отчисления в фонд предприятия части прибыли. Прибыли социалистического предприятия в СССР представляет собой разницу между плановыми нормативами всевозможных затрат, установленными государством, и фактическими расходами по производству. Оплата труда тоже нормируется государством, и нормы эти обеспечиваются государством же. Связь непосредственного производителя со средствами производства происходит через систему наемных отношений, но природа их качественно отличается от той, что при капитализме, ибо социалистическое государство направляет всю хозяйственную деятельность в интересах всех трудящихся. Поэтому о наемном характере отношений в государственном секторе народного хозяйства следует говорить как о весьма условном понятии.

Кооперативно-колхозные предприятия ориентируются в своей деятельности на увеличение валового дохода, т. е. всей вновь созданной стоимости, а не только ее части – прибыли. Валовой доход отличается от прибыли не только количественно, но и качественно, поскольку фонд потребления и накопления определяется здесь массой валового дохода, а не наоборот. Кооперативное предприятие, по Уставу и самому существу своему, само определяет размеры оплаты труда своих тружеников, само формирует, как сказать, «штатное расписание», само гаранти-

рует тот или иной уровень материальной обеспеченности членов кооперативной организации.

В наших колхозах – и это одна из важных отличительных черт этой формы организации – нет наемных отношений ни по форме, ни по существу. Нет здесь поэтому и категории зарплаты, как единой и общей для всех хозяйств ставки за выполненную операцию, установленной организацией, стоящей «над» колхозами. Колхозники сами решают, какую часть валового дохода они могут израсходовать на оплату труда и какую – на нужды расширенного воспроизводства. Конечно, в определении этого соотношения не может быть произвола. И подобно тому, как капиталист, получив прибыль, не может тратить ее произвольно, не считаясь с интересами производства в будущем, чтобы сохранять конкурентоспособность, точно так же, если не больше, коллектив кооперативной организации заинтересован в разумном сочетании расходов на накопление и потребление. Такое сочетание регулируется объективными экономическими законами социализма.

Конечно, это не значит, что оплата труда должна складываться стихийно, на основе решения каждого отдельного предприятия, без вмешательства и регулирования со стороны государства. Прежде всего государство задает общие принципы роста оплаты тем, сто устанавливает пропорции распределения национального дохода на фонд потребления и фонд накопления. Кроме того, оно может вырабатывать ориентиры, по которым каждое предприятие обязано сверять, насколько разумно оно распределяет свои доходы, насколько уровень оплаты на предприятии соответствует уровню общественной производительности труда. Общественные организации, сверяя эти два показателя, имеют возможность предупреждать ошибку.

Итак, если при капитализме размер зарплаты трудящегося зависит от рыночной стоимости его рабочей силы, а не от величины продукта, им производимого, в колхозах, на базе кооперативной собственности, оплата труда находится в зависимости от объема произведенного тут продукта. Где этот продукт больше, там, как правило, и оплата выше. И происходит это не потому, что в одном колхозе стоимость рабочей силы, то есть набор продуктов, необходимых для воспроизводства рабочей силы, дороже или дешевле, чем в другом. Этот фактор здесь не действует, как не действует он при распределении продукта, произведенного единоличным крестьянством, владельцем мелкой мастерской, не нанимающим рабочих.

В условиях кооперативной организации оценка труда производится теми, кто здесь работает. Поэтому главное для колхозников – сколько делить и в каких пропорциях, а чистый доход для них не самоцель. Вот почему совершенно справедливо положение Устава колхоза, которое устанавливает такой порядок: нормы выработки и расценки за выполнение работы в колхозах устанавливаются «исходя из конкретных условий хозяйства и утверждаются правлением колхоза». Здесь «потолок» в оплате тесно связан с объемом создаваемой в хозяйстве продукции, а не с какими-то административными ограничениями.

На базе валового дохода, на наш взгляд, удается гармонизировать интересы накопления и потребления, найти формы решения того противоречия, которое нередко обнаруживается при подходе к этой проблеме с логикой максимизации прибыли. Ориентация на увеличение валового дохода стимулирует хозяйство также к тому, стобы активно интересоваться сферой реализации продукта, совершенствуя структуру производства в сторону расширения рентабельных видов производства. Правда, в условиях несовершенства цен это позитивное качество категории валового дохода оборачивается своей обратной стороной. Колхозы стремятся в этих условиях уклониться от производства нужной обществу, но невыгодной им культуры, уделяя чрезмерное внимание доходным видам деятельности. Однако наши слабости в искусстве овладения экономическим механизмом нельзя, видимо, относить за счет системы отношений, развивающихся на базе валового дохода. Она, пусть в данном случае в искаженном виде, демонстрирует лишь свою гибкость и отзывчивость на сигналы, идущие из сферы производства и сбыта.

Различия между кооперативно-колхозной организацией и государственным предприятием по мотивам деятельности до недавнего времени были в СССР особенно существенными, поскольку государственное предприятие весь свой продукт почти полностью передавало государству. В собственном распоряжении у него оставались крайне незначительные средства.

Как известно, после мартовского (1965 г.) и сентябрьского (1965 г.) пленумов ЦК КПСС положение в этой области начало существенно меняться. Переход от хозрасчета, во многом носившего формальный характер, к полному хозрасчету в совхозах положил начало расширению прав государственного предприятия на часть продукта (прибыли).

Развитие наметившейся тенденции в перенесении права собственности на продукт государственного предприятия, увеличение той его части, которая остается непосредственно в распоряжении предприятия, сохдавшего этот продукт, будут способствовать тому, что по этому критерию отличие обоих типов социалистических предприятий будет постепенно сглаживаться. Предстоит, следовательно, более четко определить круг таких задач, решение которых целесообразно закрепить за предприятием, и тех, что могут быть только на общенациональном, государственном уровне.

2. *Регламентация деятельности.* Различия в мотивах деятельности государственных и кооперативно-колхозных предприятий предопределяет и существенную разницу в действии механизма отбора тех или иных производственных задач, в определении очередности целей и объемов затрат. Государственные предприятия в СССР, в том числе и совхозы, осуществляют свою деятельность по нормативам затрат, утвержденным для них государством. Любое новое строительство осуществляется только с одобрения вышестоящей государственной организации, на которую само предприятие практически не имеет влияния. Кооперативно-колхозные организации в этом смысле располагают несопоставимо большими

возможностями и свободой. Это не значит, что они не ориентируются на нормативы, но для них они имеют не административный, а экономический характер.

До тех пор, пока экономические возможности нашуго государства были весьма ограниченными, строгая регуламентация затрат из единого центра оправдывала себя. Альтернативность целей и способов их достижения была в свое время сведена к минимуму. Сейчас положение резко изменилось. Чтобы достичь высокой эффективности, надо в зависимости от конкретных местных условий решить, какой набор техники лучше иметь, какую структуру специалистов целесообразней установить в том или ином хозяйстве, определить ассортимент производства, соответствующий спросу и т. д. Все эти нюансы невозможно предусмотреть из единого центра. Поэтому усредненные нормы, игнорирующие специфику местных условий, чрезмерная регламунтация хозяйственной жизни начинают отрицательно влиять на эффективность производства в сельском хозяйстве, где разнообразие местных условий особенно велико и ущерб, наносимый экономическим просчетам, усугубляется во много раз тем, что одновременно нарушаются и определенные бислогические процессы.

Поэтому анализируя пути повышения эффективности производства на государственных предприятиях, ряд советских ученых высказывает мнение о том, что предстоит еще сделать «многое для расширения свободы предприятий (объединений) в деле формирования структуры производства». [20] В частности, *Б. Ракитский* иллюстрирует эту необходимость и таким примером. «В современных условиях, – пишет он, – сравнительно легче сэкономить одну и ту же сумму средств на сокращении затрат прошлого труда (особенно сырья, материалов, топлива), нежели путем увеличения норм выработки и сокращения доли зарплаты в издержках. Путь же к экономии овеществленного труда лежит через более щедрое поощрение живого труда, через рост премий, а значит и средних заработков. До сих пор основным источником увеличения премий на перешедших на новые условия хозяйствевования предприятиях был фонд материального поощрения, но он пока весьма скромен. Из-за его малых размеров не удается выделить достаточных средств на премирование за экономию сырья и материалов, за улучшение организации труда и т. п. Заработная плата – основная форма распределения по труду – тоже пока что не играет активной роли в приращении стимулов при пепеходе на новый порядок работы, так как ее уровень остается при переходе на новые условия практически прежним. Это сильно сокращает возможности быстро пустить в ход потенции современной экономической политики». [21]

Как известно, еще на сентябръском (1965 г.) пленуме ЦК КПСС была признана необходимость «устранить излищнюю регламентацию хозяйственной деятельности предприятий, наделить предприятия средствами для развития производства и установить прочные законодательные гарантии расширяющихся прав предприятий». [22] Следовательно, и в этом отношении тенденция развития такова, что различные между двумя типами предприятий постепенно стирается.

3. *Обмен продуктами деятельности.* Об отличиях государственных предприятий от предприятий кооперативно-колхозных по этому признаку мы уже говорили в связи с порядком обеспечения их техникой и оборудованием, ведением строительства.

Товарно-денежные отношения играют в колхозах неизмеримо большую роль. Кооперативно-колхозная организация всю свою основную продукцию продает по договорам о контрактации и остро реагирует на малейшие нарушения эквивалентности в обмене, поскольку и все необходимое для возобновления и ускорения расширенного воспроизводства она покупает, в основном не рассчитывая что-либо получить бесплатно.

Таким образом, индивидуальный труд государственного предприятия и кооперативно-колхозной организации в значительной степени по-разному включается в труд общественный. Тогда как индивидуальный труд государственного предприятия в СССР включается в общественный труд заранее, до начала производства и реализации произведенного продукта, общественная оценка кооперативного труда происходит после окончания производства и реализации продуктов. Следовательно, в одном случае (кооперативная организация) труд оценивается косвенно, через продукт, созданный данным коллективом, в другом – он оценивается прямо. Надо сказать, что при косвенной оценке удается создать такое положение, когда хозяйственное предприятие оказывается заинтересованным не только в производстве, но и в реализации продукта, а также в выборе оптимальной структуры производственных фондов, в экономичном их расходовании.

По мере укрепления хозрасчетных начал хозяйствования на государственных предприятиях, в совхозах в частности, различия в системе обмена продуктами деятельности, существующие в обоих секторах народного хозяйства, постепенно будут стираться. Этому способствует ориентация на систему оптовой торговли, которая должна прийти на смену фондированному распределению материально-технических средств, а также переход от бюджетного финансирования к банковскому кредитованию развития хозяйственной деятельности государственного предприятия. Следовательно, и по этому признаку происходит сближение предприятий государственных и кооперативно-колхозных.

4. *Роль прошлой деятельности.* Как известно, благосостояние кооперативной организации зависит не только от текущего труда, не только от эффективности живого труда. Те из них, которые накопили больше основных средств производства в расчете на гектар, на занятого работника, имеют больше возможностей лучше оплачивать труд, вести культурно-бытовое строительство, отчислять крупные средства на ускорение темпов расширенного воспроизводства. Более того, благодаря этому открывается возможность не только лучше оплачивать текущий труд, но и устанавливать повышенную пенсию престарелым колхозникам, т. е. оплачивать по труду не только сам труд, приложенный в данный момент, но и поощрять в целом трудовое участие в деятельности данной организации.

Следовательно, в кооперативной организации каждый член ее осязаемо ощущает выгоды от политики расширения производственных фондов, от бережного отношения к их сохранности. В результате открывается редкая в истории возможность развивать в трудовом коллективе чувство хозяина, заинтересованность в увеличении накоплений, противостоящую потребительскому подходу при распределении сохданного дохода. Значение этой уникальной черты для экономики и соответствующего развития социальных процессов нельзя недооценивать.

Является ли, однако, эта особенность кооперативных организаций отклонения от социалистического принципа распределения по труду? Не идет ли речь о влиянии фактора распределения по собственности, «по капиталу»? Для такого вывода нет никаких оснований. При распределении по капиталу происходит бесплатное отчуждение части стоимости, созданной рабочими, но присваиваемой капиталистами, которые и делят ее между собой из учета вложенных в производство средств. В кооперативных организациях весь продукт создан трудовым коллективом, им же он и направляется в овеществленной форме в производство для ускорения темпов его развития.

Следует, однако, подчеркнуть, что по ряду обстоятельств не всегда получается так, что та или иная кооперативная организация пожинает плоды только собственного труда. Разэица в ценах на тот или иной продукт; резкие колебания показателей рентабельности; отличие в уровне механизации отдельных видов производства, явившееся следствием тех или иных предпочтений при осуществлении государственной политики внедрения технического прогресса; качество земли; близость государственных магистралей и т. д. – все эти факторы сильно влияют на результаты хозяйствования, порождая углубление в дифференциации доходов, ведущее к нежелательным социальным последствиям. Кооперативные организации, которые оказываются в более выгодных условиях, нередко поэтому присваивают в свою пользу не только то, что создано их трудом, но и то, что создано другими, всем обществом. В этом случае какая-то часть общественной собственности оказывается в групповом владении, создается опасность развития элементов групповой собственности. Поэтому чем дальше, тем острее встает проблема выравнивания экономических условий хазяйствавания, причем выравнивания, не задевающего хозрасчетной природы связей предприятий, не угрожающего уравнительным подходом к оценке их деятельности. В этом залог блокирования роста элементов групповой собственности.

5. *Кооперирование деятельности.* Следующая отличительная черта кооперативного предприятия, тесно связанная с предыдушими, состоит в том, что кооперативное предприятие не автаркично, не замыкается, по сути, в своих узких рамках. Оно открыто для разнообразных форм сотрудничества и кооперации с другими предприятиями, развивая ее не только и даже не столько по административным указаниям, но, в первую очередь, исходя из учета целесообразности и взаимной выгоды кооперирующихся сторон. Тем самым создается возможность для перелива капитальных средств в те виды производства, которые становятся

тормозом общего развития, что обеспечивает большую гармонизацию производственного роста. Причем решение о направлении средств принимается самыми производителями, которые, не дожидаясь решений вышестоящих организаций, непосредственно реагируют на нужды развития производства. Тем самым включается в действие своеобразный принцип «самоорганизации» производства, значение которого для экономики исключительно велико.

6. *Управление производственной деятельностью.* Особенность кооперативных организаций проявляется и в системе управления ими. Демократические принципы получили здесь воплощение в том, что общее собрание или собрание уполномоченных избирает председателя и членов правления. Они отчитываются перед собранием и могут быть заменены, сняты с работы коллективом предприятия. Председатель совместно с правлением ведет все текущие хозяйственные дела. Такой порядок благотворно сказывается на развитии кооперативных организаций, поскольку их руководители чувствуют свою ответственность перед коллективом, а коллектив оказывается в состоянии влиять на состав своего органа управления. Последовательное осуществление демократического принципа управления кооперативным предприятием осеспечивает такое положение дел, когда решения по тем или иным вопросам принимаются людьми, имеющими информацию по решаемой проблеме, а сами они оказываются наиболее заинтересованными в оптимальном варианте этого решения.

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Итак, между кооперативно-колхозной собственностью и собственностью государственной сохраняются существенные различия, и касаются они прежде всего форм связи непосредственно производителя со средствами производства. Различия эти не могут быть устранены механически, лишь принятием тех или иных правовых норм. Сближение двух форм социалистической собственности должно происходить поэтому не путем огосударствления кооперативно-колхозных предприятий, а по линии дальнейшего совершенствования отношений распределения созданного на предприятии продукта, уточнения степени социально-экономической обособленности предприятия, укрепления хозрасчетных начал их хозяйственной деятельности, демократизации системы управления производством. Кооперативно-колхозные организации имеют в этом смысле определенный опыт, который не может быть не использован в ходе работ по сближению государственной и кооперативно-колхозной собственности. Большую ценность, на наш взглад, имеют рассмотренные выше принципы и при организации межхозяйственных предприятий, поскольку и эти предприятия основаны на кооперативно-колхозной собственности. Иногда, правда, ставят под сомнение такую их характеристику в случае, когда в составе фондов вновь созданного на паевых началах предприятия оказываются средства государственных хозяйств. Это недоразумение происходит по той же причине, о которой говорились выше: из-за смешения правового, имущественного и экономического содержания категорий собственности. Общественная собст-

венность может возникнуть различными путями: за счет первоначального сложения средства индивидуальных, частных хозяйств: за счет национализации; путем привлечения акционерных капитальных средств и т. д. Но не это определяет характер собственности, не имущественный состав ее, а те отношения, которые на этой базе будут развиваться. При соединении кооперативно-колхозной собственности с собственностью государственной в рамках предприятия, возникшего на паевых началах, вполне могут развиваться отношения, характерные вообще для кооперативно-колхозной собственности, если такая форма связи непосредственного производителя со средствами производства обеспечивает оптимальный социальный и экономический эффект.

То же самое следует заметить и по поводу тех высказываний, которые касаются возникновения, так сказать, новой, третьей формы собственности – собственности *группы* хозяйствпайщиков. Сторонники этой концепции считают, что раз предприятие возникло на паевые взносы, то оно свю свою последующую жизнь должно полностью отдавать прибыль хозяйствам-пайщикам, превратиться в своеобразный их «доходный филиал». С этим тоже нельзя согдаситься, поскольку прежде всего «пай», собственность, не может в социалистических условиях быть фактором распределения: работники одних хозяйств не могут брать себе то, что не их трудом создано. Конечно, отношения по «паю» не должны быть решены и так, что хозяйства-пайщики потеряли бы интерес к финансированию вновь строящихся предприятий. Но это самостоятельная проблема, которая должна рассматриваться отдельно.

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DEVELOPMENT PERSPECTIVES OF SOCIALIST OWNERSHIP RELATIONS IN AGRICULTURE

G. S. LISICHKIN

The problem indicated in the title is not only of theoretical but also of current practical importance, since it is closely connected with the judgement on today's position and future development of the kolkhoz- and cooperative form of ownership. Soviet economists have rather widely different view on the question. The author argues against the opinion in which state ownership is held to be "superior" and general, while cooperative and kolkhoz ownership is considered "inferior", a group property, i.e. not really a social form of ownership. This leads to the conclusion that the development, mutual approaching and merging of the two different forms of ownership have no other meaning than that the cooperative and kolkhoz property are to be turned gradually into state property.

In practice this leads to efforts at turning kolkhozes into sovkhozes (state-farms) instead of trying to exploit the growth resources inherent in the kolkhoz form. The other tendency that follows from the above-mentioned opinion is to transplant mechanically the methods and norms of management applied in state enterprises, into kolkhozes and cooperatives, although these methods and norms need essential improvement themselves. This is harmful to the development of the cooperative sector, since it paralyses initiative and the search for optimum solutions.

There exist vital differences between cooperative–kolkhoz ownership and state ownership, primarily in the forms of the producer's direct connexion with the means of production. These differences cannot be eliminated by legal acts or organizational measures. Therefore, it is not through nationalization of cooperative and kolkhoz enterprises that the approaching of the two forms of socialist owership has to take place, but through the development of distribution relations and the methods of independent accounting (khozrazchot), as well as through further democratization of economic management. Cooperative enterprises have advantages not to be understimated, and valuable experience that cannot be left out of consideration in further developing socialist ownership relations.

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REVIEWS

A. INOTAI

FRENCH–HUNGARIAN ECONOMIC COLLOQUIUM IN BUDAPEST

The Research Institute for World Economics of the Hungarian Academy of Sciences and the Market Research Institute organized a French–Hungarian economic colloquium on the 24th and 25th April, 1978. On the Hungarian part several members of the above-mentioned two Institutes as well as commercial and financial experts participated, and on the French part representatives of the Centre d'Observation Économique and of the Chambre d'Industrie et de Commerce. Two main subjects were treated at the colloquium. Lectures on East–West economic relations dwelt on the trade relations between Hungary and France. Lectures engaged in the examination of the latest developments and tendencies of international trade also touched upon some theoretical aspects of the analysis.

Sylvain *Wickham,* Professor of the Université Paris-IX Dauphine held his lecture under the title "Perspectives of Western economy and East–West trade in the spring of 1978". He dealt mainly with the question whether it was possible to expect any considerable acceleration of growth in western countries and, if so, whether it had an encouraging effect on the near future of East–West trade. His answer was as follows: the growth process has durably slowed down in both the socialist countries and in the West, but has not stopped. The world economy is not in a bad position from the aspect of business upswing, even though, from the quantitative aspect of growth, certain elements of the tendency that became prevalent in 1977 are expected to continue in the coming years. As regards growth rate and inflation, three groups of countries emerged in the capitalist world in 1977. The first group is that of the USA and Japan, with a growth rate that may be called considerable, which causes at the same time a shift of the growth centres of the world, i.e. their displacement to overseas. The second group is represented by the German Federal Republic and the joining Central- and North-European countries, in which a moderate growth is coupled with a decelerated rate of inflation. The third group includes the West European countries that have been gravely affected by stagflation in recent years (Italy, Great Britain, Spain, France). For 1978 a 3.5–4 per cent growth rate is expected, and perspectives are similar for 1979, with a further slackening of the rate of price rises. The pattern of growth is going through a change: domestic development is constrained on the side of energy resources and labour scarcity, an inconsiderate transgression of which would make capitalist economies pay a high price in the form of either expansive financial policy, or of a deliberate sharpening of social

tensions. It must be recognized that the period of economic miracles has passed in advanced capitalist countries, while it remains characteristic of the fast industrializing Far-Eastern and Latin-American countries now joining the international division of labour.

Transformation of the pattern of growth has its effect also on international trade. As a characteristic feature of the latter in the last two decades its growth constantly surpassed that of production. Thus international economic relations played an increasingly important role in the life of each country. French data and computations have recently indicated decreasing import elasticities in each national economy, which may lead to weakening impulses in world trade and in East–West trade.

A contrary effect is induced, however, by the fact that the new Western recession, expected before 1980 has largely lost its resources and today seems almost excluded. The diminishing import elasticity is also temporary and may be attributed to strict financial discipline in the West as well as in socialist countries. It seems thus highly probable that, under improved equilibrium conditions, the process of intensifying international economic relations, considered as smooth for two decades, will continue at a fast rate from the early 1980s.

The paper "Development of trade between East and West expected in 1978" by Zoltán *Krasznai,* fellow of the Market Research Institute, provided a short-term prognosis and a thorough examination of the causes responsible for the present situation. In 1976–77 East–West trade ceased to be one of the most dynamic elements of international trade. The growth of trade between the two regions remained below the average of world trade, but also below the growth of trade between capitalist countries and in 1977 below that within the CMEA. Therefore, the share of the two groups of countries in each other's foreign trade turnover decreased to some extent, which entailed intensification of the particular asymmetry in East–West trade, and of the differences in the extent of interestedness. (For the CMEA the importance of Western trade is over fourfold of the weight represented by the CMEA in the trade of advanced market economy countries.)

Among the factors of slackening are the decelerating growth of western economies, intensifying international export competition, certain protectionist tendencies, and measures taken with a view to improving the equilibrium conditions of the CMEA countries. Yet the latter improvement took place in a way that at the same time the commodity pattern of East–West trade preserved its earlier established characteristics. The increase of exports of socialist countries to the West is attributable mainly to the increasing primary energy exports of the Soviet Union and Poland representing over two-thirds of total exports.

Trade between East and West is influenced in the short and in the long run by different, at times mutually contradictory, factors. In the long run such factors are the political détente, the structural transformation taking place in advanced countries, and the comparatively fast and more or less smooth economic development of the CMEA countries. At the same time, however, it should be perceived that in the short run

structural transformation often acts more as an obstacle than as a stimulus to the development of these relations, since on the market of sectors losing their international competitiveness protectionist tendencies are strengthening. East–West relations are not intensified by the fact, either, that the "removal" i.e. the relocation of industries takes place expressly in some determined developing countries and promotes that the latter join the international division of labour. A similarly mixed influence is exerted by the CMEA countries' shift to the intensive growth period. In the long run this offers, of course, important possibilities for increasing the exports of western industrialized countries to the socialist ones. In the short run, however, the increased strictness of requirements in economic management, and the disequilibrium brought forward give prominence to the stabilization and balancing of bilateral trade. All this, however, does not hinder but rather promotes the division of labour between the two regions and a basis for a more advanced technological cooperation. The above-mentioned asymmetry as well as the traditionally developed intersectoral character are likely to remain hindering elements also in the long run. (Intersectoral forms of international division of labour developed in the first place instead of the more advanced forms within sectors.)

Potentialities for expanding socialist exports treated as a neuralgic spot in all the analyses were examined on the example of Hungary by Ádám *Török*, fellow of the Research Institute for World Economy, in his study "Specialization tendencies of Hungarian industrial exports to advanced market economy countries". It is a consequence of raw material scarcity in Hungary and of a number of other factors that Hungarian exports to western countries can be increased primarily through a dynamic increase of industrial commodity exports. A fast increase of the latter suits best Hungarian foreign economic aims if it is transacted with comparatively low domestic inputs. This necessitates concentration of the scarce development resources, and specialization of domestic production in profitably producible articles exportable in large volumes.

The specialization pattern of Hungarian industrial commodity exports to advanced western countries, and of her total industrial commodity exports, has changed little in more than ten years. This is particularly remarkable in the case of products which public opinion held for some time to be "carriers" of the Hungarian commodity exports. With medicaments, furniture and clothing articles the degree of specialization has decreased, but no considerable increase has taken place with electric bulbs and television sets, either. The export surpluses of the Hungarian chemical industry, metallurgy, and machine tool industry indicating specialization turned into import surpluses in some years, or were only of an unimportant extent. At the same time, the role of the division of labour within a sector was very small in Hungarian industrial commodity exports. It is probably related to this fact that the efficiency of specialization did not improve between 1965 and 1976 in either the total of industrial commodity exports or in those to the West, although in some industrial branches (e.g. the clothing industry or metallurgy) a considerable improvement took place.

Realization of the objectives of Hungarian foreign economic policy necessitates the elimination of rigidity from the specialization pattern and a fast improvement of

efficiency first of all in the industrial commodity exports to advanced capitalist countries. According to some calculations Hungarian exports are specialized at present to no small extent in groups of a decreasing competitiveness, which threatens important Hungarian market positions, mainly because of the increasing competitiveness of the South-European countries and of certain groups of the developing countries.

The most recent changes observable in the character and direction of international trade bring us closer to finding out, what in fact the nature of the world economic medium is, in which the Hungarian export ambitions, as well as the whole of East–West trade and within it mainly CMEA exports must find their place in the future. It was to this question that the paper „A few characteristics of international trade in the 1970s" by Mrs. B. *Havasi* – fellow of the Market Research Institute – contributed a few essential facts. At the turn of the present decade several world economic processes emerged which considerably influenced the development of international trade.

The development of world trade in terms of value and in those of volume broke away from each other, i.e. reflected movements contrary to each other: the growth rate of trade accelerated in terms of value, while decelerating in terms of volume. The growth in value reached a yearly average of 20 per cent between 1970 and 1977, while the growth in volume went down to three-fourths of the average of the preceding decade i.e. to about yearly 6 per cent. According to the author it would yet be wrong to draw from all this the conclusion that the international division of labour has lost some of its dynamism, or that the role of foreign trade in it has diminished. The fall in the growth rate of world output is, namely, exceeding that of world trade (contrary to French data). While in the 1960s a unit growth of world output entailed a 1.44-fold growth of world exports, this indicator rose to 1.59 in the 1970s. Thus the world economic role of foreign trade has further increased under the comparatively narrowed growth conditions.

The important rearrangement did not and could not take place without considerable tensions. In the sharp competition for export markets countries getting into a more advantageous position owing to changed income proportions have acquired increased importance.

The sharpening of international competition led to a situation where the general competitiveness and adjustability of each country obtained even greater importance than before. The foreign economic positions of countries starting from the most disadvantageous positions and adjusting too slowly to the changing situation were deteriorating in the past years. Their balance deficits were growing (or their assets decreasing), their international debts were mounting and they became the main propagators of protectionist measures in defence of their threatened (because non-competititive) industries. Among the leading western countries such are Italy, Great Britain, France, and in some respects also the USA.

One interesting aspect of the change in international trade is the considerable difference in the balance positions between leading market economy countries and smaller West European economies. The balance positions of the latter may be considered worse, in which, however, deteriorating terms of trade played a lesser role than in the case

of the countries of the former group. The main reason may be found in the less favourable development of export and import volumes; between 1973 and 1976 only \$1–2 thousand million of the \$15.5 thousand million deficit in the balance of trade could be counterbalanced by augmenting the volume of foreign trade, and in 1977 only \$0.5 thousand million of the \$4.5 thousand million deficit. This means that the position of the smaller industrialized countries was affected by the changed conditions of international competition to a greater than average extent. In more than one case, however, it is exactly these tensions that lead to the elaboration and practical implementation of consistent, export-oriented and, at the same time, structure-modernizing development policies, based on a concentrated utilization of funds, increasing international efficiency as well as competitiveness.

A separate study dealt with one of the important factors in the changes of international trade: the role of developing countries. The paper "A few thoughts on the absorptive market role of developing countries" by Rozália *Jehoda,* Mrs. *Bogó* – fellow of the Market Research Institute – did not examine the exports of the developing countries much analysed in international literature, but their import-absorbing capacity.

The share of oil-exporter developing countries is well over the world average in the exports of advanced countries, while that of other developing countries is below the average. The share of the OPEC countries is particularly high in the case of Greece (14.2 per cent), Japan (13.9 per cent), Italy (11.4 per cent), Great Britain (11.4 per cent), the USA (11.1 per cent) and Spain (9.6 per cent). After 1973 each advanced country strove after a fast increase of their exports to oil-exporting countries. Between 1972–73 and 1976 their exports rose to almost fourfold; the growth rate of exports of the three most advanced countries (USA, German Federal Republic, Japan), as well as that of four small European countries (Austria, Sweden, Denmark and Switzerland) was also above the average. The lecturer pointed out that – taking into account the similar data of all the other groups of countries – in the exports of socialist countries the share of developing countries is the lowest. It may be food for thought that, in spite of the increasing share of oil-exporting countries, even the 1970 share could not be maintained in 1976. This may be explained partly by the high degree of self-sufficiency of socialist countries in raw materials since these countries felt the rising raw material costs with a delay, and thus their export offensive followed also later. The relatively diminishing importance of developing markets may also be a consequence of the determining role of the Soviet Union, and of the fast expansion of Soviet-OECD trade.

One of the novel tendencies of the 1970s is the increasing share of the trade of developing countries among themselves within the total. True, the OPEC has today only a 5–6 per cent share in the exports of the non-oil-exporting developing countries, yet this is the most dynamically growing sector in their trade. Over half of the exports of developing countries to OPEC countries consists of finished goods, as opposed to the one-third ratio within their total exports. It is also worth mentioning, that these finished goods are not limited to traditional labour-intensive articles, but complete plants, and equipments for infrastructural development are delivered to an increasing extent by the industrially more

advanced non-oil-exporting developing countries. In the near future also the exports of the OPEC countries are expected to grow intensively. The heavy industrial investments started are beginning to release export articles in these years and will augment considerably the semi-finished product supply of the world (oil refining, petrochemical products, steel- and aluminium industry). Since the OPEC is largely self-sufficient in these groups of products, it is expected that a great part of OPEC exports will try to find a market in other developing countries.

The share of developing countries is much lower in Hungarian exports than in that of the OECD countries, but it lags also behind that of most other socialist countries. Among its causes are the lack of traditions, and a smaller pressure for counterbalancing, because most of the imports – mainly raw materials – come from the socialist countries, and also the fact that for a long time Hungary was unable to establish basic markets in the developing countries. In recent times important changes have taken place in this field. While in 1970 the developing countries had a 5.4 per cent share in the total exports of Hungary, and within it the share of oil-exporting countries amounted to 1.5 per cent, in 1976 the oil-exporting countries were already leading with 4.5 per cent within a total share of 7.9 per cent. Iraq, Iran, Syria, Kuwait and Algeria are considered important partners.

The Hungarian–French colloquium has much contributed to an understanding of the current trends of world economy.

I. HERÉDI – D. TARJÁN

RESULTS AND FURTHER OBJECTIVES OF THE MAJOR NATIONAL RESEARCH PROGRAM "THE SOCIALIST ENTERPRISE"

The article undertakes to give a survey of the scientific results and research organization experience in the past three years with the national scientific research program* whose basic conception was formulated by Professor Kálmán *Szabó* in Acta Oeconomica.[2.].

The fact that the project "The socialist enterprise" has been raised to the level of national importance reflects the high significance the enterprises have within the present Hungarian economic control system for the fulfilment of economic and social objectives. In the economic control system introduced in 1968 the economic policy objectives laid down in the national economic plans are not direct instructions, but are realized through the decisions and activities – influenced by economic regulators – of enterprises having more or less independence. While previously the enterprise had to attain only the centrally prescribed targets mostly of quantitative nature, under the present control

*At the start of the scientific research project it was surveyed in István Néményi's article[1].

system stress is laid on the quality and efficiency of enterprise management. The enterprise draws up its own annual plan, as well as its medium- and long-term plans: a two-level planning has evolved. The enterprise has to develop its own inernal management system and product pattern: it has to manage labour, and has to know the demand not only of the home market but also of the world market; it has to carry on a planned market organization work. Utilization of investment funds belongs in a great part to the enterprise sphere of decision, the enterprise makes its own decision on its technological development policy, and one of the most important criteria for its judgement is the exportability of its products. As a consequence of the efforts at reducing high state subsidies the enterprise is increasingly required to hold its own in world market competition. Traditional one-man management has to be replaced by collective participation in decision-making, for which a democratic enterprise management system has to be developed together with the rights of the workers' collective in decision-making and approval. Social and welfare facilities have to be provided for workers. The earlier central allocation of products has been replaced by a system of product-flows based on civil law contracts.

All these tasks necessitate important changes in enterprise management. Science was also faced with a new task since, in accordance with the requirements of the previous economic control system, Hungarian economic science used to pay much less attention to the enterprise than to research into macro-level problems, so that in this field there is a lot to make up for.

As regards the objectives set and the methods of realization, the major research program has been of inter- and multidisciplinary character from the start. All that required adequate institutions and practice for the coordination of science organization and control. To establish a major research program of national importance seemed to be much more efficient than the form of a separate scientific institute. It was hoped to assure in this way that the scientific results regarding enterprise management and enterprise development so far achieved by the various institutes and scientific branches should be integrated into a theory of the socialist enterprise without bringing about a large research apparatus, by relying on existing forces and, last but not least, with comparatively low inputs. For the elaboration of the long-term plan of the major research program and for providing continuous orientation a Coordinating Council was formed whose members are partly leaders of teams who direct the research, and partly scientific and practical experts of authority who do not participate directly in the research program.

The Hungarian Academy of Sciences chose the Karl Marx University of Economics for a base of organization and research of the program, because at the University almost all disciplines and subjects necessary for the examination of the socialist enterprise are taught and investigated.

In indicating each task and direction of research the Coordinating Council relied on the scientific results of each place of research, it defined new tasks in the fields that had not been or hardly investigated, and it made efforts from the very start to stimulate for a synthetization of scientific results already achieved and those newly emerging. Adequate

concentration and selection was an important requirement, that is, no effort was made to draw any partial subjects offered by institutions or research workers into the sphere of coordination and financing of the major research project. In the scope of subjects (themes) approved by the Coordinating Council research workers of various institutions carried out empirical investigations and drew up partial and summarizing studies on commission basis.

The organization of the major research program presented a new task for Hungarian science organization and control as regards quality and dimensions, since the form of institute is still dominating, with no tradition of interinstitute researches. Solution of research tasks requiring the cooperation of several institutes did not fit into the existing organization, and this accounts for the difficulties in coordination, and what is more, for controversies in the general judgement of the major research project. In the research work of the first three years the basic objectives: synthetization and national coordination could not be fully realized, partly for the above-mentioned reasons; those three years may be called practically a period of experimentation. The arguments have finally boiled down to the statement that the major program as a novel way of scientific research organization is the most suitable form for working out an integrated theory of the enterprise.

The new medium-term research plan covering 1976–80 was drawn up by relying on the lessons of the experimental period, and contains the following major subjects (themes, or directions):

1. Socialist enterprise theory, enterprise interests
2. Democratism of the enterprise organization
3. The enterprise structure of the national economy
4. Enterprise concentration in agriculture
5. Foundations in jurisprudence of enterprise theory, enterprise management and enterprise structure
6. Long-term enterprise planning, enterprise strategy
7. Labour fluctuation, wage- and income relations
8. Empirical examination of enterprise managers' activities
9. Conditions for accelerating innovation
10. Examination of the system of market relations between and marketing activities of enterprises
11. The internal management organization of the industrial enterprise
12. Measurability of enterprise organization, methods of measurement
13. Methods of rationalization
14. The stocks of the national economy, enterprise stock management and stockpiling

At a conference of the major research program held at the end of 1977 those in charge of the research themes listed gave account already of their results, including a few important favourable developments.

The research works, i.e. the studies summarizing the results, are based on extensive empirical investigations almost without exception; computers played an important role in data processing. A multitude of depth-interviews and case studies provided the grounds for conclusions. The data registered and processed by computer will remain well usable also in future research works, for a data bank may be created from them, which is, of course, to be continuously enlarged.

In each research direction a certain interdisciplinary character is present, and efforts have been made at synthetizing the results. The most important points of contact between the research themes have emerged. This is an extremely important development, since it reflects the preliminary methodological principle realized in practice that the socialist enterprise is not considered mosaic-like in separate research programs, but as a unity of organically related phenomena.

In the present article only a few ideas can be raised about the questions emerged and the possibilities of their solution.

1. Since the enterprise is not merely an independent unit but has far-reaching relationships with the whole of the national economy, with its sectoral, functional and regional control organizations, with the natural and social environment, with its suppliers, creditors and consumers, its functioning cannot be examined and researched without considering these external relationships i.e. the economic mechanism. But the questions of economic control are investigated thoroughly in the framework of another major research program.* A good information relationship is indispensable between these two major research programs and also a higher-level synthesis of results achieved separately is needed.

2. In developing the socialist theory of the enterprise those particularities must be taken for a starting point which result from the socialist character of the enterprise, and from the socialist relations of production. Equality resulting from social ownership is a fundamental relationship between people, besides, however, also relations of inequality exist. Division of labour is necessarily concomitant with differences in the right of disposal of the means of production among workers and employees of the enterprise. These differences are socially accepted: everybody recognizes that, although the director is owner of the means of production in the same way as is any worker, their rights regarding disposal of this property are not of an identical extent. According to experience, however, society does not tolerate differences in personal incomes and wealth in proportion to this, even if that would be in harmony with the principle of distribution according to work. The personal income of enterprise managers generally exceeds that of the best qualified workers only slightly, while subordinate engineers' and economists' incomes even lag behind it. Differentiation between enterprises is also unimportant: it never occurs that personal incomes would be twice as high in an enterprise working with twice as high efficiency as the other one. The extent of material incentive is limited, since the individual can exceed the enterprise average in increasing his personal income only to a

*See[3].

certain extent, and the same thing holds for the profit left with the enterprise in comparison with the national economic average. No personal income can rise permanently without a proportionate improvement in the situation of the enterprise, and the wage level of the whole enterprise can rise in the long run also only within the framework of the general development of the national economy.

This state of affairs is not the consequence of a primitive "egalitarian" approach but arises from the recognition that the success of the individual's work is determined by the general organization and efficiency of the enterprise. The quantity and quality of the work accomplished causes a dispersion around this average, but it cannot entirely break away from it. The same thing holds for the enterprise as a whole within the national economy. This produces, of course, a large number of sources of tensions. An individual doing good work within a poorly functioning enterprise, or an excellently functioning enterprise within a less efficient national economy run into grave, often unsurmountable obstacles. His or its income or efficiency will either not be in proportion with the quality of work done, or, since "it is not worth", he or it will not perform according to his or its abilities or possibilities. Holding back performance, and building up of "reserves" are well-known phenomena. This is clearly a financial and moral loss, often a personal failure for the given individual as well as for the enterprise.

It is no solution to the problem to allow for an unlimited differentiation, as it is no solution in capitalism, either.

3. Owing to its conditions of existence, its position within the whole of the economy, and the substance of the socialist social ownership the enterprise follows certain aims that correspond to its basic interest. They are, therefore, immanent aims, independent of the actual economic control system. The latter determines the instruments and ways of achieving those aims.

The most important enterprise objectives are the following:

a) raising of the personal incomes of workers and employees

b) efforts at increasing the size of the enterprise, expansion

c) achievement of social acknowledgement, earning a respect for the enterprise.

