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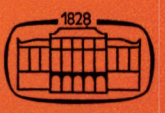

AKADÉMIAI KIADÓ, BUDAPEST

VOLUME 9
NUMBER 1
1972

ACTA OECONOMICA

A MAGYAR TUDOMÁNYOS AKADÉMIA
IDEGEN NYELVŰ KÖZGAZDASÁGTUDOMÁNYI FOLYÓIRATA

Felelős szerkesztő:

FÖLDI TAMÁS

Szerkesztőség: Budapest V., Münnich Ferenc utca 7.

Megjelenik évi 2 kötetben. Megrendelhető az Akadémiai Kiadónál (Bp. V., Alkotmány u. 21), a külföld részére pedig a Kultúra Könyv és Hírlap Külkereskedelmi Vállalatnál (Budapest I., Fő u. 32).

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VOL. 9

AKADÉMIAI KIADÓ, BUDAPEST
1972

Acta Oeconomica Vol. 9 (1), pp. 3–25 (1972)

A. Csernok—É. Ehrlich—Gy. Szilágyi

A HUNDRED YEAR OF INFRASTRUCTURAL DEVELOPMENT: AN INTERNATIONAL COMPARISON

This article deals first with problems related to the concept of infrastructure, examines several general points arising, and discusses methods of analysis and comparison. Types of infrastructural development are described and the summary results of the comparative calculations are shown. Finally, the role of the factors of production (capital and labour) in the infrastructure is discussed.

The problems relating to the future of society or the long-term development of the economy are subjects generating economic research on a wide scale and providing incentive for raising new questions which require new answers. Infrastructure is one of the problems arising.

In recent years infrastructure has become one of the "fashionable" categories of economics which appears in literature with increasing frequency. This is an unquestionable sign of the fact that there are troubles with infrastructure all over the world, that countries on different levels of development, with different social systems are equally struggling with the difficulties of the supply of adequate infrastructure. The degree and nature of these difficulties are likely to change drastically from country to country, since there are vast differences in the stage of the infrastructure, in its technical levels, and also in the demand for the various forms of infrastructure.

These thoughts, stimulated also by allied problems in our own country, have led us to complete an international comparison of the infrastructure. In order to become acquainted with the international trends operating in the formation of infrastructure and in its socio-economic functions, we sought replies to the following questions:

— How did the infrastructure develop in the various stages of economic growth in different countries?

— What is the infrastructural "standard" at a definite economic development level of a given country, considering the general contemporary state of technology?

— "How much" does it cost on given levels of economic development, in other words, what does the creation, maintenance, modernization, and expansion of the infrastructure demand of the national economy?

On the concept of infrastructure

The concept of our topic has been heavily debated in international literature. Various authors interpret the term differently and instead of a

precise, concise definition or a taxative listing they generally restrict themselves to an outline of the sphere of infrastructure.

1. Infrastructure is often identified with social overhead capital*. This includes all those funds without which the "primary, secondary and tertiary production activities would be unable to operate". *A. O. Hirschmann* includes all public services in these [5].

2. *René L. Frey* takes a stand for a similar interpretation. In his work "Infrastructure", he refers to another author, *Jacques Stohler*, in defining infrastructural costs as those which are generally spent on public goods and represent current investment inputs of future yields" [3, 9].

Frey and Stohler approach the infrastructure solely from the side of capital and consider their investment nature as an objective characteristic of infrastructure costs. They also list technical, economic and institutional features. What they consider *technical* features are the indivisibility of equipment, the long life-span, and the generally usable input nature of infrastructural output (performance). The main *economic* features are the so-called external effects, including the stimulating effects of the infrastructure on demand and production, as well as the high ratio of constant costs, and the large volume and risk of investments. The more important *institutional* features are: operation at a loss, as well as the fact that development is most centrally planned and managed, without market prices having any great effect — which follows from the very nature of infrastructure.

Based on these features, Frey lists the following areas within infrastructure: transportation, communications, energy services, education, research, health, water economy, culture, recreation, sports, and a part of public administration. He does not include the judiciary branch, the police, another part of administration, nor housing.

3. *W. Ehrlicher* distinguishes between producers' and consumers' infrastructure [2]. He lists the former in the category of "reproducible productive wealth", and includes here the fixed capital stock of transportation, communications and the energy economy together with a part of public fixed assets not directly related to the consumer (administration, health, etc.). In his definition the other parts of "reproducible productive wealth", that is, the non-infrastructural elements are the fixed assets and inventories of raw material extraction, of the manufacturing industry, of distribution, and of the service industries.

The consumer infrastructure is that part of the so-called "reproducible consumers' wealth" which belongs to the "public consumption wealth", in other words, parks, swimming pools, sports grounds, theatres, and part

* Most likely the term infrastructure is military in origin, and it allegedly was already used during the time of the Napoleonic war. It was intended to be a collective word including all military installations such as barracks, roads, bridges, etc.

of the transportation network. He does not include housing into infrastructure.

4. The author who dealt with the sphere of problems of the infrastructure perhaps most completely is *R. Jochimsen* [6] who defines infrastructure as the sum of those material, institutional and personal equipment and talents which are available to the economy, contribute to the equalization of incomes deriving from identical factor output, and which, if supported by an expedient allocation of resources, make full integration and the highest level of economic activity possible.

Jochimsen distinguishes among three infrastructural categories: material, institutional and personal infrastructure. The *material* infrastructure includes the total of equipment and other assets which serve energy supply, transportation and telecommunication, constructions for the maintenance of natural resources and transport routes in the broader sense of the term, the buildings and equipment of government administration, education, research, health and social welfare. Within the material infrastructure he distinguishes between the producers' and consumers' infrastructure, but excludes the latter from his study. Into the *institutional* infrastructure he includes systems of procedure already in operation yielding base for the integration. The *personal* infrastructure or "human capital" unites entrepreneurial abilities with intellectual, physical and other talents.

A common feature of the approaches quoted is that they define the infrastructure as capital or an element of wealth, though not consistently. *Ehrlicher*, *Frey* and *Stohler* speak strictly of wealth and capital stocks. Jochimsen goes further than this, and places human capital (the personal infrastructure) alongside the material infrastructure defined as capital in the stricter sense and includes categories which are difficult to interpret as capital even under broad generalization (the institutional infrastructure). With *Hirschman* we find an expressed mixture of function ("service") with capital in the strict sense.

There is no doubt that specific important areas of infrastructure are included unanimously by each of the authors quoted, for instance transportation, telecommunication and the energy sector, and none of them neglects e.g. health.

However, alongside these common features we can also find exaggerated generalizations, surprising restrictions, and unjustified expansions as well. One of the definitions for example says that without infrastructure "the primary, secondary and tertiary activities" would have to be placed somewhere outside these three sectors; this is clearly unsatisfactory since these three sectors include *all* types of economic activity. The exclusion e.g. of housing from the infrastructure is a limitation hard to justify. Jochimsen's use of the term "institutional infrastructure" is a characteristic over-expansion in definition.

These reviews illustrate clearly the various views of the different authors, as well as the deviations in contents, due either to conceptual differences or mere accident, or simply reflect individual taste. *G. F. Ray* is correct when he says: "There is no precise definition of the word infrastructure — it is usually meant to include all services regarded as the essential basis for creating a modern economy" [8]. Ray includes transportation, telecommunications, energy supply, water supply, education, health services, housing and all public amenities into the infrastructure.

The rather sharp differences in concept in the international literature and our own studies led us to the conclusion that a precise definition of the infrastructure would be an undertaking promising little success. The sphere of concepts constituting the infrastructure includes heterogeneous elements; in view of their nature, characteristics and purpose, they do not have enough *common features* for compiling a truly usable definition, beyond empty generalization.

A more detailed analysis of the matter would be out of place here. We would only indicate that, by the nature of things, economic definitions are valid under certain conventions only, and this is all the more true of such a heterogeneous field of wide ramifications as the infrastructure. Therefore, after processing and evaluating the mass of literature — primarily international, and to a smaller extent, domestic writings — which were available to us in this subject, we have endeavoured to define the concept of infrastructure with certain conventions, for the purpose of our studies. We do not consider our definition to be solely valid, but at any rate as one of the possible approaches to the subject.

By infrastructure we mean that part of the national wealth which does not serve either the direct creation of material resources or their consumption, but is intended to ensure the undisturbed operation of the processes of production, distribution and consumption, that is, a kind of vessel system; this corresponds to a given level of economic development, in accordance with the requirements of current technology.

In our definition the infrastructure is a part of existing, accumulated *material capital resources;* furthermore, it includes the ability to work, the experience, education and creativity of the available labour force. It is generally customary to term this latter as the available *intellectual capital.*

The cooperation between the material and intellectual capital stocks within the infrastructure serve the reproduction of material resources and labour and the welfare of the population, by providing services in the broad sense of the term.

In view of the theoretical desirability of classification often restrained by the practical impossibilities of distinction, the infrastructure and the various services it provides have been determined as follows: energy supply

and distribution, water supply and sewage, transportation, telecommunication (and storage) commerce and catering, housing supply, urban development, repair services, public sanitation, health protection, education and culture, banking services and insurance, public administration, defence and legal services.

Therefore, we have defined the stock belonging to the infrastructure as the sum of the material and intellectual capital tied down in the types of services listed.

The methods of the study and some general points

In examining the infrastructure from an international aspect we have relied on a broad international statistical data basis. However, compiling the statistical data system caused no small difficulty. No finished or processed data could be used since none existed. The only viable road was to search for a mass of statistics published for different purposes, include them into a system suited to the requirements of the present research project, and analyse them.

One of the objectives in the formation of the statistical data basis was to create the possibility of comparing the infrastructural factors of the countries for *definite periods* and for as many countries as possible.

In this comparison the individual elements of infrastructure (such as e.g. transportation, telecommunications) were characterized by *physical indicators*.

Our study embraces a long period, over hundred years; within this, we selected five longer or shorter periods. These include 1860—1865 as the beginning of industrialization in Europe; 1885—1905, that is, the period around the turn of the century; the period following World War I — possibly prior to the world economic crisis — that is, the years 1925—1930; the period following World War II, possibly following the period of immediate reconstruction, therefore the years 1950—1955; and finally, the present era, for which we used the data of the years 1965—1968.

Despite its heterogeneity, in the first, rather general approach we endeavoured to grasp infrastructure as a complex whole. We developed a special method for its summary characterization — with the improvement of one of M. K. Bennett's approaches [1]. The essence is the following: for each of the five periods mentioned we compiled a set of those physical indicators which were intended to characterize various sectors of the infrastructure (transportation, telecommunication, housing supply, etc.). The composition and size of the indicator system was adjusted to the infrastructural content of the historical era in question. For each individual period, each individual index was considered 100 in the country where its value was the highest at

that time and the data of the other countries were compared to this maximum. The numerical values were then averaged for the individual countries and the averages were treated as "scores" indicating the infrastructural level of the country in question in the given period. Therefore, the theoretically possible maximum value of the numerical data is 100; this would represent the infrastructural level in an imagined country where in the given period the highest values are found for each individual infrastructural element.

The other objective in the data collection and processing was that *we should be able to characterize infrastructural trends* as well as *types* of development. For this purpose we searched for countries which would embody the various infrastructural types and had historical statistics covering a rather long period of time, for long-term analysis.

For this analysis we made use of another set of comprehensive data series which illustrate the infrastructure as a whole, and its major components from various angles. These indicate percentage *distributions* showing the share of infrastructure, or of the major areas of infrastructure in two fundamental aspects: the labour force and investment.

Types of infrastructural development

Three clearly distinguishable infrastructural development types emerge from the material examined.

The *first type* is that of Britain, Holland and several western European countries (Belgium, Denmark, France, Switzerland). It can be established fairly definitely when looking at the infrastructural order of the 1860's, that in Britain and in some of the western European countries infrastructural supply was already on a high level. By this we mean that already at that time the framework of industrial development was more or less given. *In this type, therefore, the formation of the infrastructure essentially precedes the fast rate industrial development. Thus, this infrastructure is not the product of the industrial revolution but of the previous period in economic history.*

The infrastructural order of the years around the turn of the century bears witness to the fact that the countries of the first type were still in the vanguard, although the rankings changed to some extent. The accumulated wealth, continually expanding, ensured them the framework necessary for the spread of industrialization for decades to come. Apart from this, foreign capital was also of help to Britain and several other countries.

In the period between the two world wars, *a new* and "more modern" type of infrastructural development appeared. This was represented by the economy of the United States of America. During the period of the industrial revolution the United States turned from a colony into an independent state,

where neither feudalism nor the so-called commercial capitalism had any long-standing roots. Here the infrastructure was created simultaneously with the formation and spread of capitalism, as a continuous process supported by the needs of production and consumption. The infrastructure developed as a result of these needs, gave new impetus to the development of the economy; then in turn and as a result, new and more sophisticated infrastructural equipment was required. Therefore, while the British model was characterized by the fact that infrastructure chronologically preceded development, *the American model is characterized by a chain reaction between infrastructural development and the spread of industrialization.* This difference had another important consequence: the technical level of the infrastructure was more suited to the requirement of the period in the chain-like type of development.

In the process of capitalist industrialization, and this includes the United States, development generally began with the advance of the food industry and the light industries, that is, the less capital intensive branches where capital is paid off more rapidly. The capital needed to build up the infrastructure stemmed partly from agriculture, and partly from external resources, from credit coming from Britain and other European countries.

Thus, industrial development of low capital intensity was contrasted with the development of the highly capital intensive infrastructure — which was built up in the United States parallel with industrialization. In the beginning development relied on external aid, and later, when the weight and productivity of the light and food industries increased, the USA used exclusively their own domestic resources.

Most likely it was due to this chain-reaction type of development that in the decades prior to the turn of the century the United States were in a very modest place as compared with the so-called rich countries, insofar as infrastructural level was concerned. However, prior to and during World War I, the USA already attained the same leading position in infrastructural development as achieved by their economy somewhat earlier in more general terms. By then the chain-reaction type of American infrastructural development reached maturity.

The economic development of the socialist countries following World War II does not fit into either of the above two models of infrastructure creation. This was a *third type* of economic advance, from which infrastructural development — at least for a time — was excluded.

What were the reasons which led to the formation of this special, third type? Contrary to the countries representing the former two types, with the beginning of socialist industrialization these countries did not make use of foreign capital resources in the development, expansion, and modernization of the infrastructure. At the same time, they all started almost simultaneously industrial development policies, which, in contrast with the industrialization

of the capitalist countries, did not place the emphasis on the light and food industries, with low capital intensity and a rapid pay-off of capital, but on heavy industry, and generally on the capital intensive branches. Since the creation of the new industry claimed just about all resources of accumulation, the other large consumer of capital, infrastructure, was relegated to the background.

In the socialist countries the decisive majority of investments, that is 60—70 per cent, were allocated to the productive branches in the narrower sense of the term.

These factors were aggravated by a special feature of price policy which determined the price level of services well under the level justified by social inputs and kept them there stable for a long period of time. This means that they not only deprived the infrastructure from all own sources of accumulation at the outset, but that in this field of the economy not even the minimum inputs were paid off. The sums supplied to this field from the central budget were well under actual current and development needs. Under such conditions it has been impossible, to this very day, to create a basis capable of continually ensuring the investments needed for the development of infrastructure in the quantity, quality and structure suited to the level of economic development.

Therefore, while in the other two types the infrastructure was developed and modernized in the first phase of industrialization either from domestic sources or with foreign aid, in the later phases mostly from domestic resources, *in the socialist countries this did not take place, due to the circumstances mentioned, partly as a result of economic policy, partly because of the insufficient efficiency of production capital, and partly because of the price policy.*

Numerical results

The following two tables show the results of our study on the supply of infrastructure. These results refer to the whole of the infrastructure. Similar calculations were made for the same countries and the same periods concerning five important areas of infrastructure: transportation, communication, housing supply, health services and education and culture. The presentation of these detailed data would, however, exceed the scope of this article.

The ranking of the individual countries and changes in ranking with respect to the level of infrastructural supply can be seen in Tables I and II. In *Table I* we have ranked those countries for which we had complex infrastructural indices for all of the five periods within the more than hundred-years span of our inquiry. The second table shows considerably more countries but for a shorter period of 40—45 years.

Table I

The ranking and score of the countries in the last 100 years according to the level of infrastructure

Rank	Country 1860 - 1870	Score	Rank	Country 1885—1905	Score	Rank	Country 1925 - 1930	Score	Rank	Country 1950 - 1955	Score	Rank	Country 1965 - 1968	Score
1	Belgium	79	1	Germany	74	1	USA	80	1	USA	85	1	USA	82
2	Switzerland	76	2	Switzerland	69	2	Denmark	55	2	Sweden	69	2	Sweden	75
3	United Kingdom	65	3	United Kingdom	66	3	Sweden	48	3	Switzerland	64	3	Switzerland	71
4	France	62	4	Holland	62	4	Switzerland	41	4	United Kingdom	62	4	Denmark	66
5	Holland	60	5	Belgium	59	5	France	38	5	Denmark	60	5	Norway	61
6	Denmark	56	6	France	55	6	United Kingdom	35	6	Norway	53	6	United Kingdom	58
7	Germany	53	7	USA	53	7	Belgium	34	7	Holland	47	7	Holland	54
8	Norway	51	8	Denmark	52	8	Austria	31	8	Federal Rep. of Germany	46	8	Federal Rep. of Germany	49
9	Sweden	48	9	Sweden	44	9	Germany	31	9	Belgium	44	9	Belgium	48
10	Italy	45	10	Italy	43	10	Holland	28	10	France	42	10	France	46
11	Austria	38	11	Norway	35	11	Norway	27	11	Austria	40	11	Austria	44
12	Hungary	31	12	Austria	32	12	Hungary	23	12	Italy	33	12	Italy	39
13	USA	30	13	Hungary	26	13	Italy	19	13	Hungary	27	13	Spain	30
14	Spain	23	14	Spain	21	14	Spain	13	14	Spain	24	14	Hungary	29
15	Portugal	10	15	Portugal	14	15	Portugal	12	15	Portugal	22	15	Portugal	23

Table II

The ranking and score according to infrastructural level from 1925 to 1968

Rank	Country 1925—1930	Score	Rank	Country 1950—1955	Score	Rank	Country 1965—1968	Score
1	USA	80	1	USA	85	1	USA	82
2	New Zealand	61	2	Canada	69	2	Sweden	75
3	Denmark	55	3	Sweden	69	3	Switzerland	71
4	Canada	49	4	Switzerland	64	4	Canada	70
5	Australia	49	5	United Kingdom	62	5	New Zealand	67
6	Sweden	48	6	Denmark	60	6	Denmark	66
7	Switzerland	41	7	Norway	53	7	Norway	61
8	France	38	8	New Zealand	48	8	Australia	59
9	United Kingdom	35	9	Holland	47	9	United Kingdom	58
10	Belgium	34	10	Australia	46	10	Holland	54
11	Austria	31	11	FRG	46	11	Finland	53
12	Germany	31	12	Belgium	44	12	FRG	49
13	Holland	28	13	France	42	13	Japan	48
14	Norway	27	14	Austria	40	14	Belgium	48
15	Hungary	23	15	Finland	39	15	France	46
16	Japan	22	16	GDR	39	16	Austria	44
17	Finland	21	17	Israel	39	17	GDR	40
18	Ireland	20	18	Japan	36	18	Italy	39
19	Italy	19	19	Ireland	33	19	Ireland	38
20	Spain	13	20	Italy	33	20	Israel	38
21	Portugal	12	21	Hungary	27	21	Poland	31
22	Israel	10	22	Poland	25	22	Bulgaria	30
23	Poland	8	23	Spain	24	23	Spain	30
24	Yugoslavia	7	24	Bulgaria	23	24	Hungary	29
25	Bulgaria	6	25	Greece	22	25	Yugoslavia	25
26	Romania	6	26	Portugal	22	26	Greece	24
27	Greece	2	27	Yugoslavia	19	27	Portugal	23
			28	Romania	18	28	Romania	20

The role of production factors in the infrastructure

The roles of labour and capital are vastly different when it comes to forming the infrastructure. The above-average capital intensity is a basic feature of the infrastructure. In general, this feature is stressed with suitable emphasis

but far less is said of the labour demand of the infrastructure. Various studies show that although the capital requirements of the infrastructure are of truly outstanding importance, the labour force tied up in this field is not to be neglected either.

What is it that makes the undoubtedly *high capital intensity of the infrastructure so conspicuous in contrast with its labour requirements?* Most likely the fact that the labour requirements do not appear in their full force and are particularly hidden in the early stages of development. It is likely that, *if it were possible to take into account* all the working time which people in the past century, and even earlier, spent on, e.g. maintaining their own homes, or for education or health protection, it would turn out that these activities occupied a significant part of the labour force, or of the total work-time available to society at that time. But while the *labour requirements* of the infrastructure *develop gradually only* with the formation of a suitable organizational framework, the *capital requirements* appear in their entirety *immediately* at the time of establishing the first projects of infrastructural nature.

This duality in the movement of labour and capital continues to operate in the later stages of development as well. The various areas of infrastructure differ in the degree to which they are suited for absorbing techniques; they are transformed with differing speed by the advance of technology. For instance, transportation has been a field sensitive to techniques ever since the discovery of the wheel, while the "technology" of education has remained almost unchanged for centuries, and it is only in recent years that we can experience slight changes. In the infrastructural fields sensitive to techniques, technical development runs parallel with a decline in labour requirements. However, the role of infrastructural areas not sensitive to techniques (health, education) has at the same time been continually rising. The joint effect of these two factors of opposite direction is that the labour requirements of the infrastructure are, on balance, increasing. The source of meeting this rising demand for labour has been the productive sector, in the strict sense of the term. The vast majority of the productive branches are sensitive to technology and this means that with the rise in productivity they are increasingly capable, if not without disturbance, of releasing labour for the infrastructure.*

Another related phenomenon is that, while in the early stages of industrialization the flow of labour was decisively from agriculture to industry, in later development stages the labour force flows from agriculture through two channels: one leads to industry and the other to the infrastructure. The later industrialization takes place, the stronger the absorptive power of the infrastructure as against that of industry.

* Here we are neglecting factors which would otherwise be essential, such as the general shortage of labour characterizing certain developed countries, resulting in a large-scale inflow of foreign labour.

The labour force in infrastructure

Available statistics usually make it possible to assess employment in infrastructure and its share in the total in the following breakdown:

— transport and communication (from here on transportation);

— distribution, which generally also includes the banking network, and the financial and insurance institutions (from here on distribution);

— the other, extremely heterogeneous branches (from here on "others").

Each of these three groups is large in itself and represents strongly complex conglomerates; nevertheless this grouping provides an opportunity to become acquainted with some of the characteristic features regarding the development of these major areas.

A peculiar mixture of two factors, time and economic development, is expressed in the employment trends. These factors are in many respects interrelated. It would appear that the latter, economic development, plays the decisive role but in some cases the time factor can modify it significantly.

The following character curves illustrate the relationship between the ratio of employment in the three infrastructural fields and the level of economic development.

Though the ratio of those employed in the infrastructural fields grown in time, the level it attains in the individual countries depends fundamentally on the level of economic development of the country in question in the given period.* E.g. in the United States, in the middle of the past century, the ratio** of those employed in the infrastructure was about 18 per cent, and the per capita national income was 100—150 dollars. An infrastructural ratio of similar size could only be found in Italy half a century later, when the level of per capita national income had reached 120—130 dollars. In Norway the ratio in 1930 was 38 per cent with a 600 dollar per capita national income. We find the same ratio in Japan for 1960 with a similar, 500 dollar per capita national income. The highest existing ratio in the world is at present at the level of economic development of the United States: 60—62 per cent.

With respect to the employment ratio of the infrastructural branches, Hungary is lagging well behind the international trends. This ratio has been about 24—26 per cent since the turn of the century, and has risen to 30 per cent only most recently. But even this is 6—7 per cent lower than the ratio found in other countries on similar levels of economic development.

* In the conventional way, here and from now on the level of economic development is measured in terms of per capita national income calculated at factor cost, in accordance with the SNA concept, expressed in dollars of 1960 international purchasing power.

** This is the per cent share of infrastructural employment in total civil employment.

The effects of time and economic development operate in different ways in each of the three infrastructural areas mentioned.

In transportation the time factor basically modifies the picture emerging through economic development. In distribution it does not modify it fundamentally but influences it in detail, while in the other branches the time factor is almost completely pushed into the background by the development level factor.

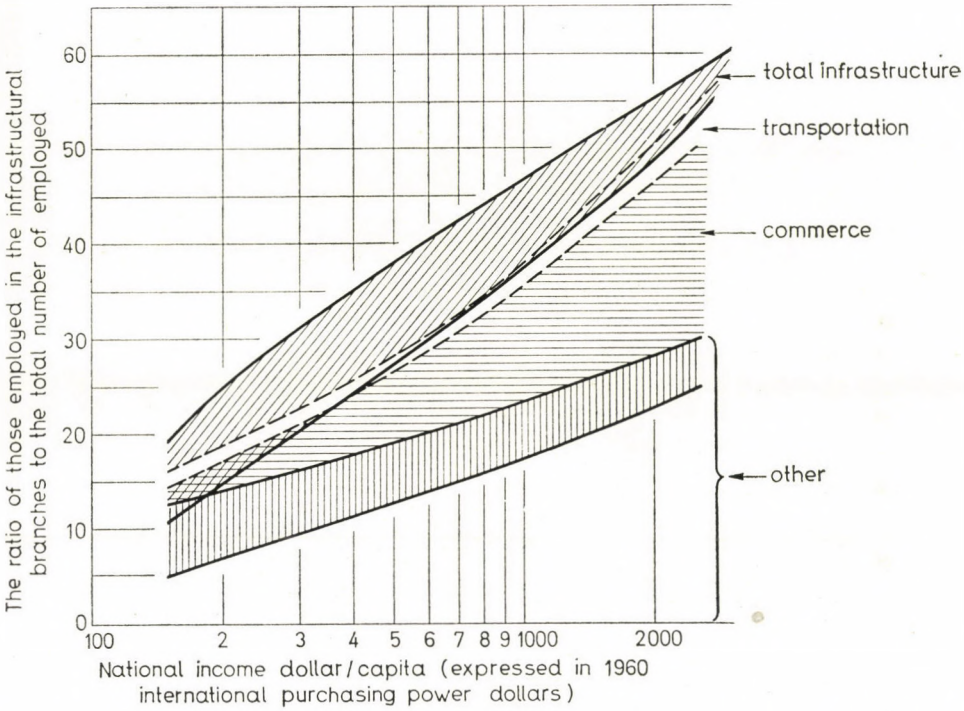

Fig. 1. Ratio of employment in the infrastructural branches as a function of the level of economic development

The share of those employed in *transportation* in total employment shows different trends in countries which began industrialization comparatively early (Britain and the United States) from those which started later. This trend can be clearly followed in the character curve of Fig. 2.

In the countries belonging to group one, the ratio of transportation increases continuously from the middle of the past century, parallel with the construction and spread of the great innovation of that time, the railways. The rise lasts until about 1920, when the ratio reaches a level of about 10 per cent.

The spread of the passenger car does not raise as large labour requirements as that of the railways and, therefore, the ratio of transportation

drops.* Later on, newer factors of technical progress affect transport (electrification, pipe-lines etc.) and the relative and absolute employment requirements of this branch decline. Today the ratio of those employed in transportation is about 5—7 per cent in these countries.

In the other countries covered in our analysis, where industrializa tion began several decades later than in Britain or the United States, employment in transportation in the 1870's was at about the same level as it had been in Britain and the United States around 1840. In 90—100 years the ratio of transportation reached the level of 5—7 per cent in these countries

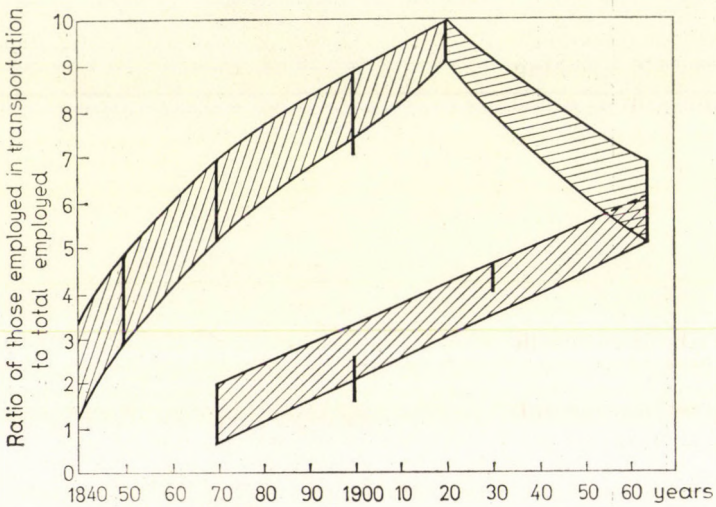

Fig. 2. Share of those employed in transportation and communications in total employment

without, however, ever rising above this figure. We have already seen that the spread of the railways in these countries generally did not reach the same level as among the "early beginners" since the newer forms of transport which developed later — first of all, the motor vehicle — appeared before the full build-up of the railways (if under full build-up we mean the degree which had been attained in e.g. Belgium or the U.K.). If we were to contrast the two types of development somewhat more sharply, we might say that *those who began later did not take exactly the same route as their predecessors, but cut out the "detour" for reaching the same goal.**

* This is partly due to the fact that the labour requirements of car transportation, in contrast to the railways, appear not only in transportation itself but also in other branches (industry, services, etc.).

* Road freight transportation developed in an interesting manner in Japan, a country considered a typical "late starter": the number of lorries per capita was in 1968 only 10—12 per cent less than the corresponding indicator for the United States, while the ratio of the economic development level of the two countries is 1 : 3.

In studying the data of recent years it would seem that the ratio of those employed in transportation will stabilize at around the 5—7 per cent reached in the 1960's.*

In Hungary the ratio of those employed in transportation at the turn of the century was only 2 per cent, and began to rise slowly afterwards. Following World War II, the increase accelerated slightly and the ratio rose to about 7 per cent. Therefore, in this respect Hungary characteristically "fits" into the class of comparatively later industrializing countries.

The employment ratio in *distribution* depends basically on the economic development, but the period of time when the different countries reach a given level of development also affects it.

Generally speaking, the later a country "takes off", the faster the ratio in question grows. Another feature, characteristic of the European countries, is that the weight of distribution does not rise above 14—16 per cent, and in countries which reached this band earlier (such as the U.K. immediately following World War I) the rise slows down and stops. In the United States and Japan, however, it would seem that no such "ceiling" exists. The former reached the 15 per cent level in the 1930's and the latter after World War II. However, the growth of the distributive branches did not stop, but continued to rise at about the earlier rate in both countries to the present ratio of 22—23 per cent.

The reason behind this outstandingly high ratio of employment in distribution is different in the two countries. While in the United States a significant part (about 40 per cent) consists most likely of those employed in banking and the insurance field, in Japan this high ratio is the result of an entirely special national characteristic: the system of "miniature shops".**

The third, most mixed field of the infrastructure is the aggregate of so-called "other" branches, whose expansion in terms of employment has been more rapid than that of the previous two. In this sector, at least until now, there has been no such limit found as the 5—7 per cent in transportation or the 14—15 per cent in distribution (in Europe). In general, the more advanced the economic development, the higher the ratio of those employed in the "other" branches. For instance, in 1964 this ratio was 28 per cent in the United States, 19 per cent in the Federal Republic of Germany, and 14 per cent in Italy. No doubt this "open end" is related to the heterogeneous nature of the category marked "other": in the course of development it is likely that

* Leaving aside special cases such as Norway where, due to the extreme importance of shipping the ratio of those employed in transportation is still about 10—12 per cent.

** Technology has so far left almost untouched the traditional Japanese practice of "one buyer—one seller" (or server); there is only the slightest sign of supermarkets, self-service shops, buffets and cafeterias requiring hardly any personnel. The latter, although providing very poor service (or none at all), yet are capable of supplying masses, and are spread throughout North America, as well as — though perhaps not yet to the same extent — in Europe.

different factors (services, public administration, education) come to the forefront, ensuring the continuous growth of the "other" branch.

In Hungary there has been no advance in the "other" branch, where the employment ratio has been unchanged (14—16 per cent) for decades.

The level of economic development largely determines the supply of infrastructure but this influence can be significantly modified by two factors: the point in time when a given level of economic development is reached,

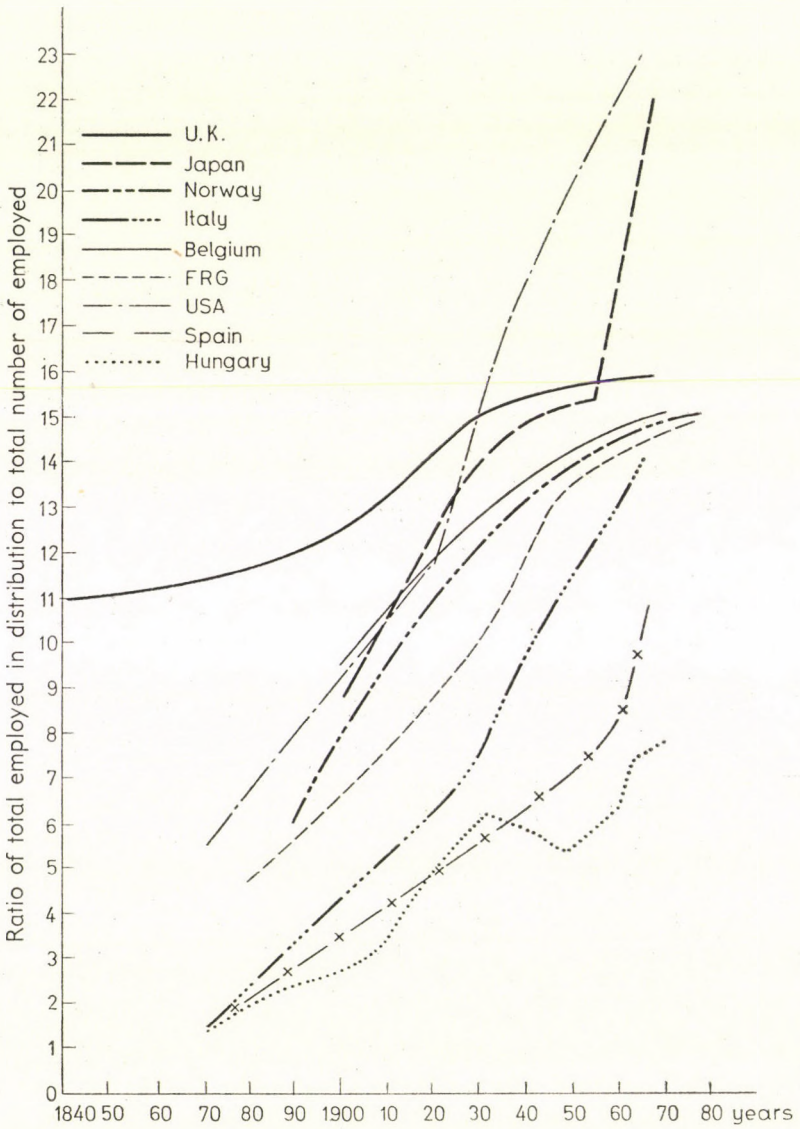

Fig. 3. Rise in the employment ratio of distribution as a function of time

and the state of technology at that time. Within the three major areas, technology has most sharply affected transportation. The role of technology in distribution is essentially smaller. (In fact, it did not exercise any great influence before the emergence of "large-scale retail trade" and the advance of computerization in the past few years.) Here, the time factor must be taken into account as a modifying and not as a determining element. The "other" branches are not immune of the technical effects either. Here however, "technical development" does not generally save labour (at least, mechanization of administration has nowhere seriously reduced employment in public administration). Indeed, in some places it is precisely the more developed technology which leads to increased labour requirements. (Programmed education, modern medical care, etc.).

Infrastructural investments

The share of all infrastructural investments in total investments fluctuates in a broad interval depending on time and the country in question. However, no matter how broad the interval, it goes below 50 per cent *in the rarest cases* only and its *uppermost limit* is about 80 per cent. Therefore, within all investments, the infrastructure represents a very high share (much higher, than e.g. in employment). This alone would be sufficient to illustrate one of the most important features of infrastructure: its *high investment (capital) intensity*.

The other feature of infrastructural investments is that *their size generally does not depend on the development level of the economy*. This, of course, does not mean that countries which are very different in terms of development make infrastructural investments of identical size and type. It does, however, mean that the basic factor is not the development level, to which these investments should be related. Therefore we obtain a healthier and, most of all, a more comprehensive picture of their nature and behaviour, *if we survey their trend over time*.

In the early stage of industrialization, which took place in the first half of the past century, the investments made into the two most important infrastructural sectors, housing and railway construction, amounted to 60—70 or 80 per cent of total investments. In Britain the maximum was in 1840—1850, in the United States it was in 1850—1860, and in Germany somewhat later, in 1870—1880.

In these countries railway construction began to drop before the turn of the century. The weight of housing construction declined somewhat more slowly within total investments, particularly in those countries (the U. K. and the United States) where housing construction began comparatively early.

At that time a greater role was given to the investments of the "productive branches" than to the infrastructural investments. New infrastructural elements appearing at the turn of the century (the gas and electricity network, roads) increased the ratio of infrastructural investments only slightly, but they started the internal structural transformation of the infrastructural stock, and this continued in essence through the period between the two world wars. After World War II, infrastructural investments came again to the forefront, and their weight increased. Two, rather intertwined factors place a part in this:

— first, it was necessary to reconstruct the damage caused by World War II; the infrastructure suffered comparatively heavily, in accordance with its high capital intensity;

— secondly, a differentiation and expansion of the infrastructure took place in order to meet new needs, and the modernization of the existing stock became urgent.

For all these reasons, the ratio of infrastructural investments after World War II rose in most of the capitalist countries studied to 65—75 per cent. This ratio is valid today as well.

The ratio of *housing construction* in the period of the building-up of infrastructure was about 30—40 per cent. After build-up, the ratio dropped, in Britain and the United States prior to the turn, and in Germany following the turn of the century. The decline generally lasted until the end of World War I. We can find a similar trend in Italy where the housing stock of the northern part of the country was constructed in the 1880's and 1890's; at that time the ratio of housing investments was 20—24 per cent and this was followed by a decline.

Housing investment advanced again following World War II, when the reconstruction of the housing stock damaged by the war took place, as well as the modernization postponed because of the war. This process was accompanied by the renewal of the housing stock and by meeting new residential demand in the developed countries; housing investment there was 18—30 per cent of total investments. In countries where the building-up is still taking place (e.g. Greece) it is as high as 40 per cent.

In contrast to the capitalist countries, in the socialist countries the ratio of investments into housing construction was low immediately after World War II. A definite rise in the trend did not begin before the 1960's. However, taking into consideration the extent of general infrastructural build-up, the level is still below the international experience: for instance, 15—17 per cent in Hungary.