It is very important to analyse these enterprise aims, because enterprise behaviour can be influenced only if we know them. Or, looking at the problem from another aspect: if we accept that enterprises follow these aims owing to their basic nature, we shall not raise such demands on and expectations towards enterprises that prove to be illusory with a view to those aims. Therefore, all such national economic requirements which cannot be deduced from those aims need to be centrally regulated.

4. The preceding explanations hold more or less for every enterprise, independently of their type and size. Care must be taken, however, not to make enterprises uniform. What is more, an enterprise typology must be laid down, on whose basis, in consideration of particularities, a differentiated regulation can be implemented. Three types of enterprises are distinguished:

a) large enterprises having the character of a concern, whose independence is limited, which are closely linked to central control organs, their leader is not one person

but a board of directors, among whose members we find also responsible representatives of the control organization;

b) enterprises oriented mainly towards market competition, which are highly independent; central control organs exert only legal control over them, except, of course, the determination of economic regulators valid for them;

c) public utilities.

In the above context the conception covering the reform of sectoral control has been worked out in the framework of the major research program. According to it, functional control organs (National Planning Office, Ministry of Finances, etc.) would be dominating in the control, as opposed to the present situation where sectoral ministries are the direct controllers.

5. Research work covering organizational democratism – in which economists, lawyers, sociologists and economic historians participated – started from the point that "enterprise democracy" is not a separate enterprise institution. Democratism of the enterprise organization is a part and a function of the democratism of the whole institutional system of the economy and society. Only by keeping this in mind can its development be understood and promoted. Its existence or non-existence depends, therefore, not primarily on the given enterprise.

The fact that in Hungarian enterprises economic and social management get increasingly integrated, with decisions made in common, is a sign that the general development of socialist democracy appears tangibly in enterprise practice, and also that the democratic organization is not an end in itself, and not even an exclusively political problem. It is, namely, not by mere chance that the democratization process of the enterprise organization takes place at a time when Hungarian enterprises are faced with, or in the course of, the implementation of tasks never met before, which is made even more difficult by the effects of changes in the world economy.

As a matter of fact: a democratic organization secures a management of a much higher efficiency, and also a greater freedom of decision, since the leader can feel the whole collective behind himself. Therefore, a democratic organization is capable of higher economic achievements.

Recognition of all this has led to researches into such questions, what the role of the collective in each type of decision and in the preparation of decisions should be, how the institution of collective decision can be prevented from hindering technical or social progress, and what the collective responsibility should be for decisions made collectively.

6. Far-reaching empirical investigations have been directed at revealing why technical progress is slow in enterprises, what is the cause that the technological development realized is not efficient enough either, why the efficiency of the engineers' creative work is low, why there are so few new products in serial production in comparison with the number of patents applied for. It has been revealed by the examinations that these phenomena are in close connexion with the lack of a complex planning and organization of enterprise functions. It happens almost exclusively by chance that an appropriate organizational and management background is planned and

deliberately provided for a given technological development, i.e. innovation, or, that enterprise strategy takes into account the innovation cycle. A further reason is that in planning the basic approach is prevailing that the basis for the evaluation of output is the result achieved in the preceding year. In the present system of regulators the functioning of the enterprise cannot bear a temporary recession without a shock. It is to be traced back partly to this fact that stocks are accumulating to an extent in enterprises as to cause grave losses for the national economy.

Correction of the deficiencies revealed, and raising of the management and organizational standards present a cardinal problem for socialist enterprise management. As it was explained under par. 2, the progress of the individual and that of the enterprise are interdependent and cannot be separated.

Scientific contribution to the establishment of a modern and complex enterprise planning methodology is one of the most important elements in the major research program "the socialist enterprise", that is to draw up the picture of the enterprise of the future.

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COMMENTS AND CRITICISMS

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IS CAPITALISM STRONGER THAN EVER?*

I.

In order to understand why Dr. Rédei is partly right in stating that sometimes "Adler-Karlsson comes into contradiction with himself" it may be useful to know about the background of my essay on the "East–West–South cooperation".

Not everybody shared Dr. Rédei's kind description of my "Western economic warfare 1947–1967" as a "well-documented and objective description of economic warfare in the cold war period". The leading academic people in Sweden, almost all of them closely tied to the capitalist establishment, considered it to be violently anti-American and thus unscientific. I was exposed to some kind of a "Berufsverbot" in practice and forced to live abroad. In that period the Vienna Institute for Comparative Economic Studies kindly offered me some financial means to write the book under discussion. These means were, however, limited and the book had to be finished on a certain dead-line. Because of that, it has neither got the final polishing, nor the profound elaboration that I would have wished. It was written under a period of both financial and psychological duress. I am not at all satisfied with it myself. The more grateful I am that Dr. Rédei has found it worthwhile to spend some effort in correcting some of my mistakes.

I have noticed at least eleven points in his review that could be discussed. On some, e.g. that comparisons between a 30- and a 300-year-old system may not yet be possible, I grant that he is right. Some others are minor. I will only take up some of the more important ones, on which interpretations may honestly differ.

II.

Is the capitalist system stronger than it ever has been? There our opinions differ. Indeed, it may seem ridiculous to claim an affirmative answer, considering the unemployment, the almost runaway inflation, and the international monetary muddle that has characterized the last five years of the Western economies. But anyway, I maintain my proposition.

*See Acta Oeconomica Vol. 20, Nos 1–2, pp. 183–189

My opinion rests upon three analytical elements: 1. a certain definiton of capitalism versus socialism; 2. the criteria chosen; 3. and the idea that "strength" is a relative concept and crisis a normal condition.

ad 1. My definition of capitalism *versus* socialism is related not only to the constitutional rules with respect to the ownership of the means of production, or to the real distribution of functional ownership control between various economic subjects, but also to the political goals and human values that guide the behaviour of the institutions. One of the central capitalist values is that "acquisitiveness" which e.g. *Tawney* once so heavily derided[1]. Today it has been transformed into a general psychological propensity to catch up with and surpass any individual, company, or nation that may be economically ahead of you.

In one of my three books written after the "East–West–South cooperation" study, unfortunately available only in Scandinavian languages, I have at length expounded that argument.[2] What I, for instance, claim for Sweden is that, in spite of 44 years of social democratic leadership, in spite of much socialist rethoric, and in spite of a considerable state intervention in the functional control of the ownership of the means of production, the capitalist acquisitive values are still central to the functioning of our society. It is not the formal organization of the social institutions, but what they are used for, that is the real test of the character of any system. In a similar manner, I claim that also the socialist nations in Eastern Europe have retained too much of this central capitalist acquisitive value, illustrated not least in the ever-recurring efforts of the Soviet Union to "catch up" with the most developed capitalist nations in per capita production.[3] This, as I will return to it below, has some very unfortunate effects on the resource depletion of the world as well as on the widening of the gap between rich and poor nations, irrespective of their being socialist or capitalist.

In short, I claim that in taking this value element into consideration when capitalism and socialism are defined, it is possible to state that a central capitalist value has become a leading goal in almost all societies, however much they may call themselves by other names.

ad 2. The second element behind my statement that capitalism is still very strong is based on *the criteria used to compare various systems.*

In this context I do not find Dr. Rédei's accusation that I violate elementary statistical rules by dividing countries into "women, men and fair-haired people" quite fair. I try to compare relatively highly developed socialist nations, such as the Soviet Union and GDR, with the developed capitalist nations in Western Europe, on the one hand, as well as less developed nations who call themselves socialist, e.g. China and Cuba, with capitalist nations on the same development level (p. 125), on the other hand.

The first group of criteria I use refer to economic efficiency, not least in international economic cooperation within the two "blocs". Secondly, I try to compare the ability to satisfy the goals of essentials for all, employment for all, and a decent economic equality within the societies, the Three E's.

On the first score I find the socialist nations somewhat deficient, on the second somewhat efficient in comparison with capitalist nations on a comparative level. This is particularly notable with respect to the economically underdeveloped nations, as the socialist nations seem much superior to the capitalist ones in supplying the basic essentials in the material sector to their citizens.

As a sign of weakness in the capitalist system Dr. Rédei refers a couple of times to unemployment as a proof of the developed capitalist nations' inability to satisfy the basic needs of the people, even in the economically most developed countries. That argument is not necessarily valid, at least not materially. People who are definied as unemployed do not lose their income. In Sweden and Denmark various forms of subsidies, and other income transfers guarantee as much as 80 to 90 per cent of the normal wage or salary to the unemployed. If they then do some "moonlighting", that is, unregistered and untaxed work, their unemployment income may in fact be higher than when they work! So they can easily satisfy basic material needs.

The fact that the Soviet Union declares zero per cent unemployment, Sweden two, and Denmark eight per cent is much more related to statistical manipulations than a reflexion of differences in the real work or income situation of the citizens in these three nations. This is a psychological and statistical muddle, on which much e.g. Swedish propaganda has been built, and which we as economists should try to clear up!

In order to refute the retort from Dr. Rédei, already before it has been forthcoming, that Sweden and Denmark are not normal, but unusually good capitalist nations, it should be pointed out that the "absolute poverty line" in the USA, where the social security net comes into operation also for the unemployed, is well above the average income in the Soviet Union and Hungary.*

Indeed, a new debate is now coming up in the capitalist nations about what is termed the "unimportance of unemployment", about the possibility radically to shorten the working time, not only in response to the inability to create full employment as hitherto defined, but also in response to the citizens' desire for more leisure and especially for more freedom to shift between work and leisure, to get what we call "flexible" working arrangements.** The capitalist nations have their problems. But they are still economically strong. Not least because of the slack capacity utilization which, in an emergency, could come into operation.

ad 3. The third analytical element upon which I build my judgement about the strength of the capitalist system is built upon the simple realization that strength is a relative concept, combined with the equally trivial fact that crisis, not peace, is the normal condition of society, feudal, capitalist, or socialist alike. Basing himself on a study of events from the earliest time of ancient Greece until the post-1945 period, Pitirim

*The U. S. poverty line was an average $2.950 for a single individual in 1976, according to the official statistics. According to the World Bank Hungary had 2.150, and the Soviet Union 2.550 dollars in GNP per capita in 1974[4].

**See e.g.[5].

Sorokin found that "on the average one notable social disturbance occurs in about every six years"*, and István Kende showed that between 1945 and 1976 the world experienced 120 wars and 26 days of total peace.[7]

All societies are in crisis almost all the time. Strength is related to the ability to cope with crisis. And a major precondition for coping with it is that the strains and stresses of society are permitted to manifest themselves so that they can be rationally treated.

I am here, of course, touching the extremely sensitive issue of "human rights", out of which excessive propaganda has been made recently. It is, however, my sincere conviction that this issue is of great importance.

First, it might be questioned if the impression of great crises inside the West, as compared with the impression of relative calm in Eastern Europe is not to some extent an optical illusion, simply an effect of the much greater possibilities of social discontent to manifest itself in the West. You may be kicked out of one university if you are too radical, but in a pluralist society you are bound to be picked up by another one from which you can continue your social criticism. If you knew that you would be frozen out of *all* academic life, you might easily become less openly and more tacitly critical of the system, as well as more prone to extreme actions and changes, when the next social crisis comes, as it sooner or later always does. *Mutatis mutandis* this is true of most citizens.

Secondly, and largely because of the attitude just mentioned, the suppression of internal criticism in the socialist nations of Eastern Europe, at least as perceived from the West, has strengthened the capitalist system within the West itself. It has fortified the capitalist propaganda and indoctrination apparatus by supplying not only material but also a few individuals, such as Solzhenitsyn. Moreover, it has turned the radical young so-called Marxists away from the East-European model and into various Maoist, Trotskyist, and anarchist directions, that is, into channels where they certainly can create a lot of nuisance by terrorism and other actions, but where they make themselves utterly impontent politically of creating any form of socialism. If they have any political effect whatsoever, it is to strengthen the extreme right, which of course, is the very center of the capitalist power establishment, ever more skilful in manipulating the masses with what Charles Lindblom in an absorbingly interesting study has called "the preceptoral system"[8].

In summary, when I put together the facts that a) the basic capitalist value of acquisitiveness, of wanting materially to "catch up and surpass", has penetrated all economic systems; b) the fact that the planned economy of socialism in no way has proved itself so economically superior to the capitalist anarchy of the market as its theory for long has promised; c) with the impression that the socialist nations do not seem to feel themselves strong enough to face domestic criticism openly and head on, as we do in the West, I am still forced to conclude that the capitalist system, *relatively seen* in comparison to factually existing alternatives, is extremely strong. Possibly it is even

*Here quoted from[6].

stronger than it ever has been, as many people, at least in the West, have got the perhaps short-sighted idea that "socialism has now been tried, and has failed".

Let me add, that it is with much regret that I am forced to this conclusion, as nobody who objectively considers the human failures of capitalism can help to long for an alternative and humanely better system!

III.

After this long "defense", not of capitalism, but of the analytical conclusion that the system is still alive and sprawling, I will be more brief on a couple of other points that Dr. Rédei raises.

The first one is that of *nationalization,* i.e. the take-over of the whole or a part of the formal ownership of various companies by the governments in various non-socialist nations. I cannot find that I ever said that "ownership itself has lost importance". It certainly hasn't! But the issue of nationalization, of state ownership, has been thoroughly transformed in recent years, without the theoretical debate among socialists being quite aware of it. When Dr. Rédei states that "capital wants to escape nationalization" he may still be right in a majority of cases. But not in all!

Let me start by giving an example. One of the latest scandals in the Western capitalist world is an international uranium cartel, founded one year before the OPEC oil price rise and possibly a model for the 1973-OPEC-arrangement. This cartel has in the last six years been able to raise the price of uranium from 6 to over 40 dollars per pound, or by some 700 per cent, in a period when supply of uranium was estimated to be about 100,000 tons and demand only 26,000 and the price, according to the market laws, should have fallen. But with the help of market sharing and price fixing, this cartel has been able to make a monopoly profit, conservatively estimated by US Congressmen to some two billion dollars[9].

What is interesting in this context is that this cartel, which has influenced the price of energy and the planning for the so-called oil crisis in almost every Western nation, was formed by a coalition of energy companies, state-owned companies, and *the governments* of Canada, France, Australia, England and South Africa. The private oil giant, Gulf, seems to have taken a leading position in the planning of the work of the cartel, but the French government's Atomic Energy Agency supplied the Secretary General of the cartel.

Both sides have earned handsomely by this arrangement. The private companies have increased their profits. The governments have been able to finance some of their activities by fooling the tax-payers instead of asking them for permission, as they are constitutionally required to do.

A similar arrangement may often be beneficial not only for the governments but for the companies as well, in many of the less developed nations. In fact, it is today possible to speak about a policy of what may be called *"pre-emptive nationalization"*. Some companies are happy to have the governments involved in part-ownership of big

investments. The only disadvantage is that governments may demand to put a man or two on the board of the venture, but as the poorer nations rarely can spare a truly skilled man for such operations, nor are able to give him the necessary specialist staff to match the knowledge of the company head office, these board members can easily be manipulated or pacified. The advantages of such an arrangement may, on the other hand, be considerable. The participating government may contribute with capital, or permit the foreign company to exploit the domestic capital market. It may help the company to avoid new costly tax or environmental regulations. And it may be the best guarantee against any future wholesale nationalization with confiscatory compensation, thus warranting the term "pre-emptive nationalization".

This development must be taken into consideration by those who believe that nationalization is an efficient instrument for turning the balance of bargaining strength between rich and poor nations to the advantage of the latter.

OK, Dr. Rédei may say, I realize that, what I said however, was that then "nationalization must be done in a way that control over the functions should be granted as well". But then, I contend, we are no longer talking about nationalization, but about revolutionary changes of the whole economic life in a poor nation. Then we demand that the whole legal framework be changed, that banks are nationalized, export and import thoroughly regulated, and the power over all the economic functions be concentrated to the new government. Even in this situation, however, an even if they had the well-trained and honest experts to handle centralized power, which more often than not is unlikely, the government will not be able to speed up either industrialization or economic development very much. What they may do is to abolish absolute poverty, if the government choses to concentrate on this issue. But the price in terms of life, property, and economic growth during the period of transition may be very high. It is my personal hypothesis that the governments of the poor nations may be better served by a policy of peacefully exploiting the new attitude of the companies, as described above, and devise a strategy slowly but surely to take over function after function from the totality of ownership functions.*

IV.

By that discussion we are right in the middle of the dilemma of the underdeveloped nations, the "Fourth World" as it is called today. Here Dr. Rédei has a statement that puzzles me. He writes: "Socialist countries would never (sic!) take on the obligation to aid developing countries whose politics and economy are even today controlled by the former colonialists."

Well, well, "never say never" is the wise idea of a well-known capitalist evergreen. So far as I understand the logic of this statement, with its emphatic "never", it must mean that those nations which do receive aid from the socialist nations must have a policy

*This argument is based upon an old book of mine[10].

which is *not* controlled by the former colonialists. This is simply not correct, even according to the criteria of the socialist nations themselves. As I point out in the book, India, Iran, Pakistan, Afghanistan, Turkey, and even Brazil have been amongst the eleven most important aid receivers of the Soviet Union. These nations have in much of the socialist literature been characterized as being under the influence of imperialism or neocolonialism.

This, however, is not a point that I want to pursue here. Far more important to consider are the demands of the underdeveloped nations in the context of the debate on a "New International Economic Order". These demands have explicitly been addressed, sometimes combined with a considerable amount of criticism, also to the socialist nations of Eastern Europe, including the Soviet Union. So far, I insist, the socialist nations have done even less than the capitalist ones, to meet this challenge.

One reason, often advanced in discussions about this lack of a more generous attitude to the poorest nations, is that the spokesmen for the richer socialist nations claim that they are not rich enough to give such aid. They must first "catch up" with the more developed nations. This is almost identical to the argument advanced by the workers and the labour unions inside the richest nations, even Sweden, who feel poor compared to our millionaire managers and who want to catch up with them before they give more aid. But if a socialist nation, say Hungary or the Soviet Union, wishes to catch up with Sweden or the United States where the production and consumption per capita, according to World Bank statistics, may be three times as high, this argument may become a permanent excuse for a generation to come, not to do anything serious for the poor nations. (At the same time when catching up has been shown to be a self-defeating strategy for ourselves.*

Inside the capitalist nations many "Marxist" groups maintain, and have for more than a hundred years maintained, that there is absolutely no use whatsoever of doing anything by way of reforms to improve the conditions of the workers. Such a policy, it is said, will only lead to a delay in the advent of the perfect revolution. In many circles this is considered to be an excuse for sheer comfortable laziness, hiding a selfish desire not to contribute anything but rethoric to the real problems. Spokesmen for one sort of socialism or another must guard against falling into a similar negative trap. Then the leadership in the poor nations may, *nolens volens,* be pushed into the hands of those who at least want to do something, that is, into the hands of the private big companies and their capitalist government.

The socialist nations should also observe that the major point on which they, so far, have shown a decidedly greater ability than the capitalist ones, that is, the abolition of absolute poverty, is increasingly being taken up by the capitalist nations. Indeed, Carter's *political* "human rights"-policy is simply not credible if it does not become united with an *economic* "human rights"-policy on the Western side of the ideological fence. For a number of years, McNamara, the head of the World Bank, has made the satisfaction of

*This has been almost conclusively shown in[11].

the basic material needs a cornerstone of his policy and it is easy to get the impression that this idea is met with increasing understanding among those who have the effective political power in the West.

It may take yet a few years before this policy is realized on a big scale. But if it is, and if it is successful, as it may well be*, also capitalism may come to prove itself able to solve that problem which, in eminently high degree, has given political legitimation for the socialist system. If this happens, and if in the meantime the socialist nations have passively been sitting back waiting for the perfect revolution, as the quote from Dr. Rédei suggests they may do, then socialism may have lost a major appeal also in the poorer parts of the world.

This is a challenge of formidable proportions to the socialist camp. And it is not only a question of ideology; it may have some very important practical consequences. In the context of the present imbroglio in Africa there has been much talk in the West about the dangers to the raw materials supply for the West, if the Soviet Union got control over Africa. In order to understand if this talk was idle or well-founded, I recently scrutinized a statistical table, used in a NATO-seminar, of world reserves of the most important minerals for industry. My starting point was that the socialist nations produce about one third of the industrial output of the world, from which it would appear "normal" or "balanced" if they also had about one third of the mineral reserves. This was approximately also what I found, when I assumed that all of Africa south of Sahara became socialist. But if that argument is reversed, one can also state that even if all of Black Africa became socialist, in the long run the socialist nations may become dependent on external supplies of some two thirds of the industrially most important raw materials.

Indeed, if I were responsible for the long-run policies of the socialist nations with respect to the less developed ones, I would profoundly reconsider the present passivity in regard to aid – which can easily be interpreted as negativity – lest my long-run ability to influence events in the poor part of the world should totally vanish.

V.

There are, as I said in the introduction, at least eight more points of substance which I could take up from Dr. Rédei's kind review. However, I may have been too long already. Let me thus just finish with a comment to his reference to the "provocative" nature of my book. I have a faint idea that this article may fall in the same category.

At peresent it is easy to get the impression that we are again witnessing a revival of the Cold War. The Belgrade conference early this year was little more than a propaganda war; both superpowers are increasing their conventional armament levels; the new

*In a recent study I have tried to show that the abolition of absolute poverty in the poor nations would cost relatively little in terms of money and resources. It is mainly a matter of political will. See[12].

weapons' race continues; some circles in the West even want the abhorrently inhuman neutron bomb; the military establishments want higher budgets and the unemployment situation in the West makes it likely that they will get it. If so, the Eastern side will, of course, have to reciprocate.

This is an unfortunate trend in a world, loaded with tens of thousands of atomic weapons and lots of other horror devices. Even when an old, knowledgeable statesman and professor, such as George F. Kennan, suggests that "we have more important things to talk to the Russians about than our dislike of their system or their dislike of ours", he is opposed, almost ridiculed by other Western academic men, such as Richard Pipes and Leopold Labedz[13]. The Cold War is regaining strength also among the academic people.

In this situation it seems to me particularly relevant and important that open-minden scholars in at least the smaller nations on both sides of the ideological fence can carry on a frank and sometimes provocative discussion about the good and bad sides of their respective systems. This is the only way by which we can, if not overcome our differences, at least get to know and understand each other well enough to continue to exist side by side, thereby hopefully contributing to the avoidance of the ultimate horror: the Cold War exploding into a Hellishly Hot one.

That is the spirit in which both my book and this article has been written. And I am happy and grateful to Dr. Rédei and to Acta Oeconomica that this is the spirit in which they have taken up my provocation.

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ANOTHER BRIEF REJOINDER

I have read the answer of Prof. Adler-Karlsson to my review with great interest and with considerable respect due to the author. I am quite sure that Prof. Adler-Karlsson did not expect that his arguments supporting that capitalism is stronger than ever, though giving food for thought, would convince me. But I do not intend to start the discussion again since it would abuse the readers' patience too much. Therefore, I will but shortly reflect on a few remarks, since I think that Prof. Adler-Karlsson has perhaps not precisely understood my comments – though this could have been my own fault.

I will take them one by one:

Adler-Karlsson continues to argue that capitalism is stronger than ever. His arguments are that in Sweden "in spite of 44 years of social democratic leadership, in spite of much socialist rethoric, and in spite of a considerable state intervention in the functional control of the ownership of the means of production, the capitalist acquisitive values are still central to the functioning of our society." Further, he writes that the fact that the Soviet Union is making efforts to "catch up" with the most developed capitalist nations in per capita production again proves that the capitalist acquisitiveness has retained its role and importance in the socialist countries as well.

My answer: Honestly, I do not consider the Swedish system to be a socialist one. It is a progressive, a liberal system, doubtlessly securing many social advantages also to the working class, but it is not a socialist system. This is why Adler-Karlsson's argumentation in this respect is not a convincing one, at least not to me.

As regards the economic ambitions of the socialist system, the state of development of the forces of production must not be mixed up with the relations of production. In my article I have already refuted the statement that the active role of market relations has fundamentally affected the relations of production of the socialist economy. I indicated that Adler-Karlsson himself refuted this theorem in his book (see pp. 142–143). Marx and Engels wrote in the Communist Manifesto that capitalism "has accomplished wonders" which no earlier social system had been capable of producing, while, at the same time, "the conditions of bourgeois society are too narrow to comprise the wealth created by them." The thesis holds also today. Capitalism is able to produce such pioneering results in technology and even assert such rational principles in the

international division of labour, from which the socialist countries, not yet on the same level in respect of the development of the forces of production, might learn. But the system of capitalism itself entailing production recessions, unemployment and inflation is not a subject to learn in order to be adopted.

Adler-Karlsson states that the fact that there are difficulties and crisis in the capitalist system, does not affect his views regarding the strength of the capitalist system, since "strength is a relative concept, combined with the equally trivial fact that crisis, not peace, is the normal condition of society, feudal, capitalist, or socialist alike."

We have not discussed up to now the crisis of the socialist system, on another occasion I am ready to take up this discussion too. But a statement that crisis is the normal condition of existence of the capitalist system makes it obviously impossible to exercise any kind of criticism on this system, since the answer to every comment or critique would be that this is a normal state of affairs. It seems that – though I do not accept Adler-Karlssons's central theorem that capitalism is stronger than ever – my opinion of capitalism is somewhat better.

I have already written in my comment that I do not intend to discuss the human rights, not as if there was anything to be afraid of in this discussion, but it would take us far from the substance of the economic debate and – although I know that Adler-Karlsson does not share the simplified, hysterical and anti-socialist views and attitudes – our views are likely to differ on some basic questions. We would only heap on each other masses of arguments which are certainly not acceptable for the editors of this periodical. But the geographical distance between Hungary and Denmark is not too great, nor are we so old, the respect is mutual, so I hope we might find a suitable occasion for such discussion in the future.

I feel there is no difference between us in respect of what I believe and what Adler-Karlsson considers to be nationalization. I agree with what he writes, namely, that a nationalization which does not secure control over the functions is not worth much. Of course, when and what should be nationalized is dictated by economic and political rationality, but the graduality of the process must not be mixed up with the unequivocal nature of the goal.

Finally, on the North–South–East debate. What I say is certainly not new to Adler-Karlsson, but there was perhaps also some misunderstanding in how he interpreted this well-known thesis. (Perhaps it was due to the translation.) Maybe it will be clearer if I repeat the sentence which I wrote in my comment in connection with aid given by the West to the corrupt half-colonial systems in a more exact formulation (after my original Hungarian text): "Socialist countries could never accept the obligation that they are bound to help those developing countries whose policy and economy are even today controlled by the former colonialist." I have not written that these countries are never giving loans or credits at favourable terms, but that the socialist countries never accept that it is their *duty,* or moral obligation to aid developing countries without discrimination, merely, because they are countries belonging to the North. Socialist countries do not accept the North–South classification for its being socially and politically

irrelevant – and it was in this context that I mentioned the incorrect statistical classification. We have never stated that we do not grant credits at highly favourable terms to particular countries whose governments are not socailist or not Marxist–Leninist. We have never defended ourselves by saying that we are too poor for that, but I believe that the socialist countries will not be willing to aid, under the slogan of some unbounded and meaningless solidarity, the countries which are under the political and economic control of the neocolonialists. "Never say never" advises Adler-Karlsson. Thanks for the advice but I will not take it. Surely I will say no to certain things, for instance I say no to giving aid to imperialism, to colonialism. But yes to aiding also countries which are not socialist.

May I finally mention a technical point, whose implications are not by far technical. Mr. Adler-Karlsson compares the so-called absolute poverty line in the USA with the average per capita GNP in Hungary as a proof that basic national needs are covered in countries with a high ratio of unemployment. Two remarks seem necessary. First: unemployment is not only a material misery but a moral one as well. Young men eager to work have no or few opportunities to begin an active life. And even with unemployment benefits a man in the middle of his creative age could not be very happy being useless for the society. Second: a comparison could be only correct if incomes were corrected for the differences in the price systems and for the purchasing power of money. It is a well known fact for the economist, that in Hungary the level of the retail prices is below the level of the producer prices.

And a concluding remark: I agree, how could I not agree, with the final conclusion of Prof. Adler-Karlsson that clear and sometimes provocative discussions are necessary between frank and open-minded economists in order to understand each other and avoid the cold war not only in politics, but in economic policy as well.

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BOOK REWIEVS

REICH, U. P.–SONNTAG, Ph.–HOLUB. H. W.: *Arbeit–Konsum–Rechnung.* Axiomatische Kritik und Erweiterung der Volkswirtschaftlichen Gesamtrechnung. Eine problemorientierte Einführung mit einem Kompendium wichtiger Begriffe der Arbeit–Konsum–Rechnung. Mit einem Vorwort von Gottfried BOMBACH. Köln, 1977. Bund Verlag. 249 S.

Das Autorenkollektiv des Max-Planck-Institutes zur Erforschung der Lebensbedingungen der wissenschaftlich-technischen Welt hat sich das schwere Ziel gesetzt, endlich eine einwandfrei und einheitlich begründete und mit klarer Logik abgefasste Kritik, sowohl eine daran anknüpfende Erweiterung der Volkswirtschaftlichen Gesamtrechnung auszuüben – wie dies schon im Untertitel des Buches angedeutet wird.

Professor G. Bombach erörtert einleitungsweise, daß zwar die Vorwürfe gegen die gegenwärtig gebräuchlichen Methoden manchmal uralt sind, dies aber erstens kein richtiges Gegenargument sei – und es zweitens den Autoren gelang wirklich völlig neue Wege zu beschreiten. Zwar bestreitet Professor Bombach, daß die Vernachlässigung, ja Ignorierung aller Fragen, die mit der Reproduktion der menschlichen Arbeitskraft zusammenhängen, einen bewußt apologetischen Charakter hätte, findet jedoch die Grundbemerkung und Kritik der Verfasser, nämlich, daß die ökonomischen Vorgänge innerhalb der privaten Haushalte völlig "ausgeklammert" sind, als zutreffend.

Er rühmt das Streben der Autoren sich die Prinzipien von Objektivität, Eindeutigkeit und Konsistenz zu setzen, also den ökonomischen Kreislauf als einen Austausch der Arbeitskraft zu betrachten. Diese radikale Anschauungsweise führt – wie er sich ausdrückt – "quasi nebenbei'. zu völlig neuen Lösungen alter Probleme.

Das Werk, das nicht nur die neuen Konzepte und Begriffe ausarbeitet, sondern sie auch operativ auf den statistischen Tatbestand der BRD anwendet, besteht aus drei Hauptteilen.

Der erste erörtert die Gegensätze und Unzulänglichkeiten der gegenwärtig gültigen Theorien und Meßvorgänge. Der zweite Teil geht einen Schritt weiter, um der Volkswirtschaftlichen Gesamtrechnung einen neuen, einheitlich axiomatisch-wissenschaftlichen Grund aufzubauen. Der dritte Teil gilt der Praxis, wo dann auch die etlichen neuen Konten, samt illustrierenden Daten und Quellenangaben ausgearbeitet sind.

Die statistische Praxis wird also im ersten Drittel des Buches tiefgehend analysiert und die gegenwärtige unklare Erhebung des realen Sozialprodukts bloßgelegt, sowohl ihre Entstehung als auch die ihrer Interpretation anhaftenden Fehler betreffend.

Die altbekannten, doch ungelöst weiterexistierenden Fragen der Qualität, der Wägung, der Komponenten und der Bewertung werden einzeln betrachtet und die nicht annehmbare Deutung der Meßwerte, wie Nutzen, Wohlfahrt, Wohlstand oder Gütermenge auch klar diskutiert. Die Autoren weisen nach, daß eine mangelnde *qualitative* Genauigkeit der Begriffe sich schwer als einfache *quantitative* Ungenauigkeit interpretieren läßt. Diese Aussage wirkt zwar an sich höchst überzeugend, kann aber natürlich nur durch eine positive Ausarbeitung qualitativ scharfer und darum auch genauer meßbarer Begriffe aufgehoben werden.

Damit eben befaßt sich der zweite Teil der Arbeit, der uns hier hauptsächlich interessiert: er will eine axiomatische Behandlung der Streitfragen geben.

Der Hauptbegriff, der da selbstverständlich auftaucht, ist der des "Sozialproduktes": Was ist es und wie mißt man es? Sich an Professor *Bombachs* und *Bartels* Definitionen anlehnend, wird die zu messende Kategorie nicht als Produkt, sondern als Produktion betrachtet, also nicht das Geleistete, sondern die Leistung selbst. Diese Betrachtung soll nun durch die axiomatisch handgehabten Postulate der Objektivität, Eindeutigkeit und Konsistenz weiter ausgebaut werden.

Diese Arbeit schreitet gut voran und beweist, daß eine – mutmaßlicherweise den Naturwissenschaften entkommene – strengere Gedankendisziplin auch in unserer Wissenschaft und auch belanglich der praktischen Aufgaben ihren Platz einnehmen kann und sollte. Doch kommt es manchmal zu Scheinlösungen, und wenn man mit der Grundrichtung einverstanden ist, kann man vielleicht am besten dann mithelfen, wenn man gelegentlich eine Antikritik nicht verschweigt.

So glaube ich, daß das Qualitätsproblem mit der vorgeschlagenen neuen Preiserhebung nicht gelöst, sondern nur "entkuppelt" und danach beiseite geschoben wird. Die Methode, anstatt die Preise gewisser typischer und möglichst straff charakterisierter Artikel zu heben, sich nur für die Durchschnittpreise zu interessieren, ist zwar axiomatisch begründbar – sie ist "objektiv", weil unabhängig von den Schätzungen der einzelnen Preisermittler – verschiebt aber eine wichtige Frage: ob sich die Qualität verändere oder nicht – und wenn ja, "wie groß" dann die Änderung sei – nur vom einzelnen Objekt zum Durchschnittsobjekt, das aber als solches leider überhaupt nicht existiert. Ob die Zigarette "Milde Sorte" dieselbe Qualität hat als vor zehn Jahren, kann man wenn auch meist subjektiv, noch irgendwie beantworten. Doch die allgemeine Qualität der Rauchwaren ist kaum etwas, was ein noch so verschwommenes Urteil erlaubt.

Die zweite fragliche Lösung hängt auch wieder mit Indexproblemen zusammen, diesmal mit dem Quantitätsindex. Es handelt sich um die Auflösung des Wägungsproblems und des Begriffs der Zustandsvariable. Man muss wieder mit der kritischen Anschauungsweise einverstanden sein. Anstatt der Paasche – oder Laspeyres–Wägung ist natürlich der Kettenindex zu empfehlen, da er auch eine gewisse Einsicht in die Meßfehler gewährleistet. Glänzend finde ich den Nachweis über die grundlegende Nichtintegrabilität von Real- und Preiskomponenten. Da es sich hier um einer sehr wichtige und aufschlußreiche Frage handelt, möchte ich den Gedankengang auch ausführlicher zitieren:

"Welches reale Wachstum ... hat eine Volkswirtschaft, deren Produkte in den Mengen q_i und Preisen p_i wie folgt schwanken:

$$q_i = \bar{q}_i + \sin t$$

$$p_i = \bar{p}_i + \sin (t + \varphi)$$

Die Wirtschaft ist stationär in dem Sinne, daß sich in jeder Periode derselbe Zyklus wiederholt. Definiert man ... den Realproduktzuwachs ... absolut

$$dQ = \Sigma_i \, p_i \, dq_i,$$

so erhält man ... den Zuwachs ΔQ, der sich innerhalb eines Zyklus ... ergibt als

$$\Delta Q = n.\pi.\cos \varphi$$

Das Realprodukt der zyklusch stationären Wirtschaft wächst also nach jedem Zyklus ... Was bedeutet dieses Ergebnis? "

Es bedeutet natürlich – wie es auch die Verfasser formulieren – daß theoretisch nur die zeitlichen Veränderungen des Sozialproduktes – und des Preisniveaus interpretierbar sind, nicht aber diese Größen selbst.

Es zeigt aber auch, da man, trotz dieses *caveats,* sie als Größen interpretiert, daß unsere gegenwärtigen Vorstellungen über die tatsächlichen Wachstumsraten völlig falsch sein können, und wahrscheinlich auch übertrieben und unbegründet optimistisch sind. Da eine sich einfach reproduzierende, doch zyklisch beeinflußte Wirtschaft ein Wachstum hervorzuzaubern scheint, steht die Schlußfolgerung nahe, daß alle gegenwärtigen Angaben über das wirtschaftliche Wachstum übertrieben, und wir tatsächlich in

Alice's Wundergarten angelangt sind, wo man sehr schnell laufen muß um an dem alten Fleck bleiben zu können.

Es zeigt aber leider auch, daß wir mit dem Kettenindex kein sicheres Instrument in der Hand haben, um auch nur die wichtigste Frage des wirtschaftlichen Wachstums pünktlich beantworten zu können.

Die beschränkten Rahmen gestatten mir hier nicht auf andere, bahnbrechende Richtungen einzugehen, und auch nicht, den dritten Teil des Buches, welcher die Arbeit–Konsum–Rechnung für private Haushalte ausführlich für die BRD ausarbeitet, zu erörtern. Das Buch muß gelesen und vomöglich mit ungarischen Daten nachgearbeitet werden. Obwohl gewisse Grundprobleme noch immer der Lösung harren, bringt es endlich frische Luft und gesunde Grundkonzeption auf einem Feld, das unter bürokratischer Bebauung leidet.

Es wäre nur wünschenswert, wenn das Autorenkollektiv seine Arbeit nicht als erledigt, sondern als nur begonnen betrachten würde – die reichen Früchte sollten zur stetigen Weiterarbeit stimulieren. Vielleicht wäre der nächste Schritt gemäß der selben Grundprinzipien durchdachte Revision der Vermögensrechnung, der am meisten brennende Bedarf einer wissenschaftlichen Grundlegung.

A. BRÓDY

GOLDMANN, J.: *Makroekonomická analýza a prognóza* (Macroeconomic analysis and prognosis). Prague, 1975. Academia, 165 p.

The reader must be warned in advance not to put aside the book just because of its title. It is often imagined that "macroeconomics" represent rows of mathematical formulas that may be of interest exclusively to econometricians. Goldmann gives a reason why he borrowed this expression from Keynes: because he wants to emphasise by this word, similarly to Keynes, "the analysis of macro-level quantitative interrelations".

In order to make the title of the book clear, the author makes also a semantic detour. He says that in the 1920s the expression "business (Konjunktur) research" came into usage in Europe (Berlin, Moscow, Vienna, Warsaw). In Anglo-Saxon countries such types of institutes were called economic research institutes. "The Institute of Prague before and after the War, as well as the Budapest Institute were given a similar denomination". Also the expressions "quantitative economic research", "Econometric analysis" etc. are in use. Yet, the different denominations notwithstanding, the subject and method are one and the same in the various institutes, studies, reports and books: that is economic research. With some simplification, therefore, Goldmann's book may be considered the manual of economic research i.e. of socialist economic research.

The book is divided into three main parts:

– Macro-economic analysis

– Macro-economic prognosis

– Application of systems theory and conclusions drawn.

Within the three main parts sixteen chapters delve into the subject-matter.

In the first part of the book Goldmann analyses his subject and mostly also the methods applied by systems theory approach. He emphasises the necessity of a systems theory approach to economic analysis and prognosis several times in his book. Two chapters are devoted to the application of systems theory methods (II Systems theory approach. XV An attempt at the application of systems theory). However, Goldmann does not consider systems theory as a new cure-all that will help to reveal at once all the intricate interrelations of the economy. In his opinion, this new method does not mean that the whole armory of the research work used that far can now be replaced. Systems theory provides more appropriate signals on the way to knowledge, it facilitates the "mapping" of the way, and renders it somewhat shorter and passable with smaller effort.

Goldmann attributes it to systems theory approach that the subject of research could be reduced to the macro-aggregates and it is practically due to this that analysis did not get lost in details, i.e. in the various sectoral, functional, or even regional complications. Thus, economic research must be concerned in the first place with such "traditional" macro-aggregates as national

income, consumption, investments, foreign economic relations, etc.). And which are the factors to be taken into account in the course of analyses? "Among them must be enumerated first of all: the economic policy conception formulated in the past relying upon the then existing conditions, investment plans drawn up ten years earlier, the economic policy developed a few years ago and, finally, the delayed reactions of the enterprise sphere and of consumers on the measures taken by central organs a few months earlier."

After outlining the subject of economic research the book discusses in detail the tools of research. It lists among the tools of analysis the models containing from a few tens to a few thousands of simultaneous equations, the various functions, demand–supply balances, business cycle barometres, bussiness indicators, and enterprise interviews (IFO-tests). In relation to the latter, the regular investigations of the Hungarian Economic Research Institute are mentioned.