After the end of the railway era the ratio of *transportation and communication* investments again began to grow from 1910 and in the 1920's. No doubt, this is the period of major road construction, and the beginning of communication installations. Transportation also emerged with comparatively

large investment demands in the reconstruction period following World War II. After the reconstruction, the ratio of transportation investments became generally stabilized. This ratio is 8—13 per cent in those countries where the build-up took place earlier, and somewhat higher where particularly large-scale highway construction took place (Austria, the Federal Republic of Germany with 15—16 per cent) or where sea transport still plays an important role (Norway, Sweden). In those countries where transportation is now being built up (Greece, Portugal, Spain) the ratio is 20—28 per cent.

In the socialist countries the ratio of transportation and communication investments was low following the reconstruction (10—16 per cent), particularly with regard to modernization of the road and telephone network. In terms of transportation investments Hungary occupies a medium place within the socialist countries with a ratio of 12—14 per cent.

There are comparatively few data available on investments into *distribution* and even those only for the period following 1953. It is again necessary to call attention to the fact that the statistics of the capitalist countries include the banks and other financial institutions in this sector. In the socialist countries the banks are not included here but in the "other" branches; in any case, in these countries the investment of banks is low. However, in the capitalist countries the investments of the banks come to 50 per cent or more of investments in the distribution branch. It is worthwhile pondering over the manner how, and to what extent, the data of the socialist and capitalist countries can be compared. A certain balancing is achieved in that the socialist countries include the investment data of restaurants and catering establishments into distribution, whereas in the capitalist countries these are among the "other" services.

The investments of the distributive branch came to 5—9 per cent following World War II in the capitalist countries (an exception is Britain where the ratio was higher, presumably as a result of the outstanding role this country plays in international trade, and partly because the introduction of the more capital-intensive methods of retailing — self-service, supermarkets — started earlier in this country than elsewhere in Europe).* The 5—9 per cent mentioned is characteristic of all capitalist countries included in the study, irrespective of whether the country's network has already been built up or is in course of being developed.

Of the socialist countries Yugoslavia alone (with a ratio of 8 per cent) fits into the 5—9 per cent band, as well as the 6 per cent ratio of the German Democratic Republic. In the rest of the countries investments into distribution account for 4 per cent or less, despite the slight rise after World War II.

Based on the global and the detailed analyses of infrastructural invest-

* The United States is also likely to be outstanding here. However, there are no US data available on investments into distribution.

ments, we can draw several important general conclusions. We have seen that the weight of infrastructural investments within total investments is very high. It was particularly so in the early stages of industrialization and is again of renewed importance *today* when infrastructure accounts for *the decisive majority of total investments in both the developed and less developed countries.*

It cannot be accidental that the share in total investments of the productive branches in the strict sense of the term (extraction, manufacturing, and agriculture) is not more than 35—45 per cent, and that the majority, 65—75 per cent of the capital available for investments is sunk in infrastructure.

In the early stage of industrialization the picture is comparatively simple: the basic infrastructural elements (housing, transportation) were prerequisites for the beginning of industrial development. Until they came into existence, in a quantity and on a level suited to the technology and requirements of the time, it was impossible to develop industry. The formation of modern industry is not preceded by the infrastructure, the two develop and advance together. Even today, the productive branches "renounce" a significant part of the capital available in favour of investments for infrastructural purposes.*

The existence of, and the facilities provided by the infrastructure *are prerequisites for the proper operation of productive capital.* Without them investment in the productive sectors would no doubt be much less efficient for their proper operation would be prevented by bottlenecks of labour, or transport, repair or outlets. In this sense, the prerequisites for the efficient operation of productive capital include also some facilities which help and promote not the current but the long-term efficiency.

In the *socialist countries* the ratio of all infrastructural investments to total investments is much less than in the capitalist countries. Despite the backwardness of the state of infrastructure *the ratio of infrastructural investments to total investments is in all these countries under 50 per cent* (with the exception of Yugoslavia).

International trends definitely support the often heard opinion that these ratios are far from being optimum. It seems likely that the socialist countries suffer from a significant shortage of infrastructure which prevents the efficient operation of existing productive capital. To go even further: all new investment made in the production branches and not matched with adequate infrastructural investment will only increase the gap between these two major sectors and aggravate the situation, creating additional demand for infrastructural establishments and thus enlarging the gap obstructing

* It is a point of detail through which mechanism this "renounciation" takes place, to what extent it is a voluntary gesture of industry and whether this was forced on industry through state intervention.

efficient productive operations. The more backward the infrastructure, the more rapid the drop in the marginal efficiency of new investment. Therefore, it is likely that the difficulties we encounter in our endeavours to make investment more efficient are partly caused by the shortcomings of the infrastructure, and by the bottlenecks arising.

It must not be forgotten that the infrastructure does not only provide services of various types but also acts as an incentive for the development of production: its build-up generates increasing demand for a wide range of products (building materials, construction, metals, products of the engineering and the light industries). A rise in production can improve efficiency and this in turn may have a favourable effect on the infrastructure. Therefore, the development of the infrastructure plays a determining role not only in the continuous improvement of the living conditions of the population but in setting the rate of economic development as well.

The development of the infrastructure is, however, a slow process; its investment intensity is above average; it demands extreme efforts from the economy. This need emerges in Hungary today at a time when the rapid technical advance in the productive branches requires significant modernization and hence increases the demand for investment. Thus, the need for the development of the infrastructure presses from the two directions of quantitative increase and the structural transformation, and both appear simultaneously. The difficulties are increased by the fact that infrastructural investments — by their very nature — pay off slowly, in contrast with the productive industry.

The realization of the goals depends primarily on the growth of efficiency in the economy. Mobilizing the reserves for efficiency, which exist in just about all sectors of the economy, provides a great opportunity for the development of the infrastructure as well.

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МЕЖДУНАРОДНОЕ СОПОСТАВЛЕНИЕ РАЗВИТИЯ ИНФРАСТРУКТУРЫ ЗА СТО ЛЕТ

А. ЧЕРНОК — Э. ЭРЛИХ — Д. СИЛАДИ

В целях раскрытия международных тенденций, действующих в возникновении и общественно экономических функциях инфраструктуры, статьей рассматриваются следующие вопросы:

— как складывалась инфраструктура на отдельных этапах развития различных стран;

— какая степень развития инфраструктуры соответствует определенному уровню экономического развития страны, учитывая мировой уровень технического развития;

— «во что обходится» народному хозяйству создание, содержание, модернизация и расширение инфраструктуры на определенных уровнях экономического развития.

Инфраструктура — часть национального богатства, которая не служит непосредственно ни созданию, ни потреблению материальных благ, но которая на данном уровне экономического развития призвана обеспечить в соответствии с существующими техническими требованиями сферу действия, т. н. сосудистую систему для бесперебойного хода процесса производства — распределения — потребления.

В отношении связи между индустриализацией и развитием инфраструктуры международное сопоставление показало наличие трех типов развития: 1. возникновение инфраструктуры, по существу, предшествует быстрому индустриальному развитию; 2. развитие инфраструктуры и промышленности происходит параллельно; 3. развитие инфраструктуры отстает от индустриализации. Для социалистических стран характерен этот последний тип развития инфраструктуры. Авторы останавливаются также на вопросах связей развития инфраструктуры с экономической политикой.

Относительно инфраструктурной обеспеченности авторы приводят также и цифровые результаты, исчисленные с помощью разработанного ими расчетно-сопоставительного метода. Цифровые результаты относятся к 1860—1870 годам (15 стран), к 1885—1905 годам (15 стран), к 1925—1930 годам (27 стран), к 1950—1955 годам (28 стран), и наконец к 1965—1968 годам (28 стран).

В статье рассматривается роль факторов производства в инфраструктуре, а именно, численности занятых в инфраструктуре и инфраструктурных капиталовложений. а) В движении доли *занятых* в инфраструктуре внутри общей численности занятых выражается своеобразное переплетение двух, связанных в ряде отношений факторов, а именно, времени и уровня экономического развития. Из этих двух факторов решающая роль принадлежит последнему, которая, однако, иногда подвергается значительному изменяющему воздействию фактора времени.

Так, в области транспорта фактор времени существенным образом изменяет положение, сложившееся в результате экономического развития. В торговле же он не вызывает коренных изменений, а воздействует лишь на отдельные детали. В других отраслях фактор времени почти полностью утрачивает свое значение, по сравнению с фактором экономического развития.

б) Доля капитальных вложений в инфраструктуру внутри всех капиталовложений колеблется в широком интервале в зависимости от времени и страны, но лишь очень редко падает ниже 50% и не превосходит верхнего предела в 80%. Высокая капиталоемкость является одной из важнейших характерных черт инфраструктуры.

Вторая особенность капиталовложений в инфраструктуру заключается в том, что их величина обычно не зависит от уровня экономического развития, то есть последний не является решающим фактором, определяющим эти капиталовложения.

На этапе индустриализации, берущего свое начало в первой половине минувшего столетия, капитальные вложения в жилищное и железнодорожное строительство составляли 60—70 и даже 80 процентов всех капиталовложений. На стыке двух столетий «производственные капиталовложения» превышали инвестиции в инфраструктуру. После II-ой мировой войны капиталовложения в инфраструктуру снова выходят на передний план. Их доля в большинстве обследованных капиталистических стран возросла до 65—70%. Это соотношение сохранилось и в наши дни.

В *социалистических странах* доля капиталовложений в инфраструктуру внутри всех капиталовложений является значительно меньшей, чем в капиталистических странах. Весьма вероятно, что в социалистических странах имеет место острая нехватка инфраструктуры, что мешает также и эффективному функционированию наличных производственных фондов. Те трудности, с которыми мы встречаемся в нашем стремлении к повышению эффективности капиталовложений, по-видимому, отчасти объясняются недостатком инфраструктуры и, соответственно, возникающими на этой почве узкими местами.

Однако развитие инфраструктуры — процесс медленный, исключительно фондоемкий, т. е. требует от экономики очень больших усилий.

Осуществление целеустановок зависит главным образом от повышения эффективности народного хозяйства. Раскрытие резервов эффективности, имеющихся почти что во всех областях экономики, содержит большие возможности также для развития инфраструктуры.

Acta Oeconomica Vol. 9 (1), pp. 27–45 (1972)

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POPULATION AND EMPLOYMENT POLICY — FORECAST FOR 1985

This study is based on various monographs of a Working Group for Population and Employment Planning,* created for the purpose of preparing long-term national economic planning. The study takes into account the concepts and ideas (on education, incomes policy and health) worked out by other groups of the Committee, as well as the opinions and calculations which have been developed so far in the course of the planning work. However, the following should be considered no more than a preliminary prognosis and a study of the validity of the assumptions and requirements; a more detailed elaboration of the plan will take place in a later phase.

On employment policy

The goal of manpower policy, which is a part of economic policy, is to satisfy the increasing demand for labour arising in the course of accelerating socio-economic and technical-scientific progress with the smallest possible social and economic tension.

In the past two decades full employment has been established in Hungary, the possibility for employment has been ensured for those seeking work, and a high level of employment has been attained. The latter, however, was realized on a low level of labour productivity, and the rapid growth in employment was partly a consequence and partly a reason for the low growth of productivity.

It was a consequence because in that stage of development economic policy and the system of economic management was aiming at the *extensive* growth of the economy, the quantitative increase in production, which led to a significant rise in the demand for labour.

It was also the reason insofar as in past employment policies — due to special Hungarian social circumstances — the social character was dominating; as a result of social pressure the enterprises often employed people who did not perform sufficiently efficient and productive work. On more than one occasion society endeavoured to solve the living problems and financial difficulties of certain groups and strata through employment. As a result, though these social endeavours were justified in themselves, the requirements of efficiency could not operate satisfactorily in the Hungarian economy.

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In the period covered by the long-term plan there are greater possibilities than in the past for the burden of employment for social reasons to be taken over by the state through other, socially preferable methods in lieu of trying to solve them at the cost of the enterprises. This, however, does not ensure itself a more efficient use of labour force on either national economic or enterprise level. In order to achieve it, a rational improvement of our entire economic management and control system is necessary. *Within this framework* employment policy has an important role.

For social, economic and political reasons, one of the major goals of employment policy remains, in the future too, to maintain *full employment*, to strengthen security of existence, and to satisfy — as far as possible — the population's claims for employment.

Employment policy should help to meet the changing demand for labour of the economy; it must aim at creating a balance between those seeking work and the labour requirements of the national economy from both the quantitative and qualitative points of view. It must make it possible for people to utilize their abilities and talents in their work, and to increase the yield of their activities performed in the interest of society.

Full employment must be realized in a manner which meets not only social requirements for employment but the requirements of economic efficiency as well; *the high level of employment must be accompanied by a rapid rise in the productivity of labour*. Full employment thus becomes simultaneously efficient employment. To ensure full employment is a task on the national economic level and one of the most important endeavours of the enterprises is to increase the productivity of labour.

A rapid increase in the efficiency of labour employed requires that employment should grow much slower in the period of the long-term plan than it did in the preceding one. Assuming a moderate decrease in working hours, *the total working time available will slightly increase until 1975, and then it will stagnate or decline until 1985.*

The change in the manpower situation itself requires the *intensive* development of the economy. This needs new means and new methods. The changes in the branch and product pattern of the economy require increased *social mobility* of labour; preparations must be made for the regrouping of labour which has become redundant in some areas to other places of work, or for their retraining. Therefore, even with full employment and with a faster change in the structure of the national economy the number of those between jobs — that is, temporarily unemployed — may increase. This labour movement may enable certain people to find occupations and jobs more suited to their training and talent. The schooling and professional qualifications of the active earners provide opportunities for more intensive development even today.

The more efficient use of manpower must be ensured primarily by raising the standard of management, by increasing material incentives, by technological development, by better work and factory organization, by eliminating the sources of losses, and by increasing work discipline. A public spirit must be formed where people who work more and better are socially respected.

Demographic policy, demographic pattern

One of the basic pillars of long-term planning is the demographic forecast.*

According to the forecasts, the population of Hungary will increase from 10,347 thousand in 1970 to 11,031 thousand by 1985 (by 6.6 per cent); the annual average growth rate is comparatively low by international comparison: 0.44 per cent. The composition of the population by age will be as follows.

Mortality will continue to decline, but due to the *ageing* of the population the number of deaths and the crude mortality rates are expected to rise. Despite its decrease in recent decades, the infant mortality rate in Hungary is still quite high. Infant mortality per 1000 live births is essentially lower in most European countries than it is in Hungary. Significant measures must be taken for its further reduction.

Table I

Hungary's population by sex, according to major age groups
(thousands)

Age group	Males		Females		Total	
	1970	1985	1970	1985	1970	1985
0–13	1,000	1,207	944	1,138	1,944	2,345
14–59[a]	3,232	3,339	3,038	2,995	6,270	6,334
60[a] and over	755	846	1,358	1,506	2,133	2,352
Total population	5,007	5,392	5,340	5,639	10,347	11,031
			Per cent			
0–13	20.0	22.4	17.7	20.2	18.8	21.3
14–59[a]	64.5	61.9	56.9	53.1	60.6	57.4
60[a] and over	15.5	15.7	25.4	26.7	20.6	21.3
Total population	100.0	100.0	100.0	100.0	100.0	100.0

[a] 54/55 years for female.

* The Demographic Research Institute of the Central Statistical Office prepared the demographic forecast for the long-term plan in several variants [1].

The age pattern of the population is fundamentally influenced by trends in the birth rate. In Hungary the number of births is low, and one of the most important goals in the long-term plan is to increase the number of births by means of a carefully devised population policy.

The goals of population policy [2]

Population, and its age composition, can be influenced basically by demographic policy measures aiming at changing fertility.* There are no changes expected in marriages, mortality or migration which would essentially modify population numbers or its composition.

The major goals of demographic policy in influencing the *birth rate* are:

to promote a gradual increase in the birth rate to an extent which would at least ensure reproduction of the population; and

to even out gradually the age composition of the population, in the course of several decades.

In recent years the view regarding the number of children per family and the attitude in this relation has led in Hungary to the formation of typical families with one or two children.

Suitable measures must be taken *to popularize the two and three children-type families*. There are two reasons why this does not seem impossible. First, in some of the countries far more developed economically than Hungary the three-children family is frequent. Secondly, the number of children considered ideal among the Hungarian population is higher (2.4) than the number of children actually planned (2.1). It is likely that under more favourable circumstances (better housing, easing the burden of raising children) women would be willing to give birth to, and bring up, more children than the number they actually undertake at present.

Problems stem from the fact that the population of the age groups chronologically following one another deviate sharply, and the age composition of the population is irregular. If, e.g. trends in fertility could not be influenced in such a manner that the fertility of the age groups with small population born in the early 1960's should increase when they reach the family-founding age, then the "demographic trough" will repeat itself reproducing the accompanying unfavourable social and economic effects. For this reason *demographic policy measures* aimed at increasing the birth rate *must be timed so that they should exert their most favourable effects from the mid-1970's onwards*, when the number of women entering child-bearing age begins to decrease.

Demographic policy requirements should be made to operate in all

* The goals of demographic policy and the problems of demography in Hungary are discussed in detail by E. Szabady [3].

fields of economic and social development since demographic policy can only be efficient as an organic part of social policy. One of the most important financial tools of Hungarian demographic policy is *to raise the family allowance.*

In the long term plan period it ought to be attained that at least 25—30 per cent of the costs of raising a child in an average family should be covered by family allowance; in case of favourable economic development this should be increased to 40—50 per cent (to dayit only covers 15 p.c.). In this case the monthly 150—170 forints now paid per child to entitled families would have to be substantially raised.

It would also be wise to expand the allowance system to include even a single child until the age of 3—5. This would reduce the higher expenses of the first child, and provide a slight incentive towards the birth of the second.

Formation of the larger family type with two or three children would require the increase of the family allowance per child up to three children. Afterwards, for each additional child the family allowance could increase by the sum alloted to the second child.

According to previous experience the *child care allowance* system had a favourable effect on the birth rate;* despite certain contradictions, its eventual social and economic effects have been favourable. Therefore, it would seem justified to maintain and further improve this system. *The sum of child care allowance should be increased in proportion with the rise in average earnings* in order to maintain its incentive effect.

Staying several years at home makes it more difficult for women to return to work, particularly in qualified occupations, and during this time their earnings drop behind those of the other workers. The tension could be alleviated if more effective measures were taken in order to at least maintain the professional knowledge of women remaining at home.

Improvement of the family allowance and child care allowance system does not diminish the future importance of *child care institutions* (nurseries, kindergartens, day-time homes), since the employment of women will continue to rise, and the educational function of these institutions will also increase. Improvement in the supply with child care institutions is one of the conditions for increasing the birth rate, since this makes it easier for the working woman to undertake motherhood.

Within these nursery and day-time homes should be given the preferenc while crèches can be developed at a more moderate rate in harmony with th change in the sum of the child care allowance and the advance of the system.

Improvement in the *housing situation* can have a significant influence on trends in fertility. The majority of existing and new flats are small, and

* Under this system, the young mother staying at home with her child receives 600 Ft monthly up to the end of the third year following the birth of her child.

under present social demands they are not conducive to the raising of several children, since two adults and two or three children can hardly find a place in these small flats. The housing situation and the ways of obtaining flats of the young married couples is a tremendous problem. Precisely that generation is in the worst situation as concerns housing who could be in a position to raise the birth rate. This is why it is essential to significantly accelerate housing construction and to increase the number of rooms and the floor area in the new flats.

The supply of labour

Trends in the source of labour are determined by changes in the number of the population in working age and the economically active earners who passed working age increased by 220 thousand. In the period of the fourth five-year plan the increase will be barely over 100 thousand. Thus, the population in working age will decrease by 40—50 thousand persons by 1985, and then start rising again.

At present the employment level of men in working age is at the demographically possible maximum and this is hoped to be maintained in the future as well. Therefore, changes in the employment level of the population in working age largely depend on the employment of women.

In the long term planning of female employment several factors, which to some extent contradict one another, must be taken into account. These are as follows: the increased schooling and training levels of women, the expected demand for labour in the national economy, and the changes in the regional pattern of working places generally increase the willingness of women to undertake employment, while demographic policy goals, and the biological reproduction of society together with the expected volume of household work have an opposite effect.

In the past twenty years female employment increased rapidly and the trend has even accelerated in the last two years. Today the participation rate of women of working age is 62—63 per cent which is quite a high level (Table II).

The reason for the rise in the participation rate of women is that the demand for employment of young educated women is significantly higher than that for the older generation leaving work.

The number of young women remaining in their households is declining. In contrast with the trend in most capitalist countries the majority of the young working women do not leave work after marriage, nor apart from a brief transitional period, after their children are born (Table III).

The increase in female employment is made possible by changes in the branch pattern of the economy and technical development, which expands the sphere of suitable places of employment for women. However, employ-

ment is primarily rising in branches where the ratio of women has already been high (commerce, health, education, services) and where the further increase of their employment is still possible.

Under these conditions it may be expected that the number of employed women in *working age* will continue to rise between 1970 and 1985 by about 120 thousand people, that is, by over 10 per cent, and will exceed the two million mark. This level will satisfy both the employment demand of women and the expected labour needs of the national economy.

Table II

Participation rate of women within the female population of corresponding age in 1965

	Age groups						
	—15	15–19	20—24	25–44	45–54	55 65	65—
Austria	—	66.9	75.1	55.4	48.7	27.9	7.1
Belgium	—	40.2	54.0	33.7	28.7	14.9	3.4
Bulgaria	1.0	63.6	74.5	78.1	75.9	25.0	12.0
Czechoslovakia	0.1	50.3	67.5	62.0	62.5	35.0	7.0
Denmark	1.1	61.9	58.1	37.6	37.7	29.0	7.3
Finland	—	35.7	60.8	58.4	58.4	42.9	10.1
France	0.9	44.2	61.5	41.4	44.3	36.3	9.3
GDR	2.2	64.8	71.3	53.1	46.5	26.4	8.7
GFR	0.5	65.9	71.1	46.9	42.2	28.7	7.6
Great Britain	—	72.3	62.6	44.9	52.5	34.9	6.0
Greece	4.9	16.8	52.2	39.3	34.5	24.3	10.0
Holland	—	61.6	55.3	17.3	16.8	11.6	2.5
Hungary (1970)	*0.9*	*47.2*	*66.9*	*68.9*	*60.0*	*23.1*	*5.5*
Ireland	0.9	54.3	70.7	25.7	22.1	23.5	15.3
Italy	1.2	42.0	46.9	32.5	28.7	18.7	5.1
Norway	—	38.4	46.5	22.1	24.7	25.3	8.3
Poland	0.3	39.7	67.5	66.0	66.6	55.0	28.9
Portugal	4.5	36.7	36.7	27.1	24.3	23.0	17.7
Romania	—	68.7	78.9	77.8	79.0	64.4	41.0
Soviet Union	1.8	60.6	79.7	77.3	70.4	51.3	21.8
Spain	1.2	26.5	28.9	16.5	17.3	16.1	8.7
Sweden	—	49.8	61.6	55.7	58.0	40.0	5.4
Switzerland	—	62.9	63.6	28.4	29.4	27.0	10.5
Turkey	—	61.4	61.2	60.4	60.9	58.8	13.5
Yugoslavia	3.3	56.3	62.0	49.9	35.9	25.3	13.4

Source: Les aspects de l'évolution économique récente en Europe concernant la main-d'œuvre. Genève 1968. BIT.

At the same time, it must be emphasized that *the employment level of women in working age* projected for 1985 *should be considered a tight maximum* and it can only be changed downwards.

Table III

Economic activity among the female population by age groups

Thousands

Age group	1970*			1985		
	Population	Employment	Participation rate	Population	Employment	Participation rate
0–14	95.0	9.5	10.3	76.0	—	—
15–19	446.0	210.6	47.2	348.0	146.0	42.0
20–24	385.0	257.9	66.9	308.0	206.0	66.9
25–29	373.0	243.8	65.3	372.0	245.0	65.9
30–34	347.0	244.4	70.4	451.0	338.0	74.9
35–39	364.0	257.9	70.9	396.0	313.0	79.0
40–44	380.0	262.9	69.2	362.0	286.0	79.0
45–49	386.0	240.4	62.3	341.0	249.0	73.0
50–54	231.0	134.6	58.3	341.0	239.0	70.0
Total 0–54	3,007.0	1,862.0	61.9	2,995.0	2,022.0	67.5
55–59	357.0	105.1	29.4	353.0	173.0	49.0
60–	1,001.0	87.8	8.8	1,153.0	109.0	9.4
Total	4,365.0	2,054.9	47.1	4,501.0	2,304.0	51.2

* Based on a 1 per cent sample of the 1970 population census.

The working conditions for women, and in the first place for mothers with small children, must be significantly improved. We should endeavour to eliminate their night shifts. It is necessary to determine the extent of financial and other benefits which can counter-balance the night shifts in certain branches (such as the catering industry and the health service). Women who are raising children, or care for elderly family members should be helped, if they so desire, to find part-time employment, or to work at home.

Employment possibilities for the population beyond working age

In the coming 15 years, and particularly in the latter half of this period *it will be necessary to increasingly employ people who still are able to work, even if they have passed retirement age* (this is now 60 for men and 55 for women), though the extent will differ by profession and occupation [4].

At present a sizable number of these people work because they do not have a sufficiently long service record for full pension rights (they began to work in the socialist sector comparatively late in their lives). Surveys indicate that at present a substantial number of those attaining retirement age who are entitled to full pension, particularly in occupations requiring physical effort, do not wish to continue working full time, and would rather accept employment within the framework permitted for pensioners.

Suitable material incentives are necessary in order that workers reaching retirement age could be kept among the economically active earners to a greater extent than at present. (An adequate system has been introduced in the meantime.)

It must be taken into consideration that performance declines with age. However, the degree of this decline depends on the given trade, job, occupation and on the characteristics of the individual. To increase the economic activity of women aged 55—59 and men aged 60—64 through raising the present *retirement age is considered undesirable* for social policy reasons.

The present retirement age for cooperative farm members (which is five years higher than average) makes it more difficult today for young people to join the cooperatives, it causes tension, and is unlikely to be maintained for the coming 15 years. We have to search for the possibility of reducing the tension appearing in this area.

In 1970 there were 400 thousand active earners above retirement age, the majority in the 55—59 year old group for women and in the 60—64 year old age group for men. Economic activity dropped rapidly among those above these ages. *27 per cent of the men and 14 per cent of the women above retirement age were active earners.*

Without changes in the pension system or incentives for continuing work the number of those employed above the retirement age would be 330 thousand people in 1986 — according to advance estimates — that is, 70 thousand less than at present, due to demographic reasons.

The expected labour situation, particularly after 1975, requires the increase of the economic activity of those above retirement age, particularly among the 55—59 year old women and 60—64 year old men. Further incentives towards economic activity should be created so that in 1985 the number of active earners above retirement age should be over 500 thousand. According to calculations, this is possible. In this case *in 1985 28 per cent of the men and 19 per cent of the women above retirement age would be active earners.*

In the course of decades spent in work a certain form of activity becomes a necessity for an ageing person. With the spread of the biological lifespan and delayed ageing, this need will increase in the future, all the more so since men and women of around 60 will no longer be considered "old". Suitable

and differentiated forms for their participation in social activities must be developed.

Based on an estimate of the major components of the labour supply, the labour force may take the following trend during the course of the 15-year plan period:

The growth rate of labour force will decline by about 4 per cent during the period of the fourth five-year plan, and will drop to about half during the following five-year plan period. Taking the labour supply into considera-

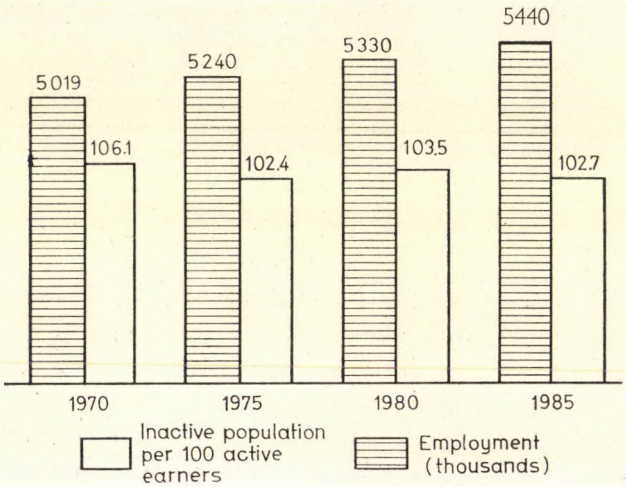

Fig. 1

tion, the increase in labour force will slow down substantially in the period of the long-term plan.

The pattern of the national economy's labour force by *trade and qualification changes slowly*, since the labour force consists of many age groups. Changes are primarily caused by the young people leaving education and those retiring when there are differences between the qualifications of the two groups, as well as by further training on the job.

In comparison with the preceding decade the number of young people leaving school with secondary and higher education, and the ratio of young people not entering manual occupation will increase sizeably by 1985, but when compared with the present situation, the rise will only be moderate. In comparison with the actual situation, the number of young people entering work with training in "traditional" skills will slightly decline. In comparison with the past, the ratio of young people with lower than secondary schooling levels, enabling them to perform simple work only, will decrease.

The ratio of simple manual work will decline in the coming 15 years at a faster rate than in the past, yet almost half of those employed in the

national economy will be expected to perform work in the 1980's which, according to the given degree of development, will count as simpler work. As a result, a lack of equilibrium is foreseen in the supply of, and demand for, labour in the sphere of simple manual work, primarily in those fields where there are more difficult than average conditions for work or where work itself is hard. The shortage of manual labour and the arising contradictions will be alleviated by a more rapid rate of mechanization than at present in the more difficult manual operations.

Labour cooperation

The labour cooperation and the taking of jobs abroad requires social, political and economic policy decisions, but the socialist economic integration and future trends in the international situation will also influence it strongly. In our opinion it is justified to take into account the possibility of a flow of labour among the socialist countries.

The size and pattern of the labour supply can be influenced to a certain extent by labour cooperation, and by migration.

The employment cooperation which has developed so far among the socialist countries is insignificant. The number of those working in other countries is negligibly small both in the supplier and the recipient countries.

For Hungary the development of *labour cooperation* within the frontier regions can be advantageous. Certain beginning steps have already been taken in this field. The possibilities for further development exist primarily along the Yugoslav, Czechoslovak, Soviet and Romanian borders. In these frontier regions there are no language problems either. Employment of workers living along the frontier is most economic, since there is no need to provide for accomodation and food, and the distances they would travel in commuting would be less than if they were to commute to work within their own countries.

Employment of Hungarian experts in the economically developed socialist and capitalist countries would make it easier to become acquainted with technical production and organization procedures and to apply them at home and it might even have a favourable effect on our economic relations as well.

An essential part of the aid to the developing countries might be in the form of a significantly higher ratio of Hungarian experts travelling to these countries than in the past, primarily in the fields of university education, technical and economic planning, and scientific research. This would also reinforce the country's politico-economic relations with the developing countries.

A substantial increase in the supply of labour cannot be expected from the employment of foreign workers since this would make infrastructural

investments necessary (e.g. construction of workers' hostels or dwellings) and also, differences in living standards and incomes in comparison with the neighbouring countries are not sufficient to provide any great incentives.

Likely trends in demand for labour

The present sectoral pattern of employment reflects the effects of recent economic policy — e.g. the comparatively large weight of industry — and the level of economic development. (This is also expressed in the labour utilization ratios of agriculture and the service sector.)

The employment forecast concerning the expected supply of labour starts from trends derived from long time series and from international data which indicate *distribution alternatives* for the use of labour by the major economic sectors.

The objective is to use the labour force to the maximum possible extent. There is no doubt that a slightly smaller employment target would not lead to unemployment either, but the rise in the productivity of labour and preliminary calculations on the desired growth of the economy require the largest possible increase in employment.

The probable sectoral pattern of employment is determined primarily by the size of the labour force leaving agriculture, by industry's demand for labour, as well as *our endeavour to raise employment in the tertiary sector.* This is required by economic reality and also by the rise in the living standard. The present gap in this field should be reduced or eliminated.

Long-term mathematical model calculations completed under the guidance of the Long-term Planning Department of the National Planning Office assessed national economic labour requirements in 1980 at 5.4—5.5, and in 1985 at 5.6—5.7 million.

Manpower balance calculations, assuming an equilibrium of possible labour supply and demand, *set the number of employed in 1985 at a maximum of 5,440,000 persons.* The margin of error in these calculations can be several tens of thousands at most; any modification, however, is likely to reduce — and not to raise — this estimate.

The employment distribution alternatives based on the manpower balance were formed by taking into consideration both domestic and international experiences. They are as follows:

Experts of the *long-term development of industry* estimate industry's employment requirements at about 2.0—2.1 million persons [5]. Other experts reckon with 2.1—2.2 million industrially employed persons along with an annual 6 per cent rise in productivity and a 7 per cent increase in industrial output [6].

Table IV

Distribution of employment by branches in 1965

Country	Share in employment of		
	primary	secondary	tertiary
	sector		
Austria	20.7	40.2	39.1
Belgium	5.7	46.5	47.8
Bulgaria	44.9	33.2	21.9
Canada	10.1	33.7	56.2
Czechoslovakia	21.1	46.4	32.5
Denmark	17.8	41.5	40.7
Federal Republic of Germany	11.1	49.5	39.4
France	18.2	40.7	41.1
German Democratic Republic	16.2	41.6	42.2
Holland	8.8	43.0	48.2
Hungary	*31.9*	*37.9*	*30.2*
Italy	26.1	40.6	33.3
Japan	25.5	32.2	42.3
Norway	19.9	35.3	44.8
Poland	42.9	29.4	27.7
Portugal	36.3	33.8	29.9
Spain	32.2	35.7	32.1
Sweden	11.5	42.7	45.8
Switzerland	8.3	52.8	38.9
United Kingdom	3.3	47.8	48.9
USA	6.1	33.4	60.5

Primary branches: agriculture, forestry, fishing.
Secondary branches: industry, mining, energy and water.
Tertiary branches: distribution, transport and other services.
Source: International yearbooks.

The estimate stemming from the manpower balance is 2,050 to 2,080 thousand persons, which means that during the 15 year period industry's use of labour can increase by about 220—250 thousand and the annual growth rate would be 0.8—0.9 per cent.

The growth rate of industrial output, the numbers employed in industry and the productivity of labour attained in past decades provide a basis for the extrapolation of long-term development.

The rise in the productivity of labour is primarily a function of existing

fixed assets, the supply of labour and its composition by qualification, technical progress, investment, the product pattern and, to a great extent, of organization and management.

In the plan period between 1970 and 1975 production will increase, according to our view, at an annual average rate of 6—7 per cent. This means that the rate of productivity increase will be over 5 per cent a year. Variants have been elaborated for the annual average growth rate of production between 1975 and 1985, and these have been marked as 6.0—6.5—7 per cent. It was assumed that during the course of the fifth and sixth five-year plan periods, the rate of production increase would be around the lower limit.

Estimates were made for an annual 0.8—0.9 per cent rise in the number of industrial employees. Assuming a productivity growth of about 5.5—6.0 per cent, an annual 6.7 per cent production growth can be realized in a 15-year perspective. During this period any further reduction in working hours in industry will require a higher growth rate of productivity than the above.

If the rate of growth of industrial output in the long-term plan period were to be higher than the one conceived, then a higher than 6 per cent annual productivity growth rate is necessary.

The idea of regrouping labour can also be raised, i.e. that industry receives more workers at the expense of the tertiary branches. Most likely, however, this labour force policy would not lead to favourable results, in view of the present unsatisfied labour demands of the tertiary branches.

The labour productivity level of the developed Western European countries is today about twice as high as that of Hungary. In the case of the assumed growth in production with the above limited increase in industrial employment Hungary would attain in 1985 the level of labour productivity which the developed Western European countries possess today.

Industrial output can be increased almost exclusively through a rise in the productivity of labour and this must be taken into account in the future. This requires a change in approach. It requires a general improvement in labour morals, and the formation of a more favourable atmosphere which promotes the increase of the productivity of labour.

One of the country's socio-economic goals is to raise living standards, and the most important means for this is to increase the productivity of labour. However, it is impossible to "decide" on the annual average growth rate of the productivity of labour in this stage of long-term planning. In order to achieve this, specific strategies are to be elaborated in the national economic plan with a direct and favourable impact on productivity and approaching it from various aspects (investment, qualifications, regulation, incentives etc.).

In the *building industry* demand for labour is increasing dynamically as a result of large-scale demand for construction. According to our calculations employment in the building industry will rise by 200 thousand in 15 years,

and in 1985 nearly 9 per cent of those employed will be working in the building industry. The effects on the labour force of the new modern technologies which are being applied in the building industry (e.g. light structure methods) are as yet unknown and further studies are needed in this area.

According to preliminary estimates the expected labour requirements for *transport and communication* will rise by 60 thousand persons between 1970 and 1985, to about 400 thousand people.

The labour requirements of transport do not include the needs outside the transport branch proper, caused by the increase in freight transport and motor vehicle traffic. The increase in the number of lorries is expected to be about 100—120 thousand during the plan period. These jobs require mainly male labour, and this must be taken into consideration in view of the reduced supply of labour.

Commerce, and within this, primarily home trade activities will more than double. Development will be particularly rapid in tourism and the hotel industry (the rise will be more than fourfold) but wholesale and retail trade activities will also double between 1970 and 1985. In the course of distributing the labour force it was taken into consideration that employment requirements in commerce can increase by 170—180 thousand persons in 15 years.

Most of the expected increase in the *other non-agricultural branches* is determined by the rising demand of the health service and education. Detailed calculations have been completed for these two branches with the aim of bringing their employment requirements into harmony with the planned rise in supply. In both branches the development rate is higher than the growth achieved in past decades; from 1970 to 1985 employment in the health service would have to increase by 110—130 thousand, and that in education by 90—100 thousand. In these branches the demand for labour can hardly be reduced through increased productivity. On the one hand, this is so because special technical development is necessary to achieve it in education and health, and on the other, improvement in the quality of supply depends fundamentally on the number and pattern of the available labour. In other non-agricultural branches, however, employment reserves stemming from a better organization of work may be reckoned with.

The likely employment requirements of *agriculture* in 1985 will be about 850 thousand "earners". (This follows the new definition of the earner category used in the 1970 census. According to the old concept of agricultural earners, their number in 1970 was 1.5 million whereas the new category showed 1.3 million).

The target of the agricultural plan is an increase in output of 2.8—3.5 per cent annually, and a 5.4—5.9 per cent rise in productivity (excluding complementary activities, about 1.6—1.7 thousand million working hours will be required in 1985.) If agricultural exports are increased, a more intensive

production pattern than the one assumed may be justified, implying greater demand for labour.