However, Goldmann warns socialist economic researchers in a separate Chapter (V) against an uncritical borrowing of the tools of bourgeois economic analysis. Unfortunately, that part of his book is somewhat incomplete, and a few of his standpoints are also disputable. I think it is not enough to caution in general, with references to a few known socialist authors, but e.g. the system of national accounts (SNA) ought to have been confronted with the advantages and disadvantages of the material product system (MPS), or the aggregate of enterprise opinions on a given subject with the aggregate of the enterprise plans of the same year, not mentioning the fact that for some years a dispute has been going on about the system of economic statistical indicators comprehensively describing the economic situation and development of socialist countries, in which dispute the author could have taken a stand.

The question about which we can enter into dispute with the author is that, in our opinion, he gives extreme interpretations to the main factors affecting capitalist and socialist economic growth. According to Goldmann, in capitalist conditions economic research deduces the growth rate of national income, as a rule, from the development of private consumption, private investment, public expenditure, and the development of exports. At the same time, according to him: "In socialist conditions interdependences are usually of the opposite direction". In socialist conditions economic growth is determined by production capacities, material- and labour supply, as well as by import possibilities. In other words: capitalist economic growth is determined by demand, while socialist economic growth is determined by supply. The author supports this statement by saying that in capitalist countries capacity utilization is rather low, and it can be (could be) considerably increased by increasing demand. Socialist economy is, on the other hand, ". . . an economy functioning with a full utilization of capacities", and the role of multiplier can be played in it not by increasing demand, but by expanding capacities.

With this simplification one can agree but in the final analysis. In fact, the basic condition of growth of both economies is the expansion of production capacities. While, however, this is stimulated first of all by demand in capitalist countries, in socialist economies it results from the planned increase of resources. It is likely, however, that the interdependence between demand and supply is much more complicated in both types of economies than that these simplified interrelations could be directly applied in research either in socialist or in capitalist countries.

Already in this chapter the author quotes examples of the experiences of the Czechoslovak economy and from that point a detailed survey is given of about fifteen years of development in Czechoslovakia, its critical points, of the success in solving the problems, and of occassional failures. It cannot be left unsaid, however, already at the introduction of this sphere of subjects, that the author stresses, in analysing the Czechoslovak economy much more the results than mistakes and failures.

There are only allusions from which conclusions might be drawn to the effect that in 1968/69 the Czechoslovak economy got into a grave situation. It was characterized by a strong

inflationary pressure present mainly (although not exclusively) in the investment sphere. In order to restore the disturbed internal balance of the economy a great number of propositions were submitted, out of which the one was accepted that envisaged stabilization of the rate of investment by 1973. This conception proved to be successful because, according to the author's appraisal, economic consolidation came about by the end of 1970.

According to the analysis the Czechoslovak economy has become unbalanced again in recent years; inflation is threatening again as a result of excess demand. It is in this relation that Goldmann states, as a result of economic research work, that at present (the first half of the 1970s) no *general* inflationary phenomena can be spoken of. Therefore, a *general* deflationary economic policy would be wrong. Within the global equilibrium situation in Czechoslovakia there is shortage in some groups of products, while there are sales difficulties in other groups. This cannot be solved either by inflationary or by deflationary policy, the same way as the problem just as characteristic of Czechoslovak foreign trade cannot, namely, that according to macro-economic analyses covering recent years the Czechoslovak export structure suits the CMEA countries' import needs to a lessening extent.

In what follows the book demonstrates with an interesting example the application of one of the instruments of macro-economic analysis: analysis of the increments of the sources and utilization of the value added (GDP), (which is an extended interpretation of national income, since it contains the full value also of services and depreciation). In Czechoslovak economic research this indicator plays the "leading role". The other concept used in the book and requiring clarification is the "incremental analysis". In Goldmann's book Hungary's almost sole index number: the percentage of growth (change) is hardly to be found. Instead of (and beside) indices the book prefers to use the absolute amount of increments for the purposes of analysis, thereby suggesting also the importance of the subject. It is true that this method may in itself mislead the scientist, but together with the indices it may be a tool helping to understand economic interdependences and to identify critical spheres and points.

Goldmann begins the second part i.e. the macro-economic progrosis with the following statement: „knowledge is nothing else but foresight". That is, the task of a prognosis is to indicate problems for the solution of which decisions must be made now. The subject of a prognosis is basically identical with that of an analysis; the difference is to be found only in the time dimension.

According to Goldmann, the "goodness" of the prognosis is not proved by how exact it is and to what extent it comes true, but rather by how much it can foresee problems and tensions. It allows, namely, to take adequate measures which can help in avoiding the difficulties prognosticated in consideration of the present conditions. Prognoses of this kind are called, "self-undermining" prognoses.

This refers particularly to the short-term (one–two year) prognoses that the author discusses in the first place. From the point of view of reliability the book goes into details of the subject. In general, the development of working hours and of productive fixed assets can be best prognosticated by relying on past tendencies and the known economic policy considerations and expected measures. Uncertainty is highest in foreign trade and within it in Western relations.

Goldmann tries to answer a much disputed question in analysing the *efficiency* of economic research and prognostication. In his opinion research is as efficient as much of it can be utilized in the practice of economic policy decision-making. The same requirement determines also the level of aggregation of research and prognostication. Goldmann warns that analysis, i.e. prognosis, should be detailed to such extent only as economic control organs are still able to grasp.

Goldmann did not sum up the conclusions of his analyses in regard of the Czechoslovak national economy in a separate chapter. Yet the second and particularly the *third* part of the book contain highly interesting economic policy conclusions. These conclusions are supported by the results achieved by Goldmann and his re-

search group, according to which the further condition of development is ". . . to clarify first of all the basic conception of economic development i.e. the starting-point of further planning activities."

"In today's circumstances of Czechoslovakia – Goldmann continues – it is particularly pressing to elaborate the basic conception of economic policy. So far, namely, no theoretically new conception has been substituted for the long-term national economic development conception formulated in the late 1940s, when the first Five-Year-Plan was worked out, although the internal and external conditions of the reproduction process have considerably changed in the meantime".

Although Goldmann dwells in detail on the considerable changes in internal and external conditions, he does not provide details of a new basic conception. Only so much can be read between the lines that Czechoslovakia must give up the slogan of a country of "iron and machines"; Czechoslovakia can no longer play the role of a foundry and machine factory of the socialist community. It is a task of key importance to thoroughly change the material and energy requirements of production. It is from the actual steel production (11 million tons) that more and higher-performance machines, durables, cars, etc. must be manufactured. A few references are found in the book to the allocation of investments. According to them e.g. the ratio of the so-called "non-productive" sphere within total investment was 31 per cent in the 1950s and it has fallen to 25 per cent by now; according to the requirements described, it must rise to 35 per cent in the future.

Finally, let us once more mention that economic analysis and prognosis are not an "engineer's" task. Goldmann inserts a separate line into the balance-like analyses under the heading "losses" (statistical error). In this context let us quote, together with him, the words of the well-known West-German economist Professor Giersch, President of the Association of European Economic Research Institutes: ". . . it is better to know the truth inexactly, than to know the error exactly".

A. NYILAS

VÁSÁRHELYI P.: *A népgazdasági tervezés információs alátámasztásának tökéletesítése.* (Improving the information basis of national economic planning.) Budapest, 1977. Akadémiai Kiadó. (Közgazdasági értekezések 25.) 143 p.

In the development of national economic planning activities various possibilities of solution through systems approach are coming into prominence, among them the one that considers planning as information processing.

The author undertook to show those information problems that diminish the efficiency of planning activities and calls attention to possibilities whose exploitation may improve the quality of planning.

After clarification of the basic concepts used in the book he represents the planning process in such a simplified model where decision is made by relying upon information inputs, taking into consideration certain determined aims, and applying information processing methods.

In examining the *taxonomic model* of the interactive elements in the information system of planning the author distinguishes the following functionally separate subsystems:

– the plan-making subsystem whose "raw material" is the totality of factual data reflecting the actual situation of the national economy, and whose product is the national economic plan;

– the programme-making (target determining) subsystem whose product is the totality of informations operating the plan-making subsystem;

– the system of information supply to planning which is to provide for the mutual connexion of subsystems as well as for their connexion with the environment (other state organs, large enterprises, research, etc.);

– the planning control subsystem that exercises control over the plan-making organization.

In what follows the author discusses and demonstrates in detail the tasks of each subsystem, the flows of informations securing fulfilment of the tasks, and their various kinds.

Further refining the taxonomic model he examines in detail the components of the most important subsystem: that of plan-making, and goes on to demonstrate the relationship between

the elements of the system, and the structural model of the system. He reveals the various forms of relationships and their entire intricate system.

The following Chapter deals with the main types of information problems in economy-wide planning; and within them first of all with those impairing the efficiency of planning. They may be listed under three groups:

– low utilization of information content;
– poor information content;
– unsatisfactory flow of information.

These may appear in various forms, such as the lack of information, the gap between the available and the necessary information, the problem of differing nomenclatures, disturbances caused by differences in temporal coverage, etc. A similar difficulty is presented by the uncertainty of factual data (problems of sample surveys, and of estimated data).

The author deals also with the question, how the information demand of economy-wide planning can be determined. He makes a distinction between the theoretical and the real information demand of a given task. The former, i.e. the theoretical information demand of the task, covers according to him the totality of information about the present situation and future development of the factors influencing the phenomenon constituting the subject of the task. The latter i.e. the real information demand, may be defined as follows: the influencing factors must be grouped according to their intensity, and such an order of importance by types of data must be set up which is adequate to the given task. Progressing in the direction of decreasing importance the sphere of information basis might be enlarged as long as by introducing a new type of data the result achievable will be greater than the additional cost involved. This method allows to eliminate the excessive collection of types of data of little importance.

In the following Chapter the author approaches the question of planning efficiency from the side of improving the information supply subsystem. In the present situation a great many difficulties are caused by the fact that information supply tasks can be separated from the tasks of other subsystems only in principle.

The purpose of further improvement is to establish such an independent, integrated and automated system as is able to satisfy the information demand of national economic planning at a higher level both in quantitative and qualitative terms.

Integration appears as an organization principle and it means that the continuity of the flow of data must be raised to maximum, and the necessity of human intervention reduced to minimum.

Such a system infers an up-to-date apparatus of computation techniques. The principle of integration must be asserted in the organization of data collection, data processing, and the data basis.

On the integrated computerized system several fundamental demands must be made:

– as regards the sphere of information supply the system should provide help e.g. to planning with several methods to analysing the process of planning activities, to considering the development of international relations, etc., and for all this it has to supply information at the required level of aggregation;

– the uncertainty of the data supplied must be reduced, which would considerably improve the quality of information supply.

The ingoing or input data of the system may come from external sources and from the planning system itself, or from its environment, They may be basic data, derived data, various non-statistical documents, literary sources, etc.

An important condition of the efficient functioning of the system roughly outlined is that those using the system can formulate their requests in the "commonest" way possible, disregarding the given technical apparatus. For making this possible, computer programmes of the required procedures have to be prepared in advance, and adequate general solutions must be given. This is also a condition of efficiency in time.

In the following Chapter the author goes on to investigate further development potentialities from the side of data sources that are part of the environment.

It is a fundamental requirement to be acquainted with the various sources, i.e. to know where and in what form the data are available. The purpose of enlargement of the environmental data basis is to lessen differences between data

supplied and those needed for planning, and to reduce the role of estimates.

In the case of not full-scope data collection such mathematical and statistical instruments have to be used for the perfection of environmental data sources with whose aid errors as well as the reliability level can be clearly stated.

Finally, the author discusses the improvement of relations between the national economic planning system and its environment. He examines the efficient functioning of the information network by resorting to graph theory in which points correspond to information supply tasks, and edges to the obligatory flow of data. Utilization of this method allowed a thorough analysis of the network and revealed several such points in the further development of relations which may not show so clearly with simpler methods.

The author gives practically a survey of a design of a planning data bank of the problems to be considered prior to its establishment. He had treated an issue important from the aspect of both planning methodology and organization.

V. FONYÓDI

VÁGI, F.: *Die betriebliche Interessiertheit und der Mechanismus ihrer Durchsetzung in den Staatsgütern.* Budapest, 1977. Akadémiai Kiadó. 151 S.

Mit theoretischem Anspruch, vom Beispiel der ungarischen Staatsgüter ausgehend, werden im Buch das grundlegende Motiv (Interesse) der betrieblichen Tätigkeit und die Modalitäten ihrer Durchsetzung (Regulierung als Interessiertheitserweckung) analysiert.

Die Stichhaltigkeit der Feststellungen von prinzipieller Bedeutung wird deshalb durch die Veränderung einzelner Elemente des Lenkungssystems – die seit dem Verfassen und der Herausgabe des Werkes in ungarischer Sprache* (1973) eingeführt wurden – nicht beeinträchtigt, sondern eher noch bestätigt.

Die wirtschaftlichen Kriterien der betrieblichen Interessiertheit erörternd wird im 1. Kapitel des Werkes festgestellt, daß der Einkommensinhalt der betrieblichen Interessiertheit in den staatlichen (gesamtnationalen) und in den genossenschaftlichen (ein Gruppeneigentum bildenden) Betrieben auf abweichende Art entsteht. Während in den Genossenschaften die Interessiertheit – aus den Eigentumsverhältnissen herrührend – im vorherein gegeben ist, wird in den staatlichen Betrieben ihre konkrete Form und ihr Inhalt durch das Lenkungssystem, präziser gesagt, durch das Einkommenregulierungssystem bestimmt.

In der Leitung der Staatsgüter kam in Ungarn seit 1959 ein fortwährendes Bestreben nach einer Steigerung der betrieblichen materiellen Interessiertheit zur Geltung, und, wenn auch mit Änderungen, war die Interessiertheit bis 1968 im Wesen an den *geplanten* Gewinn gebunden. Im 1968 eingeführten System knüpft sich die betriebliche Interessiertheit auch in ihrer Form an den *tatsächlichen* Gewinn, an dessen Masse. Neben der erhöhten betrieblichen Selbständigkeit ist dies das Hauptcharakteristikum des neuen Interessiertheitssystems.

Ein gemeinsamer Zug in den staatlichen und genossenschaftlichen Betrieben ist, daß die Werktätigen an der Zunahme des betrieblichen Einkommens persönlich interessiert sind. Dabei ist es für die Staatsbetriebe spezifisch, daß sich dort das persönliche Interesse an den auf eine Einheit der *verwerteten* Arbeitskraft entfallenden Gewinn, in den Genossenschaften aber an das Pro-Kopf-Bruttoeinkommen der *zur Verfügung stehenden* Werktätigen knüpft. Diese Abweichung führt der Verfasser im Wesen darauf zurück, daß der staatliche Betrieb die Zahl seiner Werktätigen selbst bestimmt, während die Mitgliederzahl der landwirtschaftlichen Genossenschaften gegeben ist. All dies wirkt sich auf die Organisierung der gesamten Wirtschaftsführung aus, innerhalb dieser auch auf die Regulierung der persönlichen Einkommen.

Das zweite Kapitel behandelt das System der Lohnregulierung (bis 1970 der Gesamtlohnsum-

*Die Besprechung über die ungarische Ausgabe siehe Acta Oeconomica, Vol. 12, Nos 3–4, pp. 403–406.

menregulierung, ab 1971 der Gesamtlohnsummenregulierung mit Durchschnittslohnbegrenzung) in den Staatsgütern.

Hier wird über die diesen Themenkreis berührenden Ansichten gesprochen, es wird darauf hingewiesen, daß in den Staatsgütern das Gesamtlohnsummenwirtschaftssystem gut funktionierte, und auch die erwartete Lohnniveaudifferenzierung ihren Anfang nahm. Diese letztere warf auch die Forderung einer Weiterentwicklung der Regulierung auf. Der Verfasser nimmt der Reihe nach verschiedene Ansichten vor, und indem er sich mit diesen auseinandersetzt, erblickt er die Lösung in dem auf den Gewinn basierenden einheitlichen Lohnzuwachs und in der Differenzierung der Gewinnbeteilugung. Er weist darauf hin, daß das sich auf den Lohnfondszuwachs beziehende heutige System in Ungarn (die Bindung des Lohnzuwachses an den kumulierten Produktionswert) nicht genügend zur Steigerung der Mitteleffektivität stimuliert. Er erachtet zwar die Gesamtlohnsummen regulierung mit Durchschnittslohnbegrenzung nicht als endgültige Lösung, disputiert aber mit ihren Kritikern, und legt auch die positiven Seiten dieser Regulierungsform unter den heutigen Umständen vor.

Das III. Kapitel untersucht die Regulierung und Verwendung des Gewinns.

Der Gewinn ist Quelle sowohl des persönlichen Einkommens (Beteiligungsfonds und Lohnzuwachs) als auch der Entwicklung.

Gemäß den Istzahlen für die Jahre 1969–1970 erreichte der *Beteiligungsfonds* in den Staatsgütern im Durchschnitt ungefähr 10% der Löhne, und hauptsächlich seine Differenzierung verursachte auch die zwischenbetriebliche Differenzierung des Niveaus der persönlichen Einkommen. Die Differenzierung des Entwicklungsfonds war von größerem Ausmaß, d.h. ein größerer Teil des Gewinnüberschusses wurde für die Entwicklung verwendet.

Bei der Regulierung der Gewinnverwendung konnte seit 1. Januar 1976 eine wesentliche Veränderung verzeichnet werden. Von diesem Zeitpunkt an wurden nämlich – gleichzeitig mit der Veränderung der Preise, der Stützungs- und Steuersätze – die vom Gesichtspunkt der Steuerung aus vorhergehende Zweiteilung des Gewinns in den Beteiligungs- und Entwicklungsfonds abgeschafft.

Das IV. Kapitel des Buches demonstriert, indem es die Gewinnverwendung von der Sicht der Harmonie zwischen dem direkten persönlichen, dem betrieblichen (perspektivisch persönlichen) und volkswirtschaftlichen Interesse analysiert, auf welche Weise sich diese in der Gewinnverwendung realisieren. Es stellt sich heraus, daß die persönliche Interessiertheit am Lohnzuwachs stärker ist, als an der Gewinnbeteilung, weil der erstere sicher und unwiderruflich ist.

Das beachtenswerte V. Kapitel behandelt die Interessiertheit in Zusammenhang mit der Optimierung der Produktionsfaktoren, der Organisierung der Produktion.

Mit überzeugenden Daten wird dargelegt, daß die Verwertung der lebendigen Arbeit als orientierende Kennziffer zu betrachten ist, aber auch das Ausmaß der proportionell mit dem beanspruchten Produktionsfonds erfolgenden Verteilung eine hervorgehobene Bedeutung besitzt. In diesem Problemenkreis ist aber die Berücksichtigung des Bodens als Produktionsmittel bei den Kosten und auch bei der Verteilung des Gewinns noch ungelöst.

Ausführlich befaßt er sich mit den betriebszweiglichen und betrieblichen Gewinnfunktionen, die Gelegenheit zur Ermessung der Wirkung der Regulatoren geben, aber auch beim Erstellen des Produktionsprogramms verwendet werden können. Gemäß seinen Modelluntersuchungen ergab die Maximierung des auf den Arbeitslohn entfallenden Bruttoeinkommens und auch des nicht kumulierten Produktionswertes ein gleiches Ergebnis wie die Maximierung des auf den Arbeitslohn entfallenden Gewinns.

Im VI. Kapitel demonstriert der Autor, indem er sich mit den wirtschaftspolitischen Mitteln der indirekten Regulierung des Gewinns befaßt, daß wegen der zentral vorgeschriebenen, zurückgehaltenen Amortisation (herabgesetzte Abschreibungssätze) der Grundmittelverschleiß teilweise als Gewinn erscheint, das Fehlen der betrieblichen Selbständigkeit auf diesem Gebiet Mißstände ergibt (z.B. bei der Aussonderung usw.).

Die Geldsumme der vielschichtigen staatlichen Stützungen zeigt – im Vergleich mit dem Gewinn – daß der in den Rahmen des Betriebs verbleibende und im betrieblichen Wirkungskreis verwendbare Gewinn den das Ergebnis ver-

bessernden staatlichen Stützungen zu verdanken ist.

Die Summe der Investitionsstützungen erhöhte 1969–1971 die betrieblichen Eigeninvestitionsquellen insgesamt um ungefähr 1/3–1/4, und zwar je Grundmittelgruppe in differenziertem Maße.

Die Beweggründe und das System der staatlichen Stützungen analysierend ist die Stellungnahme des Autors, daß mit einer Abschaffung der zwischen Industrie und Landwirtschaft bestehenden Preisdisparität (was er als erwünscht erachtet) der Kreis der Stützungen auf die Wirtschaften mit ungünstigen Bedingungen eingeengt werden könnte.

Das Kreditsystem erweitert die Akkumulationsfähigkeit der Betriebe. Zwischen 1968 und 1971 betrug die Summe der Entwicklungskredite im Durchschnitt das Zweifache des aus dem Gewinn gebildeten Entwicklungsfonds. Unter den gegebenen Wirtschaftsführungs- und Kreditbedingungen kann das Verhältnis der Akkreditierung der Akkumulationen (ungefähr 70%!) nicht mehr weiter erhöht werden. Der Zinsfuß beträgt ungefähr das Zweifache der Gewinnrate der Mittel, der Kredit ist also teuer. Dennoch sind die Kreditanforderungen der Betriebe höher als die zu ihrer Verfügung stehenden Rahmen, weil zahlreiche andere Umstände die Betriebe mehr zur Entwicklung und zum Wettstreit um die Kredite anspornen (z.B. sind auch die Investitionsstützungen an Kredit gebunden, der Investitionsanspruch der technischen Entwicklung ist sehr groß usw.). Die Kredite erhöhen im Wesen die Effektivität nicht, obzwar eben dies das Hauptziel der Kreditpolitik ist.

Das VII. Kapitel beschreibt – gewissermaßen als Summierung – das Regulierungsmodell der betrieblichen Interessiertheit von der Sicht des Regulatorensystems und der Harmonisierung der Regulatoren.

Aus der statischen und dynamischen Untersuchung des auf die Produktionsfaktoren entfallenden Gewinns stellt der Verfasser fest: "Es scheint also, als ob die an die Verwertung der lebendigen Arbeit gebundene betriebliche Interessiertheit in der Praxis bereits existiert und sich auch durchsetzt" (Seite 133, Absatz 1) anstelle der auch amtlich deklarierten Gewinninteressiertheit. Diese Tendenz zeigt sich bei der an jeden Produktionsfaktor gebundenen Interessiertheit. Eine Ausnahme bedeutet die Interessiertheit an der Gewinnmasse, die bei den Staatsgütern die Bodennutzung betont.

Der Autor kommt zur Folgerung, daß man in den Staatsgütern mit welcher Interessiertheit auch immer ein funktionsfähiges Leitungsmodell ausgestalten kann, das Modell muß aber zwei Hauptbedingungen erfüllen: 1. es muß die sich auf die persönliche Interessiertheit der Werktätigen im Betrieb stützenden kollektiven Interessen zum Ausdruck bringen; 2. die Richtung seiner Wirkung muß mit den Entwicklungsaufgaben der gesamten sozialistischen Wirtschaft zusammengehen.

Auf sozialistischen theoretischen Grundlagen aber muß man – gemäß der Stellungnahme des Verfassers – in den Staatsgütern an einer sich an die Verwertung der lebendigen Arbeit knüpfenden Gewinninteressiertheit festhalten, weil aufgrund der im Werk ausführlich behandelten Fragen, und auch theoretisch "... durch diese Form doch am direktesten und deshalb auch am zielbewußtesten die innere Natur der sozialistischen Wirtschaft zum Ausdruck gebracht" wird (Seite 134). In Harmonie mit diesem prinzipiellen Standpunkt gestaltete er auch seinen sich auf die Regulierung der persönlichen Einkommen und der betrieblichen Eigenfinanzierung beziehende Standpunkt aus.

Das Buch enthält zahlreiche, das Wesen der Sache anstrebende, leicht verständliche Tabellen, Abbildungen und Formeln. Das beigefügte Literaturverzeichnis ist Ergebnis einer sorgfältigen Auswahl.

E. A. TÓTH

BIRKOS, A. S.–TAMES, L. A.: *East European and Soviet Economic Affairs: A Bibliography (1965–1973)* Littleton, Colorado. 1975. Libraries Unlimited, Inc. 170 p.

This bibliography, prepared for the pruposes of university education and limited to the English language literature on the subject, is of an introductory nature.

The compilers edited the material according to geographical aspects, beginning the listing with

sources dealing with the whole of the region, and then procceeding in the alphabetical order of the enumeration of sources providing information mostly on the countries concerned. Within the individual chapters on geographical areas they chose the very simple method of ordering the material under four to twenty-three subject headings. These headings were put in alphabetical order, too, with the exception that general economic surveys were listed first with each geographical unit.

The bibliography contains 1168 items in all. This is complemented by a list of periodicals comprising 131 items, which, unlike the rest of the bibliography, contains annotations as well. However, these do not contain a description of the periodical, rather they give the technical details of how to publish in the paper concerned. The next part of the bibliography is an index of authors followed by a title index. The appendices are complemented by an index of periodicals analyzed and by one of the publishers (commercial and non-commercial) of the books included. Typographical arrangement greatly facilitates searching.

The bibliography is apparently very selective. In this respect the editors deserve mainly praise. The selection may be regarded as well balanced, at least from the aspect of the Hungarian references. This should be emphasized also, because we regard this selection to be considerably better than the corresponding chapter of the bibliography on Hungarian literature edited by Elemér *Bakó*, or the chapter on Hungary of the great East-European bibliography, edited by Paul *Horecki*, published by the Library of Congress. Both show signs of one-sided selection.

Of course, such an undertaking cannot be free from weak points. First of all, I think that the compilers covered an unreasonably narrow circle in the bibliography. The bibliography gives an image of the academic literature concerning the countries in question and provides less help for the study of the English language literature on the economies of the countries or region in question. Here we do not mean that also non-scientific publications may provide much valuable information, their inclusion is a matter of discretion. However, it may be a justified criticism that the compilers ignored without good reason the statistical yearbooks, pocket books and even special statistical publications, that have been published in English for a long time in Hungary and in other socialist countries as well. Other works containing empirical data were also omitted. Knowing the predilection of American economists for data, we remark this feature of the bibliography not only critically but with surprise as well.

As to the grouping of the material, it would have been justified to give CMEA a separate chapter. This important question remains more or less hidden, if not pushed into the background of the bibliography. The disadvantage of this need not be separately emphasized.

The third point is that the introductory nature of the bibliography could well tolerate references to other bibliographies and mentioning when certain monographs or articles included contain considerable list of references. The work of W. F. *Robinson* (item 318), for instance, contains a very thorough bibliography, but this is left unnoticed by the authors. References to the glossaries appended to different works would not have been useless, either; these might have helped especially students in solving many terminological problems.

In the final analysis, this bibliography is useful for retrospective studies; it might be used not only by Western scholars but by East-European ones as well who, for language problems, cannot easily avail themselves of the literature of neighbouring countries in original, further by scholars who are interested in what Western writers think about the economic questions of this region.

Finally, a personal remark: it was a pleasure for the reviewer to find that the English language articles of Acta Oeconomica were extensively covered by this bibliography.

T. FÖLDI

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*We acknowledge the receipt of the enlisted books. No obligation to review them is involved.
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Dr. György VARGA, b. 1932. Economist, editor-in-chief of the economic quartely "Gazdaság", dep. editor-in-chief of the economic weekly "Figyelő". Author of "On the Structural Development of National Economy" Acta Oeconomica Vol. 3. Nos 1–2, 1968; "American Business" 1970. Közgazdasági és Jogi Könyvkiadó, "Japanese Business" 1972. Közgazdasági és Jogi Könyvkiadó, "The Brasilian Economy" 1976. Közgazdasági és Jogi Könyvkiadó (all in Hungarian) and of several studies on economic policy.

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T. BAUER–L. SZAMUELY

THE STRUCTURE OF INDUSTRIAL ADMINISTRATION IN THE EUROPEAN CMEA COUNTRIES: CHANGE AND CONTINUITY

Different, sometimes diametrically opposed, views and opinions have been published in Hungary during the last years about the desirable organizational structure of industrial administration. In these disputes – by far not concluded – frequent references are made both in the negative and in the positive sense, to experiences of other European CMEA countries. This is understandable, since in these countries widely varying and often opposed tendencies have been prevailing in the history of planned economy. In this article, therefore, we shall make an attempt at following the tendencies in the *organization* of economic administration in the European CMEA countries, more precisely, in the branch management of state industry.

Emergence of branch management

Emergence of branch management in the Soviet Union

The ancestors of today's branch ministries were the so-called *glavki* of the 1920s. Glavk (plural *glavki*) is an abbreviation in Russian for centres (main committees, chief directorates, departments) of branch management and therefrom comes the concept of "glavkism". It always had a pejorative note in Soviet economic life since it referred to the origin: the method of industrial management of the so-called war-communism, i.e. war economy. And this is identified in Soviet public opinion with bureaucratic commandeering. Under Lenin's leadership the Soviet Party discarded this method when switching over to NEP, i.e. the new economic policy. Still, as it will be seen from the following historical survey, the *glavki* have kept on reappearing in some form (under this or another name).

Although the war economy of the period of war-communism cannot be identified with the system of directive planning that came about later – among other things because of such "triflings" that there was no central plan at the time, and hardly a continuous production –, they have one essential feature in common, namely the *physical, i. e. product approach* to economy. During the years of the civil war, it was the task of the branch management organs to distribute in kind the scarce material goods (raw materials, foods) among producing plants. Similarly, the system of directive planning is also based on a "breaking down" of the product balances of the central plan drawn up in physical units to "addressees". From this product approach at least two conclusions can be drawn with regard to the *organization* of economic administration. 1. It has to adjust itself to the vertical phases of production, i.e. it has to follow the *sectoral or branch*

principle. 2. The prescription and control of tasks in physical terms are possible only when production is relatively homogeneous, therefore, the profile of production units must be constantly "cleaned", which entails *the organizational separation of ever new sectors and vertical phases,* the establishment of ever new sectoral centres of management, the division of existing administrative organs, in one word, permanent reorganizations. Both processes can be clearly observed in the development of industrial administration both in the Soviet Union and in the other East European socialist countries.

Although there was a people's commissar of trade and industry in the first Soviet Government after the October Revolution, later the Supreme Council of National Economy (*SCNE*) was charged with the administration of industry. This organ was brought into being by the Council of People's Commissars [1] in December 1917. Within the SCNE departments were organized in conformity with the main sectors of industry which were the following: fuel industry, metallurgy, machine building, electrical engineering, chemical industry, textile industry, leather industry, wood- and paper industry, food industry, precious metals industry. On the analogy of the SCNE regional and province councils of national economy also began to be formed from December 1917.

The situation changed in the period of war-communism, i.e. from 1918 after the nationalization of the entire industry. 179 trusts were formed out of industrial enterprises, and they worked under the direction of forty or fifty *glavki.* [2] The *glavki* belonged to the departments of the SCNE, and in certain industrial sectors – where the whole sector was under the direction of one *glavk* – they belonged directly to the SCNE. At the same time, the regional economic management organs were pushed to the background: regional councils of national economy were eliminated, and province councils became the local organs of the SCNE. (Similarly, also each *glavk* could establish local organs.)

NEP meant in industry the introduction of *khozraschet* (economic accounting). In each sector associations (*obyedineniya*) or trusts on *khozraschet* and enterpreneurial principles were organized and they were independent of the *glavki. Glavki* were mostly eliminated, and the rest was intended to be eliminated, too. In the mixed-type NEP economy the new organizational structure of the SCNE was adjusted to its dual function. One section exercised control over nationalized enterprises, and it was divided into industrial branch directorates. General control over the entire industry (i.e. all sectors) was the task of the other section of the SCNE and to it the syndicates [3] co-ordinating sales, organized for each industrial sector, belonged. Thus, the NEP period was characterized by the definite separation and independence of the central administration (the SCNE apparatus) from the apparatus of enterprises and trusts.

When, in the late 1920s, Soviet industry was on the upswing and first of all the fast-rate development of heavy industry under the 1st Five-Year Plan started, a gradual revertion to the hierarchial connexion of the two spheres took place in the organization of industrial administration.

The SCNE went through a reform in September 1926. Its directorates were eliminated and *glavki* were formed again for each sector, in the following division: to the

three existing *glavki* – those of war industry, metal industry, and electric energy industry – were added those of fuel industry and mining chemical industry, wood- and paper industry, leather industry, printing industry, textile industry and food industry. Within each glavk industrial sections [4] were formed beside the functional departments (planning finances, labour, investment). This division served as a starting-point for the further partitions of the *glavki:* the directorates for iron and steel, non-ferrous metals and engineering were formed from the directorate for metal industry in 1928.

This reorganization did not bring essential change. That was because the *glavki* had no important role in industrial administration: trusts had kept their previous independence in the beginning. (In 1926 in Soviet industry 80 trusts functioned under all-union supervision, 100 trusts under republican supervision, and several hundred trusts under regional supervision.)

The real change started out of the above-mentioned *syndicates.* They were originally voluntary organizations of the trusts that had been first charged with sales, and later with material procurement. In 1927 trusts were declared subject to plan directives [5], and later the sphere of authority of syndicates was further extended so as to cover production, finances, and investments.

This solution became general when in December 1929 the glavki were eliminated and syndicates were transformed into associations. They were complex economic units on *khozraschet* whose tasks involved planning investment, technological development, sales, commercial activities, finances and labour management while trusts were to concentrate their activitities on production management. 26 all-union associations were formed. Yet they proved to be made too large, and their division began already in 1930 as a result of which by 1931 the 190 trusts belonged to 82 associations instead of the original 26. [6]

Because of the increased number of associations glavki were again formed in the SCNE from 1931, and then the development of *branch ministries* began. On 5th January 1932 the People's Commissariate of the Light and Wood industry separated from the SCNE, and the latter was transformed into the People's Commissariat of Heavy Industry. At the same time, the People's Commissariat of Water Transport and the Motor Traffic Directorate separated from the People's Commissariat of Transport, and the People's Commissariat of Sovkhozs separated from the People's Commissariat of Agriculture. From People's Commissariat of Trade the People's Commissariats of Foreign Trade and of Public Supply was formed and from the latter the People's Commissariat of Home Trade and that of Food Industry in 1934. [7]

After the establishment of branch ministries the associations ceased and in 1933 the *glavki* started to be divided: from the machine building directorate, e.g. four *glavki* were formed in August 1933, and from the *glavk* of electrical engineering the telecommunication glavk separated. At the People's Commissariat of Light Industry three new *glavki* were formed from the cotton trade directorate on a regional basis.

Thus by the early 1930s a multi-level, hierarchial system of industrial administration and branch management had been formed. The new constitution promulgated in 1936 brought yet the change that the treble system of all-union, union-republican, and

republican people's commissariats was formed: heavy industrial sectors (e.g. coal mining, mineral oil industry and non-ferrous metallurgy that had been under republic supervision) generally came under all-union supervision, while those parts of the light and food industry, of forestry and sovkhozes that had belonged under al-union supervision now came under the two-level direction of union-republican and republican ministries, or only under the republican organs.

Emergence of branch management in European people's democracies

In the first post-war years in the European people's democracies, the institutions of branch management in the industry were organized in connection with nationalizations and the development of planned economy.

In the countries where there were large-scale nationalizations immediately after the War (e.g. in *Czechoslovakia* and *Poland* in 1945–47), the industrial government was directly charged with administering the nationalized industry. This task was usually attended to by a single industrial ministry, and its subordinate industrial directorates. The general administration of the entire economy was the task of the supreme councils of national economy. In *Hungary* nationalizations were limited to a narrow sphere until 1948, and the introduction of planned economy preceded the large-scale nationalization. This was reflected by the institutional solution that between 1945 and 1948 the sectoral administration – to use the present-day Hungarian terminology – of the whole of industry was the task of the Ministry of Industry, while the nationalized industry was managed by the Hungarian State Coal Mines (MÁSZ) and the Heavy Industrial Centre (NIK). In *Romania,* where similarly to Hungary nationalizations took place relatively late, the smaller nationalized sector was at first administered by industrial offices.

In the years 1948 to 1950 the second wave of nationalization took place in the people's democracies, and state or co-operative ownership became entirely or almost full-scope in industry. At the same time the ambitious industrialization programmes of the first five-year-plans (in Poland six-year-plan) started. Adjusting to the new tasks, the multi-level industrial administration hierarchy was built up in each country.

In *Czechoslovakia* four new ministries (of heavy industry, light industry, food, and technological development) were formed to replace the Ministry of Industrial Affairs in 1950. National firms were decentralized: they were broken up into single-line enterprises. Firms specialized regionally and by trades were formed also in construction industry. It was a new stage in the process when five new ministries were formed from the Ministry of Heavy Industry, and thus the number of economic (branch) ministries reached twelve. Industrial directorates (*generální ředitelství*) were eliminated, and replaced by ministerial main directorates (*hlavní správy*). There were 94 of them; they had no *khozraschet,* and their task was the operative management of enterprises. [8]

A similar process took place in *Poland*: the Ministry of Mining and Energy, of Heavy Industry (in Poland it means metallurgy and engineering), Light Industry, Food

Industry and Building Industry, and later the Ministry of Local Industries and Handicrafts were formed from one Ministry of Industry. Within the ministries a great number of operative branch directorates were organized, and the breaking up of firms took place also here, by relying on the principle of one factory – one firm. Later on the number of industrial ministries reached 12, that of all economic ministries 36, and that of branch directorates 224. [9]

A similar tendency was prevailing in *Bulgaria,* where the number of ministries exercising control over industry, construction industry and transport grew from two to eight [10] and in *Hungary,* where at first three industrial ministries and one for construction industry were formed in 1949, and then they were further divided: in 1952 already ministries of mining and energy, chemical industry, metallurgy and engineering industry, food industry, light industry, local industry, construction material industry and construction industry were functioning, and even the ministry of transport and communications split into two. The number of branch directorates grew to a similar extent.

Critique of branch management

Ever since the "glavkism" of the period of war-communism the development of branch management has been accompanied by the critique of its unfavourable concomitants. Since this study discusses not economic management systems (mechanisms), but the *organizational solutions* involved by them, we shall not discuss here the well-known defects of the system of directive planning, but only the difficulties attributable to the hierarchical organization of industrial administration *within the framework* of the system of directive planning. These unfavourable phenomena may be summed up as follows:

– The industrial administration based on branch approach generated at least a three-level *management and decision-making process* even in the small countries, and a frequently *six- or seven-level* one in the Soviet Union. The result was that the final approval in decision-making was given somewhere very high and in an over-centralized manner. At the upper levels local and enterprise conditions could not be sufficiently known, they were "foreign to life". Besides, the multi-level decision-making demanded a lot of time and paper-work, which rendered administration difficult and rigid.

– In the multi-level process of decision-making none of the many participants bore really the responsibility for the decision: in this system the *responsibility for decisions faded away.*

– The necessarily frequent reorganizations in the hierarchical organization based on the product approach, and the proliferation by splitting of organs of administration led to a result opposed to the socialist basic principle of central planning, i.e. to the *fragmentation of the planning centre.* Even if we disregard the phenomena of proliferating particular sectoral interests and counter-interests, in these mesh of these simultaneous and continuous collations among the dozens of supreme authorities the social interest, i.e. the original meaning of the central objectives is often lost.

– The structure of management based on the branch approach *hindered the normal functioning of interfirm relationships* and the efficient co-operation between firms belonging to different sectors. Such relations could be brought about and amended only through the mediation of branch directorates and industrial ministries, which was rather difficult in the case of a three-level, or even five- or six-level administration. In order to avoid such obstacles, the branches and factories established a kind of "autarky": the uneconomical "home" production of parts, tools, and fittings.

– The difficulty of intersectoral cooperation *had a hampering effect on technological development and on joining the international division of labour,* i.e. on two spheres not closely connected to rigid sectoral structures, but requiring, on the contrary, fast and flexible changes in them.

– In larger countries, first of all in the Soviet Union, *neglect of the regional aspects* of economic development led to great troubles. The prevailing branch approach in planning prevented the formation of regional economic complexes. As a result, there were frequently superfluous, often crossing, long-distance transports, between firms belonging to different ministries.

– The efficiency of industrial administration was weakened by the *contradiction between the branch approach in industrial administration and the regional organization of party control.*

Alternatives to branch management: attempts at solution

Regional reorganization

It was exactly this regional aspect of the unfavourable concomitants of the hierarchical industrial administration that was the most conspicuous in the *Soviet Union.* It is therefore understandable that in the late fifties party leadership searched for a possibility to improve economic administration exactly at that point, without touching the essence of the system of directive planning itself.

Relying on the decision of the Central Committee of the CPSU and on that of the Supreme Council a large-scale reorganization of the Soviet industry began in May 1957. On 1st July most of the industrial ministries were abolished, while the two ministries of electric energy industry and those of war industry were amalgamated. The territory of the Soviet Union was first divided into more than 100 economic-administrative regions (small republics constituted one economic-administrative region each), and in each region a council of national economy (*sovnarkhoz*) was formed. With the above-mentioned exceptions the whole industry and construction industry were subordinated to the authority of the *sovnarkhozy.* [11]

It soon became clear, however, that regional decentralization little improved enterprise management, since the position of enterprises and the methods of economic administration remained unchanged. At the same time, it gave rise to tendencies deemed harmful, and to a "development chauvinism" disregarding national interests; it led to the

scattering of development resources and uneconomical investments. Again a radical reorganization followed.

The Party plenary meeting of November 1962 announced two-way measures. One way was the enlargement, i.e. merger of the economic-administrative regions. Thereby their number went down to 46 by early 1963. Besides, the area of the country was divided into large planning regions (17 in number) in order to promote a more complex and more economical regional development. The other way of the measures was to organize sectoral head committees in order to guarantee uniform and concentrated technological and development policy. Since these national sectoral control organs had no right of supervision and had no development funds at their disposal, their functioning within the system of a strict hierarchical planning proved to be absurd. We shall mention as an already forgotten episode that the reorganizations approved at the plenary meeting of November 1962 had also a third line: the division of province party committees into agricultural and industrial party committees. Since the new economic regions went beyond the borders of the administrative provinces, a situation emerged in which several party committees were functioning simultaneously within one region, which, of course, did not make economic and political administration any easier.

The Soviet example was soon followed by the German Democratic Republic and Bulgaria.

In *Bulgaria* eight industrial ministries were eliminated, and 700 of the 800 industrial and construction enterprises of the country were subordinated to the executive committees of the councils of the newly organized districts. The central industrial organ of the government was the Industrial Committee. To the latter belonged the enterprises that remained under central authority (those of a specialized line), but the discrict executive committees exercised control over their activities, too. In 1960 district industrial directorates were formed beside the district council executive committees. Within them functional and branch sections were set up in conformity with the particular features of the given district. It was a further development in 1962 that five industrial committees instead of one were set up beside the govenment. Thereafter the sections of the district industrial directorates were under double subordination. [12]

Reorganization took place in a somewhat different manner in the *GDR*. Although industrial ministries were abolished there, too, and the sphere of authority of regional organs was extended in February 1958, the management of large-scale industry was not divided regionally. 71 *VVB*s (associations) were organized to replace the previous main directorates in the industrial ministries. (The *VVB*s comprised fewer enterprises than the preceding main directorates; e.g. in engineering 34 *VVB*s were formed instead of the 23 main directorates.) *VVB*s belonged directly under the control of the Planning Board: it was thought, namely, that the functions of plan drafting and plan implementation must be united, and the Planning Board was deemed most suitable for the task.

In the regions of the GDR economic councils (*Wirtschaftsrat*) were organized, and in the districts the position of plan commissions was strengthened. The number of industrial enterprises subordinated to regional organs increased (35 per cent instead of

25), and the economic councils of the regions were charged with responsibility for the industrial development of the entire area. In GDR terminology of the time, the approach prevailing in the new organizational structure was called "complex-regional".

The experience of the Soviet Union, Bulgaria and the GDR showed clearly that the reorganization of industrial administration based on the regional or on the "complex-regional" principle did not bring a favourable alternative to the traditional hierarchy based on the branch principle. In the Soviet Union and Bulgaria, in which regional reorganization was carried through consistently, the most serious difficulties were caused by the lack of a co-ordinated sectoral development policy.

After the plenary session in September 1965 of the Central Committee of the Communist Party of the Soviet Union industrial ministries were restored in the Soviet Union, and from 1966 also in the GDR. *Sovnarkhozy* were abolished; the multi-level branch hierarchy was re-adopted in the Soviet Union. In Bulgaria industrial ministries were restored already in 1964.

Associations instead of industrial directorates

In *Czechoslovakia* and *Poland* industrial management was reorganized not according to the regional principle in the late 1950s either. It was tried to eliminate the harmful effects of the multi-level branch hierarchy by abolishing the industrial directorates (main directorates) working in the ministries, but retaining the sectoral ministries themselves (in Poland their number was reduced almost to half), and, in this respect similarly to the GDR, associations were established instead.

In the period of the economic reform started in 1963 the system of administration based on the "complex-regional" principle was further developed also in the *GDR* by suppressing the regional element and further increasing the role of *VVB*s. In 1963 the *VVB*s were transformed from organs of administration into complex economic bodies with *khozraschet.* At the same time, *VVB*s were given also administrative functions as are exercised by ministries in other countries. Since each *VVB* bore full responsibility for the management of the given sector, they were also charged with the sectoral administration of local industry as well as of the private and mixed* firms. In addition, the *VVB*s were charged also with responsibility for balances: they had to draw up the national material balances for the products in their sphere of activity, and to provide for distribution as well.

From 1971, however, the sphere of authority of ministries began to grow, when, as a consequence of national economic disequilibria, a series of centralization measures were taken. Ministries partly took over the responsibility for product-balances from the *VVB*s,, and the financial independence of the *VVB*s was also entailed. While in the 1960s ministries had relations only with the *VVB*s and could not intervene in the latter's

*Firms which were jointly owned by the state and some private party.

relations with firms, this limitation ceased from 1971. Most of these restrictions remained even after the situation of the national economy has become consolidated, and physical planning with increasingly detailed central and ministerial balances is still prevailing in the economic system of the GDR.

In the 1970s the organization of industrial administration in the GDR may be described in short as follows. The hierarchy is partly two- and partly three-level, since from 1967 the so-called combines were introduced. *VVB*s were sometimes too large, so that they were unable to pursue a uniform technological policy. That is why combines consisting of fewer units and constituting a closer conglomerate were organized; they belong in certain cases directly to the ministries and in other cases to *VVB*s. While often 20 to 50 firms belonged to the *VVB*s,, usually 8–15 firms belong to the combines.

Thus the medium level of the industrial organization consisted in 1973 of 55 *VVB*s and of 43 combines under ministerial authority. *VVB*s are functioning mainly in the engineering industry, the light industry and the light chemical industry, while combines under ministerial authority are found mostly in metallurgy and in the heavy chemical industry.

These units are subordinated to the industrial ministries. According to the 1975 situation ten industrial ministries were functioning in the GDR. [14]

The role of ministries becomes predominant first of all in the process of "breaking down the plan"; they summarize the plan proposals of the *VVB*s and forward them to the Planning Board. It is upon this basis that central propositions for the state plan are submitted, which are repeatedly "broken down" through the mediation of ministries to *VVB*s and firms. The *VVB*s must then collate their target-figures with their suppliers and customers, with foreign trade, etc., and this is followed again by an aggregation, and then by the final approval and now final "breaking down" of the national plan.

The replacement of industrial directorates by economic organizations took specific form in *Hungary* where instead of grouping the firms of each branch or sub-branch into associations the firms of several branches were amalgamated into nationwide firms in the early sixties. In some of the remaining branches (engineering, clothing) the medium-size enterprises were amalgamated into larger ones, while in others associations called trusts were organized.

The tendency of replacing industrial directorates by bodies with *khozraschet* is prevailing also in the *Romanian* transformation of the industrial organization, that followed later than in other countries. The reorganization started after the national party conference of 1967. Its main objective was to reduce the administrative apparatus at the level of ministries, i.e. a certain extent of decentralization of decision-making. The industrial directorates of ministries were abolished by decision of the December 1969 session of the Central Committee of the Romanian Communist Party. [15]

In the *Soviet Union* the organization of various associations (trusts, firms, etc.) began without central regulations of a general validity in the 1960s, i.e. the period of preparation and development of the 1965 economic reform. The first such organizations were established by Leningrad and Moscow enterprises still in the early 1960s, i.e. in the

last years when the regional councils of national economy were still functioning. The organization of these associations did not yet affect in most cases the system of industrial ministries and directorates. However, in a few experimental cases, they already assumed the functions of the *glavki.*

An early example for this was the *Svetlana* association in Leningrad, and the best known experiment was that of the Ministry of Precision Engineering, Automation Equipments and Control Systems. This experiment was started in 1967, and its main point was to switch over *glavki* to *khozraschet,* and to fit them into the new system of planning and incentives. In practice this meant that the apparatus of the *glavk* was not financed by the state budget, but from the centralized profits of firms, i.e. the *glavk* changed from "gross" to "net" budgetary relations. In the second stage of the experiment – implemented on decision by the council of ministers in 1970 – the *glavki* of the ministry were transformed into all-union associations and the whole of the Ministry shifted to net settlement with the state budget.

A new general approach to industrial management was expressed in the decision of the Central Committee and the Soviet Government in March 1973, and in the government decree on production associations that followed a year later. [16] According to the latter, after the reorganization in Soviet industry the *production association* established through merger of earlier enterprises is the "basic (primary) unit" of industry, an autonomous legal entity with *khozraschet* and enterprise rights. Enterprises amalgamated in an association usually lose their legal entity; in general, their *khozraschet* is restricted. Associations have an almost unlimited sphere of authority in the management of production units. The latter can sign contracts only in the association's name, they can have a bank account only if they are located elsewhere than the association, the association has unlimited right to reallocate the fixed and circulating assets of the production units, etc. Also the accumulation of funds according to normatives takes place practically at the association level, and the association may cede at most incentive funds to the production units.

With the organization of the production associations the enterprise structure of Soviet industry changed or is changing. In the system of industrial administration the most important new element was the further pursuance and expansion of the precision engineering experiment, i.e. the organization of the *all-union industrial associations.* In accordance with the Central Committee decision of March 1973 production associations generally are not directly subordinated to ministerial authority, but to the industrial associations fitted in between the industrial ministries and production associations, replacing the *glavki.*

The all-union industrial association is a productive-economic complex consisting of production associations, research institutes, planning institutes and various institutions of auxiliary activities. The board of directors of the industrial associations exercises, on the one hand, supervisory or control activities over the subordinated enterprises (production associations) (it "breaks down" the approved play-figures, lays down the norms for the formation of funds, distributes the yearly allotment of material-allocation, etc.). On the

other hand, it is an independent legal entity, it has its own balance-sheet, it has to cover its expenses from its proceeds, is interested in profitable management and builds up incentive funds. Industrial associations may centralize some activities of the subordinate production units (enterprises) in the sphere of production and economic management, such as research and development, technical design, services, and auxiliary activities, etc. and they may redistribute the profit and depreciation funds of the production units or enterprises, and also they may reallocate the superfluous, i.e. above-the-norm working assets, and unused fixed assets of the enterprises. The industrial association may centralize procurement and sales, it may be chief investor, and may centralize budgetary relations, or the settlement of accounts with suppliers and buyers.

Thus, following the establishment of production associations and industrial associations, the chain of industrial management has *shortened* in comparison with earlier times, and generally a three-level management scheme develops (ministry – industrial association – production association), while other solutions exist as well.

Industrial ministries are – as in the 1930s or 1950s – of three types. The industry in the sphere of authority of federal republics is under the direction of *republican industrial ministries.* The second type is characterized by the simultaneous existence of the two ministerial levels: the upper level is the *union-republican ministry,* whose sphere of authority covers the whole area of the Soviet Union, and the lower level is represented by the corresponding ministries of each republic. The third type of ministries is the *all-union ministry* which has direct control over its sector, without the mediation of republican organs, on the whole area of the Soviet Union. At present over forty all-union and union-republican industrial and construction ministries are functioning in the Soviet Union. The specialization of ministries is particularly strong in two fields: in engineering and in construction. (In the former there are 21 ministries, and in the latter there are 8.)

It is, however, increasingly difficult for the constantly growing number of sectoral authorities (ministries, state commissions) to cope with the complex development of the huge national economy. That is why it emerged again at the 25th Congress of the CPSU that a change was needed in the prevailing fragmented system of industrial administration. *L. I. Brezhnev* put forward two different suggestions in his report: 1. elaboration and implementation of large-scale complex regional and inter-regional central development programmes extending beyond sectoral frameworks; 2. co-ordination of the management of similar and related sectors (e.g. fuel and energy industry, transport, etc.). [18] Although from these very roughly outlined propositions the intention of a new large-scale reorganization of industrial administration does not follow, it is remarkable, how the criticism of deficiencies and the justification of the necessity of changes recall in many respects the argumentation used in the late 1950s.

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As regards judgement of the medium-level management organs with *khozraschet* in the GDR, the Soviet Union and elsewhere, it has been mentioned that the substance was mostly a formal extension of *khozraschet* (introduction of net settlements with the

budget), since not economic but administrative and control activities are prevailing in their activities. We have to recognize, however, that this formation is the result of a particular *compromise, an attempt at adjusting the system of directive planning to new conditions and requirements,* since 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. This will certainly not eliminate the phenomenon of "plan bargaining" between the organ prescribing the plan figure and the addressed firm, but it will shift it partly on to another plane. Namely, the medium-level management organ represents obviously better the branch interests before the ministries and other supreme authorities. This, however, cannot be considered ideal at all from other respects. If, namely, the organ fulfilling supervisory and administrative functions represents some sector or economic branch supported by its own economic and financial interests, what is more, in a monopolistic position, the social interest (more exactly: the effort of central government) must be easily impaired. In this sense the establishment of associations *is no real alternative to branch management.*

Yet the association is a two-faced formation: on the one hand, it is an enterprise, i.e. an economic unit, on the other hand, it is an administrative body, i.e. part of the state apparatus. Out of the two different association types of the Soviet Union, the first feature is predominant in the production associations, and the latter in the industrial associations. That is why the opinions demanding the extension of the role of associations are often misleading, concealing different contents, and sometimes leaving it deliberately hidden: what kind of association and what role is involved. From this aspect it is very characteristic, e.g. that the expert of the Soviet Planning Office responsible for the further development of the system of planning and management formulated in an article published shortly before the 25th Party Congress – not supported at all by the Congress documents – the substance and purpose of the reorganization of the industrial administration in the following way:

"The reorganization of the management structure entails interesting changes in the commodity and monetary relations. The basic production unit will not be the factory or plant, but the large production association. The units belonging to it will generally lose their economic autonomy in the customary sense. And this means practically that *within the association commodity and monetary relations will wither away* and will be substituted by the direct influence of the plan elaborated by the central management of the associations upon basis of the central task and long-term contracts. Factories and plants and other production units will no longer trade either among themselves, or with external partners." [19]

According to this, the establishment of associations is to serve the restitution of the most rigid system of directive planning, and elimination of commodity and monetary relations. (This is an objective that has been very rarely mentioned in Soviet economic literature in the last few decades.)

Other eminent Soviet economists deem the new organization of industrial administration suited for loosening the rigid branch management structure and for making

progress towards applying indirect management methods, that is, they consider it a real alternative to the existing system of branch management. The biggest and most important Soviet economic research institute: the Central Economic-Mathematical Institute (CEMI) has worked out propositions exactly to that effect.

According to its director, professor *Fedorenko,* [20] the associations have to be formed not in conformity with the framework of ministries, but in accordance with the principles of horizontal and vertical integration. Several associations should be organized within most branches, producing the same product or mutually substituting products. The organization of national monopolies should be avoided as far as possible. The financial control of the associations must be taken away from ministries, in financial control and in credit affairs *banks* must be accorded a greater role, and the *trade in the means of production* must be introduced.

Professor *Petrakov,* deputy director of the same Institute, raises the question in his book that the realization of the most important complex development programmes of national economy *requires that the branch structure of industrial administration be bypassed*: with a view to a more efficient assertion of the social interest the fulfilment of each complex programme has to be assigned to *functional ministries and authorities* instead of branch ministries. The latter (e.g. state committees for technological development, labour- and wages, standards, etc., or inter-departmental committees to be created) would dispose of the means of production and would act as customers of the branch ministries of the associations, or research institutes which would obtain orders through tenders. [21]

Thus, the organization of associations in the Soviet industry is a highly complicated process, since in fact, it is not only a transformation of the organization of the industrial administration, but in a sense also the further *development of the economic reform begun in 1965.* Presumably, this process is much slower than it was originally intended to be not simply for technical-administrative reasons, but because reorganization requires decisions much more fundamental and of principle. (According to the Party- and Government decision of March 1973 industrial reorganization ought to have taken place in the course of 1973–75. At the 25th Congress of the Soviet Communist Party, however, Prime Minister *Kossygin* said that the organization of production associations in industry would take place in the course of the 10th Five-Year Plan, i.e. until 1980.) [22]

Industrial policy instead of branch management

It appears from this survey that in several countries attempts were made already in the late 1950s at overcoming the failures of branch management by organizing associations instead of industrial directorates. These attempts prompted the economic policy makers of several countries to recognize that the contradictions of the hierarchical system of industrial administration cannot be eliminated by such reorganization, since they will just get reproduced in some other form.

The economic reforms of the mid-1960s contained, beside other things, also efforts to eliminate the hierarchical subordination character of the relations between the government sphere and the economic units (firms, associations), and thereby branch ministries ought to receive a new role. As opposed to the reorganizations of the late 1950s, the formal liquidation of ministries was not raised at all, but stress was laid on a qualitative change in functions.

It was the *Bulgarian* reform conception formulated in 1963 and carried out slowly and inconsistently during the 1960s that first wished to provide new bases for the relationship between economic units and the centre.

In the initial period of the reform the associations called state economic organizations (*DSO*) were formed from enterprises in a way that within them the independence and increasing profit incentive of enterprises were maintained. In this period a great importance was attributed in Bulgaria to increasing the role of commodity and money categories, i.e. of the market. [23]

In the late 1970s two opposed tendencies emerged in Bulgarian economic system. One was the promotion of the original ideas: the number of associations was further reduced (with 1st January 1971 the entire Bulgarian industry was amalgamated into 66 *DSO*s) and it was declared that they were subordinated directly to the Council of Ministers and received their plans from it. In this construction it is not the task of ministries to control the associations, but to act as specialized organs of the government. (The number of ministries was also reduced to three: ministry of heavy industry, of light industry, and of agriculture and food.) The new ministries received the task of elaborating the sectoral industrial policy and development conceptions.

The other tendency was, however, suppression of the role of value categories. Within *DSO*s the independence of enterprises was considerably reduced, and their profit incentive was entirely eliminated. The wholesale price system which was available in a perfectly elaborated form and which increasingly considered world market prices was not introduced. The directive character of planning was strengthening and it became increasingly detailed. Yet the planning board was incapable of the operative control of the associations just as in the case of the GDR. The ministries gradually regained their original role (which they had no time even to lose): at the national party conference of March 1974 the associations were again subordinated to them, and their number increased as well.

Following the activation of branch ministries the programme of the so-called national complexes was announced in Bulgaria. On the one hand, this seems to be sectoral planning (i.e. not according to subordination to ministries), but on the other hand, also that the whole national economy is organized into ten national complexes, such as the complexes of the food industry ("agro-industry"), the transport, or the construction industry. The documents of the Bulgarian Party Congress held in the spring of 1976 also stressed the importance of national complexes, and also that the sphere of authority of ministries and their responsibility must grow; it is, however, not clear, whether the formulation: "a two- and three-level management system must be introduced" [24] has any other meaning beyond similarity to the Soviet Union.

In September 1977, the Politbureau of the Central Committee of the Bulgarian Communist Party criticised again over-centralization, and this criticism was repeated at the National Party Conference of April 1978. In his speech *Todor Zhivkov* laid stress on criticising illusions in connexion with the omnipotence of central organs and the unjustified centralization of decisions concerning current management, and he urged "... the clarification of the functions of economic ministries and supreme authorities" in order that these "... should not deal directly with operative problems of production." At the same time, he took a stand for strengthening the relative economic autonomy of combines. [25] It was decided at the Party Conference that instead of the associations generally – although, in accordance with existing conditions, not everywhere – combines would be organized, and they were to become "... the basic form of management of economic activities." [26] It seems that, for the time being, the question is only a partial correction of the last reorganization, which does not affect either the "two- and three-level" organizational hierarchy, or the "obligatory nature of the state plan."

In *Hungary* there were intentions similar to the Bulgarian ones to rearrange the relations between government organs and the enterprise sphere. The idea that the subordination based on the breaking down of plans in the relations between central organs and enterprises has to be eliminated, and it is exactly in this way that central organs may become capable of making true economic policy decisions was most clearly formulated in the documents of the 1968 Hungarian reform. In this interpretation ministries are not considered as a separate level of management, but as organs of the government. According to the conception of the Hungarian economic system industrial ministries are, namely, responsible "for the economic policy control of the whole sector", [27] and not for the activity of individual enterprises. It is from this aspect that the sectoral control and the supervision over enterprises were distinguished in the activity of the ministries, with the intention that sectoral control must become increasingly predominant. According to this distinction Hungarian terminology considers it *sectoral control* (*ágazati irányítás*) when ministries control the activity of the economic units of the sectors as organs of the government, independently of the supervisory authority to which the units are subordinated, while the functions surviving from the system of directive planning (which they exert over the subordinated enterprises) are called *supervision over enterprises* (*vállalat-felügyelet*).

Conceptions similar to those of the Bulgarian and the Hungarian reform regarding the new relation between central organs and enterprises played a role also in the elaboration of the *Czechoslovak* economic reform. Thus in 1967–69, the separation of government organs from the enterprise sphere was suggested. It was intended to limit the right of reallocation of resources by associations and particularly by ministries, and to transform associations into voluntary ones. Besides, in the form of enterprise councils, it was intended to assert certain elements of self-management in exercising supervisory rights. [28]

Poland was the last to develop a reform conception involving new principles in the arrangement of relations between the centre and the economic organizations. The new

Polish party leadership after 1970 was acquainted with the unsatisfactory results of the associations that had been organized since 1958 and accepted reform proposals containing not a hierarchical but a two-level administration system. In the Polish conception the network of large economic organizations corresponded to the Hungarian enterprise sphere, and the second pole was the centre.

The large economic organizations (*WOG*) were formed by further developing the organization based on associations that had been created earlier. In some cases associations were amalgamated, in other cases existing associations were reorganized into one large economic organization. Vertically organized combines may also function as *WOG*s. At the end of 1975, these large economic organizations supplied already two-thirds of industrial output. [29] *WOG*s differed from the preceding associations first of all in a much wider economic autonomy. From this point of view the essential thing is not only that the number of obligatory plan indices was considerably reduced, but that now not these, but the norms (regulators) and incentives were considered as the fundamental control instruments. The evaluation of the functioning of the *WOG*s was not to depend any more on the fulfilment of plan targets, but on the quality of the whole of their economic activity.

There is no industrial directorate above the *WOG*s, but they are directly subordinated to ministries. Ministries were considered, however, not a separate level in management, but organs of the centre, i.e. of the government. [30] The aim was to eliminate the situation in which the ministry acted as an operative management organ towards enterprises (associations), and as a representative of the branch towards the government and the planning board; according to the new conception, the ministries ought to have represented central economic policy towards the *WOG*s. [31] Parallel with the diminution of the operative management role of the ministries also the idea of merging them was raised.

Back to the hierarchical branch management

The implementation of the economic reforms of the sixties, and the various forms of "loosening" the branch management hierarchy were accompanied by the emergence of tensions in several countries. As it emerges from the present survey, leading party and state organs reacted on such situations usually by strengthening the administrative elements of control, and hierarchical subordination, even if there was no demonstrable connection between the extent of decentralization and disequilibrium troubles. In general, the operative activity of ministries was extended again.

In *Czechoslovakia,* e.g. the new political leadership turned against the earlier conception of economic reform after April 1969. The direct instruments introduced originally as temporary emergency measures soon became a system and soon shaped to their own likeness the regulators indirect in themselves (income regulation system, foreign trade regulators). Central organs concluded only "agreements" with enterprises in 1969, they signed "records" with them in 1970, and by 1971 obligatory plans for enterprises

were restituted, and the whole system of the "breaking down the plan" started to function.

Since already the "agreements" aimed at guaranteeing directly the unconditioned harmony between national economic targets and enterprise plans, also their "concluding" could not be done otherwise than by using the hierarchy of planning board – ministry – association – enterprise. And after 1971 this was formulated also in principle (in the government decree on the management system, and in the documents of the 14th Party Congress), laying stress on the strengthening of the "medium-level unit of management." [32]

Beside the associations, however, also the role of ministries changed again; their number increased, and their operative function was extended. This is obviously connected with the fact that since 1972 the national economic plan has been broken down again to ministries, associations, and enterprises. And the increased role of associations brought first of all the limitation of enterprise independence, since the autonomy of associations from ministries is very weak. Practically, the ministries have to approve any amendment in the enterprise plan; the ministries approve investments above the value limit not decided on the government level.

The right of reallocation of resources practised by associations and ministries was, contrary to previous intentions, not limited, but extended. Associations are entitled to reallocate the profit and depreciation funds of enterprises, and ministries are entitled to do the same generally with the depreciation funds and exceptionally with the profit in the form of "ulterior taxation" and dotations. The rates of these are often changed even during the year, taking into account the expectable plan fulfilment. The ministries also accumulate funds (technical development fund, reserve fund). The financial autonomy of enterprises from associations as well as the autonomy of associations from ministries, i.e. real *khozraschet* practically ceased, although the ministry remained, of course, a budgetary state institution.

In his report to the 15th Party Congress in April 1976. Prime Minister *Štrougal* stressed again that associations should become the "basic unit" in management, and he took a stand for a reorganization of the associations which would entail a considerable curtailment of the autonomy of member enterprises (transformation of "trusts" into "concerns"). [33] Reorganization indeed started, and it was finished first in the field of the Ministry of Mining and Energy on 1st January 1977. [34] However, at a party meeting dealing with economic management in October 1977 Minister of Finances *L. Lér*, head of the government committee concerned with the management system already demanded caution and warned against a schematic transformation campaign. [35]

A process not so conspicuous but of a similar direction took place in *Poland* in the mid-1970s. Disequilibria accompanying the programme of fast-rate economic development (and made worse by external conditions: raging inflation in the capitalist world, depression, etc.) led to various restrictive administrative measures. The restrictions applied in the regulation of foreign trade activities, investments, wages and incomes stiffened gradually the hardly introduced new economic management system. As it was stated by a

Polish analyst: "The changes implemented in the management system in late 1974, in 1975 and in early 1976 amended the *WOG* system in a certain sense. As it is known, those measures were of administrative character . . . Thus we have abandoned the original conception and returned to quota figures (investment fund, wage fund, etc.) and to the obligation of rendering a detailed account about the fulfilment of operative (annual and quarterly) plans." [36] From the aspect of our subject the interesting thing is that, parallel with these developments, *the approach to organizational solutions changed again.* The traditional interpretation of ministerial control strengthened, and its characteristic symptom was that branch ministries started to split up. On the 1st April 1976 the Ministry of Heavy Industry was divided into a Ministry of Metallurgy and Ministry of Heavy Industry as well as a Ministry of Agricultural Machines; the Ministry of Mining and Energy was divided into a Ministry of Mining and a Ministry of Energy and Nuclear Energy; at the same time, a Ministry of Material Allocation was also organized.

In the light of what has been said about Bulgaria, Czechoslovakia, Poland, and the GDR it is already understandable that when in the mid-1970s the internal and external equilibrium position of the Hungarian national economy became worse, some Hungarian economists also raised the necessity of organizational measures. [37] No comprehensive reorganization took place in industry, "only" many from the already few small enterprises – among them a number of well functioning and highly profitable ones – were amalgamated into large enterprises.* The practice of "solving" economic problems through organization, i.e. amalgamation was asserted even more in retail and wholesale trade, as well as in agriculture, but its discussion would take us far from the subject of the present article.

Conclusions

1. It stands out clear from the survey that in the European CMEA countries *there is at present no uniform and settled organization system of industrial administration.* The short or long history of socialist industrial administration is in each country full of reorganizations and re-reorganizations. Organizational changes are so frequent that there is in fact not enough time for any organizational system to get settled, nor for analysing its lessons. Not even the concrete causes (objectives) of reorganizations can be always clearly shown, at least as regards their economic content. A very important role is played by the different individual and occasional foreign and domestic extra-economic factors. For all these reasons it would be very risky to consider any of the organizational solutions applied as tested and successful.

2. A further lesson – perhaps surprising at first sight – of the survey is that *organizational changes* upsetting every level of industrial management *have been repeated with high frequency in those countries in which directive planning remained almost untouched.* This phenomenon is explained probably by the fact that in countries where

*This process has been criticised among others by Gy. *Varga* [38] and G. *Révész* [39].

enterprises have no extensive economic autonomy, any radical reorganization can be effected comparatively fast and through simple legal actions, on condition that the position of the production units remains unchanged.

3. In most CMEA countries, at present at least, *two common tendencies* can be observed: one is the *amalgamation of enterprises,* and the other one the *setting up of medium-level management organs with khozraschet,* of nation-wide size and sphere of activity. As justification for the measures serving the assertion of these two tendencies the press of the countries in question usually refers to the well-known advantages inherent in production concentration. This explanation is, however, only partly true. Economies of scale will be realized, as is known, only in the case of progress toward optimum plant sizes, but increasing *enterprise* sizes are not identical with finding the optimum *plant* size. The optimum plant size can be decided in each case only through adequate business economic investigations. If enterprises are merged in a campaign in every industrial branch of a country, the increased enterprise sizes will hardly bring the required results. Otherwise, in the degree of production concentration, at least as regards concentration in terms of staff, the industry of socialist countries was not behind that of the advanced capitalist ones. It is well known that in most socialist countries one of the factors hindering economic growth is the lack of enterprises able to flexibly adjust to changing needs, with a specialized line of production and providing specialized services; and, as a matter of fact, for the specialized enterprises most often the small or medium size is the optimum.

What are, still, the *objective causes* that account for the concentration-centralization efforts asserted with such uniformity in socialist countries? One cause is, of course, the development of production and of production technology. But the inner logic of the economic management system is no less effective, either.

– The fast growth of the dimensions of national economy, and the diversity of needs require from the planning organs with traditional methods and approach to prescribe an increasing mass of plan indices. It seems obvious that they will be able to stop the proliferation of paper-work if they set up medium-level management organs *that can take over from the ministries and other central organs the care of planning and management of entire branches.* This is reflected, e.g. by the "balance-responsibility" function of *VVB*s in the GDR.

– Since the size of development funds and financial incentive funds accumulating with the enterprises depends on the degree of plan fulfilment, *in a bigger enterprise unit the disproportions* among the production, financial investment and material-technical supply plans and those coming about in the course of plan fulfilment *can be in principle mitigated by various reallocations.*

– A well-known weakness of the system of directive planning is the frequency of hindrances in co-operation relations between enterprises. Therefore, the creation of large enterprises and combines is expected to eliminate this difficulty, since *clumsy "external" delivery relations become "internal"* ones, and co-operation is "cut out". It is not incidental that, e.g. in the GDR the setting up of combines flourished exactly in the late

1960s, when taut national priority industrial development programmes were hindered because of intermittent deliveries of small enterprises to the manufacturers of the final product.

– In most socialist countries the reforms introduced in the 1960s, while generally increasing the autonomy of enterprises and their profit incentive, left the methods of branch management practically untouched. Thereby the contradiction further sharpened between the profit incentive of enterprises and the "disinterest" of authorities controlling the enterprises. The last industrial reorganization is expected, as it has been seen, e.g. in the Soviet Union, *to create a community of interests between the medium-level management organ and enterprises,* whereby the phenomenon of "plan bargaining" between the enterprise and its superior organ would cease, and planning would become more "realistic" as well as "tauter".

4. The increasing role of associations is, in fact, a general tendency, but *the content of this tendency* and its "historical place" *is not the same everywhere.*

In *Romania,* which took the way to modernizing her economic system later than other countries under discussion, the increasing role of associations is no more than a shift between spheres of activity within the multi-level management hierarchy, and the assertion of certain elements of *khozraschet* at the medium, level of management. This is a kind of phase delay: the same process took its course ten years earlier in Czechoslovakia, Poland, and the GDR.

In *Bulgaria, Czechoslovakia,* and the *GDR* the increasing role of unions serves primarily the aim analysed above, i.e. to try to overcome the inner contradictions of the system of directive planning while staying within the framework of it and without activating value categories or increasing the role of the market. In Bulgaria and Czechoslovakia these efforts follow the period of reform experiments aiming at a radical expansion of enterprise autonomy. The role of associations is extended mainly at the expense of enterprise autonomy, while the operative role of ministries is maintained in each country.

In Poland and the Soviet Union the increasing role of associations has a somewhat more complicated background. In *Poland* this constituted the main element of the economic reform started in the early 1970s and coming later to a halt, since the original intention was to reduce considerably the operative role of ministries, not considering them a separate level of management placed between the government (planning board) and the *WOG*s. In the *Soviet Union* the case is different, and it has not been raised either, that ministries should not be a separate level in management. And yet the opinions cannot be considered unfounded according to which *the organization of associations may be a continuation of the reform started in 1965.*

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ОРГАНИЗАЦИЯ ОТРАСЛЕВОГО УПРАВЛЕНИЯ ПРОМЫШЛЕННОСТЬЮ В ЕВРОПЕЙСКИХ СТРАНАХ СЭВ – НЕКОТОРЫЕ УРОКИ

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В организации отраслевого управления государственной промышленностью европейских стран-членов СЭВ подметить весьма разнообразные, нередко противоречивые тенденции. В основе отраслевого членения управления промышленностью лежит натурально-хозяйственный подход к управлению, требующий от его организации отражения вертикальных стадий выпуска продукции. Но предписание заданий в натуре и контроль над их выполнении осу-

ществимы, вообще, лишь при относительно однородном составе продукции, поэтому профили производственных единиц необходимо постоянно „очищать", что ведет к организационному обособлению, отпочковыванию все новых и новых отраслей и производств, делению центральных органов управления, частым реорганизациям. В ходе этого процесса на протяжении истории развития планового хозяйства как в СССР, так и в других европейских странах СЭВ сложилась многоступенчатая, сложная и громоздкая иерархическая система отраслевого управления.

За последние два десятилетия в социалистических странах были предприняты различные попытки по упразднению или преобразованию многоступенчатой системы управления. Первым альтернативным решением явился переход к территориальному принципу управления промышленностью в СССР, а затем в Болгарии и ГДР во второй половине пятидесятых годов. Поскольку территориальная децентрализация управления совсем не затронула положения предприятий (методы директивно-планового управления экономикой остались неизменными), не улучшила она существенным образом и эффективности хозяйственной деятельности, но породила отрицательно расценивавшиеся местнические тенденции. Поэтому к середине шестидесятых годов в этих странах вернулись к отраслевой системе управления.

Другая попытка изменения традиционной системы управления промышленностью – это преобразование среднего звена отраслевого управления, главка, в хозяйственную организацию (объединение). Эта реорганизация началась в Чехословакии и Польше уже в конце пятидесятых годов, в ГДР стала всеобщей в середине шестидесятых и постепенно осуществляется в СССР в течение семидесятых годов. Возникшее новое образование является продуктом своеобразного компромисса – попытки приспособления системы директивного планирования к новым условиям и требованиям, т. к. „классические" ведомственные функции среднего звена отраслевого управления здесь дополняются своего рода общностью интересов с подчиненными ему предприятиями. Хотя создание объединений и не представляет собой подлинной альтернативы иерархической системе отраслевого управления, но носит в себе возможность смягчения жестких отраслевых рамок управления, применения косвенных методов экономического управления, дальнейшего развития хозяйственной реформы.

Хозяйственные реформы шестидесятых годов предприняли попытку реализации и третьей альтернативы – отмены иерархической субординации хозяйственных единиц (предприятий, объединений) правительственной сфере и изменения роли отраслевых министерств. Согласно болгарской концепции 1963 года, а также более поздним венгерским и чехословацким представлениям, министерства как правительственные органы отвечают за хозяйственно-политическое руководство отдельными отраслями, за разработку и осуществление концепций их развития, а не за деятельность отдельных предприятий. Промышленная политика, таким образом, отделилась бы от ведомственного надзора.

В европейских странах СЭВ в целом в настоящее время нет единой и полностью сложившейся организационной системы управления промышленностью. История социалистического управления промышленности в каждой стране изобилует реорганизациями, повторяющимися настолько часто, что не имеется достаточного времени для вызревания той или иной организационной системы, для анализа опыта ее функционирования. Примечательно, что организационные перестройки управления промышленностью, распространяющиеся на все его уровни, особенно часто повторялись в тех странах, где директивный механизм планового управления хозяйством оставался, по существу, неизменным. Поэтому авторы сомневаются, что любое из встречающихся в странах СЭВ в настоящее время организационных решений можно считать успешным, оправдавшим себя на деле.

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REGIONAL INTEGRATION IN THE NEW WORLD ECONOMIC ENVIRONMENT

Traditional integration theories regarded the constant growth of the rate of intraregional trade as the main success-indicator of regional integration. This indicator, however, proved to be wrong already in the past since it disregarded the flow of a considerable part of the production factors, and did not take into account the increasing costs of regional isolation. After 1973 it was clearly the relations of international division of labour reaching beyond regional integration that have multiplied which is shown among other things, by the decreasing rate of intraregional trade in the case of the most diverse regional groups. It is conspicuous that mostly countries losing their world market competitiveness rely mainly on the regional market. At the same time, fast industrializing countries intensively expanding their finished goods exports see the long-range guarantee of their competitiveness in building up the widest possible system of world economic relations. It may be expected that member states of the viable regional integrations will not strive after the "point of no return" that had been long considered as determinant, but after such coordination as does not impair the advantages of the international division of labour.

The recent important changes in world economic environment have not left regional integrations unaffected, either. Almost every integration group functioning with some success was organized in a comparatively quiet period of world economic development and reckoned with the long-term stability of the external environment. Has the change in the latter, and its intensifying effects strengthened regional coherence and laid stress upon the security aspects of introversion, or is the increasing "opening up" to world economy of the integrations, always "closed" to some extent, a prevailing tendency of our age?

The ratio of intraregional trade of the European Economic Community (the Six) increased within the total trade of the member states from below 30 per cent in 1957 to about 50 per cent by 1973. This rise was not even: the fast increasing rate slowed down in the last third of the 1960s, and stopped in the early 1970s. It is more important, however, that parallel with the above-mentioned process the world economic integration of West European countries has been intensifying that is both the regional and the world economic division of labour have strengthened. This has played an important role in that the EEC has advanced to becoming a determinant factor of world trade.

Similar purposes, but different results are characteristic of certain integrations made up of developing countries. These countries – most of them pursuing import-substituting industrialization – encouraged regional relationships because they thought that in this way the limits of small national markets might be surpassed and the regional market

would allow further development with practically the same conception, without impairing the particular established interests. And the advantages of large-scale production and sales get asserted not only in intensifying intraregional trade but also in that exports to third countries may be increased. A contrary effect is concomitant, however, with an internal market protected by common customs which tries to draw to the regional market also the trade from outside the integration. Out of the two effects assumed, it was the latter that got asserted, which was certainly in close connexion with continued import substitution at the international (regional) level–involving ever increasing costs already at the national level. Thus the "theory of the training ground" – according to which it is the regional market that brings up and strengthens the industry of member countries and renders it competitive at world economy level – was not justified. As distinct from the EEC, Latin-American and African examples prove that increasing intraregional trade went parallel with some countries' marginalization in global context, which means that the development of intraregional relations entailed (in some instances deliberate) isolation from the international division of labour, or a (forced) exclusion from it. The intraregional trade of the Latin American Free Trade Association – to be considered as the most important one – rose from 8.7 per cent in 1960 to 12 per cent in 1970, while the share of the region in world exports fell from 7.6 to 6.1 per cent.

Yet the theory that relies upon the growth of the ratios of intraregional trade as an indicator of progress of the integration has to be complemented with a further highly important factor. One determinant link in the relations between regional integration and world economy is constituted by non-commercial flows. Production factors, first of all capital and technology, were flowing on the world scale from the very beginning in the case of the West European integration. Thus it was first of all the inflow of American capital and technology, as well as of South European and North African labour that brought about the desirable level of world-scale openness. What is more, this "umbilical cord" of world economy was by far a necessary precondition to the fast development of intraregional trade. A considerable part of the increasing intraregional trade is due to the sales in the EEC by American subsidiary companies located in the EEC. Besides, in the fast economic growth of Common Market member states it has not been only commercial but also capital and technological factors that have played an important role.

Integrations of the developing countries exerted their effect also towards isolation from world economy in the 1960s. The uniting force of world economic relations has weakened not only because of the diminishing share in world trade, but also because of the restrictive capital and technology import policy declared in more than one country (region). As a matter of fact, regional isolation in trade could have been counterbalanced exactly by a liberal, largely open economic policy in the above-mentioned field.