A larger drop in employment than the planned one in the manpower balance would require a faster rise in the productivity of agricultural labour

Table V

*Number and distribution of economically active population**

	January 1970		January 1986	
	Total, thousands	Distribution, percentages	Total, thousands	Distribution, percentages
Sources of labour				
Population of working age	6,270	94.0	6,334	92.4
Active earners over working age	403	6.0	518	7.6
Sources of labour: total	6,673	100.0	6,852	100.0
Use of labour				
Industry	1,825	36.4	2,075	38.2
Building industry	371	7.4	475	8.7
Transport	343	6.8	400	7.4
Commerce	416	8.3	590	10.8
Other non-agricultural branches	765	15.2	1,050	19.3
Agriculture	1,286	25.6	850	15.6
Employed in the GDR	13	0.3	—	—
Economically active population: total	5,019	100.0	5,440	100.0
Rest of working age population: students	620	37.5	543	38.4
housewives, disabled persons	1,034	62.5	869	61.6
Rest of working age population, total	1,654	100.0	1,412	100.0

* Preliminary calculations performed by the National Planning Office.

and the ensurance of corresponding investment, technical educational etc. conditions.

The supply of young labour has been calculated according to the most necessary requirements of technological progress in agriculture. In order to attain more efficient technical progress more highly trained youth reserves are needed. This, however, does not seem to be realistic; neither the trend in the number of agricultural workers, nor the number of young people from peasant families reaching working age could justify such an expectation.

The poor agricultural working conditions (the insufficiency of social institutions) are in increasing contrast to rising living standards. Not only the number but also the ratio of workers in farms operating under poor natural conditions will decline. This is expected to take place partly as a result of the

endeavour towards efficiency, and partly because of the difficulties in finding new labour. It can be assumed that the agrarian population remaining on low-yield land will become more and more proportionate with the ability of the land to "support" them.

Trends in agricultural labour requirements will fundamentally determine the labour supply to the other sectors, and this tension will be particularly felt following 1975. If less than the estimated 850 thousand people will be needed in agriculture, the country's manpower problems will be strongly alleviated.

Preliminary prognoses indicate the following trends concerning employment and its pattern by the major sectors of the national economy.

Working hours and social progress

Reducing working hours is primarily a function of economic development and of the rise in the productivity of labour, but it is increasingly a social policy goal as well. It would seem justified to continue and spread the reduction in working hours in coming years. To enable us doing so, the following has to be remembered:

The reduction of working hours must not result in staff increases. In the branches of material production the rise in the productivity of labour per man-hour must be higher than per capita. The reduction can only be based on a lasting and rapid rate of increase in the productivity of labour.

In those fields where the reduction in working hours *justifiably* increases the demand for labour, measures must be taken (regrouping employees, training, etc.) to see that adequately qualified supplementary labour is available to meet requirements.

The reduction in working hours was begun in Hungary in 1968. At present the legal working time in industry and the building industry is 44 hours per week, and 48 hours elsewhere. We expect that *by 1975 all wage and salary earners will switch over to the five-day week system every other week,* and work an average of 44—45 hours weekly.

According to present assumptions introduction of the five-day week with a *42.5 hour* working week will take place on a general scale around 1980.

When the 42.5 hour week is realized, the next step, around 1985 — depending on the country's economic possibilities — *will be to increase paid holidays* by one or two weeks. (For instance, a two-week increase in paid holidays equals, in terms of annual work time, about a 1 1/2 hour decrease in weekly working time.)

In the *non-agricultural* branches, despite the increase in employment, the available work time fund will show the following trend:

Table VI

Index numbers, percentages

	Variant *a)*		Variant *b)*	
	1985/70	1985/75	1985/70	1985/75
Annual legal per capita working hours	91.4	94.6	89.5	92.6
Annual actual per capita working hours	92.2	95.9	90.4	94.1
Employment	113.1	113.1	113.1	113.1
Total actual work time fund	118.1	108.4	115.9	106.3

Notes: For 1970: including the reduction in work time already achieved.
1975: 5 day, 44-hour week.
1985: variant *a)*: 5 day, 42.5-hour week, with one week increase in paid holidays.
1985: variant *b)* 5 day, 42.5-hour week with two weeks increase in paid holidays.

With the reduction in working time, and the modernization of work organization (shifts, etc.) working and living conditions will have to be improved in such a way that in the meantime the demands the population will be met on an increasingly high level (taking into consideration the effects of increased free time on consumption or changes in the way of living).

In essence, the reduction in working time can be considered a realistic aim if it takes place alongside an increase in the efficiency of labour.

Some conclusions

Considering the trends in the distribution of the population by age and sex, the expectations concerning the reduction in working hours, the expected rise in the efficiency and organization of work, *in our opinion the manpower sources and uses can be kept in equilibrium if around 1985 about 5,440 thousand persons are employed.*

However, this employment estimate is *heavy with tension* and extremely tight, first of all because of the high employment and participation rate of women, which makes it difficult to realize demographic policy goals; and furthermore, because of the estimated employment of those over working age; this high figure cannot be realized without strong incentives.

Apart from these, major and minor contradictions emerge concerning the structure of manpower by qualification and the changing demand of the economy; tensions may appear as a result of differences between the labour sources and the labour requirements of a given geographical region.

If, however, in order to avoid some of the expected tensions we were to call for a smaller use of the labour resources and to plan the use of labour in 1985 on a more moderate level, *additional tensions*, partly of another kind, would emerge which might:

— be solved only through *further* investment, technical development, and rise in the productivity of labour;

— *increase* contradictions as regards the distribution of labour among the productive and non-productive sectors.

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НАСЕЛЕНИЕ И ПОЛИТИКА ЗАНЯТОСТИ

Прогноз на 1985 год

П. ИВАН–Ж. МАУШЕЦ

Авторы излагают результаты прогноза, составленного одной из рабочих групп Комиссии по перспективному планированию рабочей силы и жизненного уровня.

Одна из главных целей политики занятости — обеспечение полной занятости при быстрых темпах роста производительности труда. Изменение отраслевой структуры экономики и внутриотраслевого ассортимента продукции требует большей подвижности рабочей силы.

В рамках демографической политики следует добиться общего распространения типа семьи, имеющей 2—3 детей. В интересах этого следует повысить пособие многодетным таким образом, чтобы оно в 1985 году покрывало по крайней мере 25—30% расходов на воспитание детей в семье. Пособие по уходу за детьми до трехлетнего возраста с отрывом от производства целесообразно устанавливать пропорционально среднему заработку.

Авторы статьи подробно останавливаются на предложении рабочей силы и его различных источниках. Поскольку занятость мужчин достигает демографически возможного максимума, вопрос увеличения сводится к занятости женщин и проблеме занятия населения старше трудоспособного возраста.

Вполне обоснованным является учет возможности миграции рабочей силы между социалистическими странами.

В заключение прогноз останавливается на дальнейших возможностях и методах сокращения рабочего времени.

Acta Oeconomica Vol. 9 (1), pp. 47—53 (1972)

P. ERDŐS

THE MARGINAL POSTULATES OF THE NEO-CLASSICAL THEORY VERSUS MARKET EQUILIBRIUM

After a brief sketch of the emergence and development of the neo-classical marginal postulates, the author shows that the ensemble of the consequences deriving from them for the size of enterprise profits, on the one hand, and of the wholly correct macro-economic theory of profit commonly attributed to Kalecki and Keynes, on the other hand, are incompatible with short-term market equilibrium.

In political economy it is not easy to determine the matter of priority in revealing an idea; those who are considered discoverers usually have some predecessors. Still, if we trace the origins of one of the fundamental tenets of the neo-classical school, namely the theory of marginal productivity, we shall be hardly unjust to others if we regard John Bates Clark as the founding father.

John Bates Clark wanted to prove in his theory that labour is not exploited by capitalists. To prove this he considered highly important, for as he put it, whether labour receives the whole product produced by it or not, is an issue of facts but if it does not, it is simply robbed.

In order to prove that capitalist production is free from exploitation, John Bates Clark devised a model where, in respect of the substitution of labour for capital and of capital for labour, capital — as the totality of produced means of production — can be made to suit to any number of labourers to work it without any lag and at will. Mrs. Robinson thinks that such physical capital, though being a part of the productive capital, is something like finance and connects its emergence with the reaction of the neo-classicists to the book by Piero Sraffa: Production of Commodities by Means of Commodities. But, as a mater of fact, the idea dates back to Clark. The way Joan Robinson describes the particular features of this odd sort of capital is quite appropriate. According to her: "If 'capital' were made of some homogeneous and malleable substance, such as putty, physical equipment would be just like finance. A business is continually recovering finance invested in one physical form from amortization allowances, and may reinvest it in other forms. Similarly putty-capital in the parable can be instantaneously adjusted . . ." [1].

Such is, then, the capital of Clark; the kind of capital he has kept in view when arguing that with a physical capital worth a constant amount of money capital an ever increasing number of workers can be employed being continuously adapted when this capital, malleable at will, is to ensure greater employment of labour. It was Clark who concluded that as this is being accomplished each worker's labour will be supported by a gradually

diminishing amount of physical capital and, as the process is being continued, the product of each individual worker will continually decrease. But, he said, this is true also conversely: if, to a constant number of workers, so that it be continually adapted, in a technical sense, to the given number of workers, one applies physical capital equalling increasing sums of money capital, then each "unit" of capital will be combined with a gradually decreasing number of workers, so that the "productivity of capital" will diminish.

Now the essence of what Clark said consists in, that if volume Q of the product is a function of the capital K and labour L applied, so that

$$Q = F(K,L) \tag{1}$$

then both the owner of capital and the workers obtain respectively the part of the product, attributable to them, i.e. the marginal yield — capital $K \dfrac{\partial Q}{\partial K}$ and the workers $L \dfrac{\partial Q}{\partial L}$ portion of the products. The share of capital (the interest) will be the product of multiplication of the quantity of capital and its marginal yield, the share of labour (the wages) will be that of the number of workers multiplied by the marginal product of labour, while the sum of these two will be equal to the total volume of the product; that is,

$$K \frac{\partial Q}{\partial K} + L \frac{\partial Q}{\partial L} = Q \tag{2}$$

Let us remark, first of all, that Clark's argument would not prove the absence of exploitation, even if it were correct.*

Secondly, enchanted by his discovery, Clark forgot to check whether the sum of the interest and the wages together could really be equal to the total volume of the product. The truth is that such equality may occur only by coincidence. Namely, when integrating the partial differential equation (2), it turns out that $Q = F(K\ L)$ must be a linear homogeneous function of K and L; but there is nothing to prove that the real Q function is indeed linear homogeneous. In the volume [3] James M. Henderson and Richard E. Quandt pointed out that the adherents of the marginal productivity theory have generally assumed the homogeneously linear character of the relevant production functions *since*, according to the basic postulates of their distribution theory, (a) every input is paid the value of its own marginal product, and (b) this claims exactly the total output; and all this is possible only when the production functions are homogeneously linear. Henderson and Quandt also

* This has been pointed out recently by Nobel-prize-winner Prof. Samuelson, in an ironic form, in [2].

add that the marginal productivity theory of income distribution is misleading if not erroneous [4].

But it is not so easy to get rid of a tool that proved to be ideologically as useful as did the theory of marginal productivity. Thus even Keynes declared in his General Theory very resolutely: "The wage is equal to the marginal product of labour" [5]. This means that "with a given organization, equipment and technique, real wages and the volume of output (and hence of employment) are uniquely correlated, so that, in general, an increase in employment can only occur to the accompaniment of a decline in the rate of real wages. Thus I am not disputing this vital fact which the classical economists have (rightly) asserted as indefensible" [6].

However, according to Keynes, this also means that profits will grow if real wages diminish. Thus, Keynes, at least implicitly discards the assumption that the production function is homogeneously linear. Moreover, in his version it is not interest but *profits* (including interest) that appear as income beside wages. At any rate, his is a more up-to-date version of the theory of marginal productivity than Clark's was.

But this more up-to-date theory has a further postulate: the short-term supply price — and, therefore, in the case of equilibrium also the short-term market price — must equal the marginal cost. This coincides with the theory of Keynes, according to whom ". . . the short-period supply price is the sum of the marginal factor cost and the marginal user cost". [7] This theory differs from the accustomed one only in that ". . . it has been a usual practice to equate the short-period supply price to the marginal factor cost alone". [7], since by supply price only "value added" is meant. What Marxian terminology calls the value-part c is neglected, though Keynes introduced a notion closely related to it called "user cost".

Of course, throughout the entire General Theory, Keynes has kept his reasoning in the "aggregate", that is, macro-economic terms, although the thesis of the theory of marginal productivity is generally interpreted in the framework of micro-economics, i.e. business economics or the theory of the firm. Keynes' procedure was quite correct when he approached the problems of the General Theory with macro-economic methods and also when he transferred the notions originally developed in microeconomics into his macro-economic picture. This is so, first of all, since if such concepts are of *general* validity in micro-economics, they must be necessarily valid for macro-economics, that is, for the entire national economy; second, Keynes had to take his basic postulates from where he could find them. And, as regards the category of profit, it was only in the "theory of the firm" that he could find any theory of profits which were more or less consistent with "neoclassical" reasoning.

This more up-to-date theory discards the fiction of the homogeneous linearity of production functions, that is, the theory that in equilibrium "value

added" must not comprise profits above wages and interest. Assuming perfect competition, the momentarily valid market price of a product is an external *datum* for the enterprise; and in the short period the capital of the enterprise may be considered as given. The objective function of the enterprise is to maximize its own profits, and to this end it chooses the number of workers employed so as to have the price gained from the sale of the marginal product just equal the cost of employing the last worker, i.e. the marginal cost of employment. Thus, the marginal cost of the product is equal to the market price of the product.* According to the assumption, in a typical case, the average cost is smaller than the marginal cost; and the product of the difference between marginal and average cost by the produced volume Q is equal to the gross profits of the enterprise.

This is the profit theory of the "neoclassical" economics. Econometricians together with behaviouralists are busily investigating whether enterprises secure indeed as much employment as enables the marginal cost of their production to coincide with the market price of the product. And having found that nothing of the kind occurs in reality, they blame the ignorance of businessmen or the lack of perfect competition for this divergence.

Well, I am told, that the scientists of the Utopian Sports Academy worked out, after several decades of research, the theory of playing successful soccer. Their main thesis stated that in order to be effective, in every match a team must score at least one more goal than its opponent. Unfortunately, according to the sportometricians and sports-behaviouralists, usually less than half of all teams participating at the football finals in Utopia follow this very sound advice. When I last heard of them, the scientists of the Sports Academy searched assidiously after the possible causes of so irrational behaviour. But as for myself, I am not the least surprised by this strange fact; on the contrary, I wish to show that the case with the theory of marginal productivity is somewhat similar to it: their theses seemingly acceptable in micro-economics lead to contradiction when applied to the macrocategories, or aggregates.

Let us start from the thesis usually attributed to Keynes but really originating from Kalecki, which became known as "the parable on the widow's cruse". In Chapter 10 of his book A Treatise on Money, Keynes formulated the thesis as follows: "If entrepreneurs choose to spend a portion of their profits on consumption (and there is, of course, nothing to prevent them from doing this), the effect is to *increase* the profit on the sale of liquid consumption-goods by an amount exactly equal to the amount of profits which have been thus expanded" [8].

* The production function of enterprise i is $Q_i = F_i(K_i, L_i)$, where K_i can be considered as given for the short period. The physical marginal product is $\frac{\partial Q_i}{\partial L_i}$ and this is also equal to the real wage cost of making a ∂Q_i quantity of products.

Let us add that this is related not only to profits interpreted as a sum of money but also to real profits; and the same holds not only for possible additional consumption but for additional accumulation. In terms of goods, profits are but the sum of consumer goods consumed and investment goods accumulated by capitalists. And this holds true also for the reverse thesis: the consumption by capitalists and their accumulation — however great — are profits.

Let us assume that a country produces merely a single kind of product; let the relevant production function be $Q = F(K,L)$ and let in some moment the actually turned-out volume of products be Q^0. To the latter belongs an L^0 quantity of labour. Thus the marginal product of labour is determined by the production function and this marginal product is at the same time the marginal cost of production and, in equilibrium, the real price of the marginal product as well. Multiplying the difference between the marginal and average cost by Q^0, we obtain the gross real profit P^0, (provided there is really equilibrium). It is, however, clear that the product Q^0 serves both for consumption (of the workers and capitalists) and for accumulation. How much of this product Q^0 capitalists will consume and accumulate respectively will be decided by their collective behaviour. The sum of these two quantities will be the net real profit, while the gross real profit will be somewhat greater, since it also includes amortization. The difference between Q^0 and gross real profits is, again, the real wages of workers. An equilibrium will come about when the real gross profit P^1, as determined by the behaviour of capitalists, coincides with that P^0 gross real profit which is compatible with equilibrium. But this can occur only accidentally. Actually, the gross real profit will be, in general, some P^1 deviating from P^0. In such cases, however, the real wages of the size $Q^0 - P^1$ will not be equal to the "marginal product of labour", and there will be no equilibrium. Short-term equilibrium may, however, come about with some Q^1 output volume differing from Q^0 and with a corresponding L^1 employment. In this equilibrium situation the sum of real wages is equal to $Q^1 - P^1$, and the real wage rate will be equal to $\frac{\partial Q}{\partial L}$ when $L = L^1$. So far, so good. But now comes the trouble.

Let us assume that our country produces not a single kind of product but at least two utterly different kinds which are unrelated to each other in terms of production technology or utilization. Let the production function of the first one be $Q_a = F_a(K_a,L_a)$ and of the second $Q_b = F_b(K_b,L_b)$. The capitalists as a class are now in a situation to determine the size of their real consumption and real accumulation from both products, that is, the product volumes P_a and P_b. The requirement of the identity of price and marginal cost, as postulated by any short-term equilibrium, is fulfilled uniquely by product volumes Q_a^1 and Q_b^1. Thus, the volume of commodities available for

the consumption of workers, $Q_a^1 - \overline{P}_a = Q_{La}$ and $Q_b^1 - \overline{P}_b = Q_{Lb}$, are given, but so are the supply prices of the two products equal to the marginal costs, p_a and p_b, too.

But a market equilibrium exists only if, with the similarly uniquely given $L_a + L_b$ level of employment, the real wage rate determined by the marginal yields of the two kinds of products (a and b) and a proportion p_a/p_b of prices also the real demand by workers is equal to $D_a = Q_{La}$ and $D_b = Q_{Lb}$. But this can occur only accidentally; in other words, our system of conditions is overdetermined. With the given relative prices the workers will generally buy the products a and b *not* in proportions corresponding to their supply. Our system is overdetermined in a similar way as were the postulates of the Utopian Sports Academy, requiring not only that the team Arsenal should score in all of their matches at least one more goal than their adversary, but, also requiring all their respective opponents to win against Arsenal by at least one goal.

Should, however, production capacities exceptionally develop in a way that our system of conditions happened to be satisfied, the smallest change in the rate of the capitalists' consumption and/or accumulation would immediately lead to new inconsistencies.

The lesson seems to be that the ensemble of conditions: "marginal cost must equal marginal price" and "real cost must equal physical marginal yield of labour" cannot simultaneously be fulfilled — in every enterprise of a national economy — not even in the case of perfect competition and with perfect foresight on the part of the businessmen — since the ensemble of these conditions contradicts the requirements of equilibrium.

But it does not follow from the notion of perfect competition that the objective function of enterprises requires them to maximize the volume of profits. Even in the case of perfect competition an objective function of about equal rank may prevail e.g. that of keeping the rate of profits at some level already attained relative to turnover. And since these two objective functions are not consistent with each other, the actual behaviour of enterprises would, even in the case of perfect competition, most likely correspond to some compromise between the two extremes indicated. From this, however, it follows — not surprisingly at all for Marxists — that real wages are generally lower than the physical marginal product of labour.

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8. Ibid. p. 139.

«НЕОКЛАССИЧЕСКИЕ» МАРЖИНАЛЬНЫЕ ПОСТУЛАТЫ И РЫНОЧНОЕ РАВНОВЕСИЕ

П. ЭРДЭШ

Автор, дав краткую характеристику появлению и развитию «неоклассических» маржинальных постулатов, доказывает, что вытекающие из них выводы относительно величины прибыли предприятий и — совершенно правильная — макроэкономическая теория Калецкого и Кейнса о прибыли в их совокупности не совместимы с краткострочным рыночным равновесием.

Acta Oeconomica Vol. 9 (1), pp. 55—69 (1972)

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НАУЧНАЯ И ПЕДАГОГИЧЕСКАЯ ДЕЯТЕЛЬНОСТЬ В. В. НОВОЖИЛОВА

В 1972 году исполняется восьмидесятилетие со дня рождения выдающегося советского экономиста, недавно скончавшегося проф. В. В. Новожилова. Анализу его деятельности посвящается статья одного из близких сотрудников ученого.

Имя выдающегося советского ученого-экономиста Виктора Валентиновича Новожилова широко известно как в Советском Союзе, так и в научных кругах далеко за пределами нашей страны. Автор ряда блестящих работ по экономике переходного периода, ученый, сделавший крупный вклад в разработку вопросов экономической эффективности капитальных затрат, В. В. Новожилов получил особое признание как один из ведущих теоретиков концепции оптимального планирования, создатель теории дифференциальных издержек. Именно за исследования в области развития экономико-математических методов В. В. Новожилов вместе с академиками В. С. Немчиновым и Л. В. Канторовичем был удостоен высшей научной награды СССР — звания Лауреата Ленинской премии.

Едва ли было бы справедливым полагать, что путь к признанию был для Виктора Валентиновича усыпан розами. Скорее наоборот, ибо из 121 научной работы, написанной им, нельзя найти ни одной, которую специалисты по наукометрии могли бы отнести к разряду так называемых «престижных публикаций». В. В. Новожилову как ученому был чужд подход к науке как средству достижения каких-либо личных выгод, помимо того главного и несравненного преимущества, которое получает человек от самого процесса творчества, познания нового, меняющего сложившиеся представления. Этот момент научной деятельности Виктора Валентиновича хотелось бы выделить специально именно потому, что в настоящее время в самых различных областях знания получила довольно широкое распространение тенденция к увеличению числа бесконфликтных направлений, то есть таких, которые в своем развитии не приводят к выявлению внутренних противоречий и созданию новых концепций.

Такого рода «научная респектабельность» была чужда В. В. Новожилову. Обладая огромной силой логического мышления, Виктор Валентинович удивительно тонко подмечал малейшие неувязки и «щели» казалось бы безупречных научных построений. И в то же время В. В. Новожилова никак нельзя отнести к числу тех исследователей, которые ставят своей основной целью показать ограниченность той или иной концепции. Будучи блестящим

полемистом, Виктор Валентинович в первую очередь являет собой пример ученого—созидателя, внесшего большой позитивный вклад в развитие марксистско—ленинской экономической мысли.

Научная биография ученого

В. В. Новожилов представляет первое поколение советских экономистов, встретивших Октябрьскую революцию уже сформировавшимися научными работниками. Родился Виктор Валентинович в 1892 году. Окончив с золотой медалью гимназию, В. В. Новожилов уже в 1911 году поступает на юридический факультет университета св. Владимира в Киеве. С первых лет учебы его привлекают политическая экономия и статистика. Еще студентом Виктор Валентинович целиком переключается на экономические науки и пробует свои силы в самостоятельных исследованиях. В 1913 году он подготовил и представил Ученому совету юридического факультета объемистую (35 печатных листов) рукопись «Обзор внешней торговли в России в связи с вопросом о торговой политике». Эта первая самостоятельная работа В. В. Новожилова вызвала самые лестные отзывы специалистов по экономике и финансам и была удостоена золотой медали.

По окончании университета В. В. Новожилова оставляют в аспирантуре при Киевском университете на кафедре политической экономии и статистики. Виктор Валентинович целиком отдает себя науке. Его творческое горение, энтузиазм исследователя оказывают буквально «магнетическое» воздействие на окружающих. Младший брат Виктора Валентиновича, ныне академик Валентин Валентинович Новожилов вспоминает: «Когда умер отец, мне было 12 лет. Большое влияние на мое развитие и мои воззрения оказал старший брат Виктор Валентинович Новожилов, известный советский экономист. Именно пример брата, его бескомпромиссная преданность науке породили у меня желание стать, как и он, ученым" [1].

Вскоре после Октябрьской революции В. В. Новожилов переезжает в Петроград, где, начиная с 1922 года, работает в Ленинградском Политехническом институте им. М. И. Калинина. С этим институтом В. В. Новожилов был связан долгие годы. В течение 14 лет (с 1938 по 1952 гг.) он заведовал здесь кафедрой экономики машиностроения. В 1952 году В. В. Новожилов перешел на работу в Ленинградский инженерно-экономический институт, где продолжал плодотворную научную и педагогическую деятельность. В последние годы своей жизни В. В. Новожилов возглавлял лабораторию экономических оценок Ленинградского отделения ЦЭМИ АН СССР.

При ознакомлении с трудами В. В. Новожилова бросается в глаза уникальное творческое долголетие этого ученого. В течение без малого шести десятков лет он поражал ясностью и безукоризненной логикой мышления,

способностью генерировать все новые и новые научные идеи. Уже в 1926 году его работы получают международное признание. В. В. Новожилов участвует в международном конкурсе (интересная и, на наш взгляд, незаслуженно забытая форма общения ученых) в Ньютоне (США) на лучшую критику книги У. Т. Фостера и У. Кэтчингса „Прибыль". В конкурсе участвовало 436 работ, присланных из 26 стран. Исследование В. В. Новожилова было отмечено почетным отзывом жюри и опубликовано. По мнению ряда рецензентов, эта работа была лучшей на конкурсе. В 1928 году В. В. Новожилов вновь принимает участие в международном конкурсе, на этот раз на лучшую критику и решение проблемы стабилизации денежной единицы, выдвинутой в работах Ирвинга Фишера. И хотя в представленном трактате В. В. Новожилов несколько отклонился от условий конкурса, жюри единодушно присудило ему четвертую премию.

В этих и ряде других ранних работ В. В. Новожилов заявил о себе как талантливый, подающий большие надежды молодой ученый. Теперь, обозревая творческий путь, пройденный Виктором Валентиновичем, мы можем с полным основанием утверждать, что он эти надежды оправдал. И этот факт как нельзя лучше характеризует личность Виктора Валентиновича. Способности дает человеку природа, но для того, чтобы развить их, полностью раскрыть потенциальные возможности своего интеллекта, поставив его на службу людям, для этого необходимы мужество, выдержка и колоссальное трудолюбие. И здесь уже нет места случайностям. Если «творческое озарение» посещает человека из года в год, из десятилетия в десятилетие — значит, он подчинил себе природу, познал (пусть интуитивно) тайны организации своего мышления и совершил тем самым не только научный, но и человеческий подвиг.

Знаменательным в этой связи представляется то, что в 1970 году тяжело и безнадежно больной Виктор Валентинович продолжает интенсивно и с увлечением работать: пишет ряд статей, руководит аспирантами, вторгается в новую для себя область науки — развитие биологических систем — стремясь бросить более общий взгляд на закономерности управления сложными кибернетическими системами.

Анализ хозяйственных процессов переходной экономики

В творческом пути В. В. Новожилова с известной степенью условности можно выделить два больших этапа. Первый этап охватывает период деятельности до 1929 года. Здесь Виктор Валентинович предстает перед нами как крупный специалист по финансам и денежному обращению, хозяйственному расчету, материальному стимулированию. В его статьях, опубликованных в «Вестнике финансов», «Экономическом обозрении» и других изданиях поднимаются актуальные вопросы теории и практики хозяйственной жизни того

периода. С 1921 года советское государство осуществляло строительство социализма с помощью целого комплекса экономических мероприятий, получивших общее название «новая экономическая политика» (НЭП). В. И. Ленин поставил задачу налаживания финансово-кредитной системы, перевода промышленных предприятий на систему хозяйственного расчета, повышения материальной заинтересованности. Укрепление экономического механизма контроля рублем, финансовой дисциплины рассматривалось в тот период как мощный рычаг упрочения нового социалистического начала в хозяйственной системе. На IV конгрессе Коммунистического Интернационала он говорил: «Что действительно важно, это — вопрос о стабилизации рубля. Над этим вопросом мы работаем, работают лучшие наши силы, и этой задаче мы придаем решающее значение. Удастся нам на продолжительный срок, а впоследствии навсегда стабилизировать рубль — значит, мы выиграли . . . Тогда мы сможем наше хозяйство поставить на твердую почву и на твердой почве дальше развивать» [2].

Активное участие в этой экономической работе, значение которой столь высоко было оценено В. И. Лениным, принимал и В. В. Новожилов. Его теоретические исследования по вопросам ценообразования, кредита, эмиссионной политики были непосредственно связаны с нуждами хозяйственной практики тех лет.

В качестве примера, иллюстрирующего специфику подхода В. В. Новожилова к анализу проблем переходной экономики, хотелось бы кратко остановиться на одной из его классических работ. Мы имеем в виду статью В. В. Новожилова «Недостаток товаров», опубликованную в февральском номере журнала «Вестник финансов» за 1926 год. В ней В. В. Новожилов анализирует проблему диспропорции между платежеспособным спросом и предложением товаров под углом зрения политики цен. «Что же означает это явление? — пишет он. — Не отражает ли оно нашу бедность, т. е. абсолютный недостаток товаров по сравнению с нормальной потребностью в них? Некоторые склонны так думать: население обносилось, изголодалось за время войны и революции и его острую потребность в мануфактуре не может покрыть наше производство. Это объяснение упускает из виду тот немаловажный факт, что товары раздаются не по простому изъявлению потребности в них, а за деньги.

. . . Недостаток товаров, следовательно, возникает только тогда, когда цены перестают выполнять функцию уравнителя спроса и предложения, когда они приобретают инертность, нечуткость к конъюнктуре рынка» [3].

В. В. Новожилов выступает против упрощенного понимания преимущества социализма в области ценообразования. Некоторые экономисты [4] рассуждали в тот период по следующему трафарету: стимулом расширения капиталистического производства является прибыль; однако развитие производства наталкивается на низкую платежеспособность населения, что

приводит к конфликту между производством и потреблением, к кризису капиталистической экономики. При социализме же ничто не может сдерживать производства. Поэтому спрос потребителей должен постоянно находиться на уровне, стимулирующем развитие производства. А этого можно достигнуть лишь в том случае, если платежеспособный спрос будет идти впереди предложения, расчищая тем самым дорогу для всемерного развития производства. С другой стороны, поскольку превышение платежеспособного спроса населения над объемом предложения может быть достигнуто в результате снижения стоимостного выражения произведенных товаров, т. е. путем снижения отпускных цен, при том же уровне денежных доходов населения, постольку возникает возможность убить сразу двух зайцев: не только стимулировать производителей, но и устранить призрак дороговизны, который наводит ужас на трудящихся в странах капитала.

В такого рода рассуждениях столько же непонимания реальных хозяйственных процессов переходной экономики, сколько искреннего желания одним ударом ликвидировать все «язвы капитализма». Поскольку все беды потребителя на поверхности явлений сводятся к тому, что «денег всегда нехватает», а товары соответственно «слишком дороги», то нет ничего проще, как дать больше денег трудящимся и снизить цены.

Однако эта иллюзия очень быстро исчезает, как только мы начинаем глубже вникать в существо экономических взаимосвязей между хозяйствующими субъектами. Прежде всего посмотрим, как влияет повышение платежеспособности населения на производителя. Казалось бы, последний должен стремиться к росту производства и через него к насыщению этого возрастающего денежного спроса. Но этот процесс будет осуществляться лишь в том случае, если производитель будет *экономически* ощущать повышение спроса на товар. Иными словами, если приращение денежного спроса будет поступать в его распоряжение. А это возможно только в том случае, если цены возрастут соответственно росту денежной массы у населения. Если же масса денег у населения возрастает, а цены остаются на прежнем уровне, то производитель, продав все товары по стабильным ценам, никак не ощутит возросший спрос со стороны потребителей. Потребитель же, купив все товары по старым ценам, обнаружит, что в его распоряжении осталась некоторая сумма средств, на которую нельзя ничего приобрести. У потребителя образуется излишек денег, т. к. под них нет товарного обеспечения, но производитель не заинтересован расширять производство, поскольку он не получил никакой дополнительной прибыли и у него нет средств и стимулов для дополнительных капиталовложений. Таким образом, даже чисто теоретическое рассмотрение тезиса о пользе опережающих темпов роста платежеспособности населения не выдерживает критики. Стимулирование производителей оказывается фиктивным, а избыточные деньги у населения не приносят никаких дополнительных выгод.

Однако положение становится еще более сложным и неприятным, если от абстрактных рассуждений перейти к реальной хозяйственной жизни. В последнем случае мы уже обязаны учитывать спекулятивные элементы, в той или иной форме присутствующие в экономике, особенно, если речь идет о многоукладном хозяйстве. Именно на это обстоятельство обращает внимание В. В. Новожилов.

«Не является ли недостаток товаров, — пишет он, — *преимуществом* нашего народного хозяйства? Ведь обычно рынок ограничивает производство. У нас же рынок идет впереди производства, предоставляя ему развиваться в меру производительных сил.

Однако избыток спроса не приносит пользы народному хозяйству. Недостаток товаров, прежде всего, вызывает хаос в распределении *реальных* доходов. Распределение реальных доходов перестает соответствовать распределению денежных доходов. Разница цен в вольной и регулируемой торговле достигает по некоторым товарам значительных размеров. Иначе говоря: покупательная сила денег становится весьма различной не только в различных местностях, но и в различных магазинах и даже в различных руках.

Продажа продуктов по цене ниже цены равновесия спроса и предложения является в *известной части* даровой раздачей: именно в части разницы между продажной ценой и ценой рыночного равновесия. Конечно, все стремятся получить этот подарок, но не все его получают. При недостатке товаров выигрывает тот, кто стоит ближе к источникам товарного потока, — тот, кто непосредственно получает нехватающие товары» [5].

Проблема экономической эффективности в социалистическом хозяйстве

С 1929 года главной темой научной работы Новожилова постепенно становится методология расчетов экономической эффективности в социалистическом хозяйстве. Эти исследования связаны с его многолетним участием в работах проектных органов в качестве консультанта и эксперта по экономическим вопросам. Связь с практикой побуждала к применению математических методов в планировании. Математика первоначально была использована В. В. Новожиловым в задачах нахождения общего максимума эффекта от капиталовложений социалистического хозяйства. Дальнейшие исследования В. В. Новожилова привели его к выводам, которые органически сочетались с результатами работ другого выдающегося советского ученого — академика Л. В. Канторовича.

Как известно, до 1958 года большинство советских экономистов относилось с известным недоверием к применению новых математических методов в экономических исследованиях и планировании, поэтому работы Новожилова публиковались с большим опозданием и в сокращенном виде — статьями. Тем не менее основные результаты работ были защищены Ново-

жиловым в марте 1941 г. в качестве докторской диссертации. Оппонентами по этой диссертации были акад. С. Г. Струмилин, профессор Л. П. Юшков и один из руководящих работников ЦСУ — В. А. Соболь.

В 1947 году вышла в свет статья В. В. Новожилова «Способы нахождения максимума эффекта капиталовложений в социалистическом хозяйстве». В этой статье по существу были сформулированы те идеи, которые в последующем составили основу разработки теории дифференциальных затрат. Уже здесь В. В. Новожилов подходит к проблеме оптимального распределения капиталовложений с позиций максимума народнохозяйственного эффекта.

Однако в тот период взгляды В. В. Новожилова были подвергнуты резкой критике. В седьмом номере журнала «Вопросы экономики» за 1948 год П. Мстиславский писал: «В статье проф. В. В. Новожилова »Способы нахождения максимума эффекта капиталовложений в социалистическом хозяйстве« неверна прежде всего методология исследования, применяемая проф. Новожиловым. Вместо того, чтобы, как учит марксизм-ленинизм, в основу своего анализа положить реальные отношения советской экономической действительности, автор исходит из давно разоблаченной в марксистской литературе надисторической идеи «максимального эффекта при минимальных затратах».

В 1967 году издательством «Экономика» была опубликована монография В. В. Новожилова «Проблемы измерения затрат и результатов при оптимальном планировании». Эта книга, несмотря на широкую известность ее автора, оказалась единственным и как бы итоговым монографическим изданием, в котором с предельной выразительностью отражена научная концепция В. В. Новожилова. Работа эта явилась ярким событием экономической жизни. Она привлекла самое пристальное внимание ученых-экономистов и математиков. Уже год спустя после выхода в свет монография В. В. Новожилова стала библиографической редкостью.

Узловой проблемой экономической науки В. В. Новожилов считает проблему измерения затрат и их результатов. Какой бы аспект экономических исследований мы ни взяли, эта проблема в конечном счете обязательно всплывает как первоочередная. Различные подходы к решению вопросов хозяйственного развития без труда могут быть классифицированы по этому важнейшему признаку — в зависимости от принятых методов соизмерения затрат и результатов. Столь значительное место этой проблемы в экономической науке естественно вытекает из самой природы изучаемого ею объекта. Любая хозяйственная деятельность направлена на удовлетворение тех или иных потребностей в условиях ограниченности средств, необходимых для насыщения этих потребностей. Уже сам факт хозяйственной деятельности предполагает наличие затрат, а целесообразный ее характер свидетельствует о стремлении получить желаемые результаты. Ограниченность же средств достижения поставленной цели обуславливает необходимость рационализа-

ции действий хозяйствующего субъекта. Естественно, что в такой ситуации оптимальное экономическое поведение может быть найдено лишь при условии правильного соизмерения затрат и результатов.

Эффективность такого «бухгалтерского» подхода «дебет-кредит» к анализу экономической жизни становится очевидной, как только мы устанавливаем полную аналогичность хозяйственных проблем как на уровне отдельных работников и предприятий, так и в масштабах всего народного хозяйства. Во всех случаях: решается ли локальная задача, скажем, по рационализации транспортных перевозок или составляется пятилетний народнохозяйственный план — необходимо найти оптимальный, с точки зрения сформулированных целей, способ использования ограниченных производственных ресурсов. В. В. Новожилов последовательно раскрывает перед читателем характер проблем, возникающих в связи с измерением затрат и результатов на различных уровнях хозяйственной жизни, от самых простейших случаев распределения дополнительных капиталовложений между возможными производственными способами до модели планирования целого народнохозяйственного комплекса. Автор прекрасно показывает внутреннюю логику развития экономических методов оценки хозяйственных мероприятий, двигаясь от низшего к высшему, от простого к сложному, убедительно демонстрируя «намеки на высшее» в простейших экономических задачах, необходимость последовательного применения раз сформулированных принципов на всех стадиях экономических расчетов.