Isolation tendencies get asserted even more intensively in the case of investment-centred integrations, concentrating on the common building up of new sectors; and this involves the exhaustion of means modest in any case, that might be spent on intensifying the world economic division of labour.

Effects of the changed world economic environment

World economic changes exploded with elementary force in the everyday life of not only each national economy, but also of regional integrations at a time when the latter were faced with a dilemma also from another aspect. The trade-creating effects of integration were largely exhausted where they were important (EEC), and continued to play a very modest role where their weight was expected to grow (Latin America, Africa). Efforts at integration transgressing a customs union or aimed at temporarily getting round it clashed with the deviating interests of the member states, which unavoidably appear at a certain stage of vertical development. Therefore, the effects of impulses affecting integrations from the side of world economy can be interpreted but in consideration of this special development within the integration and often cannot be separated from the latter even by abstraction.

Quite surprisingly, world economic changes affected little the frameworks of integration, but very much its contents. Although not a single integration has broken up because of world economic problems in recent years, eventual disintegrations have been attributable, without exception, to regional problems. However, as opposed to the regional integration conceptions proliferating in the preceding fifteen years, no viable integration has become established in this period, either. Unchanged legal framework and institutional elements in a fast changing world economy are explained by the fact that the development level of integration of the groups in developing countries was very low, and this fact could not be basically changed even by otherwise considerable external amendments. With the EEC an exactly reverse situation developed; integration has reached such a level as resisted disintegration tendencies.

In what direction have world economic developments changed the attitude of regional integrations towards world economic division of labour? The price explosion has brought a number of countries into a difficult situation. The upset balances of trade and payments have led to increased exporting efforts almost everywhere. Countries with a traditionally active balance in the intraregional trade made efforts to further strengthen this position of theirs, and tried to neutralize the largest possible part of their deficit towards third countries through increasing their intraregional additional exports. This, however, met with the resistance of other member countries that also got into a disadvantageous position with third countries, since, even though they had tolerated in the past a not too high deficit of intraregional trade (often in return for expected integration advantages in other fields), their shattered financial position allowed this less and less.

Accelerated structural development exerted its effect in a similar direction. Polarization within each regional integration, and different development policies led to a situation where different countries produced articles for regional and for world market demands, in different quantities. Almost within each integrational group there were member states for which the regional market proved to be small in consideration of the industrial policy chosen, so that they had to rely upon the world market from the very beginning. This influenced, of course, integration efforts at the building up of common

regional projects. In the circumstances of accelerated structural development fast and flexible adjustment was given preference to regional industrial development realizable only with considerable delays and mostly uneconomically (to a kind of natural complementa planned in advance).

As an accompanying phenomenon the flow of capital and the attached technology transfer accelerated on a world scale. For its absorption some countries proved to be better suited than others. The criteria for selecting partners changed considerably: it is not necessarily the relations among economies on a similar level of development and situated within a geographically closed area that are strengthening – although their integrational institutional system may subsist –, but the ties among economies in the most widely different regions of the world and the advanced industrial countries promoting world-wide structural changes.

Because of "globalization" tendencies certain essential problems cannot be solved even within an integration otherwise concentrating a considerable economic power. The business cycles of capitalist economy, energy policy, and the necessity of reshaping the monetary system are such problems as go far beyond the sphere of authority of the EEC, and even its sphere of influence.

Beside the factors forcing a growing opening to world economy of regional integrations there are, however, also priorities resulting from the recession of the capitalist world economy, the uncertain business prospects, financial imbalance which cannot be restored in the short run, and tensions undoubtedly accompanying accelerated structural changes. Some draw from this the conclusion that regional integration is the firm island in a world economy full of uncertainties, to which it is possible to retreat. This view believes that the temporary and occasional advantages which may be offered by regional integration in the form of damping the disadvantageous effects of world economy are overriding. These advantages seem to be particularly great if relations among member states are advanced, or, if there is a country with considerable import capacity within the group (such as Venezuela in Latin America, and Indonesia in the ASEAN). Great as the security thus offered may be, efforts at regional autarky, and a deliberate breaking with the world economic environment, deemed suitable for the elimination of unfavourable effects is not justifiable. On the contrary, it is exactly accelerated internationalization that necessitates an increasingly close joining into the international division of labour.

What has been said is well reflected by the data relating to the intraregional trade of each integration group. Although these grasp only one aspect – and not always the most important one – of the world economic dependence of each integration, in this instance they are well applicable. It may be assumed, namely, that non-commercial transactions move – on account of the nature of the factors involved – in the widest world economic framework. And if the development of intraregional trade also points towards opening up to world economy, our assumption is supported from two directions.

Export data have been chosen because they eliminate better the distorting effects of the raw material price explosion since most countries under examination are important raw material importers. It may be assumed that in imports the changed price

Table 1

Intraregional exports in percentage of total exports

	1965	1970	1973	1974	1975	1976	1977
EEC (the Nine)	45.8	50.3	52.7	50.6	49.4	51.8	50.7
FRG	42.8	46.3	47.1	44.9	43.6	45.7	44.9
France	46.8	54.0	56.1	53.2	49.2	50.6	50.4
Italy	46.1	47.9	50.1	45.4	45.1	47.8	46.6
United Kingdom	26.4	29.4	32.3	33.4	32.3	35.6	36.6
Latin-American Free Trade Association (LAFTA)	10.6	12.0	11.4	11.1	11.6	11.6	–
Argentina	17.0	21.0	24.4	22.0	24.5	26.3	–
Brazil	13.0	11.1	9.0	11.5	13.8	11.9	–
Mexico	6.0	7.1	7.6	8.8	9.2	9.4	–
Venezuela	–	–	5.3	4.8	3.9	4.0	–
Andean Group	–	2.8	3.3	3.5	4.8	–	–
Columbia	–	9.2	7.5	10.4	13.0	11.4	–
Central American Common Market	18.0	26.5	23.0	24.3	22.0	19.8	–
East African Community	18.1*	17.4	15.8	16.9	15.1	11.2	–
Kenya	30.8*	28.9	28.7	27.8	25.8	19.3	–
Association of South-East Asian Nations (ASEAN)	–	19.0	17.0	14.5	15.7	14.6	–
Singapore**	–	25.4	21.2	19.8	21.8	19.0	–
Malaysia	–	24.8	24.4	23.9	24.2	21.5	–

*1967

**Without exports to Indonesia

Source: Eurostat. Monthly External Trade Bulletin. Special Number 1958–1976, OECD Series "A". April 1978, IMF Direction of Trade 1970–1976, and author's calculations.

proportions resulted in considerable shifts in sources of imports. However, in the case of the EEC this is so also in exports, although the process has taken its course gradually. This indicates that member states tried to reduce their increased import accounts as fast as possible, and to do so with the aid of extraregional exports. The shift of world economic growth centres to outside Western Europe will maintain probably the export offensive of the EEC countries toward regions outside the integration also in the longer run.

Changes in world economy did not strengthen the weight of intraregional trade in the integrations of the developing countries, either. The fast diminishing East African ratio is largely due to the loosening internal political ties of the group, but in the case of Central America, held together by invariably strong ties, we already witness a change of

phase in the integration, i.e. an intensifying outward-looking as also in the case of the ASEAN. A certain growth in the ratio of intraregional trade took place in the Andean Group alone, but this ratio is so low there that no far-reaching conclusions may be drawn from this trend.

The behaviour of individual member states is remarkable. The importance of intraregional trade developed differently for Argentina and Brazil, both strongly and similarly affected by the changes in world economy: its rate increased in Argentina during the past three years, while it hardly changed in Brazil, similarly to the Andean indicators of Columbia. Two South-Asian countries whose export includes industrial articles broke the trend of the preceding period in 1975 when the rate of intraregional exports went up, but in 1976 the old tendency prevailed again. The cause lies in all certainty with the 1975 recession of the advanced capitalist world economy, which hit hard the trade of the two countries strongly oriented to these markets, and temporarily (for one year) increased their interest in exploiting the reserves of the regional market.

In searching for an explanation of the observable deviations under largely similar effects, we centre our attention on two elements: what is the interrelation between the ratio of intraregional exports within total exports, and the commodity pattern of exports; to what extent can the deviations be explained by economic policies inherited from the preceding period? Examining the efforts at integration of the developing countries, *Balassa* and *Stoutjesdijk* [1] arrive at the conclusion that the project-centred integration wishes to create a regional framework for internationally tradable goods and services (up to the measure of trade-diverting effects also the customs union asserts itself in this direction). One of the most exciting questions – involving also some practical lessons – of integration theory is whether goods and services international by their nature can be included in the framework of regional co-operation and if so, to what extent. Analysis of the commodity pattern of intraregional trade in the EEC provides an answer to the question. According to it various types of goods allow the utilization of advantages offered by regional integration always to a different extent.

The data in the last row of Table 2 indicate the intraregional export ratio of the EEC. The higher figures to be found with some groups of products reflect a relative concentration on the EEC market, while the lower ones throw light upon the lower-than-average weight of the internal market. The intraregional market is the most important one in the case of agricultural exports, which is explained by the protectionist agrarian policy of the EEC. Primary energy exports play but a slight role in the total exports of the EEC, yet the otherwise low degree of self-sufficiency, and favourable transport costs result in a high ratio of intraregional exports. The consumer market of 250 million pushes the intraregional export ratio higher than the average also in the case of manufactured goods. In the case of chemicals, however, an international market wider than the EEC plays a more important role. The most conspicuous deviation shows with machines. Although in the case of machines requiring the widest international division of labour and inferring the most extensive capital and technological relations the integration market had played an increasingly important role up to the first third of the 1970s, the main markets for

Table 2
Intraregional export ratio of the EEC in a few groups of commodities (in per cent)

SITC groups	1965	1970	1973	1974	1975	1976
Food (0 + 1)	61.8	65.2	67.5	66.6	69.3	69.6
Energy carriers (3)	60.0	61.2	63.0	60.8	62.7	64.3
Chemicals (5)	38.5	44.9	48.9	48.3	47.6	49.9
Manufactured goods (6+8)	47.1	52.8	54.9	50.7	52.0	54.7
Machinery (7)	37.5	42.4	44.4	41.0	38.6	41.5
Total (0–9)	45.8	50.3	52.7	50.6	49.4	51.8

Source: author's calculations based on Eurostat Monthly External Trade Bulletin. Special Number 1958–1976.

these products had been outside the integration even at that time. After 1973 when growth and import capacity centres shifted, this became even more conspicuous. This trend may seem surprising, since it is generally known that it is exactly industrial specialization in machinery production that reached a high degree in Common Market countries, and that the production structures of the national economies were organically connected exactly in this field. Yet, in spite of the closest regional production cooperation (resulting from a dynamic intertwining of structures and not from any kind of natural complementarity) the main role in sales is played by the world market.

But how is this feature of machinery production compatible with the conception that considers regional integration primarily as a "training ground" for the development of the machine-building industry? Latin-American examples prove that Mexico and Brazil directed the bulk of their finished goods and machinery exports to the world market after 1968 while Argentina favoured the Latin American market. (47 per cent of the finished goods export increment of the latter, and 70 per cent of her machinery export increment went to the Latin-American market between 1961 and 1974.) What role is played in this orientation by traditions from the history of development? It is well known that Latin America – as well as the regional integrations established there – developed through import substitution during the 1960s. Brazil and Columbia broke away from this line in 1967 and Mexico kept away from it from the beginning. Argentina reacted on the growing difficulties by increased inward-looking. As a result, her sales of machines to Latin America were growing, but behind this there were mainly equipments non-competitive on the world market. That is, in this case concentration to the regional market does not arise from the idea of placing the product not yet mature for world economic competition on the "training ground", but it is an alternative – practicable in the short run – to abolishing the manufacturing of products not marketable elsewhere. The situation is different with Columbia which deliberately implemented a two-way

specialization; with her labour-intensive products she counted on the world market from the beginning (because of the small regional market and high protective customs there was no such export development possibility within the regional framework), while her advancing machine industry is for the time being present in the Latin-American and Caribbean regions. Thus she added a spatial division of the "training ground" to the division in time (only regionally competitive products in the first phase, and those marketable on the world scale in the second phase); some articles rely on the world market from the beginning while other ones in the beginning mainly on the market of the regional integration.

Yet the relationship between regional integration and world economic division of labour can be illuminated not solely from the side of the commodity pattern of exports. The commodity pattern of exports is in itself the result of a certain economic policy. Economic policy tradition obtained an important role again exactly in connexion with the changes in world economy and they marked the economic policy conceptions of each integration group. The Andean Group – arguing for regional import substitution as before – held the opinion that now was the time for real regional import substitution. A harmonious and planned regional development had been that far constantly hampered by the uncontrollable effects of the world market. We meet with similar ideas also in other groups of developing countries. At the same time, those taking a stand for an increased joining into world economy think that regional integration may be expressly harmful, if it eliminated the pressing effects of an otherwise strongly outward-looking economic policy. The countries without experiences in import-substituting industrialization, or having pursued such policy only for a short period continue to consider the world-wide international division of labour as determinant (e.g. Singapore, Malaysia) and they speak about the chances of regional integration as a complementary element to export-oriented attitude.

The most important experience is that the reactions on changes in world economy are formulated in most cases not on the level of regional but on the national economic policy. Regional integration might be an appropriate instrument for separating a given region from the world economy (customs union, capital restrictions), but it is incapable of encouraging export development co-ordinated at the regional level. That is, it was adequate in a passive (defensive) role, but inadequate to play an active role. The instruments of export orientation are not given in the regional, but mainly in the national decision-making framework. This has been recognized for long; certain countries have been practicizing it for ten years, even though they belonged or still belong to expressly import-substituting integrations. Until relationships within the integration are loose and of a low level, the two contradictory conceptions may co-exist without problems for some time at least (this is proved by the example of Brazil and Columbia in the LAFTA and the Andean Group, resp.). But even in the case of closer intraregional relationships the national export-orientation may be made a success, particularly if most of the member states could part with the import substituting tradition, or are not burdened by such tradition at all (first of all South-East Asia and Central America).

The future of regional integration

Experiences of recent years, and conclusions drawn from the particularities of national economic development support the opinion according to which the main field of the international division of labour in the coming period will not be regional integration. In the case of favourable conditions for a foreign economic strategy more open than the regional one, the retreat to regional integration may be expressly disadvantageous even if the ratio of intraregional trade grew. In the final analysis, namely, the latter would not promote a more intensive joining in the international division of labour, but would strengthen the closed economic structures and, in the long run, it would put great obstacles even in the way of a further development of the regional integration.

The integrational frameworks may express different aims and interests even in the case of a comparatively inflexible adjustment of the former. However, it can not yet be foreseen, whether the integration would be able – even in a much more flexible framework – to adjust the economic structure of a given region to accelerated world economic processes in time.

A framework gradually deprived of its economic substance either remains empty, or gets again filled with political contents and marked by temporary associations of common interests. This may offer in certain cases a better representation of interests of the integrated region towards the world economy, and in other cases it may strengthen the special interest relations of some member countries with some countries outside the integration but which take a similar stand in the given question.

In the first case the feeling of regional solidarity may grow stronger. This is undoubtedly promoted by such agreements as, e.g. the Indonesian promise to give priority to the South-East-Asian region in the case of any oil crisis, or the decision of Thailand to grant favours to her integration partners in her rice exports. The petrodollars of Venezuela may also become an integration-strengthening factor, either in the Andean, or in the Caribbean, Central American, or in the entire Latin-American area. Since, however, the supporting pillar of such solidarity consists in that the wide potentialities of one country are opposed to the stressed emergency situation of other countries, the solidarity carries in itself the seeds of new super- and subordinations. Several such opinions have been expressed already in connexion with the Caribbean role of Venezuela and the West-African role of Nigeria.

In the second case – which is more probable – a "multilateral diplomacy" is expected to emerge. [2] This increases both regional and global activity, yet it is directed basically to extraregional objectives, which are complemented with, and supported by, actions within the integration. The new negotiations on monetary, trade, technological and investment relations are pursued along this line between Latin America, South-East Asia on the one hand and the developed capitalist world and oil-producer countries on the other hand. Within this, the role played by the EEC in both regions and which is centred on a horizontal expansion instead of intensifying the West European integration is remarkable. This is due not merely to the doubtless obstacles in the way of

a vertical development of the West European integration, but also to the now twenty-year awareness that, in order to be in the forefront of world economy, the EEC must by all means stay within the international system from which impulses determining development start or to which the impulses starting from the EEC may emanate.

A group of the fast industrializing developing countries is also interested in the expansion of such relations. They can sell their ever more up-to-date products produced in large quantities only on markets of adequate standards and promising sufficient demand, even in case of sharpening competition. It may be assumed that the need for further technical-structural development will necessitate the increase of sales just on these markets. Thereby, however, not only the "training ground" character of regional integration will change, but partly so will the roles played by the various producers on this market.

Although the new framework of relationships emerging is not likely to shatter the integration models, it will certainly involve a considerable change in the expectations formed in respect of integrations. If in the past it was a central effort to reach such a point of integration at which the process becomes irreversible and capable of self-strengthening ("point of no return"), in the future it will be more useful to observe the point (zone) which should not be surpassed in the course of development of the regional integration ("point of no arrival"). Thus the advantages offered by regional integration will be worth to be made use of as long as their price (cost) does not exceed a certain point. Beyond that point the concentration on regional integration may deprive the economy from exploiting the advantages inherent in the global international division of labour.

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РЕГИОНАЛЬНАЯ ИНТЕГРАЦИЯ В НОВОЙ МИРОХОЗЯЙСТВЕННОЙ СРЕДЕ

А. ИНОТАИ

Все действующие в наши дни и имеющие конкретные результаты региональные экономические интеграции сложились в относительно спокойный период развития мировой экономики и базировались на относительном постоянстве внешней среды. В статье анализируется, появляло ли существенное изменение мирохозяйственной среды на концепции экономической политики стран-участниц интеграционных группировок и на саму практику интеграций, и если да, то в каком направлении произошли изменения. Было ли наиболее характерным ответом на усиление внешних воздействий укрепление региональной спаянности и постановка на первый план аспектов надежности, выражающейся в замкнутости, или определяющей тенден-

цией нашей эпохи является „поворот" к мировой экономике в определенной степени в сегда замкнутых интеграционных группировок?

Отдельные положения классической теории интеграции уже в прошлом нуждались в пересмотре. Скоро выяснилось, что повышение доли взаимной (внутриинтеграционной) торговли в совокупном торговом обороте можкно считать благоприятным только в том случае, если параллельно возрастает значение района, охватываемого данной интеграцией, в мировой торговле и мировой экономике. Доля взаимной торговли не может считаться мерилом развития интеграции, поскольку ее величина зависит от характера товаров, участвующих в торговле (международная торговля машинами и оборудованием заведомо ориентируется на мировой, а не на региональный рынок), а с другой стороны, большую роль играют факторы производства, подвижные в международных масштабах, прежде всего капитал и техника. В прошлом усилить свое международное экономическое значение удавалось тем интеграционным группировкам, которые включались в самые широкие международные (а не региональные) потоки техники и капитала.

Мирохозяйственные изменения, происшедшие после 1973 г., незначительно затронули интеграционные рамки – в последние годы проблемы мировой экономики не привели к распаду ни одной интеграционной группировки, однако не возникла и ни одна новая жизнеспособная интеграция. В то же самое время наступили существенные изменения в содержании интеграции: нарушение экономического равновесия было характерно для целого ряда стран и, таким образом, актив, пассив или равновесие внутрирегиональной торговли (даже если последняя составляет всего лишь несколько процентов во внешнеторговом обороте) в большинстве случаев стали весьма чувствительными проблемами. Ускорение международных структурных сдвигов принудило отдельные страны-участницы интеграций (в большинстве случаев – более конкурентоспособные) приспосабливаться к мировой экономике и привело к возрастанию значения мирового рынка по сравнению с региональным, укрепила связи с наиболее развитыми странами.

Ответ на изменения мирохозяйственной среды был дан не в рамках интеграции, а в национальных рамках. Региональная интеграция могла быть пригодным средством для отделения данной области от мировой экономики (замещение импорта, ограничения международного движения капиталов), однако она пока оказалась неспособной к проведению активной и координированной политики развития экспорта. В связи с перспективами региональной интеграции, с одной стороны, можно предположить усиление «региональной солидарности» отдельных областей, а с другой стороны, и прежде всего, установление в качестве определяющей тенденции стремления к наиболее широкому участию в международном разделении труда. Это изменит как теорию интеграционного «тренировочного пространства», так и положения, относительно «точек необратимости» в развитии интеграций. В качестве «тренировочного пространства» уже на первых ступенях развития может все более непосредственно выступать мировой рынок, а достижение точки необратимости страны-участницы могут счесть не однозначным успехом интергации, а таким результатом, который таит в себе определенные опасности и может лишить экономику стран-участниц, – а через это и саму интеграцию – многих преимуществ, заключающихся в самом широком международном разделении труда.

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Á. GORDOS

ECOMOMIC VENTURES IN SOCIALIST COUNTRIES WITH WESTERN PARTICIPATION

Economic associations in socialist countries with the participation of Western firms are specific aspects of economic cooperation between socialist and capitalist countries. The legal frameworks and economic terms of the organizational forms offering new possibilities for the transformation of economic structure differ from country to country, and the regulations are not yet settled. The lasting depression of the capitalist economy hindered the foundation of joint enterprises in Hungary, too, although the decree of 1977, modifying the legal framework and economic terms of foundation and functioning provides a more favourable and stimulating regulation than previously. When elaborating their development plans Hungarian enterprises ought to analyze more consciously both the advantages and the disadvantages of establishing economic associations with foreign participation.

The process of political détente between East and West allowed to establish lasting relations in economic cooperation between socialist and capitalist countries. In recent years cooperative ventures have become considerable factors in the economic cooperation between socialist and capitalist countries if only for their weight. The appearance of joint enterprises and economic associations with Western participation in the socialist countries and the development of their activity fit into this process. As far as title to property is concerned these associations are in socialist ownership thus it is more correct to speak about an economic association with foreign participation instead of a joint enterprise. Joint ventures established with the participation of socialist and Western enterprises mean a new colour on the palette of East-West cooperation only in relative terms. Joint enterprises with a share in property of organizations of socialist countries have been functioning in the West for some longer time already and are rather widespread. It is true, however, that with these enterprises capitalist participation is generally aimed at sales. Novelty is relative also because economic associations with foreign participation had already existed in the USSR in the 1920s in large numbers. Despite this circumstance joint enterprise as a form of cooperation is still in an experimental stage in the socialist countries. After the Soviet concession policy of the 1920s economic policy decisions leading to the import of operating capital have been made only in the last five-ten years and even then only in some socialist countries.

Aims of capital exporters and importers

Exporters of operating capital are usually multinational enterprises of capital strength which can satisfy expectations of socialist countries towards the import of technology. These enterprises subordinate their entire activity to their market strategy which includes also a more extensive control of markets while profit maximization is not regarded as a primary goal. It follows that market-expansion may be regarded as the primary goal of capital exporters cooperating with socialist countries, which indirectly brings about the expansion of production, a better return on research costs, further development of the division of labour, that is, a more favourable rate of profit. Over and beyond this also such factors arise as cheap labour, tariff reductions and tax exemptions, and smaller political and commercial risk, expectable in non-socialist countries.

From the viewpoint of socialist partners the function of capital relationship is very complex, showing also considerable differences beside certain identical features. The endeavour of the socialist party is to involve new resources for the increase of the growth rate of the economy, for technological development based on imports of efficient technology, to increase receipts in convertible currency, to rapidly adapt advanced thechniques, to acquire up-to-date work organization and management methods.

In the mutual relations of capitalist countries joint enterprises are one of the most important channels of integration and have an outstanding role in the exchange of intellectual products and the transfer of technology. Naturally, the integration process has some political preconditions, too, whose mutual lack results in that the integration of enterprises of socialist, among them first of all of CMEA-countries with those of capitalist countries cannot reach the extent experienced in the capitalist world. This does not exclude that in certain fields, if justified a joint venture of determinant importance should be established which then favourably influences its economic environment.

Particular features of regulation and experiences in Yugoslavia, Romania and Poland

Investments of foreign, including Western enterprises are allowed at present by the legislations of three socialist countries beside Hungary.

Yugoslavia issued a relevant decree in 1967, which was modified several times, recently in 1976. Political preconditions in Yugoslavia, being no member-country of the CMEA, considerably differ from those in other socialist countries. (Let us only indicate that Yugoslavia participates on a contractual basis in the work of some committees of both the CMEA and the OECD). At the same time, owing to the Yugoslav economic reform, general inner environmental conditions were favourable for foreign capital investments. In Yugoslavia foreigners may invest in already existing or eventually newly developing economic organizations. Their share in the capital may be 49 per cent at most and must be hundred thousand dollars at least. The banking sector, insurance activity,

domestic transport, home trade and services are protected from foreign investments, though not absolutely. The transfer of intellectual product cannot be considered as capital participation, but the foreign firm may obtain an extra income share for this service. A precondition of the permit for joint enterprises is, among others, that beside the application of up-to-date technique and technology, increasing standards of enterprise organization as well as development of research within the joint enterprise, the association should result in increased production, productivity and exports. The foreign party pays tax on its share at rates differing by republic (autonomous territory) through which regional development policy is meant to be enforced. The re-investment of profits is stimulated. Control is generally exercised through equal representation quotas – depending on capital participation – except the questions falling under the competence of the workers' councils. It is remarkable that withdrawal of capital investment by the foreign party may be limited by the scarcity of foreign exchange of its partner, on the basis of general foreign exchange regulations. The new regulation of 1976 strengthened the export-orientation function of capital relationships, the foreign exchange balance of a joint enterprise has to be active. The foreign party may accomplish at most one third of its contribution in material form the charge for know-how cannot exceed 10 per cent in the future.

In Romania decreas of legal force regulating the foundation, operation and profit taxation of economic associations with foreign participation were issued in November 1972. A particularity of the regulation is that it refers to new economic organizations to be established whose task is to bring about projects mostly producing for export. Dynamic economic development relying on external resources is less emphasized in the regulation itself as against the importance of the import of technology and of the receipts in convertible foreign exchange. In order that the foundation of enterprises with foreign participation should not be impeded by the Romanian internal system of economic control and management, the enterprise settles its accounts in convertible currency and at foreign trade prices also with domestic economic units. Goods and services having no foreign trade prices as well as wage payments are covered from the lei-account of the enterprise. Conversion is made at the non-commercial rate of exchange. Wages are controlled in the Romanian joint enterprises in isolation from the inner economic control system, i.e. wages of Romanian workers and employees are determined at a so-called export wage level considerably exceeding domestic wage tariff. The joint enterprise calculates and pays them also in convertible currency, while the workers and employees receive their wages in lei through a special fund. The Romanian system of issuing the permits is very strict, characterized by the fact that partnership contracts – to which detailed computations on technical and economic efficiency are attached – are approved by the State Council on proposal of the Council of Ministers. Preceeding this several ministries give their opinion concerning the request. Beside the banking sector, the regulation considers associations of merely commercial purpose as a sphere of activity excluded from the scope of joint enterprises. The new enterprise can be given exemption from taxes for a maximum of one year and tax allowances for further two years. Taxes

on profit are on the average lower than those in Yugoslavia, while on transfer of profits a 10 per cent tax is levied.

The decree regulating the economic activity of foreigners *in Poland* was issued in May 1976. Both in its intention and in its weight it considerably differs from the other regulations outlined. The decree of the Council of Ministers allows foreign persons to establish ventures with unlimited property share in handicrafts, home trade (hotels and catering) and in other services.

In Yugoslavia 74 contracts on foreign capital investment were concluded by the beginning of 1973, by the summer of 1974 their number increased to 120, then this dynamics slowed down and by the beginning of 1976 145 enterprises with foreign participation were formed. Investments by Western firms in Yugoslavia amounted to 140 million dollars at the beginning of 1973 and to about 200 million dollars at the beginning of 1976 while the average capital participation was under 20 per cent. From among foreign firms enterprises of the FRG were the most active, but – according to a publication of the London newspaper Guardian in July 1974 – the total value of their investment was less than that of American and Italian enterprises. It is worth mentioning that GDR enterprises also have capital investments in Yugoslavia. Considering the distribution of investments by branches it is striking that the proportion of the industry is predominant, while that of agriculture and tourism is only a few per cents. Within the industry about half of investments is concentrated in the metalworking industry, especially in the manufacturing of cars. The percentage of the chemical industry is nearly 20 per cent, but this has been increased recently because the Dow Chemical and INA entered into partnership for the building of a petro-chemical plant costing 700 million dollars. Up to recently Yugoslav evaluations considered foreign investments as of unsatisfactory volume; investments were fragmented and did not support concepts on regional development, the bulk of foreign capital contribution was realized in the form of investment goods, licences and know-how representing secondary-level technology. These experiences were reflected in the 1976 modification of the decree. From restrictions and the strengthening of the role of workers' councils the conclusion can be drawn that an increase at the earlier rate in the number of joint enterprises to be established in Yugoslavia cannot be reckoned with.

Romanian results – foundation of about six enterprises by the beginning of 1976 – indicate that the established system is judged as viable by Western parties. From the sphere of activity of enterprises – manufacturing of peripheral computer elements, acrylic-fibre, protein yeast, equipment for the pharmaceutical industry, electrical equipment – the conclusion can be drawn that when issuing permits to productive joint enterprises selective development objectives could be enforced. From among joint enterprises the association with Citroen for the building of a plant manufacturing yearly 130 thousand cars of a new type had a considerable press reaction. The Romanian regulation resolved the problems related to the particularities of the domestic system of control and management (e.g. the price system). At the same time, the status of joint enterprises as alien subjects with regard to foreign exchange regulations may give rise to problems of

another character in their relations with Romanian enterprises, since purchase and sale at foreign trade prices cause extra administration and the keeping of lei-accounts is required beside calculating in foreign currency. In Yugoslavia central economic organization has eliminated several negative phenomena with the foundation of joint enterprises, at the same time weak enterprise initiative may cause disadvantaged with regard to further foundations and operations, respectively.

Hungarian regulation of joint enterprises

In Hungary legal regulation of economic associations with foreign participation has been provided by the decree 28/1972 modified by the decree 7/1977 of the Minister of Finance. The Hungarian concept on joint enterprises prefers technological development and the increase of export to the drawing in of resources. Creation of an economic association with foreign participation is justified if the taking over and application of intellectual property, utilization of organizational and management knowledge as well as a lasting cooperation on the market cannot be ensured in any other form of cooperation or only with much lower efficiency. In certain cases, for example, import of technology can be realized only in the framework of economic association because of the licence policy of the foreign partner. The terms of operation of enterprises permitted on the basis of such considerations are facilitated by granting various preferences – exemption from the charge on assets engaged, from paying a part of depreciation allowance to the budget and from wage rise surtax – and also their profit taxation is more favourable than that of other Hungarian economic organizations.

The Hungarian system of economic control and management is characterized by the endeavour for adaptation to the international division of labour, which is supported by the high foreign trade sensitivity of the national economy. The Hungarian exchange rate system is well known also to foreign partners with its function organically connecting the prices of domestic and external markets, as is the autonomy of enterprises – ever increasing since 1968 – with regard to development policy. The system of income regulation concerning joint enterprises has become even simpler with the modification of the relevant decree in 1977. It is favourable from the viewpoint of joint enterprises that the more elastic system of price formation in the CMEA has indirectly promoted the assertion of world market price relations when the centre of domestic price formation is the CMEA contractual price or when there is a "mixed" price formation. There can be no doubt, that a further development of more elastic price formation would make the economic environment for joint enterprises more favourable. A similar effect could be achieved if the scope of general economic control instruments were further widened. Although the Hungarian regulations on joint enterprises have allowed participation in direct production only since the issue of the decree in May 1977, it is remarkable that practically no protected sector is stipulated and foreign participation might exceptionally exceed even 49 per cent in the financial sector and with services.

Previous regulations postulated the realization of desired objectives in such a construction that the joint enterprise would conclude a production contract with a Hungarian economic organization on economic and technological development and the taking over of products to be manufactured. Though this allowed to utilize the management experience of the foreign partner, it is obvious that in case of direct participation the interestedness of the foreign partner will be greater and a higher efficiency of intellectual knowledge might be expected. The main purpose of establishing joint enterprises can be realized thus more consistently. The Hungarian regulations settle the problem of capital transfer clearly and in all details, together with guarantees for capital investments of foreign parties (for example, also in case of losses resulting from governmental measures), which may considerably influence the enterprising spirit of foreign partners.

Up to now three enterprises with foreign participation have been founded in Hungary in 1974 and 1975 *Volcom Hungary, Sicontact* and *Radelcor,* all in the form of limited companies. The enterprises were founded in harmony with the 1972 regulations. The three foreign partners have been *Volvo, Siemens* and *Corning Medical* from Great Britain. Volcom concluded a production contract with *Csepel Autó* on the manufacturing of 1000 Lapplander cross-country cars yearly. Radelcor has a blood gas analyser made by *Radelkisz* on the basis of a Corning patent. Sicontact deals with the preparation of technical and production cooperations and the servicing of Siemens computers. The joint capital investment of foreigners hardly exceeds 1 million dollars. The importance of ventures lies first of all in that the efficiency of cooperation was raised to a higher level by continuously maintaining relations, consultations and advising. Besides, the foundation of further joint enterprises can be promoted by valuable experiences obtained from beating a previously unknown path.

The foundation of new enterprises has been to some extent impeded – and this is supported by Yugoslav experience, by the lasting slump of the capitalist world. This was accompanied by the slow development of Hungarian initiative, while the previous regulations were not attractive enough, either. Since the issue of the 1977 decree the activity of enterprises increased and there are already some more comprehensive ideas emerging. The initiatives of industrial and agricultural enterprises are promoted by the fact that Hungarian Foreign Trading Bank Ltd. takes responsibility for business and from among foreign trade enterprises Intercooperation Ltd. participates upon request in the preparation of the organization and foundation of joint enterprises. Domestic enterprise initiatives are more frequent, but it still cannot be claimed that in concepts on sectoral structural development joint enterprise would be more extensively taken into consideration as a kind of cooperation variant.

The functioning of joint enterprises is promoted also by the fact that in recent years agreements excluding double taxation have been concluded or prepared with further countries.

Experiences, conclusions

One of the reasons for the slow development of the form of joint enterprise is that the Hungarian practice of cooperation has elastically given room to various kinds of lasting cooperations in research production and sales already for ten years. At present, the weight of cooperations is already considerable in our foreign trade relations, testifying that cooperating enterprises have found this contractual form generally suitable. Of course, this does not preclude that in the interest of some additional advantages previous cooperation relations should be developed into joint enterprises or that in new plans on cooperation the joint enterprises should be given predominance.

The novelty of the model, the experimental character of economic and legal arrangements also contributed to some extent to the slow development of initiative to found joint enterprises. Despite the understandable caution, also such problems have repeatedly arisen in the course of operation as inadequate separation of the responsibilities of decision-making organs in joint enterprises (general assembly of the limited liability company, board of directors) and of the managers directing operative business, as well as the lack of detailed regulations regarding questions of cooperation. The founding enterprises could not properly foresee the administrative procedures related to the foundation of joint enterprise (registration, payment of capital contribution, etc.) either in time or in the context of the individual elements, thus some smaller hitches arose. It is much more dangerous, however, if firms of enterprises entering into partnership do not unambiguously determine the objective of the enterprise and the desired proportions of the individual spheres of activity in the partnership contract. Another experience is that experts of the foreign partner are used to a more elastic control and management than the Hungarian one in many respects, but their useful knowledge and intention to take measures cannot be properly utilized if they do not know the Hungarian rules of procedure, which it would be expedient to simplify in some cases. A part of difficulties could have been certainly simply remedied with greater circumspection. Besides, there were some cases when even methods ensuring flexible procedure and habitual both in international and in Hungarian practice were not applied.

Leaders of the joint enterprise have to face several management, technical and economic problems in the period of foundation and running-in. It is expedient therefore, if especially in this period export and import transactions required for the functioning of the enterprise are organized by a specialized foreign trading enterprise. Applications for the right to foreign trading submitted by the joint enterprise should be examined only at the end of a trial period of 1–2 years.

Foundation of a joint enterprise postulates that partners mutually well knowing each other will "marry". Also in the case of the three joint enterprises founded in Hungary up to now enterprises cooperating already for a longer period entered into partnership. Previous cooperation enables that advantages and disadvantages expected from the economic partnership might be examined by the enterprises against other cooperation variants. As a result the question has been raised that the regulators should

ensure the preferences given to cooperations also for joint enterprises. Both for Hungarian producers realizing development in the case of joint enterprises concluding production contracts with Hungarian enterprises and for producing joint enterprises, permission of accelerated depreciation, given on the basis of individual requests, would be more important than granting tariff reduction.

There are issues of cooperation which might be most favourably solved in the form of joint enterprises even in the present period of Western depression. First of all overseas enterprises with the most advanced technology might be such partners that can help in meeting our goals of technological development and export realization as well, while this would also support their intentions of development and sales in Western Europe.

When determining the marketing aims of joint enterprises, it has to be taken into account what domestic sales and sales to socialist countries are desirable beside the estimates of convertible foreign exchange receipts. When examining the sales quota to socialist countries, the degree of "hardness" of commodities to be received has to be taken into consideration, but it also seems feasible, that foreign exchange consequences should be enforced when determining the currency of payment for socialist exports. However, the ratio of direct and indirect receipts to expenses in convertible foreign currency of the joint enterprise should always be more favourable than in the average of the national economy and the given branch. Occasional relatively larger sales for roubles do not mean a one-sided recompensation of the endeavours of foreign partners nor the neglect of overall objectives concerning receipts in convertible foreign exchange, but – relying on a safer basis of socialist market – it may promote the elaboration of a purposeful policy regarding Western sales.

The economic conditions of the Hungarian regulatory system are suitable for economic ventures with foreign participation, but a price system better reflecting world market price relations would undoubtedly mean an even more favourable receiving medium. With productive enterprises to be founded with foreign participation in branches where price relations are deviating from those of the world market rather considerably, it would be expedient to examine the possibility of applying an "off shore" solution. But this has the great disadvantage, that the favourable effects of the production and sales connections of the enterprise with foreign participation could be less enforced.

With regard to export sales it is generally advantageous if the products of the joint enterprise are sold through the market organization of the foreign partner-firm. At the same time, beside the factors of profitability, it should be taken into consideration as well that reliance on the market organization of the partner and connection with more exacting foreign demand factors not through own sales channels might become disadvantageous.

It would considerably improve the operative management conditions of joint enterprises if they could spend a negligible part of their net foreign exchange receipts directly on covering expenses in foreign exchange, thus, for example, on smaller purchases on the basis of a lump-sum import licence.

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Researchers dealing with the transfer of intellectual property draw the conclusion on the basis of international trends that a shift may take place in enterprise strategies at the expense of cooperation willingness towards commodity export, on the one hand and towards insisting on direct capital participation, on the other hand. This, too, stimulates more thorough examination of ventures with foreign participation as possible forms of solution and for initiating their application in sectoral and enterprise development concepts as well.

ПРЕДПРИЯТИЯ С ЗАПАДНЫМ УЧАСТИЕМ В СОЦИАЛИСТИЧЕСКИХ СТРАНАХ

А. ГОРДОШ

Из хозяйственных организаций, функционирующих в социалистических странах с зарубежным участием, автор рассматривает предприятия с участием капиталистических фирм. Появление в экономической жизни социалистических стран хозяйственных объединений с капиталистическим участием является составной частью развития экономических связей между социалистическими и западными странами и интенсификации сотрудничества между предприятиями. Данное экономическое развитие выросло на почве процесса политической разрядки между Востоком и Западом. Автор подчеркивает, что такая форма сотрудничества стала применяться вновь только 5–10 лет тому назад и только в некоторых социалистических странах. Поэтому смешанные предприятия в социалистических странах как форма сотрудничества находятся пока на стадии опыта.

Целью импорта действующего капитала со стороны социалистических стран является привлечение новых ресурсов в интересах повышения темпов роста народного хозяйства, ускорения технического развития с помощью импорта техники и технологии в весьма эффективной форме, увеличение валютных поступлений, скорейшая адаптация новой техники, освоение передовых методов в области организации и управления производством.