В монографии подробно анализируются современные принципы измерения затрат и результатов. В. В. Новожилов отмечает, что наиболее распространенными ошибками в этой области следует признать, во-первых, неправомерное отождествление затрат и результатов, наблюдаемое в концепциях некоторых экономистов, и, во-вторых, отсутствие монизма в оценке экономических решений на разных уровнях планирования. Критикуя первое из указанных заблуждений, В. В. Новожилов пишет: «Трудно представить себе более грубую ошибку в экономических расчетах, чем смешение прихода с расходом, результата с затратой. А между тем элементы этой ошибки содержатся в наиболее распространенных способах измерения результатов живого труда: в измерении их валовой продукцией по заводскому методу и в измерении их количеством выпущенной продукции . . . Это смешение прихода с расходом, содержащееся в плановом показателе, нередко вело к тому, что предприятия увеличивали материальные затраты в ущерб чистому продукту: ведь затраты легче увеличить, чем результаты» (стр. 12). В. В. Новожилов отмечает, что хозяйственной практике долгое время приходилось сталкиваться с существованием прямо противоположных рекомендаций по оценке экономических результатов работы. В частности, такое положение проявлялось в наличии нескольких плановых показателей. Предприятиям в этих условиях приходилось работать, исходя сразу из нескольких критериев.

Ни к чему хорошему такое положение привести не могло. Ведь ошибки в принципах расчетов затрат и результатов, по меткому выражению В. В. Новожилова, — факторы массового действия. «Ошибка, введенная в плановый показатель, приобретает силу закона для всех исполнителей плана, воздействует на миллионы людей, побуждая их считать расход приходом, а понижение качества продукции — полезным результатом» (стр. 15).

Реальные хозяйственные измерители затрат и результатов, формулируемые центральными плановыми органами, выступают в роли управляющих параметров для отдельных производственных ячеек и отраслевых комплексов. Цены на сырье и материалы, потребляемые предприятием, готовую продукцию, платежи в бюджет за использование производственных фондов, природных и трудовых ресурсов, выполняют функцию ориентиров при выборе предприятием конкретных путей развития своего производства. Предприятие ощущает эти параметры как экономические требования внешнего мира, как общественные нормативы, вынуждающие его проводить строго определенную экономическую политику. Однако в социалистическом хозяйстве это давление внешнего мира отнюдь не хаотично; оно имеет совершенно определенную базу — осознанную и строго сформулированную центральными плановыми органами цель общественного производства. Управляющие экономические параметры в социалистическом хозяйстве выступают в роли связующего звена между интересами общественными (выявленными при составлении народнохозяйственного плана) и интересами локальчыми (хозрасчетными). Общество, устанавливая экономические нормативы деятельности предприятий, фактически ведет себя как коллективный заказчик, дающий оценку производственным усилиям поставщика. В этих условиях интересы общества диктуют поведение непосредственных производителей. Причем спецификой такой организации взаимоотношений между обществом и производителем (предприятием) является то, что подчиненность производственных звеньев общественным интересам отнюдь не выступает в форме прямого принуждения. Общественный интерес воспринимается производителем как свой собственный. Общество лишь дает «шкалу расценок» затрат в соответствии с их народнохозяйственным результатом, а вопрос о целесообразности самих этих затрат предоставляет решать непосредственному производителю.

Преимущества такой организации функционирования экономического механизма очевидны: с одной стороны, достигается примат планового управления экономическими процессами, устанавливается общественный контроль над деятельностью огромной массы производственных ячеек, а с другой, максимально расширяются возможности для проявления хозяйственной инициативы исполнителями «общественных заказов». К сожалению, практика до сих пор не использует в полной мере это преимущество плановой экономики. Причина тому — отсутствие надежных экономических измерителей

общественных результатов производственной деятельности. Это приводит к необходимости введения в практику планирования дополнительных административных «подпорок», однако сама многолетняя практика использования административных методов управления доказала неэффективность этого пути. Только хозрасчет, синхронизированный с народнохозяйственным критерием, может обеспечить бесперебойное функционирование производственного аппарата. В. В. Новожилов придает этому моменту чрезвычайное значение, подчеркивая, что «согласование хозрасчета с планом есть настолько важная проблема организации управления хозяйством, что меру этого согласования можно считать критерием совершенства организации управления экономикой» (стр. 18—19).

Итак, любое плановое экономическое решение, принимаемое как локальной хозяйственной ячейкой, так и обществом в целом, немыслимо вне правильной системы соизмерения затрат и результатов. Последняя является также необходимой предпосылкой рациональной организации функционирования всего народного хозяйства. Каковы же исходные принципы построения такой системы?

Прежде всего В. В. Новожилов четко формулирует понятие эффективности затрат. Он подчеркивает, что результаты хозяйственной деятельности нельзя измерять количеством выпускаемой продукции. Реальный результат измеряется *полезным эффектом*. И в этом смысле понятие эффективности затрат шире понятия производительности в той трактовке, которая распространена в настоящее время среди наших экономистов. Но если мы признаем, что «полезные эффекты» являются истинным мерилом результатов труда, то мы должны сделать и дальнейшей шаг: соизмерение результатов различных видов хозяйственной деятельности предполагает соизмерение различных потребительских благ по степени удовлетворения общественной потребности. «Без сопоставления качественно различных потребительных стоимостей, — пишет В. В. Новожилов, — нельзя определить, »оправдывает« ли та или иная продукция требуемые для ее производства затраты. Если бы мы учитывали только количества продукции, не обращая внимания на соответствие этих количеств потребностям, то мы не могли бы определять пропорции производства, ибо количества разнородных продуктов сами по себе между собой несоизмеримы, а потому их соотношения не дают никаких оснований для определения требуемых пропорций» (стр. 47).

В. В. Новожилов отмечает, что принцип сопоставления полезных эффектов в практике экономических расчетов уже давно используется. В планово-проектных расчетах при сопоставлении различных вариантов использования капитальных средств существует правило приведения сравниваемых вариантов к единому потребительскому эффекту. Правило «тождества эффекта» требует, чтобы сравниваемые варианты удовлетворяли тождественные по объему, составу, месту и времени потребности.

Если на микроуровне принцип соизмерения потребительских благ находит проявление в приведении вариантов хозяйственных решений в сопоставимый вид по полезному эффекту, то на народнохозяйственном уровне приходится сталкиваться с проблемой формирования общественных потребительских оценок. Этой последней проблеме В. В. Новожилов уделял значительное внимание. Каждый вид производственных ресурсов или предметов личного потребления оценивается конкретным потребителем (предприятием или отдельным работником) с точки зрения приносимого результата. Однако на народнохозяйственном уровне потребительские оценки должны характеризовать уже не индивидуальный, а общественный результат использования каждого продукта. Эти оценки определяются той величиной, на которую улучшается значение функционала народнохозяйственной плановой задачи при появлении дополнительной единицы продукта или ресурса. Таким образом, все результаты производственной деятельности рассматриваются через призму объективной цели экономического развития общества. Этот принцип измерения результатов логически безупречен: средства, с помощью которых достигается поставленная цель, оцениваются в соответствии с их реальным вкладом в достижение этой цели.

Если общественная цель достаточно полно осознается плановыми органами (а это условие является необходимой предпосылкой планового управления экономикой), то потребительские оценки производственных ресурсов получаются в результате составления оптимального плана. Сложнее обстоит дело с выявлением потребительских оценок предметов потребления. О мере эффективности потребительских благ мы можем получить лишь косвенное представление через фактический спрос индивидуальных и общественных потребителей. По мнению В. В. Новожилова, общественная потребительская оценка может трактоваться как максимальная цена, при которой будет реализовано все данное количество продукта в определенный промежуток времени.

В этом смысле потребительская оценка соответствует цене, балансирующей спрос и предложение. «Цены равновесия спроса и предложения предметов потребления, — отмечает В. В. Новожилов, — отражают равнодействующие» взвешивания полезных эффектов «различных продуктов массой потребителей. Поэтому исчисленные по этим ценам результаты производства могут служить для такого соизмерения затрат и результатов, при котором будет учитываться соответствие производства потребностям» (стр. 256). Однако, констатируя, что цена равновесия дает оценку потребительских благ, В. В. Новожилов обращает внимание читателя на то обстоятельство, что сам спрос потребителей опосредуется характером распределения доходов. Следовательно, при социализме интенсивность спроса определяется не только уровнем потребностей различных групп населения, но и мерой их трудового участия в процессе производства. Это — неизбежный результат действия закона распределения по труду.

Общественная потребительская оценка, характеризуя степень общественной потребности в конкретном продукте, является ориентиром для определения меры возможных и необходимых по условиям потребления затрат на производство этого продукта. Учет затрат в хозяйственной системе немыслим вне оценки уровня общественной потребности, ибо для экономических расчетов важна не только и не столько величина прямых затрат на производство, сколько размер общественно необходимых затрат. Отталкиваясь от этого положения, В. В. Новожилов дал развернутую трактовку категории общественно необходимых затрат. Для нужд планового управления, — подчеркивал В. В. Новожилов, — «необходимо знать не только труд, затраченный на производство продукта, но также и труд, который общество считает целесообразным затратить на этот продукт. Необходимое рабочее время в данном смысле этого понятия отчетливо проявляется при математическом моделировании закона стоимости: ведь каждому ограничению в модели должен соответствовать особый вспомогательный (или разрешающий) множитель Лагранжа—Канторовича» (стр. 286).

В монографии значительно обстоятельнее, чем в более ранних работах автора, рассматривается вопрос об экономической интерпретации категории дифференциальных затрат. В. В. Новожилов убедительно показывает, что формула дифференциальных затрат является не чем иным, как конкретизацией марксова учения об общественно необходимом труде применительно к социалистическому хозяйству. Принципы расчета дифференциальных затрат были изложены В. В. Новожиловым в развернутой форме еще в 1959 году и широко известны. Поэтому, не останавливаясь на общей характеристике метода расчета дифференциальных затрат, отметим лишь те специфические черты, которые особо выделял сам В. В. Новожилов. Во-первых, величина дифференциальных затрат определяется затратами на *приращение* производства, а не средними затратами. И, во-вторых, при измерении затрат необходимо учитывать всю совокупность изменений в затратах, вызванных ростом производства данного продукта. «Первым условием измерения дифференциальных затрат является измерение затрат как приращений переменной величины, а не как частей постоянной величины. Лишь такой способ измерения затрат отобразит их движение в процессе производства. Но этого мало. Мы можем измерять затраты как приращения затрат производства на тех участках народного хозяйства, которые заняты производством данного продукта и средств производства для него. В этом случае останутся неучтенными те приращения на других участках народного хозяйства, которые вызваны производством данного продукта, т. е. затраты обратной связи. Поэтому ... нужно измерять затраты на каждый отдельный продукт как приращения затрат на всю продукцию народного хозяйства» (стр. 128—129).

В нашей экономической литературе давно сложилось деление работ на политэкономические, конкретно экономические, экономико-математические и

т. п. Если разграничение общих теоретических и узкоотраслевых экономических вопросов вполне естественно, то совершенно неясен принцип, по которому из общей массы литературы выделяется так называемая экономико-математическая. Если речь идет об использовании точных методов количественного анализа экономических процессов, то таковые должны быть правилом, а не эпизодом в экономических исследованиях любого ранга. В этой связи чрезвычайно существенным представляется то обстоятельство, что работы Новожилова являются прекрасным опровержением сложившейся практики обособления экономико-математических работ в особый «околоэкономический» раздел. Любая попытка втиснуть исследования В. В. Новожилова в эти узкие рамки лишь продемонстрировала бы искусственность существующей классификации экономической литературы. Последняя и, к сожалению, единственная монография В. В. Новожилова в действительности представляет собой фундаментальное исследование по политической экономии социализма. Автор сам, как нам представляется, полностью осознавал это. Косвенным подтверждением этого факта может служить очень бережное отношение В. В. Новожилова к аппарату понятий, сложившемуся в нашей экономической науке в предшествующие годы. Он не стремится совершить переворот в экономической терминологии. Наоборот, вводя новые категории дифференциальных затрат, затрат обратной связи и т. п., В. В. Новожилов уделял большое внимание взаимосвязи этих категорий с категориями общественно необходимых затрат, стоимости, цены производства, с законом стоимости. Такой подход позволил ему в значительной мере расширить и уточнить содержание «традиционных» терминов, используемых в экономической науке и практике.

Заслуживает внимания, в частности, стремление В. В. Новожилова сохранить «трудовую размерность» множителей Лагранжа (оценок) в экономических задачах. Исходя из общих теоретических соображений, он выделял труд в качестве особого ресурса и формулировал проблему народнохозяйственного плана как экстремальную задачу на минимизацию затрат труда при заданном объеме конечной продукции. Естественно, что оценки производственных ресурсов, полученные из решения двойственной задачи, могут быть интерпретированы в этом случае как показатели, величина которых выражает «наименьшую экономию труда, которую эти средства должны давать в оптимальном плане» (стр. 261).

Признавая значение указанного подхода к трактовке объективно обусловленных оценок, следует отметить, что, на наш взгляд, не совсем правомерно противопоставлять его другой постановке вопроса о характере народнохозяйственного критерия оптимальности. Речь идет о том, что формула основного экономического закона социализма совершенно недвусмысленно подсказывает, каким должен быть критерий народнохозяйственного развития. Таковым является максимизация благосостояния трудящихся.

Следовательно, задачу народнохозяйственного планирования естест-

венно формулировать как стремление к максимизации функции общественного благосостояния при ограничениях на все производственные ресурсы, включая сюда и труд. Казалось бы, мы имеем дело с принципиально различными постановками вопроса: в одном случае — минимизация затрат труда при фиксированных ограничениях по производственным ресурсам и потребностям, в другом — максимизация уровня удовлетворения потребностей при ограничениях по труду и прочим ресурсам. Оценки во второй модели, как отмечал В. В. Новожилов, выражают не труд, а «упущенный прирост благосостояния» (стр. 371).

Однако, несмотря на то, что на первый взгляд получаются совершенно разные трактовки о. о. оценок, мы имеем дело лишь с видимостью противоречия. На самом деле, и в той и другой задаче решается один и тот же вопрос рациональной увязки производственных возможностей и потребностей. Поэтому в первой задаче затраты учитываются не «вообще», а зависят от уровня общественной потребности, а во второй — вклад в приращение благосостояния общества дополнительной единицы того или иного продукта измеряется не только степенью интенсивности самих потребностей, но и объемом производства (в конечном счете — наличием ресурсов для производства) этого продукта. Кроме того, в функции общественного благосостояния требование экономии труда учитывается путем включения свободного времени в качестве особого блага.

Таким образом, фактически мы имеем дело не с противоположными подходами к анализу экономики, а с последовательным рассмотрением двух сторон процесса воспроизводства. В одном случае общество исследуется как производитель, в другом — как потребитель. Эти две стороны органически связаны друг с другом.

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Влияние работ В. В. Новожилова на формирование взглядов советских экономистов, на направление теоретических исследований и разработку предложений по совершенствованию практики управления народным хозяйством трудно переоценить. Даже те экономисты, которые не разделяют концепцию В. В. Новожилова, в той или иной форме испытали на себе воздействие его аргументов. Сейчас уже невозможно серьезно обсуждать кардинальные проблемы ценообразования, хозяйственного расчета, оптимального планирования, не принимая в расчет точки зрения В. В. Новожилова. Смерть ученого лишила нас возможности личного общения с ним. Но его идеи по-прежнему являются мощным катализатором развития экономической науки. По нашему глубокому убеждению, значение научного наследия В. В. Новожилова с годами будет все больше возрастать, все новые и новые поколения экономистов будут обращаться к трудам В. В. Новожилова и открывать в них неожиданные грани, сверять свои идеи с высоким эталоном работ Виктора Валентиновича Новожилова.

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THE SCIENTIFIC AND PEDAGOGICAL ACTIVITY OF V. V. NOVOZHILOV

N. Petrakov

The name of Viktor Valentinovich Novozhilov (1892—1970), the outstanding Soviet economist, is well known to scientific circles in both the Soviet Union and abroad. Novozhilov wrote a number of excellent works on the economy of transitional period. His scientific activity was a significant contribution to the elaboration of the problems related to the economic efficiency of investment inputs. He was particularly recognized as one of the leading theoreticians dealing with the concept of optimum planning, and as the creator of the theory of differential inputs. Together with Academicians V. S. Nemchinov and L. V. Kantorovich, he received the highest scientific award of the Soviet Union, the Lenin Prize, for having developed economic-mathematical methods.

With regard to his studies we can distinguish between two stages in Novozhilov's many-sided activities as an author.

The first stage includes Novozhilov's activities up to 1929. At that time he dealt primarily with the questions of finance, money circulation, enterprise independent accounting (khozraschot), and material incentives. His theoretical and practical work helped to found the economic regulation activities of the young Soviet State in the economy of the NEP era. The author intensively analyses and considers to be topical to this very day those of Novozhilov's studies which pointed out the importance of a balance between supply and demand in the normal functioning of the economy, and which explain the role of the market mechanism and equilibrium prices in eliminating the shortage of commodities.

The second stage began following 1929, when the major subject of Novozhilov's scientific activity gradually became the methodology of calculating economic efficiency in a socialist economy. His book published in 1967, "Measuring Input and Results" was in fact a summary of his decades of scientific activity, in many respects of a pioneering nature. This work is a fundamental research into the problems of the political economy of socialism. The author provides a detailed review and analysis of the concept of this book evaluating its importance for economics.

Acta Oeconomica Vol. 9 (1), pp. 71–79 (1972)

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EIN MORGENSTERN/THOMPSON-AUSSENHANDELS-MODELL BEI STOCHASTISCHEN IMPORT-EXPORTPREISEN

Durch Veränderung gewisser Axiome gelingt es, das Außenhandelsmodell von Morgenstern/Thompson auf den Fall stochastischer Außenhandelspreise zu erweitern. Unter gewissen zusätzlichen Bedingungen erweisen sich die übrigen Größen des Modells als Zufallsvariablen.

Einleitung

Das von J. v. Neumann in [6] gegebene Modell einer expandierenden Wirtschaft hat verschiedene Erweiterungen und Vervollständigungen erfahren, so z. B. in [1, 3, 5].

Diese Aufzählung ist bei weitem nicht vollständig. Auch das der vorliegenden Arbeit zugrunde liegende Modell von Morgenstern und Thompson [4] kann zu diesen Erweiterungen gezählt werden. Zum besseren Verständnis der vorliegenden Arbeit soll eine kurze Darstellung von [4] vorangestellt werden.

Das Außenhandelsmodell von Morgenstern/Thompson

(Die hier verwendete Notation stimmt weitgehend mit der in der stochastischen Erweiterung des Modells verwendeten überein. Auf abweichende Interpretationen wird später speziell aufmerksam gemacht.)

A, B sind zwei nichtnegative $m \times n$-Matrizen (Inputmatrix, Outputmatrix); α, β sind zwei nichtnegative Zahlen (Wachstums-, Zinsfaktor).

Analog zum Vorgehen in [1] definiert man dann:

$$M\alpha = B - \alpha A$$

$$M\beta = B - \beta A$$

Zusätzlich werden die folgenden Größen eingeführt:

Dimension	Name	Interpretation
$1 \times n$	w^+	Exportvektor
$1 \times n$	w^-	Importvektor
$n \times 1$	p^+	Vektor der Exportpreise
$n \times 1$	p^-	Vektor der Importpreise
$n \times 1$	y	Preisvektor
$m \times 1$	z^+	Gewinnvektor rentabler Prozesse
$m \times 1$	z^-	Verlustvektor nicht rentabler Prozesse
$1 \times m$	t^+	Vektor der oberen Intensitätsgrenzen
$1 \times m$	t^-	Vektor der unteren Intensitätsgrenzen
$1 \times m$	x	Intensitätsvektor

Mit Hilfe von 9 Axiomen wird eine Volkswirtschaft wie folgt definiert:

(01) $xM_\alpha = w^+ - w^-$
(Produktion + Import = Verbrauch + Export)

(02) $M\beta y = z^+ - z^-$
(Wert des Outputs + Verlust = Wert des Inputs + Gewinn)

(03) $w^+p^+ = w^-p^-$
(Wert des Exports = Wert des Imports)

(04) $t^+z^+ = t^-z^-$
(Gewinn-Verlust-Gleichgewicht)

(05) $xBy > 0$
(etwas an Wert wird produziert)

(06) $t^- \leq x \leq t^+$
(Intensitätsvektor liegt zwischen oberer und unterer Intensitätsgrenze)

(07) $p^+ \leq y \leq p^-$
(Inlandpreis liegt zwischen Import- und Exportpreis)

(08) $z^+ \cdot z^- = 0$
(kein Prozeß macht sowohl Gewinn und Verlust)

(09) $w^+ \cdot w^- = 0$
(kein Gut wird sowohl importiert als auch exportiert) mit w^+, w^-, z^+, $z^- \geq 0$.

Wie Morgenstern und Thompson auf Seite 448 in [4] bemerken, entsprechen die Axiome (01) bzw. (02) Bedingungen des KMT-Modells für $w^- = 0$ bzw. $z^+ = 0$. Die Axiome (03), (04) sind Gleichgewichtsbedingungen, wobei (04) möglicherweise als ungewöhnlich empfunden wird, jedoch langfristig gesehen bedeutsam zu sein scheint. (05) wurde bereits im KMT-Modell eingeführt. (06) bringt eine Beschränkung des Intensitätsvektors zum Ausdruck, wobei Morgenstern und Thompson in [4] bemerken, daß die im Modell fest vorgegebenen Schranken t^- und t^+ Parameter der Volkswirtschaft sind. Hinter ihnen sind staatliche, betriebswirtschaftliche oder konsumentenbedingte Entscheidungen zu sehen; zum Teil können die oberen Intensitätsgrenzen auch rein technisch gegeben sein. (Untere Intensitätsgrenzen $t^-_i > 0$ treten z. B. dann auf, wenn ein Staat Interesse hat oder haben muß an der Durchführung unrentabler Prozesse, für die er dann natürlich in irgend einer Weise Mindestintensitäten festlegt.)

In (07) sind p^+ und p^- als fest vorgegebene »Welthandelspreise« aufzufassen, mit denen sich eine Volkswirtschaft konfrontiert sieht. Diese Annahme ist sicher dann wirtschaftlich sinnvoll, wenn man p^+ und p^- als Werte ansieht, die von der betrachteten Wirtschaft nicht beeinflußt werden können, etwa wegen des zu geringen Anteils am Welthandel. Bei der Annahme $p^+ \leq p^-$ erscheint die Begrenzung des Preisvektors y durch p^+ nach unten und p^- nach oben dann wirtschaftlich zwingend. (08) und (09) fehlen in [4]. Sie werden dort als Folgerung aus (01)—(07) betrachtet. In [2] wurde gezeigt, daß es durchaus Lösungen zu (01)—(07) gibt, die (08), (09) nicht erfüllen, d.h. auch das erweiterte Axiomensystem ist unabhängig.

Ein wesentlicher Inhalt von [4] ist der Nachweis von Lösungen zu (01)—(07) mit $\alpha = \beta$, dazu werden 4 ökonomisch einleuchtende Bedingungen vorausgesetzt. Zum Beweis wird eine Schar von zueinander dualer Linearprogramme herangezogen. Unter diesen Lösungen existieren auch immer solche, die (08), (09) erfüllen (vergl. [2]).

Das Außenhandelsmodell bei stochastischen Import-Exportpreisen

In der vorliegenden Untersuchung wird das oben erwähnte Wachstumsmodell insofern stochastisch behandelt, als Import- und Exportpreise als Zufallsvariablen aufgefaßt werden. Die hier vollzogenen Abänderungen des Axiomensystems ergeben sich aus der Auffassung, daß die in [4] genannten Axiome (03), (04) eher ein langfristiges als ein kurzfristiges Verhalten der Wirtschaft wiederspiegeln; d.h. langfristig gesehen erscheinen derartige Gleichgewichtsbedingungen wirtschaftlich sinnvoll, während sie kurzfristig nicht unbedingt erfüllt zu sein brauchen. Für den Fall konstanter Export- und Importpreise ist diese Unterscheidung weniger relevant.

Aufgrund dieser Überlegungen sind (03), (04) durch zwei andere Axiome ersetzt worden. Das eine macht eine Aussage über den Erwartungswert des Gewinns. Das andere besagt, daß der Gewinn (Verlust) derselbe ist, gleichgültig, ob er über die Produktions- oder Güterseite errechnet wird.

Dabei sind t^- und t^+ fest vorgegeben. Im Gegensatz zu [4] sind p^+ und p^- jedoch jetzt Zufallsvariablen, deren gemeinsame Verteilung P bekannt ist. Genauer wird folgende Annahme getroffen (wir beschränken uns auf eine diskrete Verteilung):

(1) $p = (p^+, p^-)$ ist eine diskrete Zufallsvariable mit der Wahrscheinlichkeitsverteilung

$$P\{p = p_k = (p_k^+, p_k^-)\} = q_k \qquad (1 \leq k \leq K)$$

mit

$$q_k \geq 0, \sum_{k=1}^{K} q_k = 1.$$

Das Axiomensystem aus [4] wird jetzt wie folgt geändert:

Axiom (A1): $xM_\alpha = w^+ - w^-$ (Produktion + Import = Verbrauch Export)

Axiom (A2): $M_\beta y = z^+ - z^-$ (Wert des Outputs + Verlust = Wert des Inputs + Gewinn)

Axiom (A3): $w^+p^+ - w^-p^- = t^+z^+ - t^-z^-$ (Gewinn (Verlust), gerechnet für die Güterseite = Gewinn (Verlust), gerechnet für die Produktionsseite)

Axiom (A4): $E(w^+p^+) = E(w^-p^-)$ (mittlerer Wert des Exports = mittlerer Wert des Imports)

Axiom (A5): $xBy > 0$ (etwas von Wert wird produziert)

Axiom (A6): $t^- \leq x \leq t^+$ (die Intensitäten liegen innerhalb festgelegter Schranken)

Axiom (A7): $p^+ \leq y \leq p^-$ (die Preise liegen zwischen den Export- und den Importpreisen)

Axiom (A8): $z^+z^- = 0$ (ein Prozeß macht nicht gleichzeitig Gewinn und Verlust)

Axiom (A9): $w^+w^- = 0$ (ein Gut wird nicht gleichzeitig importiert und exportiert)

mit $w^+, w^-, z^+, z^- \geq 0$.

(Wie man leicht sieht, gehen (A1)–(A7) in die Axiome (01)–(07) aus [4] über, wenn P eine Einpunktverteilung ist, d.h. wenn $p = (p^+, p^-)$ konstant ist.)

Das obige Axiomensystem ist nun folgendermaßen zu verstehen:

Setzt man in das System nacheinander die Realisationen p_k $(1 \leq k \leq K)$ der Zufallsvariablen p ein, dann sollen dazu jeweils Werte w_k^+, w_k^-, z_k^+, z_k^-, x_k und y_k derart existieren, daß alle Axiome bis auf (A4) erfüllt sind; die w_k^+ und w_k^- $(1 \leq k \leq K)$ sollen daneben noch insgesamt (A4) erfüllen. Die Größen w^+, w^-, z^+, z^-, x und y sind also variabel, wobei ihre möglichen Werte von den auftretenden Realisationen der Zufallsvariablen p abhängen. Jede Menge $L = \{(w_k^+, w_k^-, z_k^+, z_k^-, x_k, y_k) \mid 1 \leq k \leq K\} \cup \{(\alpha, \beta)\}$, die das System im obigen Sinne erfüllt, nennen wir eine Lösung dieses Systems.

Um die Existenz einer derartigen Lösung zu sichern, treffen wir noch die folgenden Voraussetzungen:

(V1) $$P\{0 \leq p^+ \leq p^-\} = 1$$

(V2) $$0 \leq t^- \leq t^+$$

(V3) $$P\{t^- Bp^+ > 0\} = 1$$

(V4) $$P\{t^- Ap^- > 0\} = 1$$

Die Interpretation dieser Voraussetzungen kann entsprechend der in [4] für (A3)–(A6) angegebenen Interpretation erfolgen. Bevor auf die Existenz einer Lösung für das Axiomensystem eingegangen wird, soll noch ein Ergebnis festgehalten wurden:

(2) Lemma: Ist L eine Lösung für (A1)–(A7), dann gilt $E(t^+z^+) = E(t^-z^-)$.

Dieses Lemma ergibt sich unmittelbar aus (A3) und (A4). Zum Nachweis, daß das Axiomensystem (A1), . . ., (A9) eine Lösung mit $\alpha = \beta$ besitzt, betrachtet man wie in [4] die beiden zueinander dualen Programme (3), (4). Dabei ist $\alpha \geq 0$ konstant.

Primalprogramm:

$$\text{Min} \quad -w^+p^+ + w^-p^-$$

$$\begin{aligned} xM_\alpha - w^+ + w^- &= 0 \\ -x &\geq -t^+ \\ x &\geq t^- \\ w^+, w^- &\geq 0 \end{aligned}$$

Dualprogramm:

$$\begin{array}{lll} \text{Max} & -t^+z^+ + t^-z^- & \\ M_\alpha y - z^+ + z^- & & = 0 \\ -y & & \leq -p^+ \\ y & & \leq p^- \\ z^+, z^- & & \geq 0 \end{array}$$

Aufgrund der Voraussetzungen (V1), (V2) ergibt sich mit den gleichen Überlegungen wie in [4], daß für jedes $\alpha \geq 0$ und für jede Realisation $p_k (1 \leq k \leq K)$ der Zufallsvariablen p die Programme (3), (4) zulässige Lösungen aufweisen. Für die optimalen Werte der Zielfunktionen aus (3) und (4) folgt daher, daß sie für jeweils festes p_k übereinstimmen und endlich sind. Diese optimalen Funktionswerte werden mit $V_k(\alpha)$ bezeichnet. Mit ihrer Hilfe bildet man

$$V(\alpha) := \sum_{k=1}^{K} V_k(\alpha) q_k$$

Sei $\Phi : IR^+ \cup \{0\} \to IR$ diejenige Funktion, die jedem α den entsprechenden Erwartungwert $V(\alpha)$ der Optimalwerte $V_k(\alpha)$ zuordnet.

Da die Optimalwerte $V_k(\alpha)$ stetig in α sind, ist auch $\Phi(\alpha)$ stetig in α.

Unter Ausnutzung von (V3), (V4) folgt

$$V_k(0) < 0 \qquad \forall k \in \{1, \ldots, K\}$$

$$\alpha \gneqq 0 \Longrightarrow V_k(\alpha) > 0 \qquad \forall k \in \{1, \ldots, K\}$$

(Vgl. [4])

und damit gilt

$$\Phi(0) < 0$$

$$\alpha \gneqq 0 \Longrightarrow \Phi(\alpha) > 0$$

Wegen der Stetigkeit von $\Phi(\alpha)$ existiert daher mindestens ein $\alpha > 0$ mit

$$\Phi(\alpha) = 0$$

d.h. es gilt

$$E(w^+p^+) = E(w^-p^-)$$

Damit ist (A4) erfüllt. Die Erfüllung der Axiome (A1), (A2), (A3), (A6), (A7) ergibt sich direkt aus den Lösungen der beiden Programme (3), (4). Die Erfüllung von (A5) entspricht derjenigen von (05) in [4].

Schließlich bedeuten (A8) und (A9) lediglich eine Beschränkung in den optimalen Lösungen von (3), (4) für den Fall, daß ein $j \in \{1, \ldots, n\}$ mit $p^{+j} =$

$= p^{-j}$ bzw. ein $i \in \{1, \ldots, m\}$ mit $t^{+i} = t^{-i}$ existiert. Wie sich später zeigen wird (s. Beispiel (6)), reichen (A8) und (A9) jedoch noch nicht aus, um die Existenz einer eindeutigen Lösung zu sichern. Welche Bedingungen notwendig sind, um wenigstens für festes $\alpha = \beta$ die Eindeutigkeit der übrigen Größen w^+, w^-, z^+, z^-, x und y zu sichern, zeigt der folgende

(5) Satz (Eindeutigkeit):

Ist $L = \{(w_k^+, w_k^-, z_k^+, z_k^-, x_k, y_k)\ 1 \leq k \leq K\} \cup \{(\alpha, \alpha)\}$ eine Lösung des Axiomensystems (A1) . . . (A9) und gilt für alle $k = 1, 2, \ldots, K$:
$\forall j \in \{1, \ldots, n\} : (w_k^{+j}, w_k^{-j}) \neq (0, 0)$ und
$\forall i \in \{1, \ldots, m\} : (z_k^{+i}, z_k^{-i}) \neq (0, 0)$, so sind für dieses α die Werte w_k^+, w_k^-, z_k^+, z_k^-, x_k und y_k $(1 \leq k \leq K)$ eindeutig bestimmt.

Beweis: Für jedes $k \in \{1, \ldots, K\}$ erfüllen x_k, y_k, w_k^+, w_k^-, z_k^+, z_k^- die Axiome (A1) . . . (A3) und (A6) . . . (A7), falls p durch p_k ersetzt wird. Aus (A1), (A2), (A6), (A7) folgt die Zulässigkeit, aus (A3) die Optimalität dieser Lösung für die entsprechenden Programme (3) und (4).
Für die Lösung jedes Programmpaares (3), (4) gilt für alle k

$$w_k^{+j} > 0 \implies y_k^j = p_k^{+j}$$
$$w_k^{-j} > 0 \implies y_k^j = p_k^{-j}$$
$$z_k^{+i} > 0 \implies x_k^i = t_k^{+i}$$
$$z_k^{-i} > 0 \implies x_k^i = t_k^{-i}$$

Zum Beweis kann der Satz vom komplementären Schlupf (vgl. [4]) herangezogen werden. Aufgrund der Voraussetzung sind somit für alle k die Werte x_k, y_k eindeutig festgelegt. Berechnet man jetzt die w_k^+, w_k^- bzw. z_k^+, z_k^-, so ist zwar für diese Größen eine Mehrdeutigkeit noch möglich. Wegen der Gültigkeit von (A8) und (A9) wird jedoch diese Mehrdeutigkeit ausgeschlossen. (Vgl. [2]).

Ist die in Satz (5) genannte Prämisse nicht erfüllt, so müssen für ein gleichgewichtiges α die Größen x, y, w^+, w^-, z^+, z^- bei gegebenem p^+, p^- bzw. t^+, t^- nicht eindeutig festgelegt sein, wie das folgende (deterministische) Beispiel zeigt:

(6) Gegeben seien:

$$B = \begin{pmatrix} 5 & 7 & 8 \\ 6 & 14 & 1 \end{pmatrix} \qquad A = \begin{pmatrix} 2 & 3 & 1 \\ 1 & 2 & 6 \end{pmatrix}$$

$$t^+ = (4,\ 5) \qquad p^- = (6,\ 4,\ 5)$$
$$t^- = (2,\ 1) \qquad p^+ = (2,\ 1/2,\ 2)$$

Für $\alpha = \beta = 3$ können alle Axiome (A1) ... (A9) — für eine Einpunktverteilung P für p^- oder (01) ... (07) in [4] erfüllt werden.

Man erhält z. B.

$$w^+ = (0,\ 0,\ 3)$$

$x = (4,\ 1)$ und daraus folgt

$$w^- = (1,\ 0,\ 0)$$

Für y kann jetzt z. B. der Vektor
$y = (6,\ 2/3,\ 2)$ gewählt werden;
dann ist

$z^+ = (1,\ 0)$
$z^- = (0,\ 4)$

Wählt man für y den Vektor
$y = (6,\ 1,\ 2)$, dann folgt $z^+ = (2,\ 0)$, $z^- = (0,\ 8)$. Wegen $w^{+2} = w^{-2} = 0$ sind also die Werte dieser speziellen Lösung nicht mehr eindeutig bestimmt.

Als unmittelbare Folgerung aus Satz (5) ergibt sich noch das

(7) Korollar:

Unter der Voraussetzung von Satz (5) folgt, daß x, y, w^+, w^-, z^+, z^- für ein gleichgewichtiges α Zufallsvariablen sind, deren Verteilungen sich aus der Verteilung P von $p = (p^+, p^-)$ bestimmen lassen.

Schließlich gelten unter den Voraussetzungen von Satz (5) noch die folgenden Beziehungen (in Analogie zu Satz (4) in [4]):

$$E(w^-) = 0 \implies \forall k \in \{1, \ldots, K\} : y_k^j = p_k^{+j}$$

$$E(w^+) = 0 \implies \forall k \in \{1, \ldots, K\} : y_k^j = p_k^{-j}$$

$$E(z^-) = 0 \implies \forall k \in \{1, \ldots, K\} : x_k^i = t_k^{+i}$$

$$E(z^+) = 0 \implies \forall k \in \{1, \ldots, K\} : x_k^i = t_k^{-i}$$

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ПОВЕДЕНИЕ ВНЕШНЕТОРГОВОЙ МОДЕЛИ МОРГЕНШТЕРНА-ТОМПСОНА ПРИ СТОХАСТИЧЕСКИХ ЭКСПОРТНЫХ ЦЕНАХ

О. МЭШЛИН — Б. РАУХУТ

Моргенштерн и Томпсон описывают (4) с помощью 7 аксиом равномерно развивающуюся экономику; в работе (2) расширяют эту систему аксиом дальнейшими двумя интерпретируемыми в экономическом отношении аксиомами, таким образом, что расширенная система еще остается независимой. Модель роста, получаемая на основе этой системы аксиом, представляет собой расширение моделей роста Неймана (6) и Кеменя—Моргенштерна—Томпсона (1), поскольку здесь — в отличие от их замкнутых экономических моделей из работы (4) — отражены как экспорт и импорт, так прибыль и убытки. Кроме того, мы утверждаем, что экспортные и импортные цены мирового рынка являются прочно заданными величинами и представляют собой высший и, соответственно, низший предел цен в исследуемой экономике. Кроме этого мы задаем высшие и низшие пределы интенсивности различных процессов.

В статье предполагается, что мировые цены являются вероятными переменными с дискретным распределением. Этим мы заодно предполагаем изменение аксиом (01)—(09) из работы (4). Это изменение основывается прежде всего на суждении, что тождественность стоимостей экспорта и импорта интерпретируемо, главным образом, относительно продолжительного периода, а в течение коротких периодов они могут отклоняться друг от друга.

Так можно показать, что при соответствующей модификации понятия решения, измененная система аксиом имеет решение, которое в случае одного исчисленного распределения вероятностей совпадает с решением первоначальной системы аксиом. С помощью дополнительного предположения можно показать еще и то, что встречающиеся в решении величины сами являются вероятными переменными.

Acta Oeconomica Vol. 9 (1), pp. 81—94 (1972)

G. Hidasi

CHINA'S ECONOMY IN THE EARLY 1970'S

In 1958 China embarked on a new economic policy, the essence of which was to rely on the country's own forces, in the place of close cooperation with the socialist countries. This resulted in a slowing down of economic development, which is illustrated by statistical analysis.

An unsolved problem which has been facing the China-oriented economists and researchers in the socialist countries for some time is to assess possibly with the aid of data, the results of the "new" economic policy, announced by the leaders of the Communist Party of China* in 1958, and modified just about each year since. Any economic analysis of this nature is made difficult by the lack of information: the leaders of the People's Republic of China have consistently refused to report national economic statistics, comprehensive data on production and commodity turnover since 1960, nor have they published their annual or five-year plan directives on national economic development. This means that we know as little about the real processes determining economic development in China, as we do about the goals and concepts of China's economic development and economic policy. Nevertheless, it is wise to try to process from time to time in a critical manner the available scarce material to survey the changes which have taken place in China's economic position since the 1950's (the last period for which the economic position and problems are known in some detail) in order to assess the basic trends and some approximative measures of development.

1971 was more favourable for such a survey than any previous year, because in the spring of that year, Prime Minister Chou En-lai, in a conversation with the American publicist Edgar Snow, revealed several concrete production figures of nation-wide dimensions, including some aggregate indicators. Later he repeated these to a Canadian trade delegation, in the form of making a comparison between the volumes of the gross national products of China and Canada. With the aid of complex correlation and trend calculations, these figures provide the possibility for an approximative reconstruction, within a comparatively acceptable margin of error, of the size and course of the economic development attained in the past decade, for those informed about the structural interrelations of the earlier economic situation in China. Of course, with hardly more than half a dozen indices available (expressed mainly in physical

* China means the People's Republic of China throughout.

units of measurement) the sources of error for, and the difficulties of, the economic researcher are incomparably greater than otherwise in calculating indicators such as the per capita national income, which would reflect the general development trend of the Chinese economy, even for a single given year. There is an even greater scope for errors and mistakes if, on the basis of a few 1970 data, we were to try to determine the development dynamics for the entire previous decade, particularly, if we take into account that the first half of this period covered the enormous decline following the "great leap" and the years of "correction" which followed, while the latter half was coloured by political events such as the "great proletarian cultural revolution" which had its effects on economic development. Nevertheless, the elaboration of the data series and analytical tables below involving highly complex correlation calculations as well as comparison and checking against various estimates to be found in international literature, makes such a venture worthwhile. These tables, which rely on a relatively authentic Chinese source (the statements of Prime Minister Chou En-lai) help to arrive now at a more accurate assessment than former estimates concerning China's place in economic development today, as well as the achievements since the Chinese leaders — based on their own development concepts, and the interests of their own hegemonistic world policy goals — essentially broke off the earlier close economic cooperation with the Soviet Union and the majority of the European socialist countries.

Trends in national income

The last but one line in Table 1, lists the dollar values of the per capita annual national income in China. The peak value of 1959 was not attained again before 1968—1969, after overcoming the transitional drop caused by the "cultural revolution". The "great leap" of 1958—1959 disturbed the basic national economic proportions and the equilibrium situation to such a great extent that it could be only restored by a sizable reduction in economic standards and at the cost of many years of stagnation. This makes it understandable why the Chinese political and economic leaders did not report data on the global economic position in the past decade, to disperse the mist formed as a result of the greatly exaggerated and contradictory statistics on the "great leap" around 1958—1959 and during the embargo on data publication which followed, and which essentially concealed the realities of the Chinese economy.

In the course of their analysis, students of the Chinese economy must make complex estimates and approximative calculations in order to obtain elementary data which can easily be procured from any international statistical yearbook with respect to just about every other country in the world. These include the number of the population, and their breakdown by age, sex

and place of residence. Continuous knowledge of these figures for a country of such enormous size, and on such low general level of the forces of production is extremely important, since it significantly influences and limits the rate of economic growth. The first and last time a census-like survey was taken in China was in the summer of 1953. At that time the population was estimated at 574 million, of which close to 500 million (87 per cent) lived in villages. We completed our estimates on population by starting from this figure and taking into consideration the officially and semi-officially published rates of natural increase. The estimates thus obtained are higher than the data in UNO statistics. Official Chinese statements speak of a population of 700 or 750 million, despite the fact that in the past decade, even if natural increase has dropped by one half — as a result of several campaigns aimed at reducing the birth rate — China's population must be over 800 million. Assuming a natural rate of increase between 1.3 and 1.1 per cent annually, it will reach the one billion level by 1990. Over 80 per cent of the population continues to live in the villages.

Our national income estimate in US dollars is based on the official exchange rate valid at present (1 US dollar = 2.23 yüans) which, even after the last revaluation* shows at least 30 per cent deviation from the value calculated in purchasing power parity, at the expense of the yüan. This means that in 1970 the $102.— per capita national income, adjusted for purchasing power, was about $ 133.—, or about 4000 forints. This is hardly more than 1/7 of the 1970 per capita national income in Hungary.

The most recent statements of Prime Minister Chou En-lai gave no facts regarding the use of the national income. The information that industry contributed 42 per cent and agricultural production 31 per cent to China's national income in 1970 — and the assumption of a 33 per cent net (that is, material-free) rate of production value for industry, and a 73 per cent one for agriculture — are in themselves not sufficient to estimate the utilization ratios. In order to do this we would need to know more about the industrial — and in general production — pattern, and its physical composition. The faster rise in the volume of production in recent years, primarily in manufacturing, allows us to conclude that the rate of accumulation (which rose above 40 per cent during the period of the "great leap", and which was forced under 30 per cent between 1961 and 1965 in the years of "correction" through a radical reduction of output in branches producing capital-goods) is again showing a rising trend, and most certainly is again several points over the 30 per cent mark which may be considered a relative optimum for the given level and

* Edgar Snow used an earlier exchange rate to convert the value data provided by Prime Minister Chou En-Lai in yüans into dollars (1 US dollar = 2.50 yüans). This is the reason why our total production value in industry and agriculture is 12 per cent higher than those reported by Edgar Snow.

dynamics of development. This is made even more likely by the fact that in recent years China has been making increased efforts for the rapid development of technical and scientific fields connected with the creation of a modern military technological basis (nuclear industry, missile production, instrument industry). This is a heavy financial burden on a country which, despite its great size, is on a very low level of general economic development.

Development of agriculture

Industrial employment in China — including those in the handicraft industries — is barely more than 8 per cent of the population of working age, and about one eighth* of the employment in agriculture. The gross value of industrial output is three times, while its net value is nearly 1.4 times the gross and net values of agricultural output. This sharply indicates the dramatic difference in the productivity of industrial and agricultural labour. In terms of net value, in 1970 production value per industrial employee (about 1900 yüans) was about 8.5 times that of the annual production value of a full-time agricultural employee (225 yüans). In 1957 this ratio was 6.4 : 1 (Y 1440 : Y 224) and in 1960 it was 11.4 : 1 (Y 1850 : Y 162).

Despite the tremendous differences in the efficiency of industrial and agricultural production the most important basis for the development of the Chinese economy, for both accumulation and source of labour, will continue to be agriculture, for a long time to come. Supply to the population of basic foodstuffs and articles of clothing, and supply of foreign trade with suitable export commodities depends decisively on trends in agricultural output. In this field, the estimates of foreign China-experts proved too pessimistic. Most of these sources, with the exception of a few Asian experts, estimated for example China's grain production for 1962—1970 as somewhere between 180 and 200 million tons, similar to that attained in the years between 1957—1959. Considering the population increase of about 150 million, such a decline in the per capita grain crop ought to have been counterbalanced — as it was in 1960—1962 — by a sharp increase in grain imports, or a significant reduction on per capita grain consumption. However, none of these took place in the period under discussion, which indicates that by 1963/64 the Chinese agriculture must have recovered from the natural calamities of earlier years and the decline caused by incorrect economic policy, and that the popular communes, operating in more decentralized form, have continued to develop at a basically

* In 1970 China's population of working age was estimated at about 480 million people, the number of those employed full time and part time in agriculture at about 275 million, and those employed in industry at about 40 million. The industrial employment can be divided about 50—50 per cent between those working in modern large-scale industry, and those in the handicraft industries.

acceptable rate, with annual fluctuations which can be considered normal.* Some part was played in this by the rapid growth of fertilizer production (partly local small-scale production), by the spread of irrigation, and also by the fact that the "great cultural revolution" of 1966—1968 hardly effected the rural regions.

As regards agricultural yields, the statistical basis is almost totally lacking and the researcher must make even rougher estimates. In the past ten years the area under cultivation has increased from about 120 million to 130 million hectares, of which about 115 million hectares are believed to be arable land. In 1970 the area under grain, taking into consideration the possibility for two or even three crops annually in the southern regions of China, is considered to be about 130 million hectares. Accordingly, the 240 million tons crops corresponds to a yield of 18.59 quintal per hectare. However, 45—47 per cent of Chinese grain production comes from rice, which has the highest yield of all grain types (about 30—32 quintals per hectare); furthermore, it is a Chinese custom to include (to 1/4 of actual weight) sweet potato yields too. This means that the average yield in other grains is still not more than about 13—14 quintals. No doubt, even this is more then 15 per cent higher in all grain types, than the 1957 yields. We assume that the excess yield in cotton and oily plants was significantly higher than 15 per cent.

We show trends in animal husbandry in our table by an estimate of pig livestocks. Pig breeding, carried on in China mostly in household plots, reacts most sensitively to changes in economic policy; if we were to have a truly good statistical data series, it could be read like a seismograph to show the policy pursued by economic and party management with respect to the household plots. Due to the lack of data, foreign experts often use this interrelationship in the opposite direction: they rely on the policies pursued and on the market supply of meat and try to estimate the magnitude of pig livestock. The pig population of China, estimated at about 180 million, is the highest in the world, but the per capita level of meat consumption is among the lowest (7—8 kilogramms annually).

The position of industry

Table I provides a relatively comprehensive picture of the size of China's industrial output. These quantitative indices cannot, of course, reflect the qualitative development of Chinese industrialization, which took place in the past 20 years; the technical progress of an industry which had been on one of the lowest development levels in the world. Today Chinese industry, even

* By acceptable rate we mean an annual growth rate of agricultural output which exceeds the natural rate of increase 2 to 2.5 fold. Normal annual fluctuations in yields are $\pm 10-15$ per cent.

if it operates with low efficiency and turns out small series, is already capable of producing a whole host of products, machines, equipment, instruments, etc. Such a wide range is generally produced only in countries on a much higher level of economic development and industrialization. This indicates that despite all political disturbances and economic difficulties, China was capable of concentrating in the past decade quite significant material and intellectual resour-

Table I

Some basic trends in the Chinese economy

Category	Unit	1952	1957	1959	1960	1962	1965	1970	1975
Electric energy	billion kWh	7.2	19.3	41.5	47.0	30.0	60.0	90.0	130.0
Coal	million tons	66.5	130.0	310.0	375.0	225.0	225.0	310.0	380.0
Crude oil	million tons	0.4	1.5	3.7	5.5	6.5	10.0	20.0	35.0
Crude steel	million tons	1.4	5.4	12.0	17.0	9.0	13.0	18.0	33.0
Rolled steel	million tons	1.3	4.5	9.0	12.0	7.8	11.5	16.0	30.0
Cement	million tons	2.9	6.9	12.3	12.5	7.0	11.0	16.0	24.0
Fertilizer	million tons	0.2	0.6	2.0	2.5	2.1	6.0	14.0	30.0
Sugar	million tons	0.5	0.9	1.3	1.5	2.1	2.6	3.5	4.8
Edible oils	million tons	1.0	1.1	1.3	0.9	1.1	1.8	2.4	3.2
Cotton fabrics	billion metres	4.2	5.0	7.0	6.5	3.3	7.0	8.5	11.0
Value of gross industrial output	billion yüan	31.0	70.4	152.5	168.0	100.0	156.0	225.0	310.0
Grains	million tons	155	185	192	160	200	220	240	280
Raw cotton	million tons	1.3	1.6	1.8	1.4	1.2	1.5	2.1	2.8
Pig livestock	million pieces	90	146	150	120	135	150	180	220
Gross value of agricultural output	billion yüan	43.0	53.7	57.5	47.0	56.0	64.0	75.0	90.0
Industry + agriculture total in yüan	billion yüan	74.0	124.1	210.4	215.4	156.0	220.0	300.0	400.0
dollars	billion $	33.1	55.7	94.3	96.3	70.0	98.7	134.3	179.0
National income									
yüan	billion yüan	62.0	95.0	121.0	125.0	103.0	125.0	178.0	230.0
dollars	billion $	27.8	42.5	58.8	56.0	46.2	56.0	80.0	103.0
Yüan/capita	Y	110	150	198	186	147	170	227	275
Dollars/capita	$	49	67	89	83	66	76	102	123
Population	millions	560	635	660	673	700	735	785	835

Note: The data for 1952 and 1957 are official Chinese statistical reports, for 1959 and 1960 partly semi-officially corrected figures, and partly estimated on the basis of correlation calculations. Later years are estimated partly by the author, partly by other foreign experts, mainly based on correlations in former years. The 1970 data contain all the concrete statements of Prime Minister Chou En-lai. Trend extrapolations and other estimation methods were applied for completing the table for the past and the same methods were used to estimate expected development for 1975.

ces on technical and technological development. This assisted to no small extent the economic policy, which operated from the mid-1960's onwards and resulted in meeting the needs of the population for industrial products on an ever increasing scale, by developing locally established, smaller industrial plants on a lower technical level. This proved the viability and success — in view of the special conditions in China — of the policy of "standing on their own two feet", as announced at the time of the "great leap" in 1958. (Originally this meant the simultaneous application of variants which sharply differed from the point of view of the level of technology as well as the up-to-date nature of the operation in a general sense.) However, the continued successful application of this policy now increasingly depends on the level and volume of international cooperation and technological imports China is capable of achieving application of advanced techniques. In my opinion, this is one of the reasons for the obvious recent change in China's international policy: after nearly a complete decade of isolation policy the Chinese are endeavouring to rapidly expand their international political, economic and commercial ties in almost all directions.

The implementation of industrialization, and thereby the raising of China's general economic development level to at least that of the countries on medium levels, involves gigantic tasks. These still have to be solved. In order to reach this level (which at present corresponds to $ 600 per capita annual national income) in the early 1990's, when China's population is expected to reach the one billion level, the country will need to produce about 1000 million kWh of electric energy annually, 1 billion tons of coal, 200—250 million tons of crude oil, 120—130 million tons of steel, 80—100 million tons of cement, 50—60 million tons of fertilizers, 20 million tons of sugar, 10 million tons of edible oils, 25 thousand million metres of cotton fabrics, 700—800 million tons of grain, 8—10 million tons of cotton and 25 million tons of meat. This assumes 11 times the 1970 production of electric energy, 3 times that of coal, 6—6.5 times that of crude oil, 6—7 times that of steel, 3.5—4 times that of fertilizers, 6 times that of sugar, 4 times that of edible oils, 4 times that of cotton fabrics, 3—4 times that of the wheat, and about 4—5 times that of the cotton and meat produced in 1970. It is clear that the period of 25—30 years is historically a very short time for such enormous tasks. In a country as economically backward and poor as China, this will require the maximum mobilization of all accessible domestic and foreign resources. These targets cannot be reached without the continuous improvement in economic efficiency, and even then is unlikely that each of them can be achieved. Nevertheless, the goal set can be attained by an annual 8 per cent global increase in the per capita national income, which is by no means unrealistic. In order to ensure efficient development it is increasingly essential and urgent that China gets access to the advantages stemming from international cooperation and the

division of labour even if, due to the size of the country, for a long time to come the volume of foreign trade cannot be more than a small fraction of the volume of domestic production and commodity turnover.

Trends in foreign trade and foreign economic relations

Table II contains a survey in some detail of China's foreign trade turnover in 1959, 1969 and 1970, based on the statistical reports of the partner countries. In 1970 China's foreign trade amounted to nearly 4.3 thousand million dollars, and for the first time nominally surpassed the 4,230 million dollar record of 1959. In the course of the past decade the direction of China's foreign trade changed radically; the share of the trade with the socialist countries dropped from 69 per cent in 1959 to 19 per cent in 1970. The bulk of China's foreign trade (about 60 per cent) is now with the developed capitalist countries belonging to the OECD, and among these her most important trading partner is Japan, with whom the value of bilateral turnover in 1970 was over 820 million dollars. Japan is followed — with respect to the magnitude of bilateral trade — by the Federal Republic of Germany, Britain, Canada, Australia, Singapore, France and Italy, among the capitalist countries, each with a turnover between 140 and 250 million dollars. Trade with Hong Kong is essentially unilateral, and valued at 500 million dollars. It is characteristic that the European Economic Community held a share of over 14 per cent in 1970, while at the same time the share of the CMEA countries was under 9 per cent. Among the socialist countries, in 1970 China's largest volume of trade was with Cuba, the People's Democratic Republic of Korea and Albania, although no precise data are available. The magnitude of bilateral trade with these countries is estimated to be about 140—150 million dollars each. Then came Romania with 130 million, the German Democratic Republic with 78 million, Czechoslovakia with 60 million, and Poland with 50 million dollars of turnover. In 1970 the total of Sino-Soviet trade was 46 million dollars, and Sino-Hungarian turnover 20 million dollars. China's trade with the countries of the third world came to about 20 per cent of her total foreign trade, in other words, it was identical in magnitude with its turnover with the socialist countries. China regularly has a certain surplus in her trade with these countries. Its greatest volume of turnover is with Singapore and Malaysia, of which the former, in a manner similar to Hong Kong, deals with the reexport of Chinese commodities to the developed capitalist countries. Apart from trade ties, China supplies significant development aid to many Asian and African countries. According to incomplete data, since 1969 China has provided financial and expert aid towards the realization of 49 development projects in 15 countries, after a sharp decrease in earlier similar activities during the period of the "great cultural revolution".

Table II

Foreign trade turnover of China

Million US dollars

Country	Exports			Imports			Total turnover		
	1959	1969	1970	1959	1969	1970	1959	1969	1970
Soviet Union	1100.3	29.0	21.6	954.6	27.7	24.8	2054.0	56.7	46.4
German Democratic Republic	111.8	34.0	35.6	106.4	29.8	42.3	218.2	63.8	77.9
Czechoslovakia	95.6	32.5	25.1	99.6	25.7	30.8	195.2	58.2	55.9
Poland	56.1	23.3	24.4	42.9	18.8	26.3	99.0	42.1	50.7
Hungary	43.8	10.6	12.0	39.6	7.1	8.4	83.4	17.7	20.4
Romania	29.9	42.3	62.0	29.5	38.4	71.7	59.4	80.7	133.7
Bulgaria	10.6	2.0	0.9	7.8	2.2	1.0	18.4	4.2	1.9
CMEA countries total	1448.1	173.7	181.6	1280.4	149.7	205.3	2728.5	323.4	386.9
% share in total	65.3	8.6	8.3	63.7	8.2	9.5	64.5	8.4	8.9
Non-CMEA socialist countries	71.9	311.3	333.4	19.6	150.3	119.7	91.5	461.6	453.1
% share of all socialist countries in total	68.5	24.0	23.5	64.6	16.3	15.1	66.7	20.4	19.4
Federal Republic of Germany	66.3	88.2	85.1	128.7	157.9	168.6	195.0	246.1	253.7
France	16.2	76.7	69.8	39.8	44.4	81.2	56.0	121.1	151.0
Italy	13.2	64.2	83.1	36.4	56.3	57.0	49.6	120.5	140.1
Holland	22.1	27.8	26.7	11.2	23.0	21.9	33.3	50.8	48.6
Belgium + Luxemburg	8.7	12.4	10.6	33.5	16.1	22.3	42.2	28.5	32.9
EEC countries	126.5	269.3	275.3	249.6	297.7	351.0	276.1	567.0	626.3
% share in total	5.7	13.3	12.6	12.4	16.2	16.3	8.9	14.7	14.4
United Kingdom	55.2	90.5	80.5	69.4	130.8	107.0	124.6	221.3	187.5
Norway	2.6	6.0	6.3	7.6	4.8	11.6	10.2	10.8	17.9
Denmark	7.2	9.1	10.6	3.5	1.3	3.8	10.7	10.4	14.4
Sweden	5.4	18.6	18.6	14.4	11.8	22.1	19.8	30.4	40.7
Switzerland	11.4	18.1	18.1	34.3	14.5	20.8	45.7	32.6	38.9
Austria	3.1	9.4	12.3	14.4	4.1	5.4	17.6	13.5	17.7
Finland	4.7	7.3	5.9	16.5	5.8	12.2	21.2	13.1	18.7
Canada	5.2	25.3	18.3	1.8	113.3	135.8	7.0	138.6	154.1
Australia	8.4	31.0	41.5	30.1	106.0	146.5	38.5	137.0	188.0
Japan	18.9	234.5	253.8	3.7	390.8	568.9	22.6	625.3	822.7
Hong Kong including reexport	181.0	445.5	467.1	20.0	1.1	10.6	201.0	446.6	477.7
Other developed capitalist countries	20.3	15.4	21.7	24.7	28.0	23.7	45.7	43.4	45.4
Developed capitalist countries total	45.0	1180.0	1230.0	490.0	1110.0	1420.0	940.0	2290.0	2650.0
% share in total	20.3	58.5	56.2	24.5	60.5	66.0	22.2	59.4	61.1

cont. foll.

Table II cont.

Country	Exports			Imports			Total turnover		
	1959	1969	1970	1959	1969	1970	1959	1969	1970
Singapore incl. reexport		57.6	77.7		44.4	27.4		102.0	105.1
Malaysia	51.1	136.8	127.2	39.8	57.6	22.9	90.9	194.4	150.1
Ceylon	31.5	19.8	44.8	16.3	40.8	43.9	47.8	60.6	88.7
Pakistan	4.2	—	30.0	0.7	28.8	36.1	4.9	—	66.1
United Arabian Republic	23.7	12.9	—	33.8	14.4	—	57.5	27.3	42.3
Sudan	2.6	14.2	—	3.0	18.3	—	5.6	32.5	—
Tanzania	—	11.3	37.8	—	10.9	—	—	22.2	—
Developing countries total	1250.0	355.0	445.0	220.0	425.0	405.0	470.0	780.0	850.0
% share in total	11.2	17.5	20.3	10.9	23.2	18.8	11.1	20.2	19.5
Estimated total turnover	2220.0	2020.0	2190.0	2010.0	1835.0	2150.0	4230.0	3855.0	4340.0

China's most important investment in the third world was the Tan-Zam railway line running between Tanzania and Zambia, for which she lent 400 million dollars of interest-free credit, with a 30 year repayment deadline. The construction has been taking place since 1970 with the participation of about 7—8,000 Chinese experts and workers. Following completion of the railway, China also wishes to participate in the exploitation of Zambian copper mines. Of the Arab countries, in 1970 the People's Democratic Republic of Yemen and the Sudan received 18 and 14 million British pounds in interest-free credit. In August 1971 the Sudan, following the bloody countercoup of Nimeri, received a further 35 million dollars of development credit from China.

Of the socialist countries, aside from the Democratic Republic of Vietnam and Albania which receive regular support, in 1970 Romania joined the list of countries assisted by China. First Romania received about 24 million dollars worth of non-repayable flood aid, and in the spring of 1971 an agreement was signed between the deputy prime ministers of the two countries concerning $ 250 million Chinese long-term credit which would be used by Romania mostly to purchase complete plants from China.

Even including Chinese credit and foreign aid, valued at 500 million dollars annually, in 1970 only 3.4 per cent of the Chinese national income (of about 80 thousand million dollars) was realized in international transactions. China has no debts abroad, and her balance of payments has been in equilibrium. As a result of all these factors, the leaders of the country strongly subordinate the trends in their foreign economic relations to their political goals, applying appropriately differentiated tactics towards the partner country in question.

The effects of policy on economic development

The main question is: how should we valuate, in the final analysis, the development of the Chinese economy? Of course, specific conditions and possibilities have to be considered in attempting to assess the practical consequences of the policy of the Chinese leaders "to rely on their own forces". In essence, this liquidated the formerly close economic cooperation ties with the Soviet Union and most of the European socialist countries. Furthermore, has the "reorientation" of China's foreign economic ties from the socialist countries to the economically more developed capitalist countries provided an opportunity for the acceleration of the rate of economic growth?

Tables III and IV serve as a basis for the analysis. Table 3 shows the growth rates in the periods of the four five-year plans, and two "intermezzos", the "great leap" and its objective consequence, the years of "correction", calculated on the basis of the absolute data listed in Table I. It is already clear from that table that the results of "three years of tense struggle" were not "the thousand years of happiness", as was emphasized by one of the popular slogans at the start of the "great leap" in 1958, but eight years of economic stagnation, from which the Chinese economy could not recover before the period of the third five-year plan (1966—1970). (The disturbances and losses in work time caused by the "great proletarian cultural revolution" caused a decline in industrial output in 1967—1968, estimated to about 20—25 per cent.) The growth rates for the fourth five-year plan have been estimated by extrapolating the trend lines of actual development; the volumes and values received were modified in a few cases where such correction was unquestionably justified by published Chinese economic policy endeavours and development goals.

The likely answers to the questions asked above, can be seen in Table IV. This shows the average annual growth rates characterizing the actual development attained in China. It is most probable that in the long term similar development trends will prevail with respect to the dynamics of economic growth. The growth rate of agriculture will be somewhat higher, assuming favourable weather, and will approach one third of the growth rate of industry, or a value close to 4 per cent annually. This would in any case be desirable from the point of view of shaping basic national economic proportions into more favourable harmony. However, the agricultural basis needed for industrialization will prove to be to narrow, both from the side of accumulation, and from that of the consumer market, as was the case in the period of the first five year plan.

The extremely high growth rate attained in just about all fields during the period of close economic cooperation with the socialist countries, and primarily with the Soviet Union, dropped to one seventh in the average of the past 11 years, following the "reliance on own forces", as measured by the most comprehensive index of economic development, the growth rate of per

Table III

Trends in production and annual average growth rate of national income of the Chinese economy

Percentages

Category	1st five-year plan 1953 - 1957	"Great leap" 1958 –1960	2nd five-year plan 1958 – 1962	"Correction" 1961 – 1965	3rd five-year plan 1966 – 1970	4th five year plan 1971—1975
Electric energy	21.6	34.4	9.2	5.1	8.5	7.6
Coal	14.4	42.3	11.6	— 7.4	4.0	4.2
Crude oil	27.4	54.2	34.1	12.7	14.9	11.8
Crude steel	31.7	46.6	10.7	— 5.3	9.0	10.5
Rolled steel	28.2	38.5	11.6	— 0.8	9.4	10.8
Cement	19.1	34.0	0.2	— 3.9	7.8	8.5
Fertilizers	28.5	51.8	28.5	19.1	18.4	16.4
Sugar	13.9	18.6	18.4	11.6	6.2	6.5
Edible oils	2.3	— 6.4	0.0	14.9	5.9	5.9
Cotton cloth	5.7	9.1	— 9.7	1.5	3.9	5.2
Value of industrial output	17.9	33.5	7.3	— 1.4	7.6	6.6
Grain	3.7	—12.5	1.6	6.5	1.8	3.2
Crude cotton	4.7	— 4.2	— 5.6	1.4	8.5	5.9
Pigs	10.1	— 6.5	— 1.4	4.6	3.7	4.1
Value of agricultural production	4.6	— 4.2	1.0	6.3	3.2	3.7
Value of industrial + agricultural production	10.9	20.0	4.4	0.4	6.3	5.9
National income	8.9	9.7	1.6	0.0	7.3	5.2
Per capita national income	6.3	7.4	— 0.4	— 1.8	6.0	4.0
Population	2.5	2.0	2.0	1.8	1.3	1.2

capita national income.* Behind these dry figures, however, the prolonged distress of tens and hundreds of millions of people should be seen. For the Chinese people the cooperation with the socialist nations, the support of the industrially and technically more developed socialist countries meant in the 1950's a lever, which enabled them to multiply their output and develop their capabilities. Liquidation of this natural relationship by the Chinese leaders was a historical error, and a mistaken political measure, unsupportable by rational reasoning. Its consequences will be felt in all their negative and destructive effects both within and outside China for a long time to come. Due to technical and economic backwardness, China cannot develop eco-

* In our data we deliberately left out the extremely high dynamic data of the period of reconstruction between 1950 – 1952, since they would distort the average development rate for the period of cooperation upwards.

nomically at a suitable rate without efficient international aid. In this respect China's position and problems are very close to those of many developing countries. However, China's outstanding size and conditions (including the tremendous labour and raw material reserves and the huge domestic market) offer qualitatively different, and significantly greater opportunities than other countries have for manoeuvring in all respects, including foreign relations. China can sovereignly decide from which countries she will procure the essential external and technical aid. Her leaders are responsible for the fate, for the economic and cultural rise of 800 million people. They must assess the achievements and errors in their economic development strategy and international economic policy and must face the facts which speak *against* "reliance

Table IV

Trends in production and the annual average growth rate of national income of Chinese economy in selected periods

Percentages

Category	Development in	Period of cooperation with the socialist countries	Period of "relying on their own power"	Period of "own development" concept	Expected development on basis of their "own" concept
	1953–1970	1953–1959	1960–1970	1958–1970	1958–1975
Electric energy	15.1	28.9	7.3	12.5	12.0
Coal	8.9	24.6	0.0	6.9	6.2
Crude oil	24.8	27.4	16.6	22.3	19.3
Crude steel	17.2	36.0	4.7	10.6	10.6
Rolled steel	15.6	31.8	6.5	11.3	11.1
Cement	10.0	23.0	2.4	6.7	7.2
Fertilizers	26.9	38.9	19.4	20.7	24.5
Sugar	10.4	14.6	9.5	11.0	9.8
Edible oils	5.0	3.8	5.8	6.2	6.1
Cotton cloth	4.0	7.6	5.8	6.2	6.1
Value of industrial output	11.7	25.6	3.6	9.4	8.6
Grains	2.5	3.1	2.1	2.0	2.3
Raw cotton	2.7	4.8	1.5	2.1	3.1
Pigs	3.9	7.6	1.7	1.6	2.3
Value of agricultural output	3.1	4.3	2.4	2.6	2.9
Value of industrial + agricultural output	8.1	16.0	3.3	7.0	6.7
National income	6.0	11.3	2.9	5.0	5.0
Per capita national income	4.1	8.8	1.2	3.2	3.5
Population	1.9	2.3	1.6	1.7	1.5

on their own forces" regularly interpreted in the narrow sense, and *in favour* of cooperation with the outside world, in which the European socialist countries are China's most natural partners.

ЭКОНОМИКА КИТАЙСКОЙ НАРОДНОЙ РЕСПУБЛИКИ В НАЧАЛЕ 70-ЫХ ГОДОВ

Г. ГИДАШИ

В своей статье автор предпринимает попытку воспроизвести — на основании опубликованных после более чем десятилетнего перерыва китайских данных — ход развития китайской экономики в течение минувшего десятилетия. Автор стремится определить уровень развития китайской экономики, достигнутый с тех пор, как китайские руководители по существу ликдивировали — под лозунгом «опоры на собственные силы», исходя из своих собственных концепций развития и преследуя собственные цели в мировой политике — сложившееся ранее тесное экономическое сотрудничество с Советским Союзом и большинством европейских социалистических стран.

На основании анализа взаимосвязей и взаимозависимостей развития экономики КНР в 1949—1960 гг. автор указывает, что сообщенной премьером Чжоу Энь-лаем цифре валовой промышленной и сельскохозяйственной продукции 1970 года в размере 135 млрд. американских долларов соответствует примерно 80 млрд. долларов национального дохода, что составляет круглым счетом 100 долларов на душу населения. Это означает, что в Китае в 1961—1970 годы темп среднего годового прироста национального дохода в расчете на душу населения едва превышал 1,2%. т. е. замедлился примерно в пять раз, по сравнению с темпом роста в 6,3% периода первого пятилетнего плана (1953/1957 гг.). На основе корреляционных расчетов автор дает приближенные оценки также структуры производства и потребления национального дохода в Китае.

Рассматривая развитие китайского сельского хозяйства и промышленности на протяжении истекшего десятилетия автор указывает на огромную разницу в производительности труда этих двух главных отраслей народного хозяйства. Примерно 40 млрд. занятых в промышленности и ремесленном производстве производят в среднем в 8—9 раз больше по стоимости продукции в расчете на одного работника, чем приблизительно 275 млн. крестьян, занятых в сельском хозяйстве.

Автор показывает, какие гигантские задачи предстояло бы решить Китаю для достижения в течение жизни одного поколения уровня нынешних среднеразвитых стран, который в настоящее время можно охарактеризовать среднедушевым национальным доходом в примерно 600 долларов. По мнению автора, эту задачу невозможно решить без крупной иностранной технической помощи. Затем на основании международных статистических данных автор производит краткий обзор распределения по направлениям внешнеторгового оборота Китайской Народной Республики, составившего в 1970 году примерно 4,3 млрд. долларов. Он останавливается на масштабах помощи, предоставляемой Китайской Народной Республикой другим странам, отмечает, что китайские руководители во все большей мере подчиняют внешнеэкономические связи этой огромной страны своим политическим целям.

Начиная с первой половины 60-ых годов, политика китайских руководителей во все меньшей мере учитывала основные интересы китайского народа. После провала волюнтаристской экономической концепции «большого скачка», в годы «упорядочения» равновесие народного хозяйства удалось восстановить только ценой резкого сокращения и продолжительной стагнации производства. После этого на экономику обрушились новые потрясения, вызванные «великой пролетарской культурной революцией». Все это вместе взятое привело к значительному замедлению экономического развития, к затяжной отсрочке материального и культурного подъема трудолюбивого и талантливого китайского народа.

Acta Oeconomica Vol. 9 (1), pp. 95—103 (1972)

COMMENTS AND CRITICISMS

J. L. Malaussena de Perno

G. ADAM: "NEW TRENDS IN INTERNATIONAL BUSINESS: WORLDWIDE SOURCING AND DEDOMICILING" et "SOME IMPLICATIONS AND CONCOMITANTS OF WORLDWIDE SOURCING. COMMENTAIRE*

I

G. Adam procède à l'examen critique de ce que N. Leff [1] appelle la 3e vague d'investissement direct international. Ces investissements de «worldwide sourcing» (WS) manifestent la volonté des grandes firmes managérielles de tirer parti des salaires de subsistance des pays en voie de développement (PVD), pour triompher de la concurrence sur les marchés oligopolistiques à main d'œuvre onéreuse. Ce type d'investissement est très récent — postérieur à 1965 — mais progresse rapidement, aux dépens sans doute des «vagues» antérieurement dirigées vers les ressources naturelles, puis les substitutions d'exportations. G. Adam est loin de partager à leur sujet l'optimisme de la plupart des auteurs américains, dont les positions procèdent davantage des a priori d'une doctrine pseudo-libérale** ou d'intérêts mal compris*** que de considérations purement scientifiques. Cet auteur semble pencher en faveur d'une planification mondiale de ces investissements; elle permettrait d'éviter certains inconvénients majeurs que l'on peut très brièvement résumer ainsi: Les conséquences pour les pays développés sont de deux sortes; pour la main d'oeuvre, les niveaux de l'emploi et des salaires se trouvent nécessairement déprimés; certaines industries sont par ailleurs particulièrement frappées, et avec elles les régions et les groupes sociaux pour lesquels elles jouent un rôle prépondérant. Pour les PVD, les avantages demeurent problématiques: Il est incontestable que la main d'œuvre bénéficie des investissements WS; mais la nature de ces investissements est telle, que l'économie des pays d'accueil se trouve dans une dépendance complète vis à vis de centres de décisions étrangers. De plus, le système repose sur des salaires maintenus parfois d'autorité à des niveaux de subsistance.

Pour être tout à fait efficace dans ses critiques, G. Adam aurait peut être du commencer par répondre lui-même aux questions qu'il pose enfin et qui reviennent à peu près à ceci: *Qui doit produire quoi et où ?* Ces questions sont du ressort de la théorie du bien-être (welfare) et celle-ci doit fournir le

* Notre rédaction a le plaisir de faire place au commentaire de M. Malaussena de Perno, concernant les deux articles intitulés ci-dessus de M. Gy. Ádàm lesquels ont été publiés dans les numéros 3—4 vol. 7, resp. 2—3 vol. 8, de notre revue. Dans le no. 3—4 vol. 9, nous publierons des commentaires ulterieurs ainsi que la réponse de M. Ádám.

** Le "laisser faire laisser passer" est en fait l'arme favorite des mercantilistes; il ne se confond avec le libéralisme authentique de Ricardo (les avantages à la spécialisation sont *mutuels*) qu'à la condition d'une parfaite mobilité *intersectorielle* des facteurs, c.-à-d. d'une maximisation générale et non plus partielle ou locale des profits.

*** Il s'agit notamment de fournir des arguments aux entreprises multinationales de plus en plus contestées aux Etats-Unis.

critère permettant, avec une analyse plus rigoureuse, d'éviter certaines ambiguïtés auxquelles autrement il est difficile d'échapper. Les deux derniers termes (quoi produire et où?) concernent la division internationale du travail; à ce sujet la substitution d'importation doit jouer un rôle fondamental: elle permet à chaque économie nationale d'adapter ses structures productives conformément aux exigences de la croissance, et de maintenir entre elles une complémentarité nécessaire à l'expansion équilibrée des échanges mondiaux. Cela conduit à critiquer un point apparemment mineur de l'analyse de G. ADAM; il commande pourtant, à notre avis, la réponse au premier terme (qui doit produire?), et ainsi l'analyse de l'investissement direct international.

II

II. 1 — G. ADAM adopte l'idée selon laquelle la substitution d'importation aurait épuisé ses effets sur la croissance des PVD; la promotion des exportations se présenterait alors comme la seule solution de remplacement. Il aurait pu invoquer à l'appui de cette thèse l'expérience indienne de politique économique: La substitution d'importations *systématique* provoque avec l'inflation et le chômage, un déséquilibre permanent de la balance des paiements. [1] Or, n'est-il pas curieux de constater que la promotion *systématique* des'exportations, poursuivie grâce aux investissements WS, paraît comporter les mêmes inconvénients? En effet, si les travailleurs des entreprises américaines implantées au Mexique vont aux Etats-Unis dépenser leurs salaires en biens de consommation, et si les investissements étrangers en Corée du Sud se traduisent par des importations cumulatives; non seulement des ces mêmes produits mais aussi de matières premières (cf. G. ADAM), n'est-ce pas pour la raison que ces investissements visant non la substitution d'importation, mais la satisfaction exclusive de la demande étrangère [2] . . . Ces faits auraient pu suggérer à G. ADAM que substitution d'importation et promotion d'exportation ne sont pas les termes d'une alternative. L'analyse suivante doit montrer comment, dans une perspective de croissance et d'intégration internationale, la première est le prélude nécessaire de la seconde; c'est faute de l'avoir reconnu que les politiques économiques *systématiques* sont confrontées à des problèmes similaires.