Автор указывает, что в связях между капиталистическими странами смешанные предприятия представляют один из важнейших каналов интеграции, но в отношениях между социалистическими и капиталистическими предприятиями – из-за различия политических условий – значительной степени интеграции сложиться не может. Однако это не исключает того, чтобы, кроме действующих в западных странах хозяйственных организаций, находящихся в собственности социалистических стран, в социалистических странах в отдельных областях экономики также не могли бы функционировать компании с весьма значительным участием капиталистических фирм, которые могли бы оказать также благоприятное воздействие на хозяйственную среду.

Помимо описания и сравнительного анализа основных черт юридического и хозяйственного регулирования в Югославии, Румынии, Польше, в статье дается обзор и венгерского опыта.

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А. БЛАХО

СОЦИАЛИСТИЧЕСКИЕ СТРАНЫ И ТРАНСНАЦИОНАЛЬНЫЕ МОНОПОЛИИ

В статье рассматривается объективная необходимость участия крупных капиталистических транснациональных корпораций в экономических связях между Востоком и Западом; их роль в этом сотрудничестве, а также последствия и задачи, вытекающие из этого для стран-членов СЭВ.

Внутренние закономерности капиталистического способа производства привели ко все большему возрастанию концентрации и централизации производства. Анализу экономических явлений конца прошлого столетия, основным закономерностям империализма посвящена значительная литература. Рост размеров монополий, процесс сращивания финансового и промышленного капитала особенно ускорился после второй мировой войны и привел к образованию транснациональных корпораций (ТНК). Их значение в капиталистическом мире велико не только с национальной точки зрения, т. е. с позиции страны, в которой они возникли, но и в мировом капиталистическом производстве (35%), в международной торговле (60%), в международных финансовых делах и в вывозе действующего капитала (90%).

Рост оборота этих предприятий превышает темпы роста большинства развитых капиталистических стран (часто вдвое), а их огромные размеры и разнообразная производственная структура делает возможным быстрое и гибкое приспособление даже в случае серьезных, имеющих кризисный характер потрясений.

ТНК – благодаря их экономической мощи – справедливо считаются «второй властью» капиталистического мира. Укрепление их позиций является результатом обьективных требований развития производительных сил и считающейся с ними экономической политики капиталистических стран. Используемая в производстве техника, как правило, является наиболее передовой (ее, однако, используют исключительно в метрополиях, а дочерним предприятиям достается «вторая наилучшая» техника), 5–10% их оборота затрачивается на научно-исследовательские и проектные разработки, что еще более увеличивает конкурентоспособность ТНК. Рассматривая нынешнюю систему мировой экономики как реальную действительность, очевидно, что с сильными группировками ТНК следует считаться и в будущем. Мы не можем тешить себя иллюзией, будто они являются лишь случайными явлениями, а должны оценивать их как неизбежную особенность капиталистического производства. Из этого вместе с тем следует и то, что они будут существовать в течение длительного времени, оказывая влияние на развитие всей мировой экономики, на ее будущее, на взаимодействие других существенных элементов мировой экономики.

По мере формирования экономической структуры социалистических стран, ускорения темпов развития производительных сил внешние рынки и мировая экономика оказывают все более ощутимое, нередко прямое влияние на производственную деятельность и социалистических предприятий.

Возрастание роли развитых капиталистических стран в мировой экономике после второй мировой войны в первую очередь можно было ощутить в мировой торговле. Значительную долю мировой торговли составляют взаимные торговые связи развитых капиталистических стран, и поэтому другие существенные элементы мировой экономики (мировая социалистическая система, развивающиеся страны) должны формировать свою производственную структуру в условиях конкуренции, диктуемых развитыми капиталистическими странами.

Научно-техническая революция и коренное изменение политической атмосферы в Европе приводят и к изменениям характера экономических отношений между капиталистическими и социалистическими странами. Углубление международного разделения труда делает обьективно необходимым, чтобы помимо традиционной формы товарообмена между странами с различными общественными системами складывались и другие, производственные и научнотехнические, связи.

Сотрудничество в промышленной и — в более широком смысле — в производственной сфере является более прогрессивной и прочной областью сотрудничества, по сравнению с товарообменом. Это по существу признается в экономической литературе как социалистических, так и капиталистических стран. Именно из этих соображений Комплексная программа углубления социалистической экономической интеграции стран-членов СЭВ уделяет большое внимание и ставит задачи в области кооперирования и специализации производства; о заинтересованности капиталистических стран в этой сфере свидетельствуют около 1000 промышленных соглашений, заключенных с социалистическими странами [1].

В нашу цель не входит исчерпывающее освещение вопроса о промышленном кооперировании, этому вопросу посвящена значительная венгерская и международная литература. Мы ставим своей задачей рассмотрение некоторых черт отношений между крупными транснациональными копрорациями (ТНК), обладающими большим капиталом и имеющими дочерние пердприятия или филиалы во многих странах, и социалистическими странами, а также последствий этих отношений. Наша цель состоит в том, чтобы показать, что эта своеобразная область сотрудничества между Востоком и Западом не является «инородным телом» в общих международных связях, но также и не является панацеей от всех бед. Глубокий анализ этого вопроса с точки зрения экономического развития социалистических стран еще не дан, и наше исследование хотело бы внести свой вклад в это.

Некоторые принципиальные вопросы

По праву может быть выдвинуто возражение: необходим ли отдельный анализ этой специальной области международных экономических связей социалистических стран? По нашему мнению, такой анализ безусловно необходим, так как около 60% международной торговли капиталистических стран осуществляется материнскими и дочерними предприятиями ТНК, а внешнеторговые связи социалистических стран с капиталистическими странами расширяются. Если мы добавим к этому кооперирование, финансы (кредит и пр.), где также значительно участие этих предприятий, то значение такого анализа становится очевидным.

В западной экономической литературе часто ставится вопрос: почему мы считаем допустимым участие этих предприятий в экономике социалистических стран или связанных с ней областях, в то время как, с другой стороны, мы критикуем те же самые предприятия из-за их капиталистического характера и осуждаем их международное экономическое и политическое влияние в отдельных областях мира. Одни из сторонников таких взглядов *А. Эммануэль* известен как на Западе, так и в развивающемся мире. По его мнению, благодаря ТНК разрыв между развитыми капиталистическими и развивающимися странами все больше углубляется, и эти предприятия вызывают пагубные экономические и политические последствия и в том, и в другом регионе. Он критикует позицию социалистических стран по следующим причинам [2]:

1. они доказывают необходимость создающихся в результате концентрации капитала огромных предприятий с помощью «избитых доводов»;

2. «взаимовыгодный» характер связей между этими предприятиями и социалистическими странами противоречит опыту других областей мира.

А. Эммануэль забывает о том, что влияние этих корпораций, также нельзя отделить от тех общественно-политических условий. в которых они возникли и в которых они оказывают свое воздействие. Если в развивающихся странах эти связи возникают в условиях свободной или до определенных пределов ограниченной эксплуатации (однако ТНК многими способами обходят эти ограничения), то в социалистических странах они устанавливаются в соответствии с условиями, определенными планомерными целями социалистического народного хозяйства. Это подтверждается тем (о чем также «забывает» автор), что в хозяйственной жизни развивающихся стран участие этих предприятий является неизбежным сопутствующим явлением капиталистического экономического и исторического развития, зачатки их деятельности возникли в результате вывоза капитала задолго до получения этими странами государственной независимости, в то время как социалистические страны устанавливают связи с этими предприятиями уже после создания своей экономической структуры и закладки основ нового общественного строя.

Социалистические страны формируют связи с этими корпорациями на основе государственной монополии внешней торговли – как заведомо самостоятельные

субъекты международной торговли. А. Эммануэль, однако, правильно отмечает, что через эти связи ТМК обычно поставляют социалистическим странам чрезвычайно важную прогрессивную технику. Но эти предприятия отнюдь не заинтересованы в улучшении конкурентоспособности социалистических стран на капиталистическом рынке, ведь они тем самым ухудшили бы свое собственное положение. ТНК считают выгодными взаимные связи постольку, поскольку они для них рентабельны. Это доказывают многочисленные ограничения, предусматриваемые в заключенных с ними лицензионных соглашениях. Основная «неточность» Эммануэля является логическим следствием того, что он говорит об «иностранном инвеститоре», то есть о том, что в социалистических странах создается – согласно его толкованию – иностранная капиталистическая собственность, хотя критикуемый им автор не пишет об этом [3, 4]. В 1976 г. в Румынии действовало 6, в Венгрии 3 смешанных предприятия с западным участием (максимум 49%). [5].

Мы не остановились бы на статье Эммануэля, если его мнение и его деятельность не получили бы широкого отголоска в развивающихся странах. В основном это произошло благодаря его книге [6], в которой он в первую очередь анализирует поляризирующее влияние неравноправных торговых связей между развитыми капиталистическими странами и развивающимися странами и пишет о «торговом империализме». Основной аспект его анализа – это дележ созданной прибавочной стоимости, предшествующим же этому фазам воспроизводства он уделяет весьма малое внимание. Эммануэль рекомендует развивающимся странам создать более сильную «позицию для переговоров». В то же самое время он ожидает от социалистических стран того, чтобы они не вступали ни в какие отношения в этими предприятиями, хотя уже не приводит доводов, почему социалистические страны должны «бояться» связей с ТНК, а со средними и мелкими капиталистическими фирмами – нет. Социалистические страны в своих экономических связях делают различия между своими капиталистическими партнерами не по их размерам, а на основе предлагаемых условий, на основе взаимной выгоды. «С этой точки зрения естественно стремление предприятий социалистических стран в качестве деловых партнеров транснациональных компаний добиться таких условий, которые обеспечивают взаимность выгоды. Это стремление, кстати, имеет место в отношении транснациональных компаний в той же степени, как в отношении любой другой фирмы, национальный или международной группы. В этом смысле существенны не размеры международной деятельности нашего западного партнера, а те условия, на которых он вступает в отношения с нами» [7].

Часто на Западе встречается мнение о том, что кооперирование социалистических стран с капиталистическими фирмами ведет к недоиспользованию производственных мощностей капиталистических стран, к остановке отдельных производств [8]. По мнению сторонников этих взглядов, кооперационные формы связей Востока и Запада все в большей степени перемещают капиталистическое (!) производство в социалистические страны, подобно тому, как это произошло в случае т. н. выселения отраслей промышленности в развивающиеся страны. В дей-

ствительности же происходит как раз обратное – благодаря кооперационным связям для западных стран открываются новые рынки и это означает создание новых рабочих мест, более полное использование производственных объектов.

Однако ясно, что ТНК передают социалистическим странам право производства не наиболее передовых и наиболее эффективных изделий. Это не в их интересах, и социалистические страны должны на основе четкой, централизованной концепции решить, начинать ли дальнейшее развитие купленной лицензии в соответствии с их собственными условиями. Только таким образом возможно достижение технического уровня оригинального продукта и превышение его.

Согласно другому мнению, вследствие финансовых, компенсационных и кооперационных сделок западного капитала «восточные общества (социалистические страны. А. Б.) автоматически становятся восточными филиалами западных концернов» [9]. Эти взгляды преувеличивают величину западного капитала по сравнению со всеми внутренними капиталовложениями, а с другой стороны, говорят о зависимости «обществ», что недвусмысленно означает зависимость от иностранной капиталистической собственности. Мы уже упоминали, что эти связи осуществляются в интересах планомерного, пропорционального развития социалистического народного хозяйства, на основе централизованных мероприятий. Не может случиться (и не случается), чтобы социалистическая страна попала в одностороннюю – в вышеуказанном смысле – и заключающую в себе отношения эксплуатации зависимость от какой-либо ТНК, поскольку это поставило бы под угрозу ее общественно-экономическую основу и цели.

В западной литературе распространено мнение о том, будто кооперационные связи между Востоком и Западом «поскольку забастовки исключены, делают возможной большую степень эксплуатации» рабочих социалистических стран [10]. Здесь опять-таки деятельность ТНК в социалистических странах отождествляется с эксплуатацией, как будто вступающие с ними в связи государственные и хозяйственные органы социалистических стран не определяли бы рамки этой деятельности. Кооперируемое производство также является социалистическим, то есть лишенным эксплуатации, производством, существенным вопросом здесь является распределение производственного прибавочного продукта. Мы отнюдь не утверждаем, что при отдельных формах сотрудничества – например, при обработке продукта на заказ – не возникают некоторые проблемы, однако это не равнозначно эксплуатации. Другая сторона данного воззрения также представляет интерес: утверждается, что вследствие связей усиливается и эксплуатация западных рабочих, то есть связи между Востоком и Западом углубляют антагонистическое противоречие между трудом и капиталом. Здесь имеет место переоценка возможностей такого воздействия, ведь кооперационные формы торговли между Востоком и Западом составляют всего лишь 4–5% этой торговли. Однако западные экономисты, преследуя определенную цель, стремятся доказать , что нет различий между капиталистическими и социалистическими производственными интересами и от этого всегда страдают рабочие: В социалистических странах из-за

западного капитала, а на Западе из-за связей между Востоком и Западом. Они стремятся переложить причины противоречий внутри капиталистического строя на социалистические страны. Деятельность ТНК является ясным подтверждением этого, например, когда они останавливают производство на отдельных дочерних предприятиях из-за забастовок и расширяют производство дочерних предприятий в других развитых капиталистических странах (например, заводы «Форда» в Англии и ФРГ).

Связи социалистических стран с ТНК, таким образом, основаны не на соглашательстве, поскольку коренное преобразование производственных отношений способно поставить преграду международной эксплуатации и создать действительно взаимовыгодные связи и с ТНК.

Социалистическая экономическая интеграция и ТНК

В настоящее время в каждой стране-члене СЭВ преследуется цель увеличения экономической эффективности, повышения технического уровня производства. Однако следует иметь в виду, что промышленность стран СЭВ еще не готова к тому, чтобы в течение 5–10 лет обеспечить народное хозяйство этих стран передовыми, эффективными средствами производства. Один из способов осуществления технической модернизации – кооперационные связи, в основном с ТНК. Безусловно необходимо совершенствовать методы управления кооперационными связями с капиталистическими предприятиями в отдельных странах, а также найти способы совместного управления этими процессами в рамках СЭВ как на двух-, так и на многосторонней основе [11].

Значение кооперационных связей с ТНК велико. По опубликованным канадским Карлтонским университетом данным [12], из проанализированных 2302 кооперационных договоров между Востоком и Западом 50% приходилось на ТНК. В 20% случаев партнерами являлись такие ТНК, филиалы которых расположены более чем в 10 странах и оборот которых в 1973 году составил сумму в 2 млрд. долларов. Часть гигантских предприятий капиталистических стран действует параллельно в нескольких социалистических странах. Из данных анализа также явствует, что 27% ТНК ведет деятельность не только в одной социалистической стране.

Социалистические страны, естественно, стремятся к более развитой форме кооперирования – разделению производства, но только 19% соглашений можно отнести к этой категории. Наибольшую долю (47%) составляет такой род сотрудничества, при котором на договорных началах ведется производство деталей и узлов для сборки готового изделия, происходящей в ТНК или у другого западного партнера.

Рынок социалистических стран обладает огромной притягательной силой. Целью ТНК является максимализация их оборота, поэтому они не могут оставить

без внимания этот регион. Если иметь в виду установление стабильных, рассчитанных на длительную перспективу хозяйственных связей, достижение высокой эффективности промышленного производства на основе наиболее развитой техники, то они являются для социалистических стран важнейшими партнерами. Конечно, не следует упускать из виду, что вследствие мощи их капитала, их глобальной политики они также могут быть «экспортерами» негативных воздействий, и часто более целесообразным является привлечение меньших – но для нас, тем не менее, крупных – капиталистических предприятий.

ТНК осознают это, а также выгоды, которые они могут получить от социалистической интеграции, от развития взаимных связей. «Если ТНК уже удалось проникнуть в какую-либо восточноевропейскую социалистическую страну, то специфика связей этой страны с международной социалистической торговлей, системой платежей позволяет корпорации, применив относительно простую стратегию, проникнуть и в другие страны региона . . . Стало быть, ТНК на основе договорных соглашений, заключенных с отдельными социалистическими странами относительно производства, сбыта, совместных предприятий, может добиться включения ее изделий в долгосрочные двух- и многосторонние соглашения внутри СЭВ и тем самым проникновения на новые социалистические рынки без дальнейших ограничений» [13].

Во взаимной торговле социалистических стран широкий отраслевой диапазон обрабатывающей промышленности требует обеспечения необходимых сырьевых материалов на длительное время. Однако вследствие изменившихся условий мирового хозяйства их компенсация возможна только за счет технически передовых, надежных изделий. Изделия, производящиеся в рамках кооперирования, пригоды для этого, но это сопровождается увеличением доли импорта из капиталистических стран в стоимости товаров, поступающих во взаимную торговлю стран СЭВ.

Поскольку важнейшим экспортным рынком стран-членов СЭВ по-прежнему является советский рынок, изменение его потребностей оказывает существенное влияние и на модернизацию стран-членов СЭВ. Динамическое участие Советского Союза в связях между Востоком и Западом приводит к тому, что доля стран-членов СЭВ во внешней торговле СССР в целом продолжает сокращаться, но темпы роста торговли между ними – нет. Страны-члены СЭВ могут приспособиться к этому только в том случае, если изменившиеся условия будут отражаться и в структуре взаимной торговли стран-членов СЭВ. Из развитых капиталистических стран СССР может получить изделия обрабатывающей промышленности высокого качества, и это косвенно – а иногда и непосредственно – «означает для стран-членов СЭВ более жесткие условия, требующие значительного повышения конкурентоспособности и эффективности». [14]

Следует ожидать, что под влиянием связей между Востоком и Западом и цен на мировом рынке изменится содержание и механизм производственной интеграции СЭВ.

Значение крупных капиталистических предприятий для социалистических стран в основном заключается в высоком уровне их техники и технологии, в их заинтересованности в долгосрочных связях и в их гибкости. Осуществление технической реконструкции и модернизации структуры экономики социалистических стран требует большого импорта техники; это приводит к тому, что почти каждая социалистическая страна превышает возможности своего годового экспорта в капиталистические страны и поэтому стремится к таким формам кооперирования, в которых платеж происходит произведенной в результате кооперирования продукцией.

Экономический анализ должен помочь решать, какую технику, от каких предприятий в каких странах следует покупать и как за это можно расплачиваться.

Ответ на первый вопрос с виду прост. Целесообразным кажется внедрение наиболее развитой на сегодняшний день мировой техники. Однако это во многих отношениях сопряжено с проблемами. Для ТНК, как мы уже говорили, не выгодно, если в нарушение своего монопольного положения она будет производить наиболее передовые изделия в сотрудничестве с социалистическими странами и тем самым ограничивать свою конкурентоспособность. Ее интерес, скорее, состоит в том, чтобы передавать социалистическим странам не новейшие, но и не самые старые продукты технического прогресса. На основании т. н. жизненного цикла изделия (product life cycle) позднее может наступить очередь для передачи все более новой и новой техники, но тем самым социалистическая страна, собственно говоря, попадает в нежелательную зависимость.

Советский Союз, благодаря своей экономической мощи, величине внутреннего рынка и возможностям в области научно-исследовательских и проектных разработок, в этом отношении находится в более благоприятном положении, по сравнению с другими социалистическими странами. Поэтому понятно, что он покупает наиболее развитую технику, и это создает новые возможности социалистического сотрудничества и связей для небольших социалистических стран.

Страны-импортеры, как правило, стремятся использовать купленную технику для развития своих динамичных отраслей. Однако эта бесспорно важная задача структурного изменения может быть осуществлена только на основе глубоко продуманного плана экономического и технического развития. С внедрением западной техники значительно возрастают оптимальные размеры и серийность производства, что создает новое положение также и с точки зрения внутренней концентрации производства. Эти «высоты» следует встраивать в имеющуюся отраслевую структуру народного хозяйства так, чтобы получаемый от этого «эффект распространения» был максимальным. Включаясь в кооперирование, отечественные «субподрядные отрасли» должны приспосабливаться к более высоким требованиям относительно качества, условий поставки и т. д., поскольку иначе произойдет не повышение технического уровня народного хозяйства, а снижение уровня вновь закупленной техники, своеобразный «гибридный» вариант.

Во многих случаях западные крупные предприятия подвергают критике ухудшение качества, происшедшее вследствие именно такой внутренней связи [15].

Техническая проблема, которая, однако, сопровождается серьезными экономическими последствиями, возникает тогда, если технические параметры купленной техники отличаются от отечественной. В этом случае эффект распространения усложняется тем, что для этого требуется производство деталей и узлов новой конструкции, соответствующих стандартам западного партнера, что может быть и очень полезным, если сопровождается ускорением технического развития. Однако в наших странах часто встречается расхождение размеров, параметров и требований стандартов по одним и тем же изделиям аналогичной отрасли, и если к этому добавляется еще один западный стандарт, то положение отнюдь не прояснится. Таким образом, существенно, чтобы западная техника могла бы быть приспособлена к существующим в странах СЭВ стандартам [16], что, конечно, предполагает более эффективную и быструю деятельность по унификации стандартов в странах СЭВ.

Это представляет чрезвычайную важность еще и потому, что если этого не делать, то внешняя торговля продукцией создающихся на основе западной техники производственных отраслей между социалистическими странами хотя и может возрасти, но интеграционные производственные связи будут затруднены и усложнены. Имеются примеры того, что из-за неудовлетворительной типизации отличались технико-технологические параметры изделий, предназначенных для отечественного и для внешних социалистических и капиталистических рынков. А это фактор, едва ли повышающий эффективность, скорее, наоборот, – усиливающий раздробленность производственного процесса.

Различия в параметрах или качестве при производстве изделий на основе кооперационных связей часто вынуждают социалистического партнера дополнительно самому производить необходимые комплектующие изделия (болты и т. д.), что еще больше увеличивает размеры предприятий и одновременно усиливает напряженность «тыла» социалистической промышленности как в самой стране, так и в других социалистических странах, расширяет и без того широкую номенклатуру товаров.

Это выгодно для ТНК в том смысле, что социалистический партнер в технико-технологическом смысле еще более приближается к представляемой данной ТНК системе ценностей, «подтверждая» ее техническое превосходство. Внутри социалистических стран это уменьшает спрос на изделия уже существующих в них производственных единиц, то есть появляется необходимость в их значительном развитии (для чего, однако, нет достаточного капитала) или перегруппировки занятой на них рабочей силы, что еще более повышает концентрацию производства.

Это уже само себе выдвигает необходимость согласования социалистическими странами вопросов преобразования структуры народного хозяйства и планов технической реконструкции. Страны-члены СЭВ сегодня не имеют никакой общей, согласованной в целом и в деталях стратегии в области развития

кооперирования между Востоком и Западом. Поскольку масштабы капиталистических и социалистических предприятий и величина их капитала различны, то основу для эффективного сотрудничества можно создать расширением производственной интеграции, в том числе кооперирования предприятий в странах СЭВ [17].

Необходимо также считаться с тем, что в условиях научнотехнической революции потребность в техническом обновлении ощущается в социалистических странах приблизительно в одних и тех же отраслях. В случае модернизации с помощью западной техники это побуждает отдельные страны-члены СЭВ к одинаковым техническим решениям, что приводит к параллельной закупке лицензий.

Лицензионные соглашения ставят комплексные вопросы как для капиталистической, так и для социалистической стороны. Преимущества покупки лицензии хорошо известны. Одно из наиболее важных – это то, что лицензия должна служить цели не простого копирования, а созданию возможностей дальнейшего технического развития на основе полученных благодаря ее закупке знаний. Важно, конечно, также и то, что тем самым можно удовлетворить на более высоком уровне и спрос в стране, кроме того это дает возможность заместить импорт.

ТНК, будучи наиболее крупными продавцами лицензий, обладая большим потенциалом научно-исследовательских и проектных разработок, большое значение придают сохранению своего технического преимущества, соблюдению своих рыночных интересов, выгодным для них сопутствующим эффектам. При заключении соглашений социалистические страны должны осознавать взаимные выгоды, которые открывают и для социалистических стран большие возможности для осуществления своих целей в области технического развития и увеличения валютной выручки.

ТНК контролируют около 60% мировой капиталистической торговли, можно с уверенностью утверждать, что аналогично положение и на рынке лицензий. Особенно справедливо это для Западной Европы, что (наряду с другими ограничениями) еще более затрудняет сбыт изделий, произведенных на основе свободных лицензий. Поэтому конкуренция с оригинальным изделием чрезвычайно затруднена. Анализ лицензионных соглашений ТНК с другими странами показывает, что в соглашении капиталистическое предприятие предусматривает целый ряд условий и ограничений. Одно из них состоит именно в территориальном ограничении экспорта. Глобальная стратегия ТНК весьма сознательно стремится к тому, чтобы экспорт социалистических стран не нарушал их условия конкуренции. Сбыт на рынке стран СЭВ осуществляется обычно социалистической стороной, а сбыт на Западе производит сама ТНК. Если у нее уже имеется подобное соглашение и с другой страной-членом СЭВ, то положение еще более сложно, поскольку в этом случае необходимо ввести «ограничения» и на социалистическом рынке. Однако для большинства случаев не характерна закупка – и продажа – одной и той же лицензии. Однако имеется уже много примеров покупки лицензий на аналогичные изделия. Поскольку проникновение на единый рынок

СЭВ является важной целью ТНК, сбыт в этих странах действительно включается в соглашения по сотрудничеству с социалистическими странами.

Возможности экспорта в капиталистические страны уже более дифференцированны. Покупная цена лицензии, как правило, оплачивается или в твердой валюте или – все чаще – за счет произведенных товаров. Однако продавец, исходя из собственных интересов, настаивает на том, чтобы этот товар попадал к покупателю через его сеть сбыта. В этом случае воздействие на платежный баланс кооперационной связи, возникшей на основе приобретения лицензии, становится более сложным. Импорт необходимых для кооперирования деталей и узлов является важным и выгодным для социалистических стран. Однако их цена вытекает из политики внутреннего ценообразования ТНК и как таковая не всегда соответствует ценам мирового рынка. Часто отдельные узлы даже не имеют цены на мировом бынке, что лишает возможности сравнения. В этом случае даже небольшое увеличение закупок деталей ведет к дополнительному расходу валюты, и ТНК, сверх платы за лицензию, получают дополнительную выручку.

Часть экспорта на Запад поступает – в виде платы за лицензию – обратно к ТНК. Поскольку цена изделий социалистических стран ниже, чем изделий, сбываемых ТНК на капиталистических рынках, даже если первые не уступают им по качеству, и капиталистический партнер стремится в договоре «сбить» цену социалистического изделия, то он выгадывает и на цене. Я не хочу тем самым утверждать, что из-за этого производство на основе лицензий и экспорт произведенных таким образом товаров на Запад невыгодны для социалистических стран. Но верно то, что в отдельных случаях преимущества, особенно на начальном этапе «адаптации», не равны.

В результате узкого национального подхода к экономическому и техническому развитию страны СЭВ узнают о покупке лицензий друг другом только после того, как это произошло. Фактическое (или только желаемое) улучшение собственной конкурентоспособности приводит из-за разобщенности и отсутствия координации к ослаблению конкурентных позиций содружества в целом.

Иное положение с изделиями, предназначенными для экспорта на Запад, но не в страны, включенные в цепь ТНК, предоставившей лицензию. Здесь по существу нужно считаться с капиталистической конкуренцией, ценами. Конкуренция в ценах изделий наших стран дает определенный выход, но ни в коем случае не может быть целью. Внешнеторговые сделки на основе снижения цены, с одной стороны, затрудняются дискриминационной политикой капиталистических стран по отношению к социалистическим странам, а с другой стороны, точно определенной в лицензионном соглашении ценой.

Во избежание обвинений в демпинге следует приобретать лицензии не только с целью расширения экспорта в капиталистические страны. Ключ к решению лежит не в выборе между «получением техники» или «получением валюты», а в действительно оптимальном сочетании и того и другого. Возможно, и даже весьма вероятно, что вначале «получение техники» сохранит без изменений структуру

экспорта социалистических стран на Запад, однако в результате повышения технической эффективности производства внутри страны эта структура также может быть изменена в благоприятном направлении, если эти возможности будут использованы. При более эффективной и тесной связи с социалистической экономической интеграцией, между планами отдельных стран в области реконструкции и их осуществлением как отдельные социалистические страны, так и содружество стран СЭВ в целом смогут расширить свои позиции в мировом товарообороте и улучшить его структуру. Поэтому необходимо более тесное сотрудничество стран-членов СЭВ при покупке лицензий на Западе. Это важно, с одной стороны, во избежание параллелизмов, хотя временно и это допустимо, если результатом явится такое передовое изделие, которое можно в любой момент реализовать на обоих (как на капиталистическом, так и на социалистическом) рынках. С другой стороны, потому, что согласованная или совместная покупка лицензий может ускорить развитие социалистической интеграции и, тем самым, сотрудничество между предприятиями.

Импорт лицензий не должен идти в ущерб отечественному развитию научно-исследовательских и проектных разработок, напротив, его задача состоит как раз в их «оживлении». Необходимо также осознавать, что приобретенная западная лицензия не дает возможности для достижения наиболее передового технического уровня, и это вновь подтверждает важность ее дальнейшего технического совершенствования. Естественно, что и в будущем мы будем покупать все больше лицензий, хотя в последние годы темпы замедлились из-за проблем внутренней и мировой экономики. Существуют также соображения о том, что в будущем их «областью применения» будут все в большей степени складывающиеся в СЭВ специализированные отрасли помышленности и комплексы.

Мы намерены затронуть только отдельные вопросы промышленного кооперирования между ТНК и социалистическими странами, отнюдь не претендуя на полноту. Хотя благодаря кооперационным связям облегчается выход на западные рынки, влияние социалистической стороны на эти рынки незначительно. На Западе покупатель покупает изделия с маркой ТНК, в некоторых случаях с общим названием, и социалистический партнер может ощутить коммерческий успех конечного изделия только через посредничество западного партнера. А это серьезно ограничивает возможности расширения позиций социалистического экспортера, ведь возможное изменение конкурентной ситуации зависит от поведения ТНК.

Во многих случаях промышленная кооперирование приобретает форму одностороннего субподряда. Старая экономическая истина, что уровень прибыли от изделия, состоящего из нескольких составных частей, выше в фазе конечной обработки (сборки), чем на предшествующих стадиях. Рентабельность субпоряда не отражает прибыли, которую дает конечный продукт. Промышленное кооперирование, заключающееся в субподрядной деятельности, выгодно социалистической стране только в том случае, если благодаря ей можно получить ценные технические знания. Если хорошо наладить дело с максимальным использованием внут-

ренних возможностей, то на более поздней стадии развития из субподрядной деятельности может возникнуть кооперационное сотрудничество более высокого уровня.

Это еще в большей степени относится к сотрудничеству в форме обработки продукта на заказ, т. е. когда западный партнер предоставляет машины, оборудование, сырье и в социалистической стране происходит по существу только обработка изделия. Продукция сбывается заказчиком в развитых капиталистических странах. Эта форма сотрудничества может быть выгодной в основном из-за того, что она создает новые рабочие места и служит источником валютных поступлений. Однако необходимо разработать четкую концепцию, чтобы ограничить распространение этой формы в отраслевом, региональном и временном отношении. Если такая связь с капиталистической фирмой сопровождается повышением технического уровня и экономической эффективности, то она может явиться важным вкладом и источником общей технической модернизации. В противном случае – только из-за благоприятного валютного воздействия – она может чрезмерно распространиться и тем самым увеличить зависимость от заказов, а также привести к распространению менее эффективных форм работы на заказ.

Нельзя, однако, согласиться с мнением, что «вследствие промышленного кооперирования социалистические страны станут зависимы от производственных и коммерческих процессов западных стран». [18] Автор считает, что расширение кооперирования ведет к тому, что внутренние колебания конъюнктуры капиталистических стран будут оказывать косвенное влияние и на нашу экономику. Ныне такое воздействие ощущается непосредственно. Большинство этих эффектов можно свести к различиям между международными ценами на мировом рынке и внутренними ценами социалистических стран. Относительно связи между ценами мирового рынка и внутренними ценами предстоит решить еще много задач, однако применяемый теперь странами СЭВ принцип «скользящих цен» привел к их некоторому сближению. Однако в соответствии с этим принципом, изменения цен на мировом рынке ощущаются на международном социалистическом рынке с некоторым опозданием, в то время как во внешней торговле между капиталистическими и социалистическими странами такие изменения ощущаются уже в течение одного года. Сводить причины возможного дефицита или сокращения актива торгового баланса только к кооперированию и толковать это как «зависимость», по нашему мнению, является необоснованным. Журавицки считает ТНК как наиболее стабильные и наиболее диверсифицированные предпрятия наиболее пригодными для сведения к минимуму этих воздействий и зависимости. Тем самым подразумевается, что ТНК не подвержены колебанием западной экономической жизни, и они не отражаются на связях с социалистическими странами.

Я не думаю, что можно отрывать крупные предприятия от основы их существования – от капиталистических отношений собственности, а также ожидать от них «благотворительной деятельности». Сколь значительной ни является гибкость этих предприятий и возможность принятия ими антициклических мер, они не

могут полностью высвободить себя от внутренних противоречий капиталистического производства. Если и справедливо, что внешнеторговые или кооперационные связи с ними могут быть более выгодными, чем со средней или небольшой фирмой, исходную причину этого следует искать в стратегии данной ТНК. Выход на новый рынок, дополнительные преимущества в ценах, благоприятные таможенные условия и т. д. щедро компенсируют ее за предоставление «более выгодной» позиции. То есть они пользуются преимуществами, вытекающими из их сущности, только используя широкие возможности вариаций. Социалистические страны должны дать единый экономический анализ этих разнообразных вариантов на основе единого подхода. Необходимо учитывать в целом не только внешнеторговые эффекты (выгода, убытки), но и воздействия в области таможенных тарифов, финансов, налогов и т. д. не только в отношении отдельных предприятий, но и в целом. Тогда может быть выяснено, каково общее воздействие на народное хозяйство заключенных с ТНК внешнеторговых сделок, а также существующих кооперационных связей. Такой анализ может быть проделан и в обратном направлении – какой импорт из капиталистических стран, какие кооперационные связи и т. д. потребует осуществление программ развития отдельных социалистических стран.

Единой стратегии ТНК противостоит значительно отличающаяся от нее национальная стратегия стран-членов СЭВ. Если ТНК способна к оптимизации возможностей, ожидаемых от отдельных социалистических стран, с точки зрения фирмы в целом, то международная оптимизация национальных стратегий стран СЭВ продвигается вперед чрезвычайно медленно. Это затрудняется еще и тем положением, что заключенные с ТНК договоры известны только внутри страны, да и там чрезвычайно узкому кругу, и нет возможности для сравнения на уровне СЭВ. Каждая социалистическая страна соблюдает обязательство сохранения в тайне содержания соглашений, заключенных с ТНК, то есть не разрешает предавать их гласности. Поэтому мы можем судить о соглашениях, заключенных между разными странами, только на основании сообщений в печати, но у нас нет возможности для сравнительного анализа условий соглашения по существу. Этот факт лишает страны СЭВ возможностей большего маневрирования в отношениях с ТНК и тем самым вносит в связи внутри содружества фактор «неизвестности», имеющий дезинтегрирующий эффект.

Но и внутри отдельных стран картина не одинакова. Только в последние годы начали систематически следить и контролировать хозяйственные связи с ТНК. Если работу на заказ считать самостоятельной формой кооперационных связей, то связи с ТНК в еще большей степени требуют контроля. Однако для этого необходимо знать практику других стран СЭВ, а это ставит вопрос о ликвидации секретности и создании общей информационной сети. Предпринятые до сих пор шаги далеко не достаточны.

Некоторые выводы

Участие ТНК с связях между Востоком и Западом и сегодня весьма значительно, и с ним следует считаться и в будущем. Передача западной техники и технологии является важным, но не определяющим фактором научно-технического развития стран СЭВ. Поэтому они должны дополнять процесс производственной интеграции, но в органической связи с его основными процессами.

Экономические связи с развитыми капиталистическими странами и с крупными фирмами этих стран не могут означать создания в народнохозяйственной структуре социалистических стран особого «кооперационного сектора», зависящего от них в отношении стратегии и тактики. Эти связи необходимы не сами по себе, а в интересах научно-технического прогресса и более тесного сотрудничества социалистических стран.

Если мы осознаем это, то отдельные страны-члены СЭВ должны разработать долгосрочную стратегию связей между Востоком и Западом и различные тактические варианты, способствующие ее осуществлению. Эти национальные стратегии, исходя из разных условий, будут отличаться друг от друга. Однако нельзя, чтобы это привело к ослаблению сотрудничества в рамках интеграции СЭВ, к новому параллелизму. Уже при разработке национальных стратегий необходимо учитывать опыт других социалистических стран, их конкретную практику сотрудничества и в целом ряде вопросов необходимо выработать согласованную экономико-политическую концепцию. Такой областью является потребность в кооперировании с капиталистическими странами и в приобретении лицензий, вытекающая из планов развития народного хозяйства. Информирование о покупке лицензий, возможно, взаимное согласование и, быть может, совместная закупка вместе с тем являются важной предпосылкой и условием ожидаемого только к концу 70-х годов согласования в рамках СЭВ.

При нашем сотрудничестве с ТНК нам следует усилить внимание к разработке условий и к сознательному развитию этих связей. Ведь капиталистические крупные фирмы, имеющие глобальную стратегию не имеют «противовеса» в форме предприятий СЭВ, которые также располагали бы международной стратегией [19]. Мы должны проанализировать возможности социалистических международных предприятий с точки зрения связей с ТНК, распространяя анализ на политические, экономические и технические требования связей с ТНК.

Возрастает значение и вес кооперирования между социалистическими, развитыми капиталистическими и развивающимися странами (т. н. трехсторонняя кооперация), что одновременно означает новый аспект анализа влияния ТНК. Кажется, будто дочернее предприятие ТНК в развивающейся стране и действующее там социалистическое предприятие преследуют одинаковые цели. Еще более сложным является положение, когда социалистическое и капиталистическое предприятие (в большинстве случаев ТНК) совместно осуществляют производственную программу в развивающихся странах. Цель каждого предприятия, в том

числе и социалистического, состоит в том, чтобы покрывать свои расходы и добиться определенной прибыли. Однако это не означает, что оба вида предприятий оказывают одинаковое воздействие. Предприятия социалистических стран действуют на основе взаимовыгодных условий, в то время как дочерние предприятия ТНК стремятся нередко добиться односторонних преимуществ. Сотрудничество социалистической и капиталистической страны открывает для развивающейся страны возможность уравнять односторонние преимущества капиталистической стороны с условиями социалистической стороны. Однако осуществление этого на деле является очень длительным и сложным процессом.

На основании определения ТНК, данного ООН, мы должны рассчитывать на то, что международное сотрудничество предприятий социалистических стран, в том числе и производственное кооперирование, будут отождествлять с деятельностью ТНК. Европейская экономическая комиссия ООН уже исследует деятельность социалистических «ТНК» с помощью разосланных анкет. И в этом случае целесообразен не простой отказ или отрицание, а сравнительный анализ международной деятельности социалистического международного предприятия или международной деятельности национальных предприятий, сравнение с подобной деятельностью ТНК. Мы должны выявить мотивы создания в развивающихся странах отдельных предприятий социалистических стран, показать, что наши интересы отличаются от капиталистических интересов, указать на более прогрессивное значение их деятельности по сравнению с капиталистическими фирмами для содействия самостоятельному хозяйственному развитию развивающихся стран. Эта форма экономических связей с развивающимися странами также должна составлять важную часть общей стратегии мирохозяйственного сотрудничества в СЭВ, которую еще предстоит разработать.

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SOCIALIST COUNTRIES AND TRANSNATIONAL MONOPOLIES

A. BLAHÓ

Transnational corporations (TNC) are not accidental phenomena but they are necessarily existing as a result of capitalist production.

In Western economic literature some ask the question, why socialist countries deem the participation of such enterprises in their economy permissible. Polemizing mainly with the interpretation of A. Emmanuel the author makes the statement that socialist countries do not develop economic relations with capitalist partner enterprises in view of their size, but by considering the terms of such relations.

The main idea of the article lies in the analysis of relations between the socialist economic integration and the TNCs. The author thinks it important that national structures established through these relations should at the same time promote the development of an optimal economic structure of the CMEA.

Socialist countries have to collate the questions of national economic structural transformations and technical reconstruction plans, lest cooperation with the TNCs constitutes a separate sector.

Transfer of Western techniques and technology is an important though not determinant factor of scientific and technological progress of CMEA countries, therefore, it must be handled as having a complementary character also in the integration. Member countries have to elaborate a long-term strategy for East-West relations, as well as tactical variants to aid the strategy. In the cooperation with the TNCs increased attention has to be paid to the specification of conditions. The potentialities of socialist international enterprises should also be utilized from this aspect, and these relations have to be incorporated into the long-term plan.