II. 2 — Quoi produire et où? Traditionnellement, la référence normative permettant de déterminer le choix des spécialisations est celle de l'avantage comparatif, du moins dans sa formulation en termes de dotations relatives en facteurs (Heckscher-Ohlin). On s'est vite aperçu toutefois que son caractère statique enlève à ce principe toute valeur opérationnelle pour la définition d'une politique de croissance. Aussi, une thèorie du choix des investissements s'est-elle efforcée de surmonter cette incapacité, mais elle s'est trouvée à son tour confrontée à un problème majeur*: tournant le dos au principe de la dotation relative en facteurs, les nouveaux critères d'investissements consacrent par la même occasion l'oubli des conditions d'une division internationale du travail. Or, les statistiques mondiales font bien apparaître une forte corrélation entre les accroissements des revenus nationaux et ceux des exportations et cela même dans le cas des pays les plus pauvres. Par ailleurs, la théorie du sous-développement se trouve implicitement en parfaite harmonie avec

* Cf. sur l'ensemble de la question. [3]

ces observations statistiques lorsqu'elle montre comment le décollage (take off) exige à la fois des investissements «labour using»* et la promotion des exportations**: au niveau des faits les conditions de la croissance et celles de la spécialisation relative des nations semblent ainsi réunies. Comment faire pour qu'il en soit de même au niveau de la théorie?

II. 3 — Un principe d'avantage comparatif dynamisé doit permettre cette réunion. Il suffit pour cela de reformuler le principe traditionnel en termes de perspectives de la demande nationale***: Une nation a intérêt à se spécialiser dans les productions pour lesquelles les perspectives de croissance de la demande domestique sont relativement favorables, et à importer les autres produits. L'hétérogénéité de ces perspectives, elle même liée à celle des niveaux de vie**** permet de fonder une complémentarité internationale des productions satisfaisant aux conditions recherchées d'une croissance d'économies nationales inégalement développées. Il s'agit là d'un véritable principe d'avantage comparatif: a) Il procède lui aussi de l'hypothèse fondamentale de maximisation des profits, (avec mobilité «ricardienne» des facteurs), ceux-ci étant généralement élevés dans les productions pour lesquelles la demande est en croissance rapide, et faibles, voire nuls, dans le cas contraire; b) ce principe ne contredit pas la tradition de la dotation relative en facteurs; puisque le plus souvent, les productions en forte croissance dans les pays pauvres sont «labour intensive», à la différence de celles des pays avancés. Ce principe nouveau ajoute une condition supplémentaire à la tradition, et assure ainsi la dynamisation nécessaire à la réunion des conditions de la croissance et de la spécialisation: a) en longue période les coûts et dotations relatives en facteurs devenant des variables, une détermination des spécialisations conforme à l'avantage comparatif exige la soumission de recherche et d'innovation au principe de la maximisation des profits. Cela commande aux pays développés de renoncer à l'activité innovatrice lorsqu'elle est destinée à procurer à de vieux secteurs (textile, sidérurgie) un léger avantage de coût dans la concurrence avec les pays moins avancés, et de la poursuivre au contraire dans le domaine des produits nouveaux, auxquels sont attachés généralement les taux de croissance et de profit élevés; b) une redistribution internationale des tâches (RIT) doit donc se produire à partir des pays développés où leurs perspectives de croissance sont épuisées, vers les pays moins avancés où les perspectives deviennent favorables. Cette RIT est réalisée par la substitution de l'importation à la production domestique dans le cas des pays avancés, et de la production domestique á l'importation dans celui des pays qui le sont moins. La RIT n'est compatible avec le maintien du plein emploi et de la croissance des pays avancés, que si ses effets sont compensés par l'ouverture de secteurs nouveaux en forte croissance, ou par un accroissement volontaire du temps de loisir. Dans le cas le plus fréquent où la deuxième possibilité est refusée, une activité de recherche-développement (R-D) devrait permettre cette création de secteurs nouveaux. Cela revient en définitive à intégrer à l'idée ricardienne de l'avantage comparatif les produits nouveaux et avec eux les perspectives de crois-

* Cf. les modèles de Ranis et Feï. [4, 5]
** Cf. Le modèle de Chenery et Strout. [6]
*** On résume très brièvement les résultats de recherche antérieurs: [7].
**** Un même produit sera vieilli dans un pays avancé en raison de la saturation relative du marché qu'implique un niveau de vie élevé, et sera jeune encore (demande eu croissance forte) pour la raison inverse dans un pays moins développé.

sance rapide. La RIT apparait dans ce schéma comme le mécanisme permettant l'adaptation continue des structures productives impliquée par la croissance [8].

II. 4 — Ce modèle« théorique trouve une vérification empirique au cours de la période 1957—1965.* Les pays avancés abandonnent en effet par la substitution de l'importation à la production domestique, des activités dont la croissance est chez eux épuisée en raison du niveau de vie atteint de la saturation relative des besoius qu'il implique. Cette RIT s'opère en cascade entre nations appartenant à quatre niveaux de développement (ou de vie) distincts ** Elle permet à des pays moins développés de récupérer des activités en accord avec les perspectives de leur croissance et de trouver des débouchés d'exportation dans les nations qui les abandonnent. Les facteurs essentiels de ces RIT sont les préférences tariffaires du type de la «préférence impériale» du Commonwealth (généralisées dans le cadre de la CNUCED-UNCTAD), et surtout le dynamisme et la progressivité économiques. Lorsque ces derniers font défaut, les pays avancés tentent en effet de bloquer le flux de la RIT, afin de maintenir un plein emploi relatif: ils consentent pour cela à un effort de progrès technique et d'investissements défensifs massifs, non conforme au principe dynamisé d'avantage comparatif. Ils peuvent également invoquer l'argument des faibles salaires dans les pays moins développés pour justifier des politiques commerciales protectionnistes: ou pour obtenir des pays pauvres des restrictions volontaires d'exportations.***

Sans doute, la vérification empirique est de peu de signification dans le domaine de l'économie normative: ce qui est, ne permet pas de préjuger de ce qui doit être. Elle confirme tout de même que nous disposons là d'une référence normative nullement utopique, permettant de répondre dans une optique de croissance à la question «quoi produire et où?». Cela va faciliter considérablement la réponse à la question subsidiaire «qui doit produire?».

III

Qui doit produire? C'est poser là le problème de l'investissement direct international, dont on commencera par voir qu'il procède le plus souvent d'un effort insuffisant de R-D.

III. 1 — Les pays avancés à économie de marché connaissent normalement un sous-investissement en R-D, en raison d'un caractère de bien collectif insuffisamment reconnu à ses résultats [10]. Paradoxalement, les Etats-Unis sont peut être les plus menacés: la part du revenu national consacré à la R-D est guère supérieur dans ce pays à ce qu'elle est en Europe de l'Ouest; étant donné la différence des niveaux de développement, cela est déjà surprenant. Mais surtout, la part du total affectée à la recherche fondamentale y est notablement inférieure. Or celle-ci constitue la source principale des in-

* A vrai dire, c'est l'observation des faits qui nous a conduit à une théorie similaire à celle de R. Vernon [8].

** On distingue ainsi 1) les Etats-Unis, 2) les pays industriels à haut niveau de vie, 3) les pays industriels à niveau de vie rélativement faible (Italie et Japon), 4) les pays sousdéveloppés.

*** Les Etats-Unis ont suivi dans ces pratiques par la Grande-Bretagne. Les secteurs les plus concernés sont le textile de coton et la sidérurgie.

novations majeures et par elles de la croissance rapide; les chefs d'entreprise ne l'ignorent pas: La politique la plus prudente à long terme est de s'engager massivement dans la recherche fondamentale, sinon la concurrence au seul niveau des prix lamine les taux de profit et déprime la croissance des firmes [16]. Il faut cependant reconnaître que les firmes sont parfaitement rationnelles lorsqu'elles renoncent à ce type de recherche: Non seulement le coût et les aléas en sont très élevés, mais surtout la découverte scientifique possède tous les caractères d'un bien collectif; la protection juridique des brevets étant des plus limitée, les fruits de la recherche sont très difficilement appropriables. L'imitation systématique des rares innovations véritables est difficile à prévenir, et se trouve pour cette raison même érigée par les «business schools» en principe de «management».* Dans ces conditions la R-D fondamentale possède incontestablement une utilité marginale sociale supérieure à son utilité marginale privée. Or, cela semble être méconnu, les pouvoirs publics prenant insuffisamment le relai d'entreprises dont on ne peut blâmer la défaillance. Mais il y a plus: La recherche fondamentale possède peut être le caractère d'un bien collectif international, et cela pour la raison suivante: Si l'intégration d'économies nationales en croissance mais inégalement développées repose comme on le croit sur le mécanisme de la redistribution d'activités, il convient d'accélérer le flux de cette dernière au delà de ce que commenderait la seule croissance des pays avancés. La recherche fondamentale aurait ainsi une utilité marginale sociale *internationale* supérieure à son utilité marginale sociale *nationale*. Cela suggère que la recherche fondamentale devrait être assumée par un service public international, et permet d'envisager le drainage des cerveaux (brain drain) dans une perspective inhabituelle.

III. 2 — Insuffisamment innovatrices, les firmes des pays avancés sont contraintes de refuser des abandons d'activités désormais incompatibles avec leur croissance.** Leur première réaction devant la concurrence provenant de pays moins développés est de procéder à des investissements défensifs massifs, pour tenter de surmonter leur handicap de salaires.*** Mais cette politique est d'une efficacité douteuse: s'équipant des mêmes machines, les firmes des pays à bas salaires parviennent souvent à conserver un avantage absolu de coût; un processus cumulatif et ruineux d'investissement défensif peut s'engager ainsi. Aussi les firmes préfèrent, quand il est encore temps, abandonner elles-mêmes l'activité mûre pour la RIT. Réalisée par le moyen de l'investissement de substitution d'exportation, cette solution présente pour les firmes un double avantage: consolidant des débouchés en expansion rapide pour un produit dont le marché d'origine est au contraire en voie de saturation elle prolonge la croissance de la firme; elle prévient par la même occasion l'apparition d'un concurrent étranger qui, prenant appui sur un marché domestique dynamique, pourrait contester des situations acquises que l'on entend préserver. Ces investissements de la «deuxième vague» se dirigent naturellement vers les pays les mieux placés pour exiger les abandons d'activités; il s'agit généralement de pays dont le niveau de développement est plus faible, certes, mais relativement proche. Il est trop tard pour les très vieux secteurs (textile, siderurgie etc.), ils en sont réduits normalement à

* Cf. le théorème de la pomme mordue de T. Levitt: [11].

** La croissance est l'une des motivations majeures de la firme: cf. l'ouvrage d'E. Penrose.

*** Cf. supra.

des investissements défensifs domestiques, mais certains parviennent à s'implanter dans des pays dont le niveau de développement est plus éloigné.* Cette stratégie intéresse surtout des secteurs parvenus à maturité (pharmacie . . .), désireux d'étendre les barrières à l'entrée au reste du monde où, en raison d'un retard relatif de développement, elles sont plus basses, voire encore inexistantes [12]. Toutefois, la fragilité de leur avance technologique peut conduire des secteurs nouveaux (electronique) à des investissements apparemment prématurés de précaution.** La RIT par investissement direct présente ainsi un caractère totalement différent de celui qui se réalise par le commerce international.

Les investissements de la troisième vague (WS) procèdent de cette situation. L'innovation majeure devient d'autant plus rare dans les pays avancés que les firmes assurent leur croissance par des investissements de substitutions d'exportation. La concurrence confinée au seul niveau des prix devient acharnée, contraignant les firmes à rechercher un avantage absolu de coûts. La mobilité internationale des facteurs et de la technologie est suffisante pour tirer parti de la main d'œuvre des pays à salaires de subsistance. Contrairement à ceux de la deuxième vague, les investissements WS sont déterminés en fonction, non de leur âge, mais de leur intensité en main d'œuvre (textile mais aussi electronique); ils se dirigent vers les pays pauvres et non plus vers ceux dont le niveau de développement est relativement proche. Faut-il se réjouir de voir désormais l'ensemble des secteurs concernés par la RIT?

III. 3 — Cette stratégie de l'investissement résout peut-être à court terme les problèmes de la firme, mais provoque avec des inversions de spécialisations relatives, des incompatibilités de structures entre nations inégalement développées. On peut envisager en premier lieu les investissements WS dont on a vu qu'ils sont l'aboutissement logique du refus de la R-D, notamment fondamentale. Les justifier par le fait qu'ils concernent essentiellement des activités fortement «labour intensive» revient à invoquer implicitement le principe Heckscher-Ohlin de l'avantage comparatif; or comme on l'a dit, ce principe n'est pas valable au regard des conditions de la croissance, en raison justement d'une définition statique en termes de dotations relatives en facteurs. Le transfert WS de la production de composants électroniques fait perdre aux Etats-Unis une production chez eux en forte croissance. Les effets dépressifs sur l'emploi, les salaires et la balance commerciale seront partiellement compensés par la rétention, voire la récupération d'activités vieillies (mesures Nixon de Juillet 1971), mais une telle spécialisation relative déprimera nécessairement le taux de croissance global. De leur côté, les pays d'accueil se trouvent dotés d'une industrie d'autant plus vulnérable à un revirement inévitable de la politique commerciale américaine, qu'elle ne peut espérer aucun débouché local. Ce transfert est en réalité en contradiction avec le principe de l'avantage comparatif dès qu'on le dynamise par les perspectives de la demande domestique: les problèmes qu'il pose ne sauraient donc nous étonner; ils apportent plutôt une vérification expérimentale de la consistance logique de cette dynamisation.

* Ainsi l'US Steel investit en Espagne, pays de la 3e catégorie.

** IBM s'est implanté au Japon dès 1937! Mais son développement est étroitement surveillé, de manière à permettre la croissance d'une industrie nationale par le marché domestique; cf. [13, 14, 17].

A la différence des précédents, les investissements de la 2e vague intéressent des secteurs parvenus à maturité dans les pays avancés. Leur transfert est donc parfaitement justifié au regard de notre norme: Les nations où ces secteurs sont en très forte croissance en raison d'un niveau de développement (de vie) plus faible, doivent les récupérer sans délais. Toutefois, si ce type d'investissements apporte la solution aux entreprises désireuses de croître en évitant les risques de la R-D, la nation d'origine consent ainsi un abandon d'activités dont les effets dépressifs ne sont pas compensés. Il en irait autrement si l'abandon se réalisait aux dépens de la firme et non à son profit: contrainte pour croître à l'ouverture d'un secteur nouveau, son interêt se confondrait alors avec celui de sa nation d'origine. Le transfert par investissements de la 2e vague infirme en revanche l'opinion répandue selon laquelle «ce qui est bon pour la General Motors est bon pour les Etats-Unis». Or, les firmes et bon nombre d'économistes américains affirment péremptoirement le contraire: Selon eux, les firmes maximisant leurs profits à l'échelle mondiale permettraient aux Etats-Unis de devenir un pays «créancier mûr»; le rapatriement des profits assurerait un financement maximum des secteurs nouveaux, et résoudrait par la même occasion le déficit extérieur. Cette interprétation ne passe toujours pas l'épreuve des faits; de plus elle est en contradiction avec les implications de la motivation des firmes: croître en évitant la R-D surtout fondamentale. Ces intérêts mal compris ou ces économistes laissent dans l'ombre deux questions: a) La balance des avantages problématiques et des inconvénients effectifs pour leur propre pays; notamment les conditions de la croissance rapide à long terme, nécessaire pour satisfaire la contrainte sociale d'une hausse des salaires ne se traduisant pas en «stagflation» ne sont pas envisagées. b) L'avantage pour les pays d'accueil: on n'a guère besoin de Mr Du Pont Copeland en Europe pour fabriquer de l'aspirine, ou de la General Food dans la biscuiterie. Le cas du Japon permet d'autre part de penser que l'industrie européenne de l'informatique a été tuée dans l'œuf par l'implantation massive de IBM (notamment en France). Mais il est sûr que l'industrie européenne de la pharmacie, de la biscuiterie et de l'informatique a perdu ainsi le pouvoir de contester dans l'avenir les positions acquises par les entreprises américaines. En revanche, l'Europe ne trouvant pas les Etats-Unis où elle les attendait, a parfois été conduite à des choix impliquant de nouvelles inversions de spécialisations relatives (avion Concorde).

La protection des très vieux secteurs est un dernier facteur d'inversion de ces spécialisations. Paradoxalement, il existe en ce qui concerne les vestiges industriels du passé, une profonde conjonction d'interêts à court terme entre syndicats de salariés et groupements patronaux. Les premiers entendent conserver des secteurs qui, parvenus au maximum de leur dimension, constituent une assurance contre le chômage. Ils rendent d'autre part une main d'œuvre importante indisponible; les secteurs nouveaux sont alors contraints à des accroissements supplémentaires de productivité favorables aux salaires. Les seconds trouvent dans cette protection le moyen d'éviter les difficultés d'une reconversion. Ces interêts liés obtiennent aisément des pouvoirs publics une protection multiforme: douanière et contingentaire, aides financières et commandes massives. Ils exigent par ailleurs de leurs concurrents étrangers des limitations volontaires d'exportations. Ils suggèrent enfin le relèvement des salaires réels dans les PVD: Ce genre de sollicitude est suspect en effet car il tend à rétablir la compatibilité des structures productives nationales,

mais là encore (c'est déjà l'objet des investissements de la 2e vague) par la neutralisation des facteurs du dynamisme spontané des pays moins développés. Il faut donc se garder — contrairement à l'avis de G. ADAM — de préconiser des hausses substantielles de salaires dans les PVD, aussi longtemps que persiste chez eux le chômage: on réduirait avec leur pouvoir concurrentiel, une vitesse d'industrialisation reposant normalement sur la récupération de ces activités. De même, des salaires de subsistance ne permettent pas d'envisager la main d'œuvre des pays pauvres comme une armée industrielle de réserve pour les pays les plus avancés. Le non-marxiste auteur de ces lignes se permet de rappeler que l'armée de réserve est le résultat chez Marx (à la différence de Ricardo et de Malthus) non de la démographie, mais d'accroissements de productivités dont les effets sur l'emploi ne sont pas compensés par la création de secteurs nouveaux. Pour les raisons invoquées plus haut, l'armée de réserve se constituerait donc plutôt dans les pays avancés.

L'investissement direct des deux dernières vagues se trouve donc au centre d'une stratégie d'entreprise non conforme aux exigences d'une intégration à taux de croissance élevé de nations inégalement développées. Est-ce à dire que l'investissement direct n'a pas sa place dans une théorie du bien-être (welfare) international?

III. 4 — Un principe d'avantage comparatif dynamique permet de dégager les caractéristiques d'un investissement direct d'entrainement. Si le dynamisme spontané des pays les plus avancés se trouve limité par l'insuffisance de l'offre de ceux qui le sont moins, l'investissement direct permettra de rétablir la compatibilité des structures productives. Il joue alors un rôle d'entrainement, en partageant de façon mutuellement avantageuse une accélération de la croissance. Les investissements dans les ressources naturelles ont pu dans certaines conditions répondre à cette condition. Quant aux activités industrielles, il est rare que le dynamisme des pays les plus avancés soit spontanément le plus grand, et cela pour une raison très simple: l'entretien de leur croissance rapide est lié essentiellement à l'activité de recherche. Celui des pays moins avancés repose en revanche sur l'imitation des premiers.* On a là le mécanisme d'un rattrapage spontané que l'investissement direct cherchera le plus souvent à enrayer. Un investissement direct compatible avec un principe d'avantage comparatif dynamique sera donc normalement beaucoup moins fréquent.

IV

Au total, si l'on doit critiquer l'étude remarquablement bien documentée de G. ADAM, c'est à notre avis sur les points suivants:

1° — L'auteur aurait du rejeter d'emblée l'argument de la dotation relative en facteurs dans la justification des investissements WS. C'est invoquer ainsi de façon tout à fait illégitime le principe Hecksher-Ohlin reconnu depuis longtemps non valable dans une perspective de croissance. Cette norme

* Sans doute la théorie actuelle met en doute le rôle de la R-D sur la croissance globale, alors qu'elle l'affirmait au début des années 1960: Or elle n'a pas varié en ce qui concerne la croissance de la firme: cette contradiction tient sans doute au fait que les firmes font une R-D essentiellement d'imitation; captant leur croissance sur leurs concurrents, elles ne la transmettent pas au niveau global [15, 18].

statique aboutit même, comme on l'a vu, à une spécialisation internationale souvent inversée au regard du principe d'avantage comparatif dynamique.

2° — L'auteur aurait du tenter une analyse du bien-être international (welfare) qui permette un jugement de valeur sur les investissements WS. Une telle analyse conduit à notre avis, à l'idée que l'investissement WS doit être intégré à une typologie générale de l'investissement dont il est l'élément pathologique actuellement le plus avancé. Il est en effet l'aboutissement d'un comportement «managériel» en contradiction avec les conditions d'un optimum de croissance, mais néanmoins rationnel, étant donné le caractère de bien collectif de la recherche et de ses résultats. Le sous-investissement normal dans l'activité de recherche a pour contrepartie la séquence logique et historiquement vérifiée suivante: publicité de «matraquage»*; investissements défensifs massifs dans les vieux secteurs; investissements de substitution d'exportations (2e vague); investissements de WS (3e vague).

Sans doute, ces critiques valent ce que vaut la référence normative qui les inspire: celle-ci doit demeurer comme toute théorie, soumise à vérification logique et expérimentale constante. L'adoptant seulement à titre provisoire, elle nous révèle l'incompatibilité actuelle de la motivation des firmes et des objectifs d'intégration internationale en croissance rapide.

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* On a négligé ce point par souci de simplification: Mais il est indéniable que ce type de publicité est destiné à repousser les limites de saturation du marché pour un produit vieilli. Symbole de la "société de consommation", les contestataires occidentaux de celle ci dénoncent-ils en elle autre chose qu'une *«société de non innovation»?*

BOOK REVIEWS

L. SZAMUELY: *Az első szocialista gazdasági mechanizmusok — Elvek és elméletek.* (The first socialist economic mechanisms — Principles and theories.) Budapest. 1971. Közgazdasági és Jogi Könyvkiadó. 209 p.

Increasing attention is being paid all over the world to the birth of the Soviet socialist society. The era of "searching for the road" — meaning the 1920's — is the topic of many researchers and their work has produced many surprising discoveries. These years, rich in events and historical turning points, were an exciting period of ideologic debates and experiments in implementation in almost every field of science and arts.

The theory and practice of the socialist planned economy were developed at this time and not only present-day Marxist thinking has profited from these achievements. Some basic concepts in modern non-Marxist economics, and even their practice came from this era, such as the principle and the first schemes of the Leontief input-output method as well as the Feldman model (the latter, forgotten in its homeland for a long period, had a significantly fertile effect on the theory of growth).

These and many other facts and concepts of the era, even more important from political and economic viewpoints emerging at the time could only be discussed in depth following the 20th Congress of the CPSU. The discovery of the frequently distorted facts and of hidden truth of this brief ten-year period was not an aim in itself for Marxist researchers; on the contrary, such work provides an almost inexhaustible source-material for outlining the present-day problems of building socialism. Credit must be given here to the pioneering research of the Polish scientists, followed by many Soviet economists and by those from other socialist countries. For a number of reasons, the present volume of László Szamuely holds an outstanding position in this series. Even the title of the book indicates that the intent of the author is far more than just a more precise depiction of the transition from war communism to the New Economic Policy (NEP).

Each of the conclusions drawn by Szamuely and each contemporary document he cites prove that his volume is more than simply a better outline of history. Even after half a century, the socialist economic management and economic mechanism are burdened by several unsolved problems; yet we find an early recognition of these problems among the authors quoted. The comprehensive questions of economic management raised then often appear hauntingly similar to the present ones. László Szamuely shows this phenomenon with well-chosen illustrations, quoting several authors, some of whom perceived the problems correctly and some of whom did not.

Szamuely begins by raising questions which at first sight appear to be hair-splitting: Did Lenin and the Bolshevik

Party truly want to build socialism in conformity with the basic principles of the NEP immediately following the October Revolution? Were they prevented in this only by the civil war and the military intervention? Was it truly a return to the original concepts what happened following the temporary period of constrained war economy? The work quotes Lenin's views, official party documents, and the stand taken by various political figures, theoreticians, and practical economists — at extreme length, but by no means superfluously — to prove that reality was far more complex than such questions would indicate. It is precisely due to the rich selection of quotations that a review of the overall scheme is by no means a simple task. Almost each quotation tends to demand the writing of a separate article or book, but naturally the author uses them to document his points.

In reviewing the major features of the economic system of war communism, Szamuely distinguishes among five basic principles: (1) the maximum extension of state ownership, the direct authority of the state; (2) the forced allocation of labour; (3) the intent to achieve far-reaching central control over production, turnover and distribution; (4) the class and social principles of distribution to be realized; and (5) the most characteristic feature, the "naturalization" of economic life.

The first chapter deals primarily with a review of the main features of war communism. But here we already find that while distribution, not production, was in the centre of economic activity, it would be incorrect to see in war communism only the proletarian form of war economy. The economic regulations instituted were directed at creating the basis for the socialist economy and had their own ideological foundations (which were developed earlier). These were the reasons behind the incorrect features and consequences which cannot be justified even by the existence of the forced economic situation. Lenin clearly stated this later on as the author shows in a separate chapter.

A witness of the times, Stetsky commented in 1925 on whether a direct transition to socialism was possible or not — reflecting the subjective conviction then prevalent within the party — in the following manner: "The fact that this concept was the ruling one among us is borne out by the writings of the era. Nor is there any doubt that independently of all objective circumstances this concept determined our policy of the time . . . It is self-evident that, even if our present concepts had been the leading ones then with respect to the forms in which the transition to socialism would take place in our country, the pressure of circumstances would have forced on us an essentially 'war communist economic organization'. However, the question is *the extent* of the actions, and *the ability to cope* with the situation — which turned to our benefit from 1919 onwards. The fact that every village woman carrying a pitcher of milk was considered to be a black marketer, that all local trade was unmercifully persecuted . . . that the market of Suharev square was closed down already on conclusion of the civil war and at the eve of transition to the NEP, that the elimination of money was planned, and that sowing committees were organized with the aim of drawing the whole peasant economy under direct state regulation — all these factors, in our opinion, were unjustified by either military or political circumstances and were rather caused by incorrect concepts about the forms of the transition to socialism" (pp. 188–189).

As is known, the Marxist views espoused until that time considered the incompatibility of commodity production with socialism to be an axiom; one of the tasks of the proletarian revolution was seen in the elimination of commodity production. The socialist economy was interpreted as a centrally managed, closed

plant, and even in the period of the transition to socialism the "naturalization" of economic conditions was considered to be essential, even if the transitional need for maintaining the circulation of money was recognized. This ideology in itself provides ample explanation for the exaggerations and contradictions of the system of war communism. This is illustrated by the facts which the author reports in the first chapter: the impossibility of organizing the "war supply" of production from a single centre, precisely because of the "natural" character of distribution (pp. 19–20); the rapidly disappearing possibility of egalitarianism in personal consumption; the forced use of the black market even to meet state war needs — simultaneously with its denial on principle — to the extent and until made possible by the growing inflation (pp. 25–29).

The lesson of these facts is clear. The active though limited role, or at least use, of commodity and money relations, the operation of the principle of distribution according to the work done, cannot be dispensed with even in a tense war economy stretched to extreme limits. This is true, if we wish to attain the "plan-objective", the meeting of military needs in a rational way, without a total disruption of the economy. As it appears from the book, this was true for the war economy which was justifiably termed by one of its ideologists, L. Kritsman, the "heroic period of the Great Russian Revolution". This was the time when workers, peasants and soldiers most heroically fought to the utmost for survival, as did the politicians and every organizer of the economy.

Szamuely, in Chapter 2, entitled "The Ideology of War Communism" convincingly proves the truth of his "hair splitting" theorem: namely, that it is not true that the basic principles and working model of the NEP had been conceived or accepted by the leaders and main ideologists of the Bolshevik Party immediately after gaining power as being valid for a relatively prolonged period for a model functioning under the conditions of transition to socialism (or that they rejected it only due to circumstances forced upon them), even if in the beginning they passed regulations such as those for the stabilization of money circulation. We only find the concept of utilizing the market among the extreme right-wing Mensheviks who again considered that the various rules of war economy (which even capitalist states under less disturbed conditions would employ), could be dispensed with (pp. 115–116). Lenin justly considered this policy as "Kolchak's economic programme" and to be a counter-revolutionary one.

Before an intensive analysis of Lenin's views, the author considers those of other theoreticians and practical economists. Although these views support only the major theses of the ideology of war communism, the analysis of some of these concepts is interesting. Bukharin, in his well-known book "*The economics of the transitional period*" discusses the system of state-monopoly capitalist war economy built up during World War I. He considers it as an absolute and irreversible process which would eliminate the market within the framework of capitalism and turn the entire national economy into a "combined trust". The commodity economy would remain only in the world economy, in its own blind, irrational form; it would shrink sharply or be eliminated within the country and replaced by central distribution.

"This was naturally a hasty conclusion. It has not materialized even half a century later, at a much higher development level of the forces of production", states the author (p. 50). In quoting Bukharin, Szamuely proves how this premature conclusion led the former to derive the system established in the period of war communism as an objective necessity, as the sole possible model of the socialist economy. By way of historical parallel

we might refer to present-day reasoning such as that of J. Galbraith, on present phenomena in state-monopoly capitalism. His true findings as well as many of his exaggerations are called upon to support the contention that today the sole possible model for socialism can be the directive system of plan-instructions. In contrast, it was precisely the research already mentioned which disclosed the objective and subjective reasons why this system was created in the Soviet Union at that time. Its long life span is explained also with newer, for the most part, objective reasons.

The author reports on other interesting trains of thought stemming from Bukharin and Preobrazhensky, with regard to the following: what occurs when the law of value loses its effect; what happens to price, money, and wages; and how these, through the process of "self-denial" would be transformed into "magnitudes absolutely void of contents".

The essence is that during this period these were not theoretical assumptions which deviated from the party-line, but rather provided its foundation, despite some conclusions on details which were debated at that time too (see, the text of the programme approved by the Bolshevik Party in 1919 quoted by the author, pp. 55—56). In 1919—1920, measures were taken, one after another, to ensure free use of services for workers, and others were enacted which meant that sugar, salt, and even textiles were distributed according to "work effort expended". However, the free benefits provided in this spirit regarding other (social policy) measures sharply equalized the wages paid in physical form.

The rapid decline in the value of money was considered correct not only from the point of view of "expropriating" the incomes of the wealthy classes, but they also saw the decay of money in these phenomena (p. 57) and this is why they deemed it a favourable process. Many practical experts saw the disappearance of money also in the spreading turnover without cash.

The scientists made efforts under these conditions to find a new system of accounting for an economy without money (Eugen Varga, Strumilin, Chayanov and many others). These concepts, which today appear naive and humorous, contain in part many features resembling the programming models of today and are highly valuable (pp. 58—60) for they clearly characterize the way of thinking of those times. Their common feature is that in determining the quantity of socially necessary labour it never occurred to them that exchange value is a market category and that, in the end, the extent of socially necessary work could only be justified by the market.

The author is justified in his conclusion, while referring to Larin, a contemporary author, when he writes that "dogmatism . . . played a poor joke on the executors of the greatest revolution in human history, when it depicted many measures (rationing, free food and other benefits, etc.) as the first creations of socialism being built, which were in fact forced by the poverty caused by war and economic chaos" (p. 65).

The theoretical foundation for the "militarization of work" and the "role of force" determined by the ideologists — and the official standpoints related to this — lead the author to the conclusion that "Not for a single moment did the ideologues of the economic system of war communism consider it as temporary or at least they thought its existence was indispensable until the complete building up of socialism" (p. 65).

Lenin played an initiative and guiding role in the practical and theoretical correction and the basic reexamination of the system of war communism. The analysis of this activity plays a central role in the book (pp. 79—145).

Lenin's statements on principles and programmes following the revolution are characterized by Szamuely as follows:

"The socialist economy should be organized by a network of consumer and producer communes (communities, obshchinas) led democratically. The communes would conduct natural product exchanges with each other without the use of money; and distribution would rest on egalitarian principles" (p. 87). At the same time, it is worth quoting by way of parallel, the words spoken by Lenin on March 8th, 1918: "We cannot characterize socialism; what socialism will be like when it attains its finished form — we do not know and we cannot say" (p. 81).

The author then goes on to study the change in Lenin's views in three repeated periods of transition to comparatively peaceful work. The first stage was the "breathing space" in the spring of 1918. Lenin, in his work "The immediate tasks facing Soviet Power", and in other papers outlined the tasks of practical construction. Here Szamuely points out that in the practical process of economic organization Lenin left in some respects relatively early — only temporarily he thought — the basic principles he continued to advocate in theory (p. 93). Therefore, in contrast with the general concept of egalitarianism, he (Lenin) considered it necessary to maintain higher pay for the old experts and the application of material incentive (piece rates) in production. *For the time being* he did not consider "accounting and control" to be possible in natural form, but only with the further build-up of money circulation and the bank system. These standpoints led to sharp opposition on the part of the so-called "left-wing communists" (Bukharin, Preobrazhensky, Pyatakov and others).

In connection with this debate the author asks: "Did Lenin formulate the basic principles for the NEP in the spring of 1918? Of course, not. He did not formulate then, because the essence of the NEP, the necessity of market economy methods, had not yet been raised at all. Lenin, who did not care at all about retrospective self-justification, clearly stated this three and a half years later in the autumn of 1921 when explaining the essence of the New Economic Policy to the party: 'We said that our task today is not so much the expropriation of the expropriators, but rather the strengthening of accounting, control, labour productivity and discipline. We said this in March and April of 1918, but we did not even raise the question of the relationship between the economy and the market, i.e. trade' " (p. 111).

The explosion of the civil war, as is known, made the realization of these practical concepts impossible. However, in the first months of 1920, when the armies of Kolchak and Denikin were defeated and the civil war appeared to be over, Lenin did not return to the concepts he wanted to realize in 1918; rather he planned to make use of certain war-communistic regulations (the "natural" delivery of product-surpluses, workers' armies, etc.) in order to attain a straight transition to communism.

The NEP system has emerged from gradual but rapid qualitative changes in the spring of 1921 in the form of Lenin's stand and his practical measures taken, ripened by the effects of earlier decisions and the analysis of practical experience. The most important phases were the transition from the confiscation of all agricultural surpluses to a product tax and the recognition — shortly following — that instead of product exchange the economy must take the road to commodity exchange and to commodity and money economy. Equally important was to shift beyond the commodity relations between town and countryside, to similar relationships among state enterprises. At this time Lenin clearly interpreted war communism as "an experiment — what is more, a shipwrecked experiment — at creating new social order in the shortest, most direct, and most rapid way", writes László Szamuely (p. 138. cf. *Lenin's Works*, Vol. 33, 1953. pp. 77–78, Hungarian edition by Szikra Publisher). "We

were of the opinion that having created state production and state distribution we entered directly into a different economic system deviating entirely from the previous one" (Lenin, *ibid.* p. 73). Since this proved to be a failure, Lenin came to emphasize the importance of commercial, market methods (see quotes on p. 141 and p. 145) and also that this only changed the manner of achieving the realization of the plan. He emphasized the tremendous importance of a monetary economy and, along with this, the creation of a stable (later also convertible) Soviet currency.

These concepts of Lenin were born mainly in the last one and a half years of his creative activity. They had a fertile effect and influenced greatly the earlier important ideologues of war communism. In the next and final chapter of the work, the authors shows the changes in viewpoints with particular reference to the main ideologues of war communism. This most interesting chapter of the book is a summary, based on fortunately selected quotations, depicting the debate on the methods of socialist economy. It is almost impossible to review this chapter, it must be read for itself.

We already mentioned that László Szamuely quotes many authors of that era whose thoughts are relevant for the world of today. Cited are positions taken which could serve convincingly to support today's views on the active role of the market. But those viewpoints which refer to the main features of the system of directive plan instructions, are just as interesting. This system, as we know, is essentially different from war communism, for it makes use of commodity, value and money categories in measuring plan fulfilment, in bringing the "central balances" into equilibrium and in material incentives needed for the stimulation of fulfilment. Since, however, fixed prices do not follow the continual changes in value and cost relations — due, among other things, to the material incentives tied to the fulfilment of certain tasks determined at fixed prices — in practice some targets are not achieved while others are accomplished better than planned. Shortages as well as too high inventories are immanent characteristics of this system.

Therefore, the phenomena described by L. Kritsman with a certain nostalgia but not without criticism, in his famous book on war communism, is not unknown to us: "An organization needing kerosene lamps receives the lamp glass completely (100 per cent) from another enterprise; however, it receives only 60 per cent of the holders, 50 per cent of the wicks and 20 per cent of the burners from the different organizations. Then 4/5 of the lamp glass, 2/3 of the holders, and 3/5 of the wicks, prove to be superfluous and are left unused. One month later another group which needs kerosene lamps will have unneeded burners, items so badly needed by the first user. Such cases are unavoidable with fuel, raw materials, and various ancillary materials". (p. 192)

After reading László Szamuely's book, present-day believers in the indirect system of economic management — based on the interaction of plan and market — can feel that their conviction has been supported with newly-found, valuable arguments coming from the past. However, the political lessons of the book are at least as interesting: they prove convincingly that Lenin and other leaders of the Bolshevik Party were "dogmatic" only as long as they had no practical experiences to rely on. In the days of the heroic struggle for physical and political existence, for survival, they were still capable of correcting their views from day to day. The best, primarily Lenin, were prompted to and did reexamine their views which had been accepted for decades by Marxist in general. The continual confrontation of viewpoints and economic policy regulations with reality did not always take place in a smooth manner or without errors even with Lenin. He pointed out the mistakes, including

his own, as a political leader, at the right time, based on his analysis of facts. Using the overwhelming force of such facts, he convinced the majority to stand with him in the execution of tasks based on the correct recognition. In the meantime the best of the leaders of the revolution relied firmly on the methodology of Marxist analysis; they did not give up any of the final goals of communism or the essential features regarding its character. However, experience shows that it is precisely the active role of commodity, value and money categories, as well as the market, which can bring the era of their own elimination closer — at an extremely high level of development in the future, to be achieved in a time we cannot yet estimate. It is precisely the recognition of this phenomenon which induced them to change their views regarding the methods, stages and duration of building socialism.

S. AUSCH

LAYTON, Ch.: *Cross frontier mergers in Europe. How can governments help?* Bath, 1971. University Press. 106 p.

This short study — as indicated by the author — is designed to illuminate the problems in the way of crossfrontier mergers and acquisitions in Europe and to suggest what governments might do to help.

The argument for European companies contains some relevant and striking statistics, viz. that in the years 1961–69 only 257 mergers, takeovers or participations took place across the frontiers of member countries of the European Community, compared with 1861 national mergers and 820 combinations initiated by firms from outside, particularly the United States. Cooperative arrangements, joint subsidiaries and minority participation followed the same pattern. Although comparable figures are not available for Britain, Professor Layton concludes from the accessible data that in the past ten years here too domestic mergers and acquisitions have been far more numerous than international ones.

The author believes that "American companies were the first Europeans", that the most dramatic and complete mobilisation of Europe-wide resources and Europe-wide marketing have been achieved by American concerns. The success of American companies in developing Europe-wide operations is seen as having had many valuable effects for Europe (the transfer of new technologies, the application of new management skills etc.).

Professor Layton also raises the question as to the relationship to prevail between Western Europe and the United States: "Hegemony or partnership?" He is opting for partnership. His choice is based upon the recognition of two basic facts: (a) the domination of certain key sectors of industry, notably those with advanced technology, by firms controlled from outside Europe, can have major political implications; (b) control from outside Europe of key defence industries, such as aircraft, nuclear and computer industries, has strategic importance. He is, however, careful to point out that to control "a capability" in this field is not to imply for Europe that it must break its alliance with the US, but to enable it to differ effectively when in various fields, as regards *inter alia* trade policy towards the socialist countries, foreign policy generally, it will be deciding the commercial terms on which technology is imported etc. He sees the problem of American industry for Europe as "a problem of balance".

The strong position of American companies in Western Europe is held to be due not only to superior management and technology. In advanced technology the US government has massively stimulated US private industry both through R&D programmes and through procurement. This could be offset if Europe were to develop programmes of its own supported by the public purse and preferably worked

out at a European level; to make up by crossfrontier mergers for the usually much bigger financial power of US firms. The position of the dollar, the existence of the eurodollar-market and development of American banking in Europe are also mentioned as factors facilitating the operations of American firms.

The limitations of national mergers, the real danger of local market domination and the identification of the national interest with a single company etc. are all carefully exposed. The proposed remedy: the European company and an open European market rendering possible to combine effective competition with economies of scale. The "transnational" European company may also play a role in implementing the political aim of the movement to unite Europe. Professor Layton believes that "the formation of companies which identify industrial interests with Europe instead of with individual states, is probably the precondition of a real economic and monetary union, as well as of an effective common European political voice in the world at large".

Here a few remarks appear to be pertinent.

In the important chapter about the European company we miss any treatment whatsoever of the relevant problem whether the European subsidiaries of US-based corporations will too be permitted to form European companies. If the latter are really aimed at counterbalancing at least some of the advantages of the American giants, the establishment of "European" companies controlled by their US-parents would, in our opinion, largely defeat this objective.

A second remark refers to the very concept of the European company, to its viability in a world characterized by the rise of a global economy and the multinational company. As stated in a recent analysis,* the lesson of the multinational company does not seem to have been learnt: it has become 'intrinsically global', yet it is still being assimilated within a context of regional area and given a regional nomenclature: 'European corporations' etc. As C. Levinson stresses: multinationalism is too potent a force for either national or regional containment; its global power will shatter or at least enfeeble regional as well as national attempts at control either through politics or economics. Indeed, there is already a migration of European firms to Asia, exemplified by the transfer of plants of West German, but also Dutch, British. even Italian enterprises to low-wage areas.

In this context the removal of legal and fiscal barriers to facilitate the creation of European "transnationals" may be conceived as a means to render for them more easy to take the next step of "going global".

Professor Layton also examines the mechanism of doing multinational business under the prevailing circumstances in Western Europe. He lists common management companies, joint ventures and subsidiaries particularly in the field of advanced technology (either by way of an international group of companies under a prime contractor, or by international consortia and also by joint subsidiaries), advocating, inter alia, the formation of "confederal" multinational companies owned in one country, but giving a wide degree of independence to managements.

Private institutions as industrial matchmakers as well as the potential of the EEC to act as a catalyst of mergers (via tax harmonisation, community development contracts, a "European Marriage Bureau", a European equivalent to what was the British IRC), the differences in philosophy of national industrial policies are also being reviewed.

The conclusions he arrives at as to what governments should do are: removing the

* LEVINSON, Ch.: Capital. inflation and the multinationals. London, 1971. Allen and Unwin. p. 96.

barriers to cross-frontier industrial integration and encouraging its forward march is the foremost task for the European Communities in the 1970's. They must take a broad and publicly known political decision to encourage the development of pan-European companies. They should use the development funds they provide to certain advanced technology industries as an incentive for cross-frontier mergers. They ought to give the European Investment Bank a general mandate to finance cross-frontier mergers and joint enterprises, — to lay down rules of the game in a European merger code etc.

These are not negligible technicalities, yet we feel the book would have gained much by giving attention to some of the underlying deeper issues such as how to control Europe-based multinational enterprises with especial regard to worldwide sourcing.

GY. ÁDÁM

STUBENITSKY, F.: *American direct investment in the Netherlands industry*. Rotterdam, 1970. Rotterdam University Press. 213 p.

The two main subjects of the book are the formulation of a theory of direct investment and the collection of data on US manufacturing enterprises in the Netherlands.

When dealing with the first task, the author emphasizes that rather than work within the context of the theory of international capital movements, he will try to develop a *distinct* theory of direct investments. He justifies this concept by referring to the fact that the theory of international capital movements was developed at a time when portfolio investments accounted for the major share of international capital transfers and direct investments were undertaken on a very small scale only. This resulted in a number of inconsistencies when the explanatory framework of portfolio capital movements was applied to direct investments. In addition, he also stresses the differences in the macro-economic relationships as between portfolio and direct investments.

The definitions quoted from Professor Stephen Hymer's Ph. D. dissertation are concise, precise: portfolio investment, such as the flotation of stock or bond issues, is the result of the *demand for capital by foreigners* to finance their *own activities* in their *own countries*. *Capital flows* connected with *direct investments*, however, are the result of *demand for capital, by a domestic firm*, to finance part of its *operations abroad*.

The raising of the issue of home versus foreign investments is very topical, although for reasons which are connected with more recent developments, such as worldwide sourcing and global optimization as practised with increasing intensity by multinational corporations in the late 1960's and early 1970's.

As Mr. Stubenitsky points out, foreign and home investment do not necessarily move any longer in opposite directions over the long period. He underlines inter alia some important facts: (a) the accelerated pace of US direct investments abroad in the early 1960's coincided with a business cycle upswing domestically; (b) rates of return on manufacturing investments in the US during this period were consistently higher than those realized on overseas direct investments; (c) direct investments do not invariably cause capital to leave the home country: multinational companies do not depend on the domestic supply of savings to finance their operations abroad; (d) the importance of interest rates on direct investment decisions of multinational corporations must be rated as minor. In his view, specifically multinational corporations are guided both at home and abroad by the objective of sales maximization, subject to a profit constraint.

Among other relevant considerations he lists also factors as cultural affinity

and language, American antitrust legislation.

Today, with our knowledge of the economic convulsions attributed in the US to the foreign operations of US-based multinational corporations abroad, including implications in the area of employment and effects on the balance of payments, one is tempted to give more weight than the author does to the contention of M. C. Kemp that "capital rich countries tend to invest too much of their wealth abroad, too little at home" or to the aspect emphasized by Rosenstein-Rodan (based upon tax-inflow from portfolio and direct investments), viz. that the price a country pays for direct investment is from 2 to 3 times higher than for portfolio investment (both quoted by Mr. Stubenitsky). It should be, however, admitted in all fairness that the author could not foresee the stormy debate taking place in 1971 and 1972 in the US on the relative merits of commodity exports and the sales of the foreign subsidiaries of US-based multinationals from the viewpoint of the lending country.

Mr. Stubenitsky is, on the other hand, very right when he alludes to the fact that insistence on joint ventures does *not* constitute an important deterrent to foreign investment.*

One cannot be but in agreement with him when he states that direct investments cannot be counted upon to solve the foreign exchange problems of underdeveloped countries, and that on the whole foreign countries have not been critical enough in their acceptance of direct investment establishments, their governments not having realized the costs involved.

His relevant recommendations, of special interest to underdeveloped countries, include: necessities first and luxuries last, as a first attempt to rank priorities; processing industries for raw materials in order to build up a manufacturing sector and appropriate a larger share of the value of end-product; direct investments should be made with an understanding, possibly an explicit agreement, to turn the whole investment ultimately over to domestic entrepreneurs.

As regards the latter suggestion, the author sees it rather as an "ideal" solution, which, however, may not be too realistic a requirement, because many companies may not want to invest at all if they knew their investment had nothing more than, say, a 25-year life.

The issue of investment was put meanwhile on the agenda of the ANCOM Pact countries and although at this time rather controversial, it can by no means ruled out that the ANCOM-countries will not fail entirely to implement the measures contained in Decision 24 ("Common Treatment of Foreign Capital"). Thus, after all, the suggestion is perhaps not as unrealistic as intimated by the author.

The statistical material relating to US companies in the Netherlands is extremely useful; some of his figures are striking, as e.g. that US percentage share in the realized total investments of selected industries in the Netherlands amounted to 16.59 per cent in 1966, and American investment outlays for 1967 to some 22.6 per cent of Dutch investments in selected industries, even if he adds that these shares are an overstatement of the true investments undertaken, the error lying in the range of 10 to 15 per cent.

His assessment of the role of US direct investment is largely positive: it contributed to a strengthening of Netherland's export position and thus to economic growth. We wonder, however, whether this approach is not a bit too a-problematical, to judge even by his own remark concerning US-directed export of American affiliates: "One would, of course, expect

* See Peter P. Gabriel on the era of institutional change and adaptation as regards the operation of multinational corporations. "Responding to host-country insistence on local sharing of ownership, multinational manufacturing enterprises, banks and utility companies now actively seek local partners for joint ventures of kinds that they previously shunned." Fortune, January, 1972, p. 120.

subsidiaries of multinational corporations abroad not to compete with the parent firm in the domestic market."

The chapter on Netherlands direct investments in the United States furnishes some interesting data (the establishments from before 1941 account for almost 90 per cent of the accumulated book value; capital flows have, on the whole, financed only a minor share of the annual increases on book values, except in 1968 when Royal Dutch exercised its option to purchase 69 per cent of the new share issues of Shell Oil).

The bibliography is voluminous and carefully compiled.

We are left, however, a bit wondering whether all is as smooth in US-Dutch relations as presented by the author. In his concluding remarks Mr. Stubenitsky feels induced to make the observation — after having stressed again the contribution of the US-controlled sector to his home country's prosperity: "Nor is there only reason for optimism: it seems clear that a further strengthening of the Dutch ability to compete effectively in the future is necessary, which could be achieved best by improvement in education and a greater emphasis on applied research and development."

And, finally, when comparing the evolution of Dutch investments in the US and that of US investments in the Netherlands, he does not leave unmentioned that the growth of the former after the war was rather slow, in contrast to the rise of the latter.

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26. X. 1972

Index: 26.031

ACTA OECONOMICA

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AKADÉMIAI KIADÓ, BUDAPEST

VOLUME 9
NUMBER 2
1972

ACTA OECONOMICA

A MAGYAR TUDOMÁNYOS AKADÉMIA
IDEGEN NYELVŰ KÖZGAZDASÁGTUDOMÁNYI FOLYÓIRATA

Felelős szerkesztő:

FÖLDI TAMÁS

Szerkesztőség: Budapest V., Münnich Ferenc utca 7.

Megjelenik évi 2 kötetben. Megrendelhető az Akadémiai Kiadónál (Bp. V., Alkotmány u. 21), a külföld részére pedig a Kultúra Könyv és Hírlap Külkereskedelmi Vállalatnál (Budapest I., Fő u. 32).

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Acta Oeconomica Vol. 9 (2), pp. 117–126 (1972)

J. K. GALBRAITH

CONTEMPORARY CAPITALISM AND THE PROBLEM OF UNEQUAL GROWTH

The paper summarizes the train of thought of a book by the author under preparation. Modern economy may be divided into two different parts: the first includes great corporations with complex organisations — the *planning organization* — and the second a vast number of small firms based on individual enterprise — the *market organization*. This polarized economy creates various tensions and inequalities which must be corrected by the aid of social action.

In the conventional view of economic life, there is a tendency to view the participants as broadly homogeneous. Many individuals and firms share the tasks of production. Some are large; some are small; but all are motivated by the same purposes and are subject to the same constraints. All firms seek to maximize their profits; all are subordinate to the command of the market. Some firms (and some trade unions) somewhat modify the homogeneity and symmetry of this system by their power to control the supply, and therewith the prices, of what they sell. They possess monopoly power — a notably wicked thing. But even the monopoly is subject to the ultimate power of the consumer. It is concerned to maximize its profits. The consumer, by his purchases, determines where maximum profits are to be made. The consumer and the market remain in control.

In the last two or three years, I have been seeking to develop a view of the modern industrial economy which abandons this assumption of homogeneity. It divides the modern economy into two parts — that of the few large firms which I call the planning system, and that of the many small firms which I call the market system. What separates the two parts is the susceptibility of the particular task to being performed by organization. The singular feature of the firms in the planning system is complex organization. The feature distinguishing the market system is the continuing need for a dominant role by a single individual or entrepreneur.

I believe this new view of the modern economy gives a much better insight into the way it functions — and the way it fails to function — than the more traditional theory. There is a tendency for scholars so to favor their own thoughts. My purpose in this lecture is first to give you an outline of this bimodal theory of the modern economic system. Then I shall go on to see, with

you, what it explains. In this effort, I am summarizing a long and fairly complex book which I hope to publish next year. All who follow perfectly what I say in this lecture are exempt from the need to buy the book.

* * *

The two systems into which, for the purposes of analysis, I divide the modern industrial economy are, in their contribution to total output, about equal in size. What I have denoted the market system consists, in the United States, of between ten and twelve million small firms — service establishments, small retailers, handicraft and small manufacturing establishments, artists, lawyers, physicians and the like. The planning system consists of the thousand to two thousand great corporations — the economy of General Motors, Ford, General Electric, IBM, General Dynamics.

The market system consists, as I have just said, of firms performing those economic tasks that do not lend themselves to accomplishment by organization. A variety of factors exclude or make uneconomical the use of organization in economic life. Four are of special importance as follows:

(1) Organization is difficult if the activity is geographically dispersed and unstandardized as to task. Such is the case with much agriculture, most repair services, much retailing. Because of geographical dispersion, supervision of the working force is difficult. Because tasks are unstandardized, it is difficult to set performance norms. So the individual is able to set his own pace — which is normally slow. He markedly increases the energy, both mental and physical, that he puts into the job if he is subject to the incentive system of the independent entrepreneur — if he gets the rewards of his own diligence and intelligence and — what may be more important — if he suffers personally for their absence. All of this is to say that the firm that consists of an individual or is under the eye of an individual has advantages over more organized effort.

(2) Organization is difficult and, on frequent occasion, impossible where the service depends for its value on the interaction of personality — when, in the purest sense of the term, it is a *personal* service. A lawyer, psychiatrist, priest — as in other times the body servant or in other places the prostitute — sells some aspect of his — or her — personality or person. For this, an organization has no advantage — or is irrelevant.

(3) Organization is invariably difficult where the service or product has major artistic content. The artist, unlike the scientist or engineer, does not work well as a member of a team. He does not share his art with others; he must be in command of the whole task. This is recognized in everyday language. A man who fits badly into an organization is usually described as being "too much of an artist".

(4) Organization is at a disadvantage in the very considerable number of cases where the individual exploits himself or his family or his immediate

employees. In organization, men work to rule and for specified pay. The individual entrepreneur — the small commercial farmer for example — can work himself (and his family and, on occasion, his few employees) as hard and as long as he wishes and for as little pay as he wishes. Thus he survives where organization could not.

For these four reasons — geographical dispersion of unstandardized tasks, essential interaction of personality, artistic constraints, self-exploitation — organization cannot function successfully. The firm remains identified with individual personality — and thus remains small. Being small, it is without power. It is subject to movements in prices and costs and consumer choice which it can do little to control. It remains subordinate to the market. Thus the survival of the market system in the modern industrial economy. I turn now to what I have called the planning system.

* * *

This planning system consists in the United States of some two thousand large manufacturing, transport, power, utility, communications and merchandising firms. These contribute around forty per cent of Gross National Product — about the same as the market system. (The rest comes from the state.) In other industrial societies — France, Britain, Germany, Italy, Japan — the position is roughly comparable if state-owned corporations are assigned to the planning system.

The firm in the planning system is highly organized; this is its central feature. Not only do its tasks lend themselves well to organization — to the mass deployment of workers — but there is organization as well for management, or command. In the management, no individual can possess more than a fraction of the information that is required for important decisions. So, when fully developed, the firm is guided collegially by a complex organization for sharing and using the information of numerous individuals. This guiding organization — engineers, scientists, plant managers, sales managers, marketing specialists, advertising managers, controllers, lawyers — I have called, with some acceptance, the technostructure. In this firm, power passes to those who have and share information. Those who do not have such information are helpless. Or, if they intrude, being uninformed, they are dangerous. So they are excluded. Such is the fate of the owner or the shareholder. Not being a participant in the collegial process, he cannot influence its decisions — and he is a threat to the enterprise if he tries. (The dispersion of stock ownership in the modern corporation and the habit of giving proxies to the management further reduces his power.) So in the large, fully mature corporation — such firms in the United States as General Motors, General Electric, United States Steel Corporation, Standard Oil of New Jersey — the power of the technostructure, so long as the firm is making a reasonable minimum of earnings, is

plenary. The nominal representatives of the stockholder sitting on the board of directors will often have the illusion of power. They ratify decisions with appropriate ceremony. They speak with the solemnity that is always induced by association with large sums of money. They are treated with deference. Their practical power is not negligible but nil. In the smaller corporations with less fully developed technostructures — a more common case in France, Britain, Italy and the Low Countries — power may still remain with the stockholder although this ordinarily requires active participation in the management. But in all cases in all countries, the tendency as the corporation matures is for power to pass from the stockholder to the technostructure.

The point is an essential one. In the ultimate evolution of the industrial enterprise, power does not rest with the capitalist. It resides with organization — with the industrial bureaucrat. Many people seek to keep the power of the capitalist alive. The modern American radical, like the older socialist, needs the capitalist as an enemy. The economist needs him as the profit-maximizing pivot of his system. The modern manager needs him as the cover for his personal power. To challenge such a formidable opposition must seem quixotic. But the point is a vital one. We understand very little of modern industry unless we see that, at the higher stages of development, power passes and passes irrevocably from the capitalist to the industrial bureaucrat.

Power having passed to the technostructure, the latter uses it to advance its own interests. On this point — that self-interest is still pursued in economic life — I am wholly orthodox. And the firm being large and powerful, this power is great.

In the capitalist firm the capitalist was assumed, I believe rightly, to maximize the profits of the enterprise. In the market system, this remains the basic motivation — no other is consistent with survival. The technostructure has as its first interest the need for a secure minimum of earnings. This keeps the stockholders quiet and ensures its autonomy and thus its power — and survival. Thereafter, its interest is more strongly served not by the greatest possible earnings but by the greatest possible growth. Earnings accrue to the stockholders to whom the technostructure is no longer beholden. The benefits of growth, in contrast, accrue directly to the technostructure. Growth increases the responsibility and thus the salaries and perquisites of the members of the technostructure. And growth enlarges opportunity for promotion and therewith also income. The larger the firm, the more power that is exercised collegially by the technostructure. Power, as always, is a source of prestige. It makes more effective the pursuit of other goals.

I do not suggest that growth is the only goal of the technostructure. It has a strong technical orientation. It may, within limits, make technical innovation a goal in itself. And although it does not maximize earnings, the ability to increase earnings from one year to the next remains an important

index of success. But, given the necessary minimum of earnings, it is the dominant motivation. A healthy rate of growth — as it is called — is the basic index of success.

* * *

I come now to the reasons why I have designated this part of the economy the planning system. Unlike the firm in the market system, which responds passively to the message of the market, the technostructure is active in pursuit of its goals. The firm being large it has power or control over its prices — as the firm in the market system does not. It has similar influence over its major costs. It actively seeks to influence consumer behaviour in its own behalf — and to this task it brings the vast resources and talent of modern advertising and salesmanship. And it shapes public attitudes and the policy of the state in accordance with its needs. This last deserves a special word.

There is little that is devious, corrupt or wicked in the way the planning system influences the state. The membership of the technostructure comprises the most affluent, reputable and substantial element in the national community. It is, in the common phrase, the Establishment. What it regards as good, the reputable philosophers, the press and the politicians regard as good. To be an advocate of its needs marks a man as reliable and reputable. The goals of the technostructure and the planning system tend, accordingly, to become the goals of the state. The technostructure, I just noted, values growth. This is much in its interest. And for this reason — or largely for this reason — economic growth has become a prime goal of the modern state. The technostructure has a strong technical orientation. For this reason — or largely for this reason — technical innovation has become coordinate with human progress.

The technostructure has other advantages in its relation to the modern state. The public bureaucracy, not the legislature, is increasingly the locus of public power. The corporate bureaucracy has great advantages in dealing with the public bureaucracy — there is, indeed, a relationship of reciprocal advantage between the two. In the United States, the large weapons firm persuades the Air Force to want the products it can supply. The Air Force, in turn persuades the firm to supply what it wants. This inter-bureaucratic symbiosis is a unique feature of the planning system at its highest level of development. The individual farmer or merchant from the market system cannot sit down with the public bureaucracy and work things out to mutual advantage. But the doors are always open to the large corporation. The president of General Motors has a prescriptive right to see the President of the United States. The president of General Electric has a similar right to see the Secretary of the Air Force. The president of General Dynamics can always see a general. The farmer or small businessman has no similar access to the bureaucracy. Only an organization can deal effectively with another organization.

* * *

We see that the firm in the planning system exercises power in its own right — power, as stated, over prices, costs, the consumer. It also exercises power that it derives from the state. It is power so exercised — by human agency as distinct from the market — that makes accurate my designation of this part of the economy as the planning system.

The distinction just developed — the two parts of the modern economy, each operating under its own dynamic — brings both the nature and the problems of the modern economic system into focus. Let me now turn to what is so revealed. I shall concentrate primarily on the problems of the modern economic society. This is not because, by nature, I prefer gloom. The technical achievements of modern economic society are not in doubt. Where the technostructure is highly developed they are very great. It is only that it is better that we understand our faults than our virtues. We can be destroyed by our faults. Virtue is not so dangerous. Let me list some of the problems that now oppress us and see how they may be understood in light of the analysis I have just offered.

(1) The modern economic system is criticized for being unequal or irrational in its performance: It produces too many automobiles; too many cigarettes; too few houses; too few doctors. This is the most pervasive criticism. We now see how this is possible — and inevitable. Where the technostructure is powerful and highly developed and highly persuasive, there is strong development. Where the technostructure is undeveloped, where its capacity to persuade is slight, there is less development. This difference in performance is unrelated to the importance of the product. It is related to the different power of different technostructures or to the total lack of such power in the market system. Housing, health services, some forms of transportation have very poorly developed technostructures or are in the market system. We suffer especially from inferior development in these industries.

(2) One hears that modern *governments*, again most notably that of the United States, have got their priorities wrong. Too much is spent on industrial research and development, supersonic transport, space exploration, highway and airport development, technical education. These have ready access to public funds. Such elementary public needs as for welfare, sanitation, health care, ordinary education, police, museums, law courts and the like, are starved. We see that this is not a random error. It is systemic. The planning system is powerful in the state. Public services that supply its needs are amply provided. Other public services — those for the market system or the citizen — are less amply provided — or are starved.

(3) There is now much complaint that the modern economic system produces goods and renders services at a heavy or even intolerable cost in polluted air and water and damaged and corrupted landscape. This invites great public opposition. We see now the reason. The firm in the planning system pursued

its own goals. It has an independent purpose; unlike the firm in the market system it is not subject to the command of the consumer. Its purposes may differ from those of the public. Specifically, the planning system wants growth; it does not want to be deterred by environmental considerations. The public, on the other hand, experiences the environmental damage and disharmony. It reacts accordingly and adversely. Thus the conflict between the planning system and the public over the environment.

(4) It is held that many consumers' goods are without serious function or do not perform their function. Products from detergents to cigarette filters to breakfast foods to new automobile models are the objects of highly organized persuasion. On examination they turn out to be useless or unreliable as to performance. On this tendency, Ralph *Nader* has made his career and reputation. The present analysis also explains and sustains this criticism. The technostructure is concerned with growth — and sets prices that encourage growth. So the consumer is not exploited in the old sense. But technical virtuosity is greatly emphasized as a goal. It is associated, in turn, with the goal of growth. What counts is not whether the innovation serves a perceived need. What counts is whether it promotes sales and therewith the growth of the firm. Performance is secondary to what can be sold. Functionless innovation, if it lends itself to persuasion, may be as good for the growth of the firm as that which has function.

(5) It is observed that even in the richest of modern economies many people continue to live a precarious existence. They do not share in the general affluence. Inequality, if anything, increases. This, too, the present analysis shows to be possible. The planning system has a strong technical dynamic based on high technical competence and strong state support. The market system has not. The planning system has strong control over its prices and consumer responses; the market system has no such control. In the planning system, firm rules govern wages and hours of work. In the market system, some survive because they can reduce their wage (or that of others) and increase hours of work. A strong tendency for incomes in the two parts to diverge is hardly surprising. And the greater power of the planning system to set prices and costs means, *pari passu*, that it can set prices and costs for the market system to which it is juxtaposed. In important degree, the planning system is able to exploit the market system.

(6) It is noticed that the modern economic system has a strong tendency to inflation. This, too, is explained. Orthodox fiscal and monetary policies still work in the market system. Here their effect on market demand brings a prompt effect on prices. But the planning system, we have seen, has power over its prices. Accordingly, it has power to resolve its conflicts with its labor force by conceding increases and passing the costs on to the public. And in the planning system, monetary and fiscal policy run afoul of the power of the techno-

structure to control its prices and its use of this power to pass on wage costs. Here these traditional defenses against inflation work badly if at all.

(7) Increasingly it is held that modern industry is bureaucratic and unresponsive to public will. Considering its massive organization, and its pursuit of goals that are its own, this criticism is hardly surprising.

* * *

It remains to ask what is the meaning — to what lines of practical action does this view of the economy lead. Here I must abbreviate; I must leave something for the book that is to come. But let me list the major practical consequences — seven in all.

First, we must be clear that the modern economy has no inherent tendency, as it develops, to perfect itself. The most important imperfection is the unequal development of the economy. This, in turn, leads us to a new view of social action and of socialism. The socialist has always been attracted, instinctively, to the positions of power in the economy. That is where he expects to find exploitation. But exploitation in the classical sense is not, we have seen, the problem. In the positions of power neither workers nor consumers are abused. It is the positions of weakness in the economy that are now the problem. Therefore, the theatre of social action must be these areas of weakness. The first concern must be not with the commanding heights but with the abysmal swamps. And, in fact, the pressure of need has run counter to ideology in these matters. For, in fact, it is with housing, hospitals, health care, urban transportation, urban services and agriculture that modern social action has been greatly concerned. The weakness of these industries — the absence of a developed technostructure — has already forced the pace of social action.

Second, the problem of the overdeveloped technostructure must, nonetheless, be a subject of profound public concern. We must recognize that we get weapons, automobiles, highways, space travel in their present abundance not because we want or need them but because the planning system has the power to obtain them. This fact must be urgently in mind in the allocation of public resources. The problem of the modern legislature is to allocate resources in accordance with the public need as opposed to the power of the planning system. If legislatures respond to the planning system, they will (as now) reinforce the positions of abundance in the economy. Only if they resist technocratic need and respond to the differing public need will they effectively enhance economic and public well-being.

Third, we must recognize that the environmental problem involves a fundamental conflict between the purposes of the planning system and the public interest. This means that cosmetic action — measures designed to internalize external diseconomies and so add them to the price of goods — will not serve. Firm parameters must be established defining the public interest,

in the environment. Production and consumption must, henceforth, be within those parameters. In everyday language, what industries can do to air, water. and landscape will have to be far more rigorously defined than in the past. And increasingly there will be kinds of production and consumption — damaging chemicals, automobile use in large cities, air travel over metropolitan areas — which will have to be controlled or forbidden.

Fourth, in the United States, a new look at military expenditures in the modern state is obviously indicated. These, in the past, were imagined to serve the public interest. They reflect, in fact, bureaucratic symbiosis and the purposes of the planning system.

Fifth, much stronger measures to correct economic inequality are called for than in the past. The tendency is not to reduction of inequality; it is to increasing disparity as between the industrial and the market systems. Public measures for the protection of prices and wages in the market system are essential. So — and even more important — is the recent move to establish a minimum guaranteed income — a way, in effect, of putting a floor under incomes in the market system. So are steps to decrease inequality within the corporate bureaucracy.

Sixth, a new view of macroeconomic policy is obviously required. Orthodox fiscal and monetary policy will no longer ensure stable prices at full employment. The planning system, as an inherent feature, has power to defeat such measures. This means that public intervention on wages and prices *in this part of the economy* — where a strong technostructure faces a strong union — is the only alternative to inflation. This conclusion Mr. Nixon — not an original student of these ideas — has accepted. It is worth noting that the controls he has invoked apply rather specifically to the planning system.

Seventh, we must recognize that the tensions associated with organization are not accidental and evanescent. The technostructure requires a massive educational apparatus to sustain it; its substitution of an educated for an uneducated proletariat is, perhaps, its greatest achievement. But education with its emphasis on personality and the technostructure with its intellectual disciplines are uneasy companions. Not surprisingly, the tension is greatest in the universities where the disciplines of the technostructure, as also its truths, come increasingly into question. Over the longer period this means that more and more people are going to be forced to face the choice between the pecuniary rewards of organization and the lesser discipline of a lower and simpler standard of living. One already sees young people making this choice — opting for fewer goods and more freedom. It is, we may suppose, only a beginning.

* * *

In the years following World War II, when the goals of the technostructure were accepted without question as the goals of the society and when, in

particular, economic growth seemed to be the solution for all public ills, economists in the industrial countries came imperceptibly but very definitely to the conclusion that most of the problems of their subject matter had been solved. Mathematical refinement of existing models was now the need. The age of major structural reform was over. The concept of a bimodal economy — and the principal consequence which is the substitution of the goals of the planning system for those of the public — shows how wrong this estimate was. It shows also how many other ideas — from the traditional views of socialists to the neo-Keynesian views on fiscal and monetary policy — must be revised. In economics, the age of thought, I am happy to advise you, is not yet over.

СОВРЕМЕННЫЙ КАПИТАЛИЗМ И ВОПРОС НЕРАВНОМЕРНОГО РОСТА

ДЖ. К. ГЭЛЬБРАЙТ

В статье автор подытоживает основную концепцию подготовляемой им книги. Традиционная теория исходит из однородного характера агентов хозяйственной жизни. В действительности современную экономику можно разделить на две части: на располагающие комплексной организацией крупные предприятия, образующие плановую систему, и многочисленные, основывающиеся на индивидуальном предпринимательстве, мелкие предприятия, составляющие рыночную систему. В плановой системе власть находится в руках техноструктуры. Цель последней, помимо обеспечения удовлетворяющей акционеров минимальных дивидендов, заключается в осуществлении наибольшего возможного роста. Плановая система активно воздействует на формирование цен, издержек, общественного мнения, поведения потребителей и правительственных органов. Предприятия, входящие в рыночную систему, в силу своих специфичных функций и условий деятельности (личное обслуживание, нестандартные задания, географическая разобщенность и т. д.) не располагают комплексной организацией и продолжают подчиняться рынку. Мощь техноструктуры, наряду с бесспорными достижениями в области технического прогресса, привела к появлению и многочисленных проблем. Так, развиваются прежде всего сектора, в которых сильна власть техноструктуры, независимо от того, удовлетворяют ли они действительные нужды общества и потребителей или же противоречат им (загрязнение пригодного окружения, инфляция, эксплуатация рыночной системы, обострение имущественного неравенства, бюрократизация). В современной двухполюсной экономике отсутствует тенденция к самоусовершенствованию, к преодолению трудностей. Поэтому создаваемые экономикой неурядицы и неравенства должны выправляться общественными акциями.

Acta Oeconomica Vol. 9 (2), pp. 127—135 (1972)

W. Weber

PROBLEMS OF PLANNING IN THE ECONOMIES OF COUNTRIES IN EAST AND WEST

The roots of economic planning in Western countries are primarily due to market failures that cause the mechanism of allocation of resources to produce non-optimal results. Planning, inter alia, has to come into action to counteract such inefficiencies. As to complete centralization of the allocation of resources, non-monetary success indicators on the other hand also exert detrimental effects on economic results. It seems that there exists sort of "optimal extent of planning" which is likely to cause economic systems to "converge".

Let us first give a short outline of what this paper does and does not deal with. It is neither a review of the history of planning in the two major types of economic systems nor a survey of the present state of planning in the Eastern and Western World. We shall, however, try to discuss some salient features in the evolution and application of planning in different economic systems as well as put forward some theoretical considerations on the "optimal" extent of planning. Our discussion focuses mainly on European countries after World War II; we shall, moreover, principally concentrate on positive economics and put aside normative aspects intentionally, i.e. for our purpose we disregard meta-economic and especially philosophic arguments (without, however, denying their importance for political decision-making). Following this positive attitude, we will assume different economic systems in East and West to be given; also, pertinent distribution of income and wealth is assumed to be given.

Economics is concerned with the allocation of scarce resources. This allocation may be performed according to two polarized principles, viz. by complete decentralization or by complete centralization; or in any mixture of both extremes, mostly with clear preponderance of the first or the second principle.

Let us turn briefly to the first principle. The method of *decentralized* allocation of resources or the idea of the pure market economy, is a specific *voting process*, the votes being monetary units. The pure market economy assumes that anybody can achieve his aims solely by individual action if he apportions a certain amount of monetary units to competing ends according to his personal preferences. It has, of course, been argued (e.g. *Meade*) that this voting process is not a democratic one because the votes are by no means

equally distributed, but nevertheless it remains a voting process. The production, investment, and inventory decisions of the entrepreneurs are entirely based upon the anticipation (i.e. estimation) of the outcome of this voting process. He who forecasts best the outcomes of future voting processes will succeed in the competitive mechanism and will be rewarded with sizeable profits. We must be aware that this voting is not only based on *a priori* personal preferences, but is influenced strongly by the competing parties (entrepreneurs) through advertising or by increasing the value of a vote (by price reductions as compared to the competitors). Thus, the pure market economy represents a double voting process: the first voting refers to the election of the appropriate production programme, whereas the second voting is concerned with the selection of those entrepreneurs who should be charged with its execution.

This voting process will yield *optimal* results *only* when no participant is in a position to obviate its rules. A violation of these rules will take place if, for instance, a participant (consumer or entrepreneur) uses up more units of a certain good than for which he has given votes in return (or if he has not given any vote in return). This phenomenon is better known by the economic term "*externalities*".

The individual voting by means of monetary units will also cease to work in the case of so-called *public goods* (in the terminology of *Musgrave:* social wants proper). The voting process of the pure market economy assumes that each participant uses up by himself those goods for which he has given votes in return. These goods bestow utility only upon him and on no other member of the economic process; but the "public" goods do not fit into this pattern. The crucial characteristic of the latter lies in the fact that the individual interested in using them either must not be excluded from their use (such as in the case of roads, clean air, defence, etc.), or if the additional amount of votes, necessary to secure the use of the good for $(n + 1)$ individuals instead of formerly n individuals, equals zero. In the latter case the good is said to be nonrival in consumption, for it is able to bestow utility upon a multitude of persons without impairing individual utilities (such as the case of theatres, police forces, education, etc.). The good could then be jointly consumed without detrimental effects to the utilities of the individual users.

Another situation when there is a breakdown of the working of a pure market economy is that of *collective aims*. Imagine an individual who wants the economy to grow at a faster rate; if he increases savings out of his income he may even contribute to the opposite aim. In sum, he cannot achieve this aim by individual action. The same applies to better working conditions, full employment, better health service, increased (or decreased) volume of investment, lower (or — if one is a debtor — higher) inflation rate, lower or higher supply of public goods, different structure of public goods, lower direct and higher

taxes, etc. Here, another voting process, the *political voting process*, comes into action: the individual sponsors the party whose programme is most in line with his personal views of collective aims. The political voting process usually is a democratic one: each individual has the same amount of votes, in most cases just one vote.

Finally, let us mention a last cause for the collapse of the voting process of a pure market economy. This situation arises, if *increasing returns to scale* prevail. Increasing returns imply decreasing marginal costs of production. This means, however, that an entrepreneur receives fewer votes — for one unit of the good he produces — the more consumers vote for his good. Moreover, he has to hand over more votes than he is himself reimbursed for by the users of his good. He will refuse to share in this voting process because he would only lose votes without any chance of gaining votes (at least in the case of marginal cost pricing which is characteristic for competitive equilibrium). In the case of increasing returns the voting process is thus not a self-controlling one, but needs continuous control from outside; the "vote-exchange-ratio" has to be artificially manipulated in order to induce entrepreneurs to enter production of goods involving increasing returns.

We could, of course, continue to discuss other phenomena impeding the proper working of the voting procedure of a pure market economy, such as monopolies or cartels where competition among entrepreneurs is violated, but shall confine ourselves here to the four major points mentioned above.

The main roots of *planning* in *Western* countries are to be seen in the provision of public goods on the one hand and in the pursuance of collective aims on the other. The major events which advanced decisively the idea of planning were the two world wars and the Big Depression of the Thirties. The planning approach was developed from the knowledge that the various measures of economic policy as well as the structure of public goods had to be co-ordinated in order to avoid waste of scarce resources. Further, it was important not to offset the policy of one economic agent by measures of another independent authority for lack of information or will of co-operation. Finally, since each planning process refers to different periods of time, inter-temporal co-ordination of the planning process also had to be guaranteed. This means that the private sector has to be incorporated into macro-economic planning [1]; in Western countries this is done mostly by forecasting a probable evolution, given a hypothetic strategy of economic policy. If the result is not satisfying in the eyes of the government, the plan is altered to produce a more desirable result. Later on, we shall discuss the elements of a macro-economic plan in greater detail.

The difficulty of increasing returns has been coped with in two different ways: firstly by the establishment of public utilities and public enterprises and, secondly, by granting privately-owned enterprises special privileges,

e.g. allowing them to deviate from marginal cost pricing. In the latter case, the enterprises are subject to public control, primarily with respect to the prices they are allowed to charge. Simultaneously, other enterprises are usually banned from the particular markets. Public utilities are sometimes incorporated explicitly into government planning; in other cases, they are run like any other enterprise of the market economy, dependent on governmental directions regarding price, dividend and investment policy.