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REVIEWS

A. CSERNOK

EXPORT PROMOTING CREDITS IN HUNGARY

Since 1968 the National Bank of Hungary has been regularly granting credits for the promotion of foreign economic relations and for special investments to boost Western exports. The ratio of these special credits reached about 20 per cent of the total investment credits during the period of the Fourth Five-Year Plan (1971–1975). The task of export stimulation was given particular stress in the course of elaborating the Fifth Five-Year Plan. This is indicated, beside other things, by the Ft 45 thousand million – out of the Ft 110 thousand million credit limit – earmarked for such purposes by the Five-Year Plan for 1975–1980. In accordance with the purposes of the plan, the National Bank invited tenders in the summer of 1975 for preferential credit on such development projects as would improve the production structure and boost the supply of commodities profitably marketable on several markets.

On several markets . . .

The Hungarian foreign economic and development policy continues to rely on Hungary's membership in the economic community of the CMEA countries. Most of the country's raw material- and primary energy needs are covered from these countries, first of all from the Soviet Union, and the market of the CMEA countries offers a great possibility for Hungarian industry and agriculture.

Yet Hungary has laid stress also on the increase of East-West trade during the last fifteen years, in accordance with the general policy of the CMEA. In recent years Hungarian trade with Western countries has been growing faster than total trade. The ratio of non-socialist countries in Hungarian foreign trade is considerable: about 45 per cent, but it is still a little lower in the CMEA countries on the average.

With the aid of the Ft 45 thousand million credit construction – complemented with the own funds of enterprises and cooperatives – about Ft 62 thousand million investments are on the way of implementation, i.e. about 8 per cent of all investments in the productive sectors expected for 1976–1980. We expect this comparatively narrow sphere of development projects to improve the world market competitiveness of Hungary, and *in the first place a considerable boosting of exports to the areas with convertible currency.* Balance is to be reached not by reducing imports from Western countries, but by increasing exports thereto. In some sectors there are rather high ratios of the

export-increasing investments. Thus, out of the total investments envisaged for five years, 27 per cent in engineering, 18 per cent in the food industry, 16 per cent in metallurgy, 13 per cent in the chemical industry, and 11 per cent in the light industry are earmarked expressly for this purpose.

The major investment projects and the central development programmes (such as the olefin programme, the autobus programme, the computer programme, the reconstruction of the clothing industry – to mention only the largest ones) implemented under the preceding two five-year plans have strongly founded CMEA integration relations. In many cases it is exactly by relying upon these relations that we can appear on the world market. In the development policy of the preceding period markets of capitalist countries were not given due importance. We are trying to make progress in the course of the Fifth Five-Year Plan also in this field. Beside dynamically expanding our CMEA relations, we devote increased attention also to the other sphere of the international division of labour, i.e. to the markets of the capitalist and the developing countries.

The Ft 45 thousand million are, however, not to serve exclusively the boosting of exports to the West. Our objective is to raise the production of high quality and a highly processed up-to-date goods, and to raise the standards of management, organization, and marketing activity. These are, namely, the most important conditions for our goods to be in demand and for their being saleable profitably on several markets: in the advanced capitalist countries, in the CMEA countries, at home, and in the developing countries. The realization of this objective is exemplified by the development projects in engineering, chemical industry, light industry and metallurgy carried out with the aid of this type of credit. After being put into operation, these enterprises will increase their exports by 1980 by $600 million and Rb300 million, but the home market will also have its share from the additional output.

Foreign credits are also used for the improvement of competitiveness of the Hungarian economy. The tenders link up foreign and home credit policies. Foreign loans are used through this channel, beside other ones, for the modernization of industry and agriculture, and for the improvement of flexibility and export capacity.

High demand for credits even with strict conditions

What requirements has an enterprise to meet that wishes to raise export-increasing credit? The planned development should provide for lasting and profitable exports; the full cost of the investment should be refunded from net foreign exchange returns within three years (in exceptional cases five years at the, most); the project should be implemented in the shortest possible time.

The possibility of obtaining export-increasing credit, and the favourable terms – repayment in twelve years, and comparatively low i.e. 6 per cent rate of interest – aroused interest. Several hundreds of applications were submitted by enterprises and cooperatives, which proves that the possibility of stepping out to the world market acts as

a stimulus on the thinking of economic managers. This fact is to be noted as a success already at the start.

Of course, not every development conception could satisfy the stricter than usual conditions. In several cases the marketing side of exports was not satisfactorily supported; or the development would have been refunded from the net foreign exchange returns over a period longer than five years; or the profitability of exports was not satisfactory. Such credit applications were refused. In some instances argumentation followed, which lasted for several months in certain cases.

It cannot be stated that the judgement of credit applications was perfect, particularly as regards the initial period. No uniform view had yet developed: there were inconsistencies, and sometimes even petty bureaucratic wranglings, too. In most cases, however, the not too easy task of credit judgement could be successfully fulfilled in cooperation with sectoral ministries, the Ministry of Foreign Trade, and in more important affairs with the National Planning Office, the Ministry of Finance and the National Technical Development Board. Particularly good and close relations were established with the sectoral ministries, that gave an opinion on every development project of any importance. Finally, decision on the credit applications was taken within two or three months, which cannot be called slow, if we take into consideration the time-consuming nature of the analyses and collations that counted as novel and complicated in Hungary. Decisions were delayed only in such cases in which the development conception did not come up to the prescribed conditions, or if the financial situation of the enterprise was not in perfect order.

The State Planning Commission also dealt with some of the major development projects requiring several thousand million forints – such as those of the Csepel Works, the Tungsram Works, and the Rába Waggon and Machine Factory – in the framework of the enterprises' five-year plans, thus asserting the by all means desirable co-ordinating role of central control in matters of major importance, and the best possible fitting of large enterprise investments into the framework of the national economic plan.

The majority of the development conceptions is in conformity with the Hungarian economic development and structural policy aims and meets the requirements. This is indicated also by the fact that the export-increasing investment credit limit of Ft 45 thousand million was practically fully exploited by the end of 1977 for the realization of 520 development projects.

The share of the different sectors indicates that the Hungarian export structure will probably improve as a result of these development projects. It is advantageous that approximately 80 per cent of credits are used by manufacturing enterprises. It is important, namely, that in the production and export structure preference should be given to products promising higher profitability, higher technical standards and processed to a higher degree, thus reducing the material-intensity of Hungarian production and exports.

The export-enterprising spirit of engineering and food industrial firms is fortunate. Engineering industry has a 31 per cent share of the Ft 45 thousand million, and food

industry 20 per cent. Engineering is the motor of economic growth, the important carrier of technical progress. It is timely that it should have a greater role also in Hungarian exports to non-socialist countries, which is by all means desirable from the aspect of efficiency of development, and also possible in view of our economic and technological development level. And the intensive development of food industry is important in order that the products of agriculture – with the largest raw material basis of the country – might be sold abroad in a form processed to the highest possible degree. It is also advantageous that the above-mentioned branches are followed immediately by the chemical enterprises, with a share of altogehter 14 per cent. Agricultural farms have a 13 per cent share of the credits, metallurgical enterprises 9 per cent, the light industry 7 per cent, transport 4 per cent, and the building materials industry 2 per cent.

Two tendencies are observed among the export-increasing credits. On the one side, a large number of small credits were granted: in three-quarters of the credit contracts the amount is below Ft 50 million. On the other side, a definite concentration is observable, particularly in engineering and the food industry. Over two-thirds of the credits granted to the engineering industry are contracted for manufacturing under-carriage and motors at the Rába Waggon and Machine Factory (5.1 thousand million), for the manufacturing of lighting equipments at the Tungsram Works (3.5 thousand million), and to the Machine Tool Works together with the Csepel Machine Tool Factory (1 thousand million). In the food industry two-thirds of the credits are raised by the Meat Combine of Kaposvár (2 thousand million), the inverted sugar manufacturing planned at Szabadegyháza (2.1 thousand million), and the vegetable oil factory under construction at Mertfű (1.8 thousand million). Within the chemical industry it is the pharmaceutical industry and tyre manufacturing that are the most stessed. In agriculture, industrial plant cultivation systems and the development of the food industrial bavkground are very important. The export-increasing development of metallurgy aims at the modernization of aluminium industry and non-ferrous metallurgy.

The experience gained in credit judgement and the approval of credit applications allows us to state that most of the enterprises tried to adjust themselves to the stricter conditions within a short time. With approved credit applications the credit is refunded from the net foreign exchange returns on Western exports in about two and a half years, which is much more favourable than the 3–5 years stipulated for the tender. Relying on this experience the term for refunding was changed to three years in 1978. With a gradual running-in, developments are expected to earn additional foreign exchange returns of about $800 million by 1980 in comparison with 1975.

The expected cost of earning a dollar promises profitable exports, which is not to say, however – as is proved by experience – that price formation in exports is perfectly in order. Agricultural farms and chemical enterprises reckon with foreign exchange revenues at more favourable costs than the average, while the expected costs of the light industrial and transport enterprises are above the average. The profitability obligation calculated in forints is 17 per cent on an average as laid down in the contracts. There is a rather wide dispersion. The 26 per cent profitability of the chemical industry is outstand-

ing; while the profitability of the food industry, the building materials industry and transport reaches 9 per cent.

These data cover the total running-in period after the projects are put into operation, i.e. generally the years 1979–1981, the time when they are realizable. In assessing future results no greater exactness can be expected or required than what is generally expected of a medium-term plan, if on account of the time difference. The enterprises' obligations regarding exports, refunding and profitability are based upon informations about the future development of the world market, price-forecasts, calculations of production costs, i.e. on a foresight of several years which is, by the nature of things, necessarily only of approximate exactness even in the best case. That is to say, actual exports and profitability may turn out considerably better than the terms laid down in the contracts, but they may be considerably worse, too.

To appear on the world market involves risk. This risk is greater on the market of the advanced capitalist and the developing countries. Beside good results and successes we must be prepared also for the failure of some project or development action, i.e. that they will not earn what they have been expected to, for a shorter or longer transitory period. For the achievement of good results patience is needed among other things, stimulating or even forcing enterprises by means of economic regulators to amend their previous conceptions as fast as possible, and to adjust themselves flexibly to changes in world economy. An enterprise manager remarked once with some bitterness that in Hungary risk can be taken, but only if the venture turns out to be successful. There is, of course, some exaggeration in this, but it would be a mistake if the State as owner, and the National Bank as creditor did not take notice of the danger threatening the raising of the standards of management because of the strengthening of the approach objected to, more of an official than of an economic character.

How do investments progress?

The tensions of the investment market, its contradictions, the unfavourable phenomena accompanying the implementation of investments are observed, naturally, also in the sphere of the export-increasing projects. We have no comparative data on their extent, but as much can be safely stated that the situation in this sphere is not worse than on the average. And this is, as a matter of fact, a certain acknowledgement of the work of the investing enterprises, because among export-increasing investments there are no special priorities, in contrast with the system of state investments, where the central authority (Ministry) assigns and obliges the construction enterprise to carry out the work. Unfavourable experiences indicate, on the one side, the long known deficiencies in the preparation period and, on the other side, those of the implementation period. In the course of credit judgement we have met with the phenomenon that some of the investing enterprises concentrate too much – under the effect of old "conditioning" – on having the development project, approved on securing financial resources, and on obtaining the

credit or the state subsidy. They are not sufficiently careful in elaborating technical plans and obtaining permissions for the investments, nor in selecting the building contractor and in searching for procurement possibilities of machines. And yet all information necessary for preparation of the investment and organization of the process in concentrated at the investing enterprise. The general and partial decisions concerning investment belong to the sphere of authority of the enterprise, and the enterprise bears the material consequences devolving on it on account of the quality of the investment process. It enjoys the additional profit resulting from a faster and cheaper implementation than what was planned, and this creates for it a more advantageous situation in regard to individual incomes or developments; or it is obliged to bear the burdens resulting from prolongation of the investment process and higher costs. Therefore, good preparation is first of all in the interest of the investor. The quality of preparation is often revealed only in the course of the process, and cannot be judged in advance by external examination. It follows that responsibility for the technical preparation of investments cannot be shared between the enterprise and the control organs, or between the enterprise and banks.

The implementation phase of investments is not smooth, either. Unreliability of contractual relationships, prolongation of the implementation period, delay of machine deliveries at home and of those from imports often disturb planned implementation even in the case of well prepared investments. In certain cases also not properly prepared central interventions – redirection of building – and installation firms to state investments – also delay the putting into operation of export-increasing developments.

The National Bank continually watches the course of implementation of export-increasing investments. It warns enterprises, and, if necessary, also the control organs, if putting into operation according to the contract seems to be endangered. It is found that the general approach is gradually changing: financial responsibility is growing, and the effect of financing subject to certain liabilities, i.e. of credit, is increasingly felt in enterprise behaviour. Since credit must be repaid according to the schedule laid down in the contract, independently of an eventual delay in putting the project into operation, enterprises give preference to technology and to the reconstruction of machinery promising faster realization and higher efficiency. In the sphere of export increasing investments the construction ratio is only 20 per cent on an average, i.e. less than half of the 46 per cent construction ratio of state investments, and considerably lower than the 30 per cent ratio usual in the sphere of enterprise investments. This circumstance renders probable that export-increasing investments are implemented faster than on average, and their putting into operation according to the plan is also more likely.

Credits granted in the first two years also indicate that investments progress at a satisfactory rate in most sectors. In the course of the two years Ft 22 thousand million i.e. nearly half of the full credit limit was granted. This is 86 per cent of the original schedule. The rate of implementation of investments is more favourable than on the average in engineering, metallurgy- the light industry and agriculture. With food industrial investments, however, a delay has to be reckoned with in view of the credits granted during the first two years.

Meeting obligations

According to experiences up to now, enterprises and cooperatives meet their export obligations on the whole, or even overfulfil them. The $250 million export obligation of 1976 was overfulfilled by 20 per cent and, according to preliminary data, the exports of 1977 also surpassed the $400 million obligation. This is encouraging for the future, particularly if we take it into consideration that Hungarian exports to the West are exposed to market fluctuations, so that risks involved by investments are greater in this field than usually. In recent years we have had to face increasingly difficult terms, sharp competition, depressed prices, and outright discriminatory and restrictive measures. Under such circumstances the overfulfilment of earlier undertaken export obligations is a proof of the doubtless success of the export-increasing credit construction and of the improvement of Hungarian competitiveness.

It is not right to judge investment realized from the export-increasing credit as if it were separated from the whole of the enterprise. Apart from being financed from a separately earmarked credit limit, these investments fit, as a rule, organically into the production of the enterprise, its exports, market policy, and management. There are several enterprises whose total Western exports are on the increase, so that their results must be qualified as favourable, although they may not have fulfilled some of the Western export obligations laid down in the credit contract linked to an investment. At the same time, in vain does an enterprise achieve overfulfilment with a certain investment: if its total exports to the West fall in comparison to earlier years, its export activity cannot be qualified as good.

Detailed data are available on the 1976–77 exports accounted in convertible currency of the engineering, chemical, light industrial and metallurgical enterprises, from which conclusions can be drawn on sectors as well as on firms. In these four sectors 127 enterprises and cooperatives had export obligations totalling $366 million for the years 1976–77. Fulfilment was 16 per cent higher, i.e. $425 million. It adds to the value of overfulfilment that these were not isolated results: the total exports of these enterprises and cooperatives accounted in dollars grew faster than on average in the national economy, and they overfulfilled also their own export plans (regarding the dollar area).

From the fulfilments of 1970–77 we may conclude that most of the development objectives were realistic, and the second half of the plan period promises even a better situation, as the ratio of projects put into operation will be growing, and the marketing activity of enterprises is improving.

Of course, the overall favourable result shows a dispersion among sectors and enterprises. Nearly half of the two years' export fulfilments of the four sector was supplied by engineering that overfulfilled its obligation by 8 per cent. The next are the firms of the chemical industry with a 30 per cent share and 20 per cent overfulfilment. Light industrial enterprises and cooperatives had a 16 per cent share and reached 10 per cent overfulfilment even in the difficult market situation. The mere 8 per cent share of metallurgy was reached with a threefold overfulfilment of their export obligation.

There is a high dispersion among enterprises: anything occurs between zero and 300 per cent fulfilment. It is remarkable that eight enterprises – transacting "large" exports on the enterprise level, i.e. over $10 million – reached an overfulfilment of $57 million altogether, or, with some exaggeration we may say that the aggregate results of the 127 enterprises and cooperatives in the four sectors were determined by these eight enterprises (Chinoin, Csepel Works, Tungsram Works, Lehel Refrigerator Factory, "Gedeon Richter" Pharmaceutical Factory, Metallurgical Works of Salgótarján, Taurus, Tisza Chemical Combine).

These firms seem to have been able to utilize their earlier established Western market relations well also with their new export-increasing investments, and could flexibly adjust themselves to the changing market demands. At some of these enterprises usually several credit-financed development projects are in progress at a time. From the aspect of fulfilling their obligations, the latter show diversified pictures; disadvantages of some or other of the developments can be neutralized through advantages attained with other investments, relying exactly upon market experience and established relations. E.g. at the Metallurgical Works of Salgótarján two out of three projects did not yield the expected results, but the additional exports of the third project earned a foreign exchange revenue considerably higher than the obligations of the three investments. From the two development projects of the Lehel Refrigerator Factory the lag in aluminium radiators can be many times counterbalanced by the additional exports of household refrigerators. From the three projects at Chinoin the additional profit attained with one of them was so high, that in spite of a lag in the two other actions, the enterprise could on the whole overfulfil its export obligations.

There are, of course, also unfavourable experiences: the export of 28 enterprises stayed much behind their obligations laid down in the contracts. It is generally found that enterprises not meeting their obligations make efforts at mitigating unfavourable market effects. The majority of enterprises showing smaller results in the first two years are trying to make up for the lag till the end of the Five-Year Plan through a flexible transformation of their product pattern and by searching for new markets. In the majority of enterprises which do not meet by far their obligation, it can be demonstrated that they counterbalance the lag by additional exports of other products still in the given year.

It is a warning that the profitability of exports stays behind expectations as yet. Beside the depression on the Western market, a role is played in this also by our own faults: the deficiencies in production and foreign trading activities. A product of poor quality cannot be sold at an advantageous price, an unreliable and late supplier is driven out of the market – these are the characteristic faults occurring in the production phase. And in the foreign trading phase greater efforts are needed for attaining more advantageous prices and better paying buyers have to be found. Further possibilities are indicated by the fact that in 1977 the price level of Hungarian exports accounted in convertible currency considerably improved in several groups of products; even such enterprises are

found whose export price level rose to one and a half-fold or doubled in a few years by changing markets and raising prices.

In order that Hungarian export results should improve, a change of approach is needed also in the judgement of foreign trading activities. It needs no proof that technological development, manufacturing and sales are interdependent links of a chain, and each one has its own significance. It is considered natural that there is no efficient economy without a technological level keeping pace with the world, high productivity and low production costs, buyers ready to pay prices attaining the usual world market level.

With a view to desirable changes the regulatory system of foreign trade also needs to be amended. E.g. the actual system and practice of export subsidy based upon state refunds does not stimulate at all efficient production, or active pricing. It is similarly a fact that frequent – in many cases disputable – individual interventions (taxing away) discourage enterprises from pursuing a more active pricing policy. The price sensitivity of the producing and the foreign trading companies as well as their interest in raising export prices must be increased. At the same time, the common interest and risk of producers and foreign traders must be strengthened; this has not yet been satisfactorily attained in Hungary.

If conditions are ripe, it is justified to extend the right to independent foreign trading. It would be useful also to weigh whether in trades where it is reasonable a specialized foreign trading company should not be the joint venture of several producer firms, e.g. in a form already tested in the case of Bivimpex, functioning as the joint enterprise of leather producing firms.

How much is 45 thousand million?

The Ft 45 thousand million serve for the implementation of the October, 1977 resolution of the Hungarian Socialist Workers' Party on foreign trade strategy and transformation of the production structure. It may be of much help in increasing the volume op up-to-date high quality goods and saleable at a profit on several markets, and in improving the product pattern. We expect one-third of the increment of Hungarian exports against convertible currencies between 1975 and 1980 from these projects. It would be thus wrong to underestimate their importance, but it would be an exaggeration to assume that the realization of the export objectives of the Five-Year Plan for 1976–1980 stands or falls by this investment of Ft 45 thousand million. This amount makes up together with the enterprises' own money, as has been mentioned, only about 8 per cent of all investments in the productive sectors planned for the five years. That is, export-oriented development policy cannot be restricted to this credit construction; tasks are facing us in a much wider field.

Enterprises applying for export-increasing credits *undertook* to fulfil stricter than usual conditions. They undertook to do something novel and something more difficult

and did it in such domestic economic environment as could not yet be accustomed to higher requirements by the central control organs and the regulators and this fact further increased their risk. Yet the higher requirements adjusted to changing conditions have to be increasingly raised also towards enterprises and cooperatives which did not show such initiative, towards enterprises that carried out large state investments and central development programmes, and invested from their own resources, while the ratio, the growth of their Western exports or their profitability are not satisfactory. This is the only way to avoid that central control should prefer, if involuntarily, a more comfortable and risk-free enterprise behaviour. The effect of the new credit construction "infiltrating" into enterprise reasoning can be already felt. In the transformation of the product pattern and in the improvement of efficiency an important role is played by the fact that enterprises are coming into closer contact with the world market, they are getting accustomed to stricter conditions, and an increasing number of enterprise managers look and see beyond the borders of the country and reason in terms of world economic interrelations. This leads sooner to a recognition and assertion of national interest on the enterprise level, than if we only talk about the importance of a national economic approach, without *encouraging enterprises at the same time, through the system of conditions of management,* to adopt such approach and without creating for them the organizational conditions for a better knowledge of the world market. The real success of the credit construction consists in the shaping of views, not forgetting, of course, the exports expected from the investments.

How much is the 45 thousand million? Not little in itself, but little in comparison with demands. It has turned out that enterprise initiative, and the export capacities of industry and agriculture were underestimated; we did not expect them to react so well on harder conditions. The 45 thousand million has been spent, and for useful objectives, so that it would be worth considering the raising of the credit limit.

The expansion of export capacities earning convertible currency will remain a special task also under the Five-Year Plan for 1981–1985. In 1979–1980 further credit granting possibilities have to be provided for in addition to the 45 thousand million, in order that the transition between the two plan periods should be guaranteed also in this respect.

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COMMENTS AND CRITICISM

MRS. K. FALUS-SZIKRA

ON THE CONNECTION BETWEEN DISTRIBUTION ACCORDING TO WORK AND COMMODITY RELATIONS

*A contribution to A. M. Vacić's article "Distribution according to work and commodity production"**

To find the most expedient ways of stimulation and to replace the driving force of capitalist profits by incentives corresponding to the nature of socialist society are key-issues in the assertion of the possibilities inherent in socialism. A. *Vacić's* article published in "Acta Oeconomica" examines one of the most important aspects of this problem on a high level, with demanding theoretical approach and for Hungarian readers, in a new light. The starting point of his views is that anticipations of the classics of Marxism regarding the socialist and communist societies were basically of a hypothetical character and must not be considered as rigid dogmas. Concrete questions can be answered only by adapting these anticipations to the changed conditions and concrete circumstances. However, I cannot agree with his concept regarding the interpretation of distribution according to work in conformity with contemporary relations, even though I fully accept his afore-mentioned starting point and several of his statements.

The author's concept connected with distribution according to work can be briefly summarized as follows:

In the majority of socialist countries the mode how distribution according to work is realized does not correspond to the given or desirable economic relations. The uniform country-wide nomenclature of wages and salaries, remuneration on the basis of the concrete form of work (required qualification, physical strain, time of practice, etc.) as well as the circumstance that wages do not at all or only to a minimum extent, as if symbolically, depend on the performance of the economic unit where the work is done, necessarily lead to an equalizing wage payment, detached from performances. This makes it impossible that the stimulation necessary for the materialization of possibilities inherent in socialist production relations should take effect. The present situation may be greatly attributed to ideological reasons, to such an approach to the problem which neglects those concrete circumstances under which the socialist revolution had taken place, first of all the survival of commodity (market) relations and the necessary connection between distribution according to work and these commodity relations. In his

*See Acta Oeconomica Vol. 18, Nos 3–4, pp. 227–245 (1977).

opinion, if the socialist economy functions indeed as a commodity-producing economy, then the basis of sharing in the manufactured products cannot be labour in its concrete form producing use-values. It is exclusively the socially recognized product of labour, i.e. the value acknowledged by the market as socially useful, that can serve as the basis of sharing. However, since in socialism commodity is not a product of individual labour, but that of the joint labour of producers united in individual economic units, the result of the individual work of the individual worker will not appear on the market separately: the primary subjects of socialist distribution are not the individuals, but the commodity-producing economic units, i.e. the enterprises. The determining circumstance of distribution is, in general, the distribution of national income among the economic units in the form of enterprise incomes. Relative to the former, the distribution of personal incomes can be only of a secondary, derived character. Personal income is not a predetermined value, but a function of the enterprise income. Preliminary determination of the amount of wages independently of the enterprise output is foreign to such relations where labour power is not a commodity.

In my contribution I am going to deal with three spheres of problems related to the concept, namely: 1. distribution of personal incomes within the enterprise; 2. connection between enterprise results and wages; 3. commodity features of labour power.

Distribution of personal incomes within the enterprise

(Differentiation of wages within the enterprise)

Perhaps the greatest deficiency of the concept otherwise built up very resolutely and with disciplined logic is that it is restricted only to problems of the distribution of personal incomes among enterprises, but does not deal with the principles to be enforced in the distribution of personal incomes within the enterprise. In his exposition the author only states that in the system of socialist commodity production "if the system is actually, and not only formally, of a commodity producting nature, then the basis of distribution can be provided only by the socially acknowledged results of labour. And since, under the conditions of commodity production the results of labour take the form of commodities, this basis cannot be else but the value created by labour (recognized by society on the market). Any other conclusion is a contradiction in terms". (p. 241) But what does this statement involve, for the income distribution within the enterprise? How can we "break down" this principle to the sharing of the individual workers, to their remuneration, when the activity of individual workers or groups of workers is not separately evaluated by the market? No answer is given to this fundamental question of distribution. I think the reason is that no answer can be given in this way. The wages of individual workers cannot be "deduced" from the evaluation on the market of the results of enterprise activity. The contribution of the individual worker to the value produced by the enterprise collective and recognized on the market cannot be identified. There is no

method for that either in principle or in practice.* It is only the concrete work of the worker or employee that can be measured in some way. The only measurable thing by which he can influence the enterprise's results is the type of work performed, requiring a certain qualification, mental, physical, nervous, etc. strain, and the concrete output of this work. Consequently, distribution among the individual workers within the enterprise may take place only according to the concrete work and this is so everywhere in reality, whatever the distribution of funds for personal income among the enterprises and whatever the system of formation of enterprise wages funds should be. Within the enterprise the basis of remuneration is concrete work even where the amount of the funds for enterprise personal incomes depends on the enterprise's results realized on the market. This could hardly be otherwise. The basis of the development of relative wages is comparison of the characteristics of concrete work.** *No kind of distribution system could be separated from the remuneration of individual workers and groups of workers according to their concrete work.*

Connection between enterprise results and wages

(Differentiation of wages among enterprises)

As it has already been referred to, the author considers the lack of this connection or its extent that can be regarded only as symbolic, as a serious shortcoming. In his view the wage-fund of an enterprise should depend on the value added $v + m$, in such a way that the producing or economic unit, as the subject primarily acquiring income should decide itself on the division of this fund into funds for personal income and those serving for the increase of the productive funds (accumulation) of the enterprise.

In reality, the connection between enterprise results and wages varies on a very wide scale in the socialist countries, from a very close relationship to the full lack of it, while in the one case $v + m$, and then again only m is considered as enterprise result. The connection is established occasionally between enterprise results and the wage-fund and in other cases between results and the wage-level. In *cooperatives* – first of all in agricultural cooperatives – the connection is rather close. The incomes of members largely depend on the economic results of the entire cooperative, more or less in the same way as it appears in the author's concept. Under the given historical and social circum-

*Here and there attempts are made at such "imputation", but they rely, in all cases, on basically arbitrary assumptions and aim at or result in the practical solution of some peripheric problem only.

**This comparison is a very complicated process, where social value judgement has an important intermediary role, too. Nevertheless, this process is going on day after day. This is a precondition of the valuation of various amounts of concrete work as amounts of general human labour.

stances this has proven to be unavoidable and useful. At the same time, there is a strong endeavour to moderate exaggerated income differences among cooperatives in all socialist countries. The case is quite different with *state enterprises.* The linking of enterprise results with personal incomes seems to be expedient in several fields also here. It is advantageous if the entire collective has some common interest in the development of the enterprise's results. This furthers that efforts of the collective – within it those of leaders and subordinates – should work in the same direction, it increases the financial resources for the remuneration of outstanding performances and creates more favourable conditions for the struggle against egalitarianism. Precisely on this account, this linking is gathering momentum. Despite this, it is much looser than in the cooperatives. In state enterprises wages are adjusted to the uniform, central tariff-system and the part of income of workers and employees depending on the joint results (profits) of the enterprise is usually not great. This looseness of the link relies on practical experience and considerations of principle. Under such circumstances when part of the enterprises are in a monopolistic position and the price system is deformed by an intricate web of subsidies and taxes (this is, of course, not a fortunate situation) this result can express the real social usefulness of the enterprise's activity only in a very uncertain and distorted way. Enterprise results may be largely influenced, however, even in the case of relatively free competition and freely developing prices, by factors independent of the performance of the enterprise collective, by effects of the market situation, by the development of prices which cannot or only hardly be compensated by the enterprise, etc. Finally – and that is the most important thing, – even the enterprise performance taken in the narrow sense is not a simple sum of the "labour results" of the individual workers and employees, but depends to a great extent on the efficient operation of the enterprise as a system. The overwhelming majority of the workers and employees of the enterprise cannot individually influence it. (It is rather the leaders who might have such a possibility. For example, a worker can hardly influence the product pattern of the enterprise or whether articles more or less demanded on the market are produced, nor is he first of all responsible for the level of productivity and consequently, of production costs, but all this depends on the techniques, technology and organization developed by the leaders and the technical and economic staff.) *Under such circumstances a considerable dependence of the wages of workers and salaries of employees on the enterprise's results, great differences in the earnings of workers and employees of various enterprises resulting exclusively from the differences of enterprise profits* may seem unjustified and even unjust. [1] Rising wages of workers and employees of profitable enterprises may and, according to experiences, do have the consequence that sooner or later also those enterprises achieve for themselves a wage increase where there is no material cover for this. This might be a starting point of price-raising processes or strengthen such existing processes. Naturally, all this is to a great extent dependent on concrete economic, political and social relations if only because the population tolerates such inequalities better in one country, while in the other they are less tolerant in this respect. It seems that in our country, for example, public opinion does not tolerate any considerable differentiation of wage-increasing possibilities among

state enterprises. [2] There is a different situation in cooperatives. Even considerable income differences seem more or less natural there, since they are rooted in historical and social antecedents. (Too great differences are less and less tolerated even there by those concerned and by society. Labour migrates from cooperatives paying especially badly.)

The problem in question results, as a matter of fact, from differences between the concepts of socialist ownership and of the entire system of management and economic control of state-owned enterprises and their practical realization. In the majority of socialist countries, beside cooperative group property, there exists the predominant uniform, public state ownership, whose adequate way of distributing incomes resulting from work is wage payment in enterprises adjusted to the uniform national nomenclature of wages and salaries, with a loose link between enterprise results and wages. (Of course, the central nomenclature of wages and salaries must not limit the independence of enterprises in respect of wage payment to an exaggerated extent.) As against this, in the cooperatives which are practically in group ownership, and in a socialist economy functioning on the basis of the principle of self-management where the economic separation of enterprises is great, personal incomes have necessarily to depend on the enterprise's results to a great extent. The author considers this latter solution as the only acceptable interpretation of distribution according to work under the circumstances of commodity production, i.e. in contemporary reality. I do not think this is correct. With this the author gets somewhat into contradiction with his own statement containing a profound truth that reads as follows: "The efforts made at a uniform interpretation of all theses of the classics of Marxism for each country, – often leaving the question unanswered whether this interpretation was correct or distorted . . . – necessarily slowed down socialism as a worldwide process and diminished the socialist weight of communist parties and other political forces that had based their programs on Marxism." [3]

The author's above mentioned standpoint referring to the interpretation of distribution according to work is logically rooted in the fact that he considers only the enterprise functioning in the system of self-management as an economic form corresponding to socialist commodity relations, but not the state-owned enterprise which is run and controlled accordingly. This is almost the opposite of Stalin's thesis, regarded as a dogma at that time, according to which only state enterprises are a consistently socialist sector, while the kolkhozes are of socialist character only inconsistently. I think we have to watch very carefully best old dogmas be replaced by new ones.

Relationship between commodity production and distribution according to work, the commodity features of labour

According to A. Vacić the system of central wage control in the socialist countries neglects the necessary connection between distribution according to work and commodity production relations, and corresponds only to such a social system where labour is a commodity.

I think the subject matter is not the neglect of the necessary connection between commodity production relations and distribution according to work, but an interpretation differing from that of the author. On my part, *I find the essence of the connection in the effect of commodity (market) relations, constituting the economic environment, on labour, in the characteristics called – not too fortunately – the commodity features of labour.* Namely, in the facts that the reproduction costs of labour have a part in the determination of wages and relative wages; that the demand for and supply of labour influence wages and wages influence the demand for and supply of labour, as well as the distribution of the labour force by occupations, work-places, geographical regions, etc. On the basis of all this we may speak about a labour market also under the conditions of socialism. However, this does not mean at all that labour is a commodity, since we consider exploitation of the worker disposing of no means of production by the capitalist to be the main socio-economic contents of this latter. I do not think that such an approach to the question neglects those concrete circumstances under which the socialist revolution took place and socialism is being realized. On the contrary, this seems to be a concept very much reckoning with realities, with the survival of commodity (market) relations.

We have to agree fully with the author in that there are several deficiencies in the wage systems of socialist countries, levelling tendencies are strong and differentiation relies rather only on formal characteristics (job, educational qualification, time of service, etc.). All this can be experienced also in Hungary. I do not believe, however, that this should be basically attributed to the uniform system of wage-tariffs as well as to the loose connection between enterprise results and wage increases. Day after day we can see that enterprises do by far not utilize those possibilities of wage differentiation which would be provided for by the tariff-system, furthermore, that even where wages are increasing to a greater extent (resulting from better enterprise results) the additional wages available are hardly spent on wage differentiation according to performance. Therefore, the causes should be looked for mainly elsewhere. Thus, for example, in the very powerful social pressure working in the direction of levelling and in the weakness of countervailing forces, in the general and large-scale labour-shortage, etc.

A. Vacić's article is especially interesting for the exposition of his views as a uniform theoretical system. It is an important forward step along the way promoting that economists of various socialist countries get acquainted with each other's views in detail and speak to each other also directly.

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A. M. VACIĆ

INCOME, PERSONAL INCOMES AND MATERIAL STIMULATION

Every scientific effort in social issues based on the Marxian Weltanschauung (understanding of the world) is motivated by the intention to understand and judge critically a definite time and sphere men live in; also if possible, to discover the interior laws of its development and, to explain and/or influence their basis, the development trends of society. Exceptions may be found, of course, but they rather confirm than deny this rule. Since the realized deeds not necessarily correspond to the motives behind them, a critical judgement of scientific works is a specific condition of the very existence of science. If based on scientific assumptions and properly done, the critique of scientific works does not diminish but often enhances their value, transforming the results of individual efforts into social values.

By her paper "On the connection between distribution according to work and commodity production", in which definite statements of my article "Distribution according to work and commodity production" (Acta Oeconomica, 1977. No 3–4) have been commented upon, Mrs. K. Falus-Szikra has made an obliging gesture. This applies both to the very fact that she found the article worth commenting, and to her judgement of the ideas I exposed in it as being relevant to the real problems present in many socialist countries. Different points of view expressed in Mrs. Falus-Szikra's paper about definite issues, as far as the conviction of this author is concerned, in no way hinder a fair scientific discussion. On the contrary, they usually are a condition of its fruitfulness. Therefore, this article should be understood at first as a sign of gratitude for the attention paid to my article and then as a further effort toward a deeper understanding of the general problems of distribution according to work and, especially, under conditions of commodity production and/or market economy.

I.

After a short summary of my article on which I could hardly improve myself, Mrs. Falus-Szikra devotes her comments to three main questions. These are: a) distribtuion of personal income within the enterprise; b) connection between enterprise results and wages of workers employed in the enterprises, and d) commodity features of labour power in socialism. If I dare to summarize her critical considerations, the main conclusions of Mrs. Falus-Szikra might be reduced to three basic points:

1. My analisis of the relationship between the distribution according to work performed and market economy (commodity production) is limited to the problems of personal income (fund) distribution among enterprises, while it says nothing about their distribution within the enterprises. In the latter case, even if the fund of personal income for the enterprise as a whole were formed under the decisive influence of market

economy and/or indirectly socially recognized results of the enterprise, one may not apply the criteria of the indirect (market) but only of the direct labour.

2. The main conclusionof my article – the necessity of the genuine dependence of the personal income fund of the enterprise on the income it acquires – suggests that many factors, other than work come into play and therefore promote differences in personal income between enterprises which are not based on labour.

3. Even if the statement that in a socialist market economy the personal income fund of every enterprise should be a function of its income could be accepted in principle, this statement might not be treated as uniform for all socialist countries. In the majority of them such a statement may be applied only to the cooperative sector, while in the state sector the basic factor of personal income formation has always been and will be the uniform nomenclature of wages and salaries with a loose link between price revenues and wages and a relatively close link between wages and the reproduction costs of labour power. This fact implies that in socialism labour power partly preserves a status of a commodity, with all consequences that could be drawn from this fact.

Mrs. K. Falus-Szikra considers that the dependence of personal incomes and the results of the enterprises expressed in value terms should be stronger than today in the state sector, nevertheless she does not believe that the personal income fund could be formed as a function of the enterprise income. She ends the paper with a statement that the value of my article consists in the fact that I presented it as "a uniform theretical system".

Considerations of Mrs. Falus-Szikra, as well as the conclusions drawn from them, could not be answered by simple "yes" or "no", the least by "may be". Consistent answers to her objections imply a logical order of things, which includes not only a correct concept of the distribution according to work itself but also a proper understanding of its relation to the totality of the socialist economic system as well as of the general functions of distribution in the economic process. Nevertheless, since the relative weight of the quoted objections may be qualified as inverse to the order in which they are listed, I shall discuss the whole problem mainly from the standpoint of the contemporary practice of socialist countries. Practice itself, of course, has to be treated both as a source of learning and as the object of critical investigation according to all claims of Marxist political economy.

II.

Everything that has been said both of the general significance of distribution according to work performed and its relation to market economy in my first article leads to the following answers to Mrs. Falus-Szikra's considerations and objections present in them.

1. It is true that I did not discuss the question of personal income fund distribution within the enterprise. But it is also true that it was not a task I set myself as part of my analysis. What I examined in my article was how the distribution according to work has been organized in the framework of non-commodity production and how it should be

organized under the conditions of the commodity (market) one. The investigation I made, at least in my opinion, has fully confirmed that both theoretically and historically.

a) in any genuine distribution according to work the basis for individual personal income has to be the work performed;

b) the work that should serve as a basis of individual personal income has to be measured in any case, since this basis implies by definition the work actually performed and not any supposed one;

c) the mode of measuring work is not a matter of an arbitrary choice but the outcome of existing production relations or, as Marx used to say, of "the productive organization of the community and the degree of historical development attained by the producers".

The traditional system of personal income distribution in socialist countries -the one based on a uniform national nomenclature of wages and salaries – does not fulfil any of these three requirements; it is mainly based on supposed and not an actually performed work, since it does not include the regular measurement of work, generally speaking and especially so if the frames of market economy (commodity production) are concerned. And this explains why such a system necessarily has led to wage levelling unsound and unhealthy both economically and socially – in the USSR, Yugoslavia, Hungary and in all other countries.