As to the question of externalities, we have to state that they are not only the most recent but nowadays the most prominent factor favouring planning activities in Western countries. Their major role is due to the detrimental effects of utmost industrialization in over-crowded areas shown by congestion-costs, air, water and noise pollution, problems of garbage removal, and so on. Pollution control will necessitate not only national but supra-national planning authorities. If not, I am afraid, mankind will in the future need no planning authority at all. Of course, urban and regional planning, ensuing from the urge to control pollution and congestion, has to be geared to macro-economic planning.

Let us now trace some roots of *planning in Eastern* countries. Socialist thinkers were impressed by the detrimental effects of the pure market economy, unlike those who wanted to establish such a system to be the declared goal of governments upon the recommendations of classical economists. Karl *Marx* himself did not say much about the working of a socialist economy, beyond the statement that it should be a planned one [2], the founders of the first socialist state, the USSR, obviously were of the opinion that the direct opposite of a pure market economy — in every detail — would be the best system [3]. After temporary backward-movements, such as the New Economic Policy, a technically rather simple planning system was introduced: the so-called *method of material balances*. It was based on the principle that the production of a specific good by all sources should equal the deliveries of this good to all using sectors within the economy. In order to induce managers and workers to fulfil and overfulfil the plans, a vast number of stimuli and indicators (primarily non-monetary, but also monetary) had to be drafted and introduced. The distorting effects of most of these success indicators are well known and need not be discussed [4]; they have repeatedly been ridiculed both by Eastern and Western observers.

By the end of the Fifties more efficient methods of planning were adopted, among them *input-output* techniques and *linear programming* models (perhaps the most interesting being the two-level planning that developed from decomposition algorithms). Simultaneously, the socialist countries of Europe embarked on more de-centralization of economic and managerial decisions and started, though reluctantly, to replace the principle of consumers' free choice by the principle of consumers' sovereignty.

Before we proceed further in our discussion we shall, according to *Sadowsky* [5], introduce a classification of economic decisions:

1. *general macro-decisions* on macro-economic aggregates and indicators (e.g. gross national product, over-all gross investment, rate of inflation, trade with foreign countries, etc.);

2. *decisions of individual consumers* that pertain to the structure of consumption as well as to the choice of occupation;

3. *current managerial decisions* on volume and structure of production, choice of technologies, minor investments, recruitment and discharge of labour force, sales promotion policy, and — within certain limits — price policy.

Career and consumption decisions of individuals are of no major interest here, for they have been put again into the hands of the individuals at an early stage of the evolution of socialist countries, e.g. in the USSR at the end of the fourties.

The main *difference* between planning in East and West is to be found in the *extent* to which the planning authority claims competence to decide. Under the Western planning system the planning authority deals only with general macro-decisions. An economic plan is no more than a chronologically ordered *strategy of economic policy*. It differs from macro-economic aggregates only where public goods are concerned which are differentiated according to structure. Other aims of the plan, primarily collective aims, are sought to be achieved by indirect means, usually fiscal policy, monetary policy, some price control, unemployment and other benefits, etc. Thus, the planning authority communicates its ideas to subordinate economic agents by various messages in order to induce them to adopt a behaviour in conformity with the macro-economic plan. Consequently, macro-economic planning seeks not to narrow individuals' economic choices, but instead appeals to their rational economic sense which would (or should) lead them to act in accordance with the wishes of the planning authority. This attitude is germane to planning in Western countries. It presupposes that "individual economic agents" can understand the messages and behave in a rational manner; likewise, it assumes the presence of a sensibly reacting competitive spirit in all organizations.

Let us now have a look at the typical process of planning in Western countries. We may (according to *Grossman* [6]) discern the following steps in drafting the plan:

1. formulation of the targets of planning;

2. establishment of planning authority (usually a two-fold distinction is made between these who set the goals, controls and enforcement measures and the staff which draws up the specific plans and observes their execution);

3. determination of level and scope of the planning process (the level of planning may be local, state, national, or international; the scope of planning

refers to the extent of decisions for which the planning authority claims responsibility);

4. coordination of the timing of the plans (usually there are plans for different periods of time that have to be mutually dovetailed and drawn up simultaneously);

5. estimate of the present and future situation with and without planning (as a principle, plans are to be sharply distinguished from mere forecasts or projections; the former aim to affect deliberately the course of events and not merely to foresee them);

6. construction of an econometric model of the economy observed (such a model is of highest significance in evaluating possible effects of different planning activities and to reveal those instruments which should be employed in order to achieve the goals of planning most effectively);

7. determination of the levels of the target variables and selection of appropriate instrument variables (by manipulation of which the targets should be reached);

8. explicit formulation of the blueprint of the plan (codification of measures to be taken, necessary modification of legislation, etc.); and

9. enforcement and execution of the plan (together with close control of the execution of the plan and — if necessary — revision of the plan in due time).

The planning process outlined above is similar to the traditional planning process in Eastern countries. There is, of course, some difference as to the *scope* of planning; in Eastern countries, many managerial decisions are the responsibility of the planning authority which causes a much greater complexity of the planning process. Also, the plans in Eastern countries, as a rule, are not based on an econometric model, but are deterministic plans, often containing fixed goals for each enterprise and other participants in the plan. Therefore, the distinction between target and instrument variables may be dropped.

The economic *reforms* which have been implemented in the socialist countries within the last years are or were aimed at more decentralization of the planning process. Specifically they suggest giving increased decision-making power to managers of enterprises. In my opinion, this tendency has caused the two planning procedures to converge [8, 9, 10] and the problems of planning in East and West became similar to a large extent. The passage between the Scylla of too much centralization (distortive effects of non-monetary success indicators, inadequate supply of consumer and capital goods with respect to structure and/or amount) and the Charybdis of too far-going decentralization seems in fact to be a very narrow one. "Decentralization may have disadvantages, in that erroneous decisions may be made by the lower units (i.e. erroneous from the point of view of the central authority).

The main cause of such decisions in a decentralized structure is defective parameters, i.e., parameters which do not lead the apparatus implementing the plan to act according to the preference of the central authority". (*Zielinski* [7]).

One of the sources of *defective* parameters is of course wrong specification of the mathematical model describing the observed economy. To avoid this will necessitate more research in the field of econometrics in both East and West and, particularly, the full adoption of econometric work by the planning authorities of the socialist countries. Another problem arises, if certain goals of planning cannot be achieved by indirect measures. Then the planning process in the Western case breaks down and direct measures have to enter the scene. In these situations Western planning authorities could avail themselves of the experience of the socialist countries and could thus choose the most appropriate and least detrimental instruments.

One of the handicaps of planning in many *Western* countries is the *legal* constitution which either adheres to the principle of economic liberty and is therefore adverse to interference with economic decisions by government or favours federative principles and thus puts discretionary power on decisive questions in the competence of states or municipalities. In consequence, proposed plans often have only the character of recommendations; these oblige federal authorities to follow the plan, but contain no direct measures for private entrepreneurs. Planning objectives which could be achieved only by direct measures are in many cases outlawed. In periods of emergency, however, part of the legislation is, as a rule, suspended and more direct planning approaches become admissible (such has been the case in times of war).

Turning again to the *socialist* countries, we encounter another, no less serious problem of planning. This is the problem of determining the goals of planning, especially the amount and structure of public goods on the one hand and collective aims on the other. It is, at least practically, impossible to entrust another party sponsoring a different political and economic programme with governmental power. I could imagine a good substitute for the above mentioned political voting process to determine structure and volume of public goods and collective aims: a referendum could take place and citizens could vote for one particular five-year-plan from a number of alternatives prepared by the National Planning Board. Such a procedure might decisively contribute to strengthen the democratic principle governing a country.

At the end of our considerations let us regard the most urgent problem planning has to cope with. This lies in the field of *pollution control* and is common to both economic systems. The problem can be reduced to the question: Who is to pay for pollution control? (It is of equal importance in East and West, as the economic reforms of the socialist countries pushed the planning process toward more decentralization.) The problem arises if the profit is the main indicator of success of an enterprise (or in the case of individuals, utility,

which indicates the crucial importance of externalities). Whereas this indicator secures in most cases the optimal combination of resources, it fails if externalities are involved: each manager strives to widen the gap between returns and expenses and thus pays for costs incurred only when he is forced to do so. If not, he would avoid this and is thus in a position to incur costs without affecting his profit and loss account. The combination of resources is distorted in direction of the good that need not be paid for. The same applies to private individuals: each person strives for maximization of his utility and minimization of his disutility. This is especially so when the process entails goods which can be bought by savings generated from shifting costs on to others. The typical case is that of air-pollution caused by private automobiles or water-pollution caused by households.

The great task of the future planning in East and West lies, in our opinion, in its contribution to pollution control by means of *internalization* of externalities into managerial and individual success indicators. Other important tasks are consideration of the social impact of technological progress or the role of education — especially permanent education — vis à vis leisure.

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ВОПРОСЫ ПЛАНИРОВАНИЯ В ЭКОНОМИКЕ СТРАН ВОСТОКА И ЗАПАДА

В. ВЕБЕР

Автор останавливается на некоторых основных аспектах развития и применения планирования в условиях различных экономических укладов, сложившихся после второй мировой войны в европейских странах и высказывает несколько соображений относительно «оптимального» масштаба планирования.

Распределение ограниченных ресурсов можно осуществлять путем более-менее централизованных и, соответственно, децентрализованных механизмов управления.

Рыночному механизму, то есть децентрализованному управлению распределением ресурсов, соответствует аналогия двукратно согласованного процесса: на первом этапе принимается решение о структуре производственной программы, а на втором — о выборе производственных единиц, которым предоставляется выполнение этой производственной программы.

Такой процесс принятия решений дает оптимальный результат только в случае, если ни один из его участников не уклоняется от соблюдения действительных для данного процесса правил или, соответственно, если эти правила применимы в отношении каждой производственной программы. Эти условия нарушаются главным образом в следующих случаях: 1. включение в намечаемую производственную программу предметов общественного потребления; 2. производство (или потребление) подвержено воздействию внешних факторов; 3. наличие коллективных целей, которых нельзя осуществить путем изолированных действий индивидов; 4. отдельные участки производства относятся к сфере растущей производительности. Можно привести еще и другие «рыночные помехи», но в «западных» странах в основе планирования лежат перечисленные факторы. Необходимость торговли предметами общественного потребления привела к созданию техники планирования, известной под названием Систем программирования, планирования и бюджетного финансирования, внешние воздействия привели к возникновению регионального планирования и планированию охраны природного окружения, коллективные цели вызвали к жизни глобальное макроэкономическое планирование и, наконец, растущая производительность послужила основой для прямого государственного вмешательства и, соответственно, создания систем налогов и субвенций, которые тоже нужно координировать.

Следовательно, в то время как в западных странах стремления к планированию зародились на макроэкономическом уровне и только в исключительных случаях затрагивают микроэкономические решения, в социалистических странах планирование возникло на всех уровнях хозяйственного механизма. Здесь в особенности в течение последних пятнадцати лет наблюдается тенденция к использованию предметных и институциональных знаний непосредственных производственных единиц для повышения эффективности производства, к замещению прежних директив в натуральных единицах измерения рядом косвенных стимулов (экономических рычагов). Важнейшим из числа этих рычагов следует считать прибыль, которая в определенной мере влияет на доходы производственных единиц (принцип материальной заинтересованности). Вместо плановых директив в натуральном выражении все более отдается предпочтение призыву к экономической рациональности.

Исходя из существующего положения можно сделать вывод относительно некоторого сближения экономических укладов, поскольку между механизмами управления увеличивается сходство в отношении использования ресурсов. Поэтому стало распространенным воззрение, что экономические модели и расчеты достигнут наивысшего расцвета в социалистических странах. По мнению автора, по мере роста культурного уровня и политической сознательности населения рано или поздно возникнет необходимость в организации референдумов по отличающимся друг от друга основным чертам пятилетних планов, поскольку из-за отсутствия многопартийной системы нет иных путей для ознакомления правительств с предпочтениями населения. Однако по мнению автора, самая главная задача планирования в будущем, по свей вероятности, будет заключаться в разработке наднациональных планов по охране природного окружения, то есть сохранению общего жизненного пространства человечества.

Acta Oeconomica Vol. 9 (2), pp. 137—151 (1972)

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FUNDAMENTAL PROBLEMS IN THE LONG-RANGE MANPOWER PLANNING AND LIVING STANDARDS POLICIES

The authors present a framework and certain principles regarding long-term manpower planning and living standard policies in Hungary. The formulation of hypotheses and the analysis are those of the authors, but various ideas rely on the basic works of many other economists.

In the course of long-range national economic planning, first the analysis of living standards was dealt with and then development hypotheses were worked out in the past three years.* From 1969 to the end of 1970 detailed studies and calculations were made regarding the major aspects of living standards (income, consumption, housing, public utilities, education, health and employment). After a critical review and synthesis, a summary on manpower planning and living standards was completed at the end of 1971.

The work was done by the National Planning Office with the aid of an advisory committee, the Manpower and Living Standards Planning Committee (MLC). The consultative and coordinative role of the MLC greatly assisted the National Planning Office, the ministries, and various professionals in the field, promoted open debate and exchange of opinion, and reinforced the democratic process of planning. The planning documents list the names of those participating in this collective work.

Certain partial results of the phase of work recently completed have already been publicized in professional periodicals, the general press, and through radio and television as well. The complete documents were presented to the responsible experts in research institutes. However, a review of the summary plan-study on living standards has not taken place on a broader scale since the calculations covering the whole economy have not yet been completed; thus, it has not been possible as yet to confront the plans for living standards with those for production, i.e. the requirements with the possibilities. However, the work completed so far provides a sufficient framework for summarizing the basic principles already crystallized in the planning work. The present study cannot review in detail the specific development goals filling in this "framework", the detailed ways for their realization, the problems

* See [1].

of quantifying or the multitude of alternative variants. But we wanted to make public at this time the nature of basic questions outlined here. This will be followed by other publications on the details of long-range planning of living standards and related problems.

In essence, the statements outlined here represent long-range plans for living standards as formulated by the authors. This, however, by no means indicates that these ideas are not supported by many other analyses and the valuable work of authors too numerous to be listed here by name. In general, it is characteristic of the planning process that while individual work is important, the summary documents drafted in the closing stage of work are generally the results of a collective effort.

Perspective planning and living standards policy

The role of living standard* planning in long-term national economic planning differs from that in short and medium-term planning. The shorter the period, the more strongly economic development and living standards are determined by existing production conditions. In the long run, the level and structure of production loom less important and the demands made upon the economy cannot be derived from the production process alone. Rather it is *the targets and requirements of living standards policy which will influence economic development.*

Therefore, in long-range planning, the topic of developing living standards, together with their economic and social aspects, are given prime consideration. The basic goal of the socialist economy, that is, raising the living standards of the population and improving living conditions, the way of life, can be expressed clearly in the long-term national economic plan.

Precisely for this reason, the perspective plan of the national economy can also express a social concept, namely, that it *is the complex plan of social and economic development.* This, of course, does not mean that national economic planning includes all social policy goals. However, the long-range planning of living standards helps in marking out these goals, and shows the economic conditions for and effects of their realization.

The conscious assertion of the social aspect in planning and of major achievements in the social sciences does not mean that planning can set itself the goal of sketching out the society of the future in detail or of elaborating an economic policy plan which would lead to the formation of specific social conditions. *Planned future is never the complete future;* only the basic direction and essential features of social and economic development can be expressed on the basis of present-day information.

* By the expression "living standards" we always mean living standards and employment, living conditions, and modes of living.

The major goals of social policy and living standards policy in long-range planning

The basic goals of social policy appear, indirectly or directly, in the strategic targets of living standards policy. Therefore, living standards policy must reflect the socialist nature of society and must help to reinforce socialist trends.

In building a socialist society in the past and in the future, the starting point for social and living standards policy must be *the gradual reduction of differences between classes and strata, while raising the material and cultural level of the entire population to an ever higher degree.* This goal can be realized in a threefold manner, with economic, cultural and political means.

Realization of the *economic* conditions first of all means that on the basis of economic development and rising living standards we can gradually decrease the differences in the consumption level and patterns among the different classes and strata.

The *cultural* point of view means that while continually raising the cultural level of the population, the cultural and schooling levels of the different classes and strata must be made to approach one another.

The *political* condition means primarily the reinforcement of socialist democracy, requiring a large-scale increase in the initiative of the workers and in their willingness to undertake responsibility.

The concrete social and living standards policy goals of the next 15-year period facing us are connected to these basic tasks, the full realization of which requires a whole historical era.

Maintenance and development of economic and social security

The maintenance and strengthening of economic security for the population means the promotion of full employment, free medical care and social care for those unable to work and the aged.

By *full employment* we mean that for all those who wish to work under socially organized conditions, we must ensure working opportunities to make efficient use of their qualifications and talents.

In this context it is debatable whether full employment is compatible with economic efficiency, the requirements for increasing productivity and work discipline, whether these two contradict one another, or not. We are of the opinion that we must take a definite stand in favour of an *expedient* ensurance of full employment, for the security stemming from this is one of the largest surpluses which a socialist system can provide for its working masses, even in contrast with those capitalist countries which are on a higher level of economic development.

This standpoint is not contradicted by the fact that in many capitalist

countries almost full employment has developed for some time now. It is precisely the example of these countries which shows that there is no functional relationship between unemployment and work discipline or between full employment and lax work discipline (or low efficiency). Therefore, it must be through the further development of socio-economic conditions that we attain the improvement of work discipline and a faster increase in productivity. One of the essential conditions for this is to place enterprises under the pressure of the planned market and another is to link real earnings to growing performance and social usefulness. We should exert pressure and make it possible for redundant or improperly utilized workers to be transferred to other jobs, in accordance with the qualifications of the individual and the needs of the national economy.

However, experience with respect to security and full employment shows that at the same time we must also increase the social demands on individuals. *Security without such demands leads to social injustice and hinders economic development* which creates the material basis for social progress. With a better formulation and implementation of targets, we must see to it that, beyond certain minimal social norms, people share in the fruits of economic security according to the work performed for the benefit of society. Indeed, no one can demand from society that all his needs be unconditionally satisfied.

Taking the former into consideration, full employment must be maintained and further developed in a more rational way in the future than in the past. Ensurance of full employment is primarily the task of the state and council bodies representing social interests, while the major task of enterprises and other employing organizations is to increase the efficiency and productivity of labour. Economic management and leadership must create conditions under which enterprises will tie increases and differentiation in earnings to increases in individual performance and enterprise output. Furthermore, the employers should reassign unneeded or unsatisfactory manpower *to other productive places or else dismiss the workers*, unless the enterprise has definite social responsibilities. In order to do this, the economic and social environment must be transformed so that enterprises are encouraged in such conduct, with the individual protected only against unjustified action.

Therefore, the rational interpretation of full employment cannot protect those individuals who do not perform their work in a satisfactory manner on a given job. The policy also makes it possible, and in fact desirable, that a small part of the labour force be "in transit" between two jobs; i. e. frictional unemployment due to socio-economic changes is viewed as acceptable. The central bodies responsible for full employment — and not the enterprises — must see to it that there be satisfactory job opportunities and that everyone be able to obtain work suited to his qualifications and talent. For this reason we support the idea of a rational movement of labour and frictional unemploy-

ment; but to do this task properly, we must provide retraining and social care programs.

Another important element of security is *free health service* for the population. In this respect the major task is to improve significantly the hospital care of the population. This is done, first of all, through increasing the number of hospital beds, through building new hospitals, and modernizing old ones. A further task is to increase gradually the wages of health workers so that they reach the wage level of other professionals performing similarly complex and responsible work. This is a key condition for taking energetic measures against the increasingly spreading system of "gratitude money", which is already beginning to endanger the system of free medical care.

We must improve the supply of health personnel through the better training of nurses, assistants and other health experts and by increasing their numbers.

The social commitment to supporting the aged and disabled requires, first of all, the further development of the pension system. It is a social requirement that even the lowest pension be sufficient to ensure basic living conditions (at least at the level considered the social minimum). The living standards of new pensioners — taking their changing living conditions into consideration too — should decline as little as possible in comparison to their living standards while working. Therefore, the real value of pensions must be maintained, and the increase in pensions must be made to approach gradually the general rise in living standards.

Automatically operating mechanisms are themselves rapidly increasing the sums of pensions paid out and are modifying significantly also the pattern of payments. With the rise in real earnings, new pensioners receive ever higher amounts, even if the pension system is not changed. The number of those entitled to pension is increasing rapidly, as is the length of service affecting the size of pensions. These changes "automatically" ensure satisfaction of a part of the requirements mentioned above. The increase in pension payments stemming from this is well in excess of the rate of increase in income deriving from work. This means that any further improvement of the pension system and full realization of the targets mentioned can be executed only in a gradual manner, although under more favourable conditions than in the past.

An important method in care for the aged — supplementing pensions — is *social care* for the elderly and disabled. Many forms of this are needed: (1) institutional care (homes for the aged, etc.) on various levels including those for which payment must be made, (2) individual care, and (3) generally helping the elderly to satisfy their special interests and needs for social activities.

Reinforcing the open nature of society

In order to reinforce the open nature of society (within the general limits of socio-economic development), significant differences in family and social environment, which have a socially damaging effect on young peoples' opportunities to start on their careers, must be reduced. Opportunities for adults to advance their knowledge and to develop their talents must also be increased.

One of the most important means for attaining these goals is *free formal education;* further modernization of the contents and methods of education and the development of a corresponding school system are the key to this task.

Kindergartens must be developed in a special way and education must be given as much attention as child care (particularly with children aged 5).

In harmony with the social and manpower needs of the economy, *the content, system and duration of primary school education must be reviewed and updated.** Depending on these changes, the complicated contradictions of the present *secondary* school system must be resolved.

On all levels, the network of *student hostels* must be significantly expanded first of all in the urban areas and later in other locations as well.

Teacher training must be improved, and the number of teachers increased. The prestige of the teaching career must be raised; a key condition for this is a gradual increase in teachers' earnings.

Modernization of the educational system in both contents and methods, and an improvement in the material and personal conditions of educators and students can result in attaining our long-term targets.

Cash and social contributions to child-care play an important role in the realization of demographic policy goals, provide the financial means for families to create a healthy environment and play a tremendous role in the development of the young. For this reason, the child-care benefit system plays a many-sided role in reinforcing the open nature of society.

Today the number of dependent children has an unfavourable differentiating effect on the living conditions of families. This can be counterbalanced, if society makes a greater contribution to the costs of raising children within the family. This is why we should promote the goal that, in parallel with the rise in living standards, *the various — primarily cash benefits should cover a gradually increasing ratio of current average child raising costs in the family* (family allowance, child care aid, scholarships, etc.). Alongside this, the social institutions for child care and education must also be advanced (nursery, kindergarten, after-school centres).

The openness of society will be enhanced — and this is one of the key issues for progress — if we see to it that *the selection and development of talents* is helped in all fields of social activity. This requires a social environment in

* At present, formal education is compulsory from 6 to 16 years of age. — *Ed. note.*

which the work of everyone, from workers to management, is judged and evaluated from the point of view of service to society.

An important task linked with this is *aid to social mobility*. No one should get stuck at a given level of work, or at a point in the social division of labour if his talent would otherwise make his progress possible. An enormous role in this process is played by *adult education, further training and retraining;* this can be based on the wide cooperation of vocational educational institutions and various enterprises.

An important task in enhancing the open nature of society is to increase *the social equality of women.* To this end, we must promote the trend that women should have the same chance as men for *attaining any and all degrees of social ranking and earnings* (provided they possess similar qualifications). This demands that prejudices still existing today in the educational system and particularly at the work place be eliminated.

The burden of family and household work must be decreased; the idea of men and women taking an identical share in such work is also to be supported. This will require changes in life styles, the modernization of household equipment and services, and an adequate system of cultural and social education for men and women.

Finally we must offer the opportunity of a real choice for mothers, to choose between a job and work in the household. Alongside the development of the child-care institutions, this will make necessary a modern system of cash and non-cash benefits for women with children in the home.

The realization of *identical rights and responsibilities for men and women* will not take place without contradictions in the future. Not only are there biological and physiological differences between men and women, but century-old prejudices also cause difficulties. For employers male labour is still seen as more "reliable" and more easily mobilized than female labour. Employers are always concerned with maternity, women's inability to work because of their children's illnesses or because of their ties to family and place of residence.

This situation can be changed only if the fact is recognized, socially and generally, that without the work of women a modern economy cannot develop satisfactorily and that the ties and burdens of women deriving from childbirth *serve the benefit of the whole society.*

A greater social contribution to raising children and an improvement in the position of women are closely connected with our *demographic policy* which calls for the goal of *increasing the reproduction of population* by gradually increasing the birth rate and decreasing the mortality rate (particularly the infant mortality rate). In our demographic policy we must strive to correct the deformed age structure of the population caused by the historical events of past decades and measures taken in the early 1950's.

Development of the socialist features of income distribution

The special features of a socialist society are expressed, last but not least, in income distribution. The creation of social ownership modifies income distribution at the outset. This, however, is only the starting condition for the development of distribution relations suited to the nature of socialism (in accordance with the given situation and future requirements).

Requirements on distribution relations are contradictory. *Distribution according to need* is in accordance with the final goal of our social system, but this must be based on suitable material wealth. The creation of such a system first requires *distribution* according to work performed based on material incentives; but this differentiates incomes deriving from work. This situation is particularly important for the socialist countries which are less developed economically.

On the present and the foreseeable level of socio-economic development in Hungary, we can only endeavour to move toward such an equalization of incomes which takes the requirements of material incentives into consideration. The period we are facing requires that *earnings be more differentiated than in the past by individual output and social usefulness.*

However, society cannot tolerate exaggerated *inequalities in income* since this would create social contradictions and hinder economic and political development.

Under our present circumstances what must be primarily achieved through the distribution of incomes is that *all of society* and each of the significant groups in it should enjoy the benefits of economic development.

It stems from the preceding that policies affecting the level and differentiation of incomes must be coordinated so that even the *lowest incomes* make it possible to satisfy minimum social requirements in harmony with the given level of development, and that the highest incomes should not exceed a socially justified and acceptable level.

With the differentiation in earnings incentives must be provided for socially useful activities. At the same time, social benefits, which help to achieve security, will reduce *income dispersion stemming from the demographic composition of the families.*

A greater differentiation in earnings by position or responsibility level than the present one is not required, these ratios are, on the whole, in line with what is socially desirable. However, improvement must be made with regard to relative earnings by trades and occupations, since in many cases they do not express differences in the complexity and responsibility of the work or in working conditions.

The most important and, at the same time, the most difficult task in this field is to differentiate in the earnings of those performing the same tasks ac-

cording to the quality and quantity of the work performed. Solution to this task requires a substantial improvement in management and a change in public opinion, since the levelling effect is strongest in precisely this field.

With respect to family incomes, as already mentioned, the levelling effects must be reinforced. The major means for this is an increase in social contributions towards the costs of maintaining children and the aged in families.

Building up a consistent consumption preference system

A question which returns repeatedly in planning living standards is how to outline the consumption pattern of the population. *In other words, what sort of "consumption model" should we endeavour to formulate?*

According to experience and various studies, production and related factors objectively and "automatically" change the consumption pattern of the population. Such factors are the level and distribution of incomes, educational and employment patterns, urbanization, etc. Among these — taking into consideration their interactions with one another — *the most direct and important role is played by increases in the level of incomes.* This is the reason why the pattern of mass consumption in countries with different social systems shows similar features, if the levels of economic development are about the same.

Planning, however, cannot be carried out simply by trying to approach or reinforce the "automatic" trends. The consequences would be unfavourable from a number of aspects. We must have a comprehensive and consistent preference system to influence personal consumption in such a way (and this includes investments directly affecting the population) that it should serve social progress, and a cultured way of life.

With such preference system we must strengthen those favourable features in personal consumption which can be observed in Hungary and the other socialist countries as well (e.g. the comparatively rapid reduction of differences in educational and health care by regions and strata etc.). These features do not yet mean that a "socialist consumption model" has been developed or that its structure is before us in a clear shape. However, we can observe characteristics which can be considered socialist features of consumption, even if we come across partially similar trends in the developed capitalist countries. The latter reflect, to no small extent, the effects of the working class movement and competition with the socialist countries.

One of the special features of socialism can be derived from the above: *in accordance with distribution relationships formed on the basis of socialist ownership, the consumption level of the various social groups and families should not be differentiated too much.*

The open nature of the social system requires that healthy and cultured

children grow to adulthood also in families with low incomes and that these strata, too, enjoy the achievements of technological and cultural progress.

Therefore it is necessary that the living conditions and consumption patterns of the rural population (not only their income level) approach that of the urban population and that *regional differences in the consumption patterns be gradually reduced.* Aside from this, attempts must be made that such changes reduce the burden of household work, borne today mainly by women.

Another particular socialist feature of consumption is that the population should make more use of cultural facilities and educational services than in capitalist countries at a similar stage of development. The *contents* of this cultural process does not belong to the scope of economic planning, but the *material conditions* for a higher cultural level must be created by economic policy and planning.

An important condition for a healthy and cultured way of life is that society make it possible to meet satisfactorily those demands whose material conditions are created by *investments* which directly serve the population. Of outstanding importance among these is the improvement in *housing and housing conditions*, (along with needed utilities), in such a way that by the end of the 15-year plan period every family or head of household can have its own flat. Thus we can hope to achieve a quantitative balance between housing demands and available flats.

Another way in which we can deliberately influence consumption is that *we must maintain and further develop — although we need not expand — the scope of free benefits mentioned earlier.*

And last but not least, under the conditions of socialism it is possible to influence changes in the structure of consumption which, even with an adequate level of economic development, would provide an acceleration in the growth rate of consumption. It is possible for society to establish preferences among demands, identical in value (from the point of view of the population), but which can be satisfied in different ways, e.g. by preferring those which can satisfy a given demand with comparatively less input or which would make a higher consumption possible with the same input.

In formulating a consumption preference system, its internal contradictions must be taken into account since the social policy goals which serve as a starting point are not free from contradictions themselves. The most significant contradiction — already indicated — is between endeavours to reduce the differences among social groups and the operation of the principle of distribution according to work (which provides the incentive towards economic development). Long and short-term goals can contradict one another and even targets within a given period can contradict each other (e.g. healthy eating habits and economic preferences for certain essential foodstuffs). For this reason, it is very important that when a long-term target is temporarily

driven to the background by a short-term goal, this situation be recognized and that we maintain it only temporarily, i.e. only as long as the conditions forcing the deviation exist.

The realization of living standard policy goals

The fundamental strategic goals of living standard policy can be implemented through the coordinated application of economic, cultural and political methods. Perspective planning must first of all determine the economic means, including the material conditions needed for the expedient application of cultural and policy goals. Thus, in planning living standards, the *economic policy goals* in the strict sense of the term *become intertwined with cultural and political tasks.*

One of the major problems of living standard planning is that the general targets (including the economic, cultural and political tasks which serve their realization) must be "quantified". In other words, they must be translated into the language of plan indices. This is why the planners make detailed studies of all essential elements in living standards with regard to past trends and *analyze* the present situation in the light of domestic development and present demands, making also comparisons with countries having different social systems and on different levels of economic development. These examinations provide the foundation for *assessing* future *demands* and for forecasting the future trends in the major forces influencing living standards.

Planning living standards (for the reasons mentioned in the introduction and as a result of planning "technique") precedes the planning of production, i.e. the survey of the material basis for developing living standards. This however, does not mean that it is sufficient to simply survey "demands" with conditions whatsoever, for then truly "the sky would be the limit". Material or financial limits cannot be neglected over the long range either. Despite this, it would not be correct to squeeze the planning of living standards into a narrow framework at the outset and renounce the possibility of assessing socially justified requirements as demands to be put on economic growth.

In planning living standards, we solved this dilemma in operations by forming a "planning zone" for the whole of living standards and each of its factors, using a two-sided approach: international comparison and the analysis of domestic, socially justified demands.

The international comparison had to take into account the idea that it is no longer sufficient today if our development is faster than in the most developed countries. On the one hand, the gap between Hungary and them is still so large, that even in the case of a relative reduction, the narrowing of the gap would hardly be noticable and, in fact, the absolute difference might even increase. On the other hand, the goal just mentioned is unsatisfactory

also, because the capitalist countries close to us (insofar as economic development level is concerned), have been developing quite fast for a long time now, much faster than the most highly developed capitalist countries. In today's "open world" this does not remain without impact on our society. For this reason, the satisfaction of social requirements makes it necessary to attain a development rate of living standards which sufficiently takes this circumstance into consideration.

However, in determining the desirable growth in living standards, we must consider that we are not only competing with other countries but also with "ourselves"; in other words, *we are running a race with increasing demands.* Thus, even the satisfaction of today's social requirements would require a higher level of economic development than the present one. If however, in the future we were to endeavour to satisfy only today's demands, tensions would not be alleviated, but would become even sharper with the passage of time. Thus, in order to realize the basic principles of living standard policy, we must prescribe a development which at least makes possible *for present tensions, originating in unsatisfied (but socially justified) demands, to be gradually alleviated. New disproportions and contradictions must be prevented also from developing.*

If we look at any part of living standards or socio-economic activity we will find tensions created by demands which can be considered justified. But the scarcity of resources does not make it possible to satisfy all demands. The requirement of efficiency does not even make it expedient for these demands to be met to an identical extent, since the contradictions or their possible consequences which appear in given fields are not identical in sharpness. As with all other policies, living standard policy is also forced to weigh and balance different requirements. There are tensions whose solution or alleviation is essential, for if this were not done, serious disturbances would occur. The elimination of such contradictions is viewed as the *key task* of living standard policy (e.g. improvement in present housing supply) and solution to such problems must be placed before everything else. Resolution of the key issues, of course, is not considered as some kind of "sacrifice", but simply as a ranking of tasks. But this ranking cannot mean that we should not endeavour to alleviate gradually tensions in other fields (for instance, reduce the number of consumer goods in "short supply").

A detailed study of the essential elements of living standards made it possible to outline the uppermost limit of the "planning zone" in such a way that a satisfactory material basis is provided for resolving present and future contradictions. But this "uppermost limit" does not mean a "maximum" growth of living standards, just as the "lower limit" does not indicate its real "minimum". The "planning zone" of living standards, however, serves a useful purpose in enabling planners (who endeavour to formulate consistent na-

tional economic plan variants) to survey *the field of possibilities for raising living standards from the viewpoint of planning technique*. Leading bodies responsible for decisions on living standards policy are enabled to review its *contents*.

In order to raise living standards and to transform the way of life and living conditions, it is not sufficient to raise the income and consumption level of the population. With the passing of time, the importance of "*infrastructural*" *investments*, which determine the mode and circumstances of personal consumption, increases continuously. Of these, we have already emphasized housing and supply of utilities, where an essential improvement is considered to be one of the key tasks of the long-range plan period. It is also obvious that the development of education and health and advancements in methods, organization, and personnel utilization in this area also requires an increase in material resources. Here an increase in current input is not sufficient, for the institutional network of education and health must also be advanced. In simpler terms: more *and* more modern schools and hospitals must be constructed and the old ones must be modernized. Special roles are also played by trade and catering and by transportation and telecommunications in improving the living conditions of the population. Their importance is enhanced by the fact that the development of distribution and communications is an important condition also for increasing production and improving its efficiency.

The development of the "non-productive" and "productive" infrastructure is made urgent by the fact that in these fields we have lagged behind the general development of society and the economy for a long time. And today this is increasingly endangering "the social recognition" of the income and consumption of the population, despite the fact that the growth of infrastructure has been rising at a steady and significant rate, even from the international point of view. For this reason, *the income and consumption of the population must be increased in harmony with one another and infrastructural establishments needed to "enjoy" them must be completely developed.*

Raising living standards (i.e. improving the way of life and living conditions) pose definite requirements on economic growth. We should recall past experience which showed that forcing the growth rate can lead only to formal results and can even endanger economic and political stability. Nor can we give up trying to accelerate economic growth in a realistic way. From the point of view of socio-economic development, determination of the road leading to the realization of the key goals is of essential importance. *However, these goals and the rate of development are closely related with one another.* On the one hand, it is not immaterial when and to what extent we can realize our goals, and, on the other hand, socio-economic demands (in other words, development goals) also change as a function of time.

The planners of living standards have arrived at an important stage of

planning. In this stage of work they will compare the results of planning living standards with those of production planning and in this way develop consistent national economic plan variants. This work is already under way. It is clear that the desired development in living standards raises requirements on the economy which are essentially different from past ones. This does not force us to accelerate the economic growth rate, since *maintenance of the rate attained in the past 15 years already ensures* attainment of the lower limit of the living standard planning zone, *a significant degree of increase in living standards, i.e. an improvement in the way of life and living conditions.*

But the conditions for economic growth have changed in comparison with the past. Even the *maintenance of the present rate of economic development requires an immense effort under the new conditions* in raising the efficiency and productivity of the production process. Members of the population as consumers are also the producers creating the material basis for their own living standards. *And it will be the conduct as producers which will determine the realization of long-range goals regarding living standards.*

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ОСНОВНЫЕ ВОПРОСЫ ПЕРСПЕКТИВНОГО ПЛАНИРОВАНИЯ РАБОЧЕЙ СИЛЫ И ЖИЗНЕННОГО УРОВНЯ

И. ХУСАР – О. ГАДО – Р. ХОХ – Я. КОВАЧ – Я. ТИМАР

В статье обобщаются основные принципы, сложившиеся в рамках перспективного планирования политики рабочей силы и жизненного уровня на основе проводившихся в Венгрии уже довольно долгое время анализов и разработки гипотез по развитию. Сформулированные здесь соображения опираются на разработки многих экономистов.

Авторы констатируют: на долгую перспективу требования, предъявляемые к развитию всей экономики, в значительной мере определяются целями политики рабочей силы и жизненного уровня. Исходный принцип перспективной политики жизненного уровня — постепенное сокращение различий между классами и слоями населения при постоянном повышении его материального обеспечения и культурного уровня. Авторы решительно выступают за рациональное обеспечение полной занятости, так как связанное с этим ощущение обеспеченности существования является одним из важнейших преимуществ, предоставляемых социалистической системой трудящимся массам. Наряду с усилением обеспеченности, однако, следует повысить и требования, предъявляемые к индивидуумам. Ибо обеспеченность без требований приводит к возникновению социальных несправедливостей, тормозя экономическое развитие. Обеспечение полной занятости является в первую очередь задачей государства, представляющего интересы всего общества, а главная задача предприятий заключается в повышении эффективности труда. Необходимо создать такие условия, чтобы на предприятиях рабочая сила, не выполняющая свою работу должным образом, перемещалась на другую работу или же увольнялась. Исключение представляют специфические социальные аспекты.

Важными развиваемыми элементами обеспеченности существования являются также и безвозмездное медицинское