When a personal income fund is given and if it is given properly, according to the requirements listed above, the question of its distribution between individual workers is a derived one. This distribution, of course, here I fully agree with Mrs. Falus-Szikra, has to be done on the basis of concrete work. But this argument says much more than economists usually see: just because it is concrete work that is used as a basis for the individual share in the personal income fund, *no uniform nomenclature is possible.* The work of a lawyer, of an engineer, of an economist etc. is one thing in a car factory, another in a project bureau and yet another in a scientific institute, etc. Could they really have *uniform* wages or salaries (I shall not discuss this difference between wages and salaries, since it is a question in itself), just because they were lawyers, engineers, economists? Or, to reverse the question, is it not clear that it is not distribution according to work if all of them receive the same wage or salary, regardless of where, what and how effectively they work? Finally, does not the fact that they usually do receive the same wages or salaries explain the phenomenon common to all socialist countries that so many people strive to obtain formal qualification of whatever kind, regardless of the fact what and how they shall work afterwards and even if they actually do not need it at all? Last but not the least what are the real chances of formally unskilled or moderately skilled people in such a system of distribution, even if they are real masters of their actual affairs but did not have an opportunity or just did not want to acquire any formal qualification?

All questions mentioned above and many others one could go on with, are closely connected with the main point I tried to prove: the question of personal income fund formation and the question of its distribution *are not the same ones.* These are two

questions and they have to be resolved separately and on the basis of different principles. The formation of a personal income fund in any case preceeds its distribution among individual workers. In the traditional system of distribution, however, the relation between these two is put inversely, in my opinion upside down the personal income fund is the function (nearly a simple sum) of the personal income of the people actually employed. And this explains why so many socialist countries suffer from labour shortage, quite unusual and unintelligible for their general level of development: under such conditions the enterprises do not employ the number of workers they really need or can pay from their results but as many as they can get in any way. And this is very logical, since the source for workers' wages and salaries is not the income of the enterprise but the national income of the society as a whole, wherever it actually is created. To pay every worker actually employed, whether highly needed or underemployed, the state must transfer a part of the income from enterprises working better than average, to the less efficient ones and this is just the way wage levelling becomes the governing rule.

Since such a system, however logical it might appear in itself, is based on wrong premises, the described tendencies can not be realized by its simple quantitative adaptations. To surpass the wage leveling one must put things in logical order. In the framework of the socialist market economy – in a different way but still quite logically – it implies the same sequence Marx applied to the Gross national product in the *Critique of the Gotha Programme* on the level of the enterprise this means: sales – income – deductions from income for collective and general needs of the society and accumulation – personal income fund – distribution among individual workers. I do not claim it is a *universal or the only possible order of things.* In the framework of a market economy, however, it is *the only logical one.*

2. The statement that the dependence of the personal income fund on sales and/or the income of the enterprise opens room for the influence of factors other than work is correct. Does this fact owerthrow the logic explained in point 1? In my opinion – no. What it actually leads to is a conclusion that the income formation and allocation, as well as the personal income fund distribution in a socialist economy, when organized on the basis of principles of market economy as well, can not and should not be organized in a laissez-faire manner but on the socio-economic basis of a definite overall policy. Such a conclusion is in no way opposed to the income system of a socialist economy, since it follows from the very nature of the socialist production relations, including the social ownership of the means of production and the fact that the income of socialist productive units is therefore subject to socialist ownership.

The necessity of an overall (socially conscious) incomes policy has not been fully understood and properly satisfied in the economic practice of Yugoslavia, so that a critical judgement of the income system functioning is also a condition of its rational organization in a concrete milieu. I dare even say that Yugoslav economists have a specific responsibility in this field, since their fair and critical evaluation of the income system might prevent other socialist countries – if they eventually decide to apply this system – from making the same mistakes and facing the same difficulties Yugoslavia already did.

Since the socialist income policy is a new theme we cannot open in this paper, I find it necessary and sufficient to say: the income policy is in no way a denial of the income system. On the contrary, in real economic processes it will usually be a condition of its normal and balanced functioning. This policy, however, should be based on the income premises, since it cannot be logically built on the simulation of any other system, especially not on the basis of profit policy simulation.

To make things clearer, nevertheless three relevant factors should be indicated:

a) The problems that should be resolved by income policy in a socialist market economy do exist in the traditional system of distribution too. The only difference between these two is in the fact that the traditional system "resolves" both system and policy simultaneously I put the world resolves between quotation marks because the absence of the logical order of income, personal income fund and individual personal incomes necessarily brings us to the point at which finally nobody, including the general planner, knows what a rule and what an exception is, what a part of costs and what a part of income is. And this fact explains why such a distribution inevitably creates price relations which are more or less unreal and in many cases essentially different frome those that would follow from existing economic conditions, including the presence of a market economy.

b) The question of eliminating factors other than work exists in the traditional system of distribution as well as in the income system. This question actually appears as soon as the measurement of labour results becomes a way to measure the work performed. In such a way of measurement the labour results and therefore of the work is influenced by all factors composing the productive power of labour – the average degree of worker's skill, the level of development of science and its technological applicability, the social organization of the productive process, the size and efficiency of the means of production as well as the quality of natural resources. The change that comes with market economy and the measurement of labour results is therefore just the way those factors exert their influence and, partly, a new circle of factors connected with the market influences them, all of them finally expressed in the demand-supply relations. If we eliminate the influence of natural resources (differential rents of all kind) as well as the influence of oligopolistic and monopolistic situations which should in any case be treated specifically, the rest of the question actually is concerned with income distribution. And as we have already pointed out, it has to be managed in a socially regulated manner. In a word, the problem of factors other than work does exist but it is not a new one and a problem that cannot be resolved properly.

c) Finally, it is interesting to reverse this question too. What does the concept "factors other than work" actually mean? Does the organization of the productive process belong to work or is it outside the work? How about science and its technological applicability – could we, in socialist countries, really be satisfied with the existing time gap between the technological inventions, and their productive application? What about the market research, both in the size and structure of goods and services actually needed, on domestic and foreign markets, including – why not – the design, different

styles, the fashion? Do all kinds of those and similar requirements really belong to the (petty) bourgeois mode of life? Should then the foodstuffs, the clothes, the houses etc. also be uniform to prevent such deviations? If not – do all efforts necessary to organize a modern, efficient and humanized labour process really belong to "other than work factors"?

We shall not answer this question definitely, since it really is not an easy one. We dare just express a doubt in an interpretation of work in which work has been reduced to the physical operations workers do perform during the labour process. Such an interpretation is not an adequate one even for contemporary capitalist societies. Why should it be a basis for the theoretical reasoning about a socialist economic system, in which even the least skilled workers should participate, in one or another way, in the decision making process both in enterprise and in broader social issues? And if they do so and carry the burden of such decisions, why the basis for their personal incomes should be just their physically understood work?

3. The arguments I finished the last point with explain why I do not think that the distribution according to work could be interpreted and/or substituted by the distribution according to the reproduction costs of labour power of different kinds. Reproduction costs of labour power do play a definite part in personal income formation but they can in no way represent a way to realize the distribution according to work. Reduced to labour power reproduction costs, personal incomes finally would not differ from wages of hired workers. The labour market therefore, regardless of the fact that its elements exist in socialist countries, including Yugoslavia, could not be taken as a premise in the theoretical analysis of a socialist economic system, simply because such a premise, if generally present,excludes the socialist nature of the society.

I might be wrong, of course, but I am not yet convinced I have been, since I could not find either in the theory or the history of socialism arguments good enough to substitute the distribution according to work by distribution according to reproduction costs of labour power. In real economic processes, especially just after the socialist revolution took place, this substitution can be practiced, temporarily it can be even a rule. These two principles, nevertheless, mean quite different things and that is why theoretical reasoning about a socialist economic system has to start in any case with distribution according to work, including the reproduction costs of labour power as an initial factor (at the very beginning) and/or as a corrective factor (at later stages) in the process of shaping personal incomes policy.

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I am grateful for the statement of Mrs. Falus-Szikra who characterized my concept as "uniform theoretical system" but I hope I have shown enough that I do not consider my concept, actually the income system, to be of universal validity. To treat it as an universal system implies to ignore the facts, both in science an practice, and I am not ready to ignore any of these. When writing my first article I did not consider any specific socialist

country and at the same time I meant all of them taken together. Some of them are very far from the system described in my paper, some of them are very near to it, not only Yugoslavia. What I tried to develop, therefore is a definite theoretical order of things and I tried to achieve this clearly enough in order that one can recognize: a) the premises of the analysis – social ownership of the means of production, elimination of class monopoly on management by joining work and management, distribution according to work, market economy and socially conscious control of the economy as a whole; b) the procedure of drawing conclusions based on general and economic logic, and c) the conclusions themselves.

If the right premises have been chosen and if the conclusions have been drawn properly, then they may be treated as the *only logical ones* which is not the same as *universal or even the only possible ones.* When a definite country will apply in economic policy the logical order implied in theoretical, politico-economic reasoning as well as the question: at what measure, how and even whether it will respect this logical order at all, of course, is not a matter of science but of social choice which I did not discuss. Such a choice is always limited by many productive, socio-economic, political, national and international, actual and historical circumstances which one can never fully anticipate. Nevertheless the choice has ever been and would always be a relatively free one. The politico-economic logic therefore, even if of the purest form, is not necessarily followed by a corresponding economic policy. But it is also true that the possibility of choice in social issues, in economic ones especially, as well as the choice itself, whatever it might be, does not invalidate the theoretically founded conclusions. To find the truth and real value of our current conceptions and convictions, including the conception I have put forward, we have to wait for decades to come, with an open eye for theory and practice of all socialist countries, existing ones as well as new ones that will come in sight.

Is it possible to summarize Mrs. K. Falus-Szikra's and my discussion in a sentence: she did not deny there was a logic in the concept I had put forward, I do not claim it is a universal or the only possible one.

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BOOK REVIEWS

ROMÁN, Z.: *Termelékenység és gazdasági növekedés* (Productivity and economic growth.) Budapest, 1977. Kossuth Könyvkiadó – Közgazdasági és Jogi Könyvkiadó, 468 p.

Zoltán Román's book covers in fact a much wider field than is indicated by its title. Two factors play a determinant role in this. On the one side, while asserting that economic growth does not mean for him at all merely the recognition and evaluation of a few quantitative indicators, the author examines very thoroughly all the methods suitable for finding statistically measurable (as a matter of fact quantitative) interrelations, more or less successful in revealing certain basic connexions i.e. causal relationships. On the other side, although this is not necessitated by a thorough discussion of theoretical questions, he never loses sight of the close interaction of theory and practice. Each one of his statements and of his methodological-statistical evaluations has the final purpose of presenting the characteristics of Hungarian economic growth and that not primarily in the light of the country's own development (i.e. compared with the past), but in the much more reliable framework of international comparison which encourages a more critical attitude. Although the author does not sum up the conclusions drawn from previous development and international experience in a separate chapter, he always formulates them clearly in the course of discussing the given problems.

The book – divided into three main parts and within them into ten chapters – starts from productivity, goes through the general questions of economic growth progressing toward the sources of growth and then returns to the productivity factor that was the starting-point.

Zoltán Román first explains in the chapter entitled "Looking forward" – closing the review of theories concerning productivity, and repeats it with emphasis several times later on –, that the measurement of changes in productivity is not an end in itself, but a highly important problem to be examined from the aspects of both economic growth and social development and progress. That is why we cannot rest content with generalities about the necessity of increasing productivity; it is the task of the researcher to analyze the accompanying phenomena entailed by the raising of productivity and to demonstrate the effects on the individual and on society. At the same time, it is the task of economic policy practice to give a greater role to raising productivity in enterprise planning (and in enterprise incentives), depending on its contribution to the increase of productivity on the national level. Namely, in Hungary at present no clear parallel can be drawn between enterprise interests and the interests in contributing to national economic aims (which shows clearly the deficiencies of labour economy). The reason for this may be partly that the gross output per man-year as the main indicator does not reflect the results of enterprise activity adequately. It would be better to construct such indicators as would orientate toward a more flexible enterprise attitude "able to think and act in alternatives" and a faster adjustment to demands resulting from the new development phase of the Hungarian economy and from the changes in world economic environment. This would bring closer to each other also the enterprise profit and national economic productivity (although the two would never be identical). Two chapters deal with the problems of measurement of productivity. The first gives

account of the types of index numbers and indicators of productivity, emphasizing the importance of quantifying "total" productivity (labour and capital productivity) beside labour productivity. The other one analyses the changes in productivity by using the input-output tables.

The second part begins with the clarification of the main concepts used in the theories (growth, development, progress, level, rate, increment), and states the importance of the qualitative elements of changes. It treats separately the "anti-growth" theories that became fashionable a few years ago (and soon grew "out-of-date" again) and flatly refuses them, as well as every such result of extrapolation according to which the future of humanity (and world economy) is reliably forecast by a mechanical extension of the given state or of past development trends. Relying on this train of thought the author deems (probably fully justified), that the raw material- and energy problem is somewhat overdramatised but he emphasizes at the same time that this is a world problem, together with a number of other ones from the solution of which socialist countries cannot withdraw themselves.

While he refuses "anti-growth" theories, he does not understand either, why still some of the economic policy-makers and planners are led by the fetish of an ever rising growth rate or at least one kept constantly at a high level. It is obvious that, on the one side, growth processes starting from different levels produce different rates (the one starting from a higher level will produce a lower rate, but this does not prevent the absolute value of the increment from being higher than that of countries achieving a higher growth rate). On the other side, economic growth is not an end in itself but a means and condition of satisfying given needs to a higher degree and in a more civilized form. In spite of changing conditions, and particularly of the higher development level achieved "overplanning" is still met with here and there, which means that the very high growth rates envisaged are the "conscious elements" of "extensive economic policy" surviving in theory and planning whose practical justification is less and less allowed by the changed actual situation. Therefore, under present circumstances, it is advisable to get rid of the fetish of growth rate, and this is a precondition to planning which intends to find a growth rate zone that is necessary and realistic. The golden path is "not the envisaging of a growth rate, but that of reasonable growth *and* progress".

The chapter analysing the long-range trends of growth relies on a very rich international comparative material. Most investigations came to the result – though by various methods – that between 1950 and 1970 a kind of levelling took place between advanced capitalist and socialist countries, while the lag of developing countries increased on the whole. In fact, the progress of levelling among advanced capitalist countries reversed by the early 1970s, which is hardly to be explained solely by a different adjustability to changed world economic conditions (this has also an economic capacity background!). Behind differences that suddenly came to the surface, there are, in fact, elements of an economic polarization asserting themselves already in the twenty-year period under investigation, which could not come to expression until 1971, or only in a badly distorted and suppressed form. That is because the system of fixed rates of exchange suppressed real differences (in efficiency, productivity, structure). As a consequence of the collapse of this system – coinciding almost perfectly with the changing conditions of world economic environment – a mass of differences frozen up for fifteen years emerged in the progress of differentiation.

From the data on growth the author draws the very important conclusion that the acceleration of economic growth of the advanced capitalist countries after 1950 in comparison with the long-range trend is not to be explained by the reconstruction boom; we are witnesses to a new phase of growth emerging in which the new sources of economic growth played a determinant role.

Hungary, though lagging behind the corresponding indicators of most socialist countries, came nearer on the whole to advanced capitalist countries. This relative closing up is observed, however, not mainly in an accelerating growth rate, but in that "with a comparatively low per capita national income we could achieve a number of things that are done only in «more advanced», i.e. richer countries or those with higher national income, or they are not at all

realizable under capitalist economic conditions" (p. 89). In the future even less stress will be laid on the growth rate; the most important things will be satisfaction of the qualitative-structural demands of development, and restoration of equilibrium, and it will be more convenient to consider the growth rate according to these main objectives.

The seventh chapter presents the diversity of country rankings and the error margins of computations set up relying on national income. The author underlines that differences in living standards and circumstances are usually smaller than those in per capita national income. At the same time, it is a warning sign that in the case of Hungary the lower per capita national income relative to other countries under examination is clearly attributable to the lower level of productivity. This already indicates the field in which the Hungarian national economy must achieve important results, if she wishes to reduce her lag behind more advanced countries. Although the lag of productivity is considerable also in agriculture (what is more, in most socialist countries it is expressly worse than in manufacturing), in the case of Hungary the most important task is to raise the productivity in manufacturing parallel with an active support of the closing-up process of agriculture).

Therefore, the author pays special attention to the internationally comparable productivity of each sector of Hungarian industry. He states that productivity in the food and textile industries is ahead of the general lag, while that in engineering and first of all in mining is behind it. All this is important for economic policy determining the desirable transformation of the Hungarian industrial structure, together with the fact that the means for eliminating backwardness is not necessarily increased concentration (bigger factory sizes). Greater importance ought to be attributed to raising the standards of enterprise management and organization.

The first chapter of the last major part discussing the sources of growth sums up growth theories, treating separately the problems of developing countries and the related internationally recognized Hungarian research results. After that the factors influencing growth are submitted to detailed examination (natural factors; population, labour; investments, qualification (skills); foreign economic relations; control and management). The author emphasizes the increasing role of markets in socialist countries, indicating the methods of approach different in each country. He calls attention to the fact that first of all in later industrializing capitalist countries a considerable role was played by government economic policy mobilizing the sources of growth. (It remains, of course, a question, whether beyond a certain point it is still this instrument which can give the most desirable impulses, or after reaching a certain development level, again a more important role ought to be given to decentralized enterprise decisions.)

The closing chapter presents the experiments with quantifying the effects of growth. The author deals separately with the quantification of structural effects, which is one of the most exciting parts of his book. He tries to arrive at such division, in which it becomes possible to separate the "pure" growth of each economic unit from the effect of growth which is demonstrably the consequence of changes in structure. He emphasizes that such computations are today justified mainly at the level of product pattern (since the growth-generating effect of macro-structural changes is running out). Therefore, the main task of planning and of industrial policy is not to establish proportions between national economic sectors or industrial branches but to elaborate a system of criteria of economic efficiency for determining the product pattern within each sector and its rendering suitable for comparison and measurement.

The composition of the sources of growth of the Hungarian economy is partly different from that of other countries, in that it was in Hungary – apart from the Soviet Union – where the contribution of substitution of fixed assets for labour to the increase of labour productivity was highest (30 per cent). The measured result of the structural effect leads to the conslusion that structural changes largely contributed to the size of production and productivity growth rates. In the future, however, these trends can assert themselves only under changed circumstances. On the one side, the considerable capital input ratio (or we may say, the unsatisfactory growth rate of live labour efficiency), on the other side, the end

of macro-structural changes on the whole may constrain the growth rate. Thus a fast economic growth rate depends on a faster increase of labour productivity and on the changes in product pattern within each branch as basic conditions.

A. INOTAI

CSIKÓS-NAGY, B.: *Új árforradalom árnyékában.* (In the shadow of a new price revolution) Budapest 1978. Kossuth Könyvkiadó. 238 p.

In his new book Béla Csikós-Nagy endeavours, by confronting the new phenomena of practice with theory, to provide such a new generalization of price theory as is in accordance with today's experience. In the first chapter, analyzing the price mechanism, he demonstrates e.g. that the picture according to which it is demand and supply relations that make prices fluctuate around the price centre is already an exaggerated abstraction in today's economic conditions, since it abstracts from an essential element, i.e. from the role of the financial system. The financial system cannot be entirely neutral either in socialist, or in capitalist countries; therefore, price can never be – not even in a balanced situation – a true measure of the socially necessary input. Because of the different financial systems of different countries no conclusions can be drawn from the national prices of identical products for differences in labour inputs. The first chapter dealing with the interdependence of prices also presents the difference between costs at the enterprise and the national economic level and treats the problems related to the secondary effects of changes in prices.

The second and third chapters examine the general change in price trends first under capitalistic conditions and then under socialist ones. From a historical analysis of the price movements in socialist economies the author draws the conclusion that the law of the general increase of prices is effective also in socialism. In spite of a price policy aimed at stability, a planned raising of the price level takes place regularly and besides non-planned rises in price level, concealed price increases, forced buying and forced saving can be considered as inflationary phenomena. The latter are related to excess demand and inflationary pressure. The author emphasizes that "inflationary pressure is not inevitable in a socialist economy" (p. 118). It can be eliminated or at least minimized, if the state determines resources earmarked for development in harmony with the requirements of equilibrium, develops a flexible price mechanism and brings about closer relationships between producer and consumer units. I think this is to be interpreted in a way that the state will create such conditions in which not only personal consumption, but also production and productive consumption will react on price impulses.

The fourth chapter entitled "The costs of economic growth" deals with the special factors because of which economic growth results in our days in deteriorating efficiency and thus in growing costs. These special factors are connected with the humanization process of the economy, whose main point is that while in free-competition capitalism, and particularly in its early phase, growing productivity drew first of all on a brutal exploitation of workers and of natural resources, this is no longer possible today. Toward labour the demands of humanism must be satisfied and as regards the deterioration of relations between man and his natural environment, its further intensification would involve such dangers as cannot be undertaken.

The fifth chapter bearing the title "The price of natural resources" covers mainly the problems of developing countries and in this context the rise in oil and raw material prices. According to the author's prognosis, the oil shortage is to be expected to last till 2000, even if oilproducer countries stopped their production-restricting policy.

Historically, i.e. in a longer perspective, however, the author judges the price trends of minerals more favourably than a number of other economic writers. In this respect the author's dispute with G. *Heal* at the Tokyo World Congress of Economists is remarkable. Arguing with Heal in whose opinion the price of minerals can only rise in a longer perspective because of deteriorating substitution possibilities, the author proves that, although the price curve of the various minerals is in fact, parabolical, as is assumed also by Heal, the price curve taking into account substitutive mate-

rials together with the development of the forces of production is hyperbolical, since the points of intersection of the individual parabolical price curves form a hyperbola, i.e. a tendency of falling prices.

The Epilogue is called upon to draw conclusions. Giving rough outlines of the main schools of inflationary theory, the author arrives at the conclusion that the term inflation is interpreted today in general in a too wide, and economic stability in a too narrow sense. In his opinion, the requirement of economic stability must contain also the possibility of a rising price level necessitated by the realistic needs of economic growth.

The author distinguishes price revolution from inflation. Drawing comparison with earlier processes, he makes the statement that the price explosion of 1973 did not release inflation but a price revolution. It must be added that the situation is made worse by the fact that this price revolution was born on the grounds of a world market inflation that had lasted for decades already. Finally, the author sums up in the Epilogue his views on price theory.

É. RADNÓTI

NYILAS, J. (ed.): *Integration in the world economy.* East-West and Inter-state relations. Budapest–Leyden. 1978. Akadémiai Kiadó Sijthoff. 274 p.

This book is part of a series based on the four volume Hungarian hand-book of the contemporary world economy. The other volumes comprise: "Theoretical Problems, Current Structural Changes in the World Economy" (1976); "Theory and Practice of Development in the Third World" (1977), and "Changing Face of the Third World: National and Regional Studies" (1978) published by the same houses.

This volume consists of four different parts giving a Marxist analysis of some of the main issues of the world economy of our days. Part one written by Tibor *Palánkai,* is dedicated to the problems of *international economic integration.* One of the major qualitative changes in the post-war world economy is the emergence of new forms of economic relations among individual national economies, leading to an integration of some groups of countries mainly on a regional basis. The author starts his analysis by introducing the term of micro- and macro-integration. By *micro-integration* he understands such associations which come into being among individual producers or companies in the sphere of international production and marketing cooperation in research and development and joint enterprises or production. *Macro-integration,* on the other hand, is a unification process on the global level of society and economy embracing the national economy as a whole. Macro-integration is then, basically a merging process of social reproduction. In the capitalist world economy micro-integration may be tied to the transnational companies, and the macro-integration is nothing else but the integration of state-monopolistic systems. In the capitalist world the micro- and macro-integration are, developing in different directions both in time and regionally.

The producer or the company is an objective factor also in the socialist integration, thus the distinction of micro- and macro-integration has highly important economic-policy implications in the socialist world economy, too. The micro- and macro-integration in the socialist system, however, are developing in organic unity.

The integration process, is analyzed by a three-dimensional approach. The first dimension is an expansion and intensification of *division of labour* in the region, which leads to a high level of interdependence, unification of the reproduction processes and mutual structural adaptation and uniformity. The second dimension is connected with the *ownership relations,* and the integration is in this respect a development process of international ownership or collective utilization of means of productions, which is designed for a more rational allocation and use of resources. Integration may also be approached from its institutional aspects, from the point of view of *economic mechanisms and policy.* Summarizing all of these dimensions integration can be defined in Marxian terms as a special stage of development of international production relations. The unification of national economies is only a quantitative approach to the process of international integration. Qualitatively, integration is a histori-

cal process, leading to creation of increasingly developed, complex and more efficient communities, which is always a function of the given socio-political system. Requirements of the scientific and technological revolution call for larger international economic complexes which in most countries of the world overlap the national boundaries more and more. An extensive review the different Western theories of international integration and their Marxist critical analysis is also given.

In a separate chapter dedicated to the integration in the capitalist world economy, a particular attention is paid to the circumstances of the emergence of the European Economic Community, the issues of customs union, the common agricultural policy and the plans for economic and monetary union. In his analysis the author concludes that the EEC has had very contradictory achievements. The EEC has promoted a dynamic division of labour in the region, economic growth, the restructuring and the increase of efficiency of European industry. At the same time, it has had many negative consequences (particularly that of the common agricultural policy has to be stressed), it has failed to fulfil many of the objectives laid down by the founding fathers of European integration, and many of its ambitious plans had to be given up. Regarding the nature and features of capitalist integration, the author underlines that the EEC does not mean the restoration of free-competition capitalism as it is often interpreted, it is rather the institutionalized form of international state-monopoly capitalism. The author also draws attention to the threats of protectionism and discrimination on the part of EEC toward the socialist countries. Nations of Europe are interested in such integrations which ensure the sound development of economic cooperation between the two social systems and integration groupings, and contribute to the creation of a system of security in Europe.

As regards integration among the *developing countries,* the author considers it as an important factor of social and economic development, in closing up to the developed world and also as a possibility of improving fighting conditions against imperialism and for economic independence.

The *socialist integration* which develops and operates on the basis of socialist production relations is subject to the specific laws of that system. The integration of planned commodity producing economies supposes wide-range coordination of national plans, which has many forms. The Comprehensive Programme of CMEA sets a long-term plan for integration, where the recognition and use of market and money mechanisms are also stressed. The main objectives of the Comprehensive Programme are to increase growth rates and efficiency, to level out development in the region, to promote technological development and to increase the welfare of the population. The socialist integration in CMEA is based on the principles of sovereignity and equality, and it does not intend to create any supranational institutional structure. The socialist countries in CMEA stand for open integration and for overall cooperation, without any discrimination, with any country of the world.

In part two Zoltán *Gyenge* analyzes the international *economic functions of the State.* He puts the development of the role of the State in international economic relations in historical perspective, from free trade *versus* protectionism in classical capitalism to imperialist protectionism and the special features of capitalist State intervention after the World War II. After the war the gowernment activity became extended in capitalist countries because the growing social character of production based on the scientific and technological revolution increasingly called for the regulation of economy. The same applies to the post-war political changes, which both domestically and internationally pressed for greater government activity particularly in the social and welfare sphere. The scope of economic policies relating to external relations have expanded and domestic economic policy has had wide international implications.

The author reviews the aims and instruments of economic policy, pointing out their interrelations with international economic cooperation. He also gives a detailed analysis of the regulatory and interventionist activities of the State in the sphere of international trade and finances. Direct and indirect intervention into economic life have become regular concommitants of the development of state monopoly capitalism. The author

stresses that planning is the manifestation of economic and political interrelations, of the economic "guidance" and the mutual interaction of the State and the monopolies.

The economic activity of the State in the *developing countries* has special objectives and tasks: transformation of the distorted social and economic structure and attainment of economic growth. Because agriculture is the dominant factor in the structure of economy and society, the land reform, the development of agriculture and the question of education have primary importance. Industrialization and the promotion and protection of different industries can be realized, for the most part, also only with the help of State. Governments of the developing countries attribute primary importance to development, thus the main problem of economic guidance is economic growth and not the control of cyclical fluctuations. Special attention is paid to the close relationship between economic growth and the external factors in the developing countries. Adaptation to the requirements of the world economy demands a controlled foreign trade. Foreign trade is a decisive factor of economic development, and the principal instrument for achieving the equilibrium of foreign trade is economic development. One of the main tasks of the governments in the developing countries is to work out a foreign economic policy which can favourably influence and change the external economic positions of the country. The author calls attention to the policy of socialist countries, which strive to promote the development and economic independence of developing countries through securing markets for their products, establishing favourable terms of trade for them, and giving aid in many forms.

Under *socialism*, State is assigned an important new role. The author points out that the economic functions of the socialist State arise from the social ownership of the means of production, and the State control of economy is realized through national planning. Planning has a twofold task: the direction and regulation of the national economy. On the one hand, the State is responsible for foreseeing and realizing the process of economic development and on the other, it has at its disposal the instruments and the institutional framework for control and for achieving the aims of economic policy. The author pays special attention to the close relationship between the stage of development of productive forces in given countries and the applied methods of control and management of the economy. As the common features and changes in the mechanisms of governmental economic control have shown, in the initial stage of industrialization the direct instructions were favoured, in the higher stage of development the application of indirect regulators was extended. The special function and policy of the State in external economic relations are also widely reviewed.

Part three written by Professor József *Bognár* analyzes the *economic policies in capitalist, socialist and developing* countries. The author defines economic policy as the aggregate of decisions and actions of the State power aimed at the implementation of its economic objectives with instruments at its disposal or created for the purpose. In evaluating the different economic policies two approaches may be applied: how successfully the declared objectives have been realized, and the declared objectives themselves may be the subjects to evaluation.

After outlining the evolution of theoretical backgrounds the author sums up the main characteristics of capitalist economis policy as follows: it is of a defensive and tactical character, instead of setting long-run objectives, it is aimed at preventing crises, depressions and recessions. It is also of a partial and local character, it does not encompass the entirety of economic life, but serves only the declared tactical aims in a limited part of the economy. The author widely reviews the main fields and tools of the capitalist economic policy and gives special emphasis to monetary, financial and international trade policies, which are more frequently used than economic policy in general.

In the socialist countries planning makes possible a more efficient implementation of economic-policy objectives than in capitalist countries. In the course of the last decades the socialist countries have successfully realized such major tasks as concentration of resources for rapid industrialization and opening up new markets both at home and abroad.

The author also presents the differences between the capitalist and the socialist *income-*

distribution policies. In socialism income-distribution is based on the work done by the individual. In the capitalist countries it is only an instrument for hindering a great fall in the incomes of the population in order to prevent economic and political crises.

The economic life of the socialist countries had attained by the middle of the 1960s such a high level that it proved necessary to formulate new mechanisms and *methods of economic control.* The author illustrates the main features of changes in economic control in socialists countries through reviewing the Hungarian economic policy since 1957. He points out that certain elements of the system of the economic mechanism are always determined by the socio-economic system itself and others by the actual position and problems of the given country. He analyzes certain criteria of economic mechanism from the viewpoints of growth, equilibrium, price formation and investments. The author also stresses the importance of formulating a proper foreign economic policy in which special attention should be paid to the world economic phenomena and their expected changes which are likely to determine the international economic relations, and also to the suitability of economic mechanisms for transmitting world economic impulses and for securing proper reaction and adaptation to these impulses and changes.

While in the developed capitalist and socialist countries the main task of economic policy is to channel the already existing and functioning economic energies into the right direction and to increase them, the most difficult task facing the economic policy of the developing countries is first to create and put into operation these energies. In formulating economic policies in the developing countries and the means of implementation, it must be decided which individual sectors have to be developed and in what proportions. Here the preferences for agriculture and industrialization have utmost importance. Summing up the criteria of a rational economic policy in the "three worlds" the author concludes that rational actions both at national and international levels can be secured only if the rationality of decisions and the structure of political power also improve.

Part four written by Ferenc *Kozma* deals with the theoretical aspects of *East- and West-European* economic cooperation. The socialist countries have created, thanks to their rapid industrialization, a productive capacity which is now gradually adapting to the requirements of the technological revolution. The socialist countries have become potential partners of the West not only as modern producers, but also as consumers. They have established their own international economic relations, which has increased their ability to adapt to the requirements of the world economy and to create new relations. The author analyzes the *interests connected with East-West economic relations* and points our their contradictory character. As far as the market problems are concerned, the interests are identical: Western Europe needs markets, while in Eastern-Europe there exists a demand particularly for modern technical-industrial products. Western Europe is facing the task of creating further possibilities to develop and spread the new technology on a large scale, putting the products quickly on the market and adapting them rapidly to the new requirements. Seeking partners in specialization and outlets, Eastern Europe is a complementary and ideal solution, particulartly if the problems of cooperation with the other developed or the developing countries are taken into account. At the same time, some sectors of the Western European economy, particularly agriculture and some declining industries (for example textiles) regard the socialist countries as their competitors. It is also increasingly recognized that the extension of East-West economic ties is a factor in preserving peace and in creating security in Europe.

The development of East-West relations faces, however, great many problems. The import of technology and the increased demand for raw-materials have exceeded the annual export possibilities of all socialist countries in the last years, which resulted in considerable trade deficits, and the indebtedness of socialist countries to Western Europe has increased. As a short-run solution the author suggests to expand raw-material exports, to establish industrial cooperation with capitalist manufacturing enterprises and to resort to further use of long-term credit facilities. Examining the alternatives of the division of labour between

the two groups of countries in the long-run, the author points out the possibility of three different directions. A possibility of division of labour is, when the exchange of manufactured goods for raw materials plays a dominant role. The division of labour can also be based on exchange between the dynamic manufacturing industries on the one hand, and of the less developed and declining industries, on the other. The third type of division of labour between East and West, which the author prefers, is cooperation in the high-level, technically identical, dynamic productive activities, which accelerates the scientific and technological revolution in both parts of Europe. The only way to meet the basic requirement of developing East-West economic relations is that they should be based on mutual long-term advantages. According to the author Europe may be regarded as an area of the world economy where the objective economic conditions for such a division of labour are established.

The author stresses that the socialist integration in Eastern Europe does not hinder, but rather promotes the development of East-West cooperation. By speeding up the technological and economic development of CMEA-countries, the socialist integration substantially expands the East-European markets. This expansion is concentrated on the most modern sectors, and these are precisely the fields where a dynamic East-West cooperation should and can be concentrated.

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GULYÁS J.: *A Közös Piac agrárpolitikája* (Agricultural policy of the Common Market). Budapest, 1978. Közgazdasági és Jogi Könyvkiadó. 181 p.

Within the institutions and mechanisms of the West European integration common agricultural policy plays an important role. The collective system of agricultural support and protection established in the European Economic Community in the second half of the 1960s may be considered as the first form of community- state-monopoly-capitalism covering a large area. It must be immediately added that the "success" of the state monopolistic integration in the agricultural sphere was concomitant with serious contradictions from the beginning, and its consequences affected unfavourably not only third countries, but involved disadvantages from time to time also for member countries. József Gulyás's book examines the circumstances and objectives of the formation of the Common Market's agricultural policy, as well as the forms and consequences of its realization. It deals in detail with the organizational structure and mechanisms of the common agricultural policy, the practice of its functioning, agricultural financing and the main features of agromonetary policy formed in the 1970s. We obtain a picture of the various effects of the Common Market's agricultural policy on both the internal economy of the community, and on the other important regions of the world economy.

The first chapter of the book examines the theoretical bases of agricultural protectionism and subsidizes developed in advanced capitalist countries after World War II. Thereby also the common agricultural policy of the EEC is provided an adequate theoretical and historical background and foundation. The author underlines the aggressiveness of this policy, in which economic as well as political considerations, efforts of solving short-term economic difficulties and strategic aims equally played a role. It must be noted, however, that the aggressiveness of the agricultural protectionism of advanced capitalist countries cannot be judged unambiguously since, as regards small-holders' particular interests, classical protectionistic efforts were also involved.

It is a merit of the book to undertake a comprehensive and detailed evaluation of the common agricultural policy. The author proves in much detail, supported by arguments and facts that the common agricultural policy construction is expressive only of very narrow and one-sided interests and, in the final analysis, it did not provide adequate solution either for the whole of the EEC, or for the actual agricultural problems of member countries. It did not serve satisfactorily the agricultural interests of the EEC, either, and even rendered a number of problems graver, or was the source of new ones (chronic over-production of certain products). Its main

objectives: to make farmers' incomes catch up with those in other sectors, to modernize agriculture and increase its efficiency, and to guarantee perspectives for small farms have not been achieved, nor has the international agricultural specialization of member countries developed to the desired extent. Although internal agricultural production and, as a consequence, the self-sufficiency in food of member countries increased, stability of the market and avoidance of the occasionally significant production surpluses could be guaranteed only at the price of ever increasing sacrifices. It became also widely known in the EEC that agricultural protectionism on the whole did not serve EEC interests, and it is even expressly disadvantageous from the aspect of industrial export possibilities.

EEC interests in connexion with the common agricultural policy are extremely complicated among member countries, and there are also serious conflicting interests among them. However, I deem it a very important statement of the author's that, as a consequence of the economic and political interests of the EEC, no considerable positive changes in the common agricultural policy are expectable for Hungary, and we have to take seriously the EEC attitude whereby they flatly refuse to consider agricultural policy as a basis for discussion. Hungary has to formulate her policy towards the EEC accordingly, and we can draw conclusions regarding future export possibilities only if we are aware of all that. This is not to say, of course, that we shall have to give up agricultural exports to EEC countries, yet the export structure will have to be chosen adequately, and we shall have to be prepared also for the difficulties of the EEC, as well as for the possibility of its seriously discriminatory measures (as was the case of beef).

Conflicting interests among member countries have particularly sharpened in the last years. The EEC has become strongly polarized, one symptom of which has been the upset foreign trade and monetary balances in a few countries (first of all in Italy and Great Britain, and to a certain extent also in France). In the balance-of-payments problems a role was played – beside a higher oil bill – also by the upset "internal" trade of the EEC, which is to say that in reality the EEC proved to be rather a destabilizing factor from this point of view. The effect of the common agricultural policy was contradictory also in this regard. In the case of France, agricultural exports rather mitigated balance problems. In the case of Great Briatin, however, the EEC-British deficit after 1973 can be traced back in most part (beside other things) to the sudden rise of agricultural imports. The problem is interesting also in the longer perspective – especially if we take into consideration the consequences of the expectable enlargement of the EEC – not only from the aspect of assessing Hungarian export possibilities, but also from that of the internal development of the EEC.

It is interesting to note, how the interests of each member country have been changing in the common agricultural policy. Originally, the Italians as exporters thought they would benefit from it. Yet Italian agriculture did not profit from the agricultural policy as it had been expected, and as importers the Italians became net losers. However, the agromonetary measures of the last years have become more favourable and Italy as an importer with a devaluating currency has become winner. Great Britain has also become a winner, though on the basis of the earlier construction in 1970 the question was whether Great Britain's expectable contribution to the agricultural budget would be £200 million or 1 thousand million a year. The fact that the British have become net winners had very important consequences, beside other things, that in June 1975 English voters decided for staying in the EEC. According to official data from 1977, Great Britan has been suffering losses from the common agricultural policy again. French interest also became conflicting, since in 1974-75 French agriculture suffered important losses because of lower corn and sugar prices within the community, more exactly: considerable profit was foregone by their not being allowed to sell at the higher world market prices on markets outside the EEC. Interests are conflicting among the different groups of farmers and particularly among the different branches of agricultural production also within a country. The picture will become more confused still, if the three South-European agricultural countries (Greece, Portugal

and Spain) join the Community. This does not exclude even essential changes in the agricultural policy, and the whole system may become uncertain.

The book fills a gap in Hungarian economic literature. It provides such detailed information on the common agricultural policy of the EEC which satisfies the demands not only of the layman, but also of practical specialists, i.e. those engaged in foreign economy and foreign trade. It is a merit of the book that by presenting historical preliminaries and interests lying in the background, also the motive powers, developments, and possibilities of the common agricultural policy become clear. We receive a diversified picture also of the alternative possibilities of agricultural regulation.

Since the common agricultural policy gravely harms Hungarian interests, it is often presented in Hungarian literature with passion and in a somewhat mystified manner. It is the author's merit that he avoids such traps and offers a balanced and objective picture of this agricultural policy. He assesses EEC interests objectively, and his conclusions are also realistic.

T. PALÁNKAI

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„We have separated the material of our special issue to four blocks. First we introduce briefly the scientific institutes, either entirely sociological, or, at least having a unit, intensively engaged in sociological research. Then we present the extended summaries of studies, published by our journal between 1975 and 1977. Afterwards we enumerate and summarize the content of books, published in Hungary since the last World Congress of Sociology. Finally, in the form of a selected bibliography we announce the exact bibliographical data of studies and monographs by Hungarian authors, readable in at least on world language — in English, Russian, German or French.

We launch this special issue of our journal with the hope that, if only modestly, it may contribute to the exchange of cultural and scientific information among countries."

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sous la direction de Maxime HAUBERT

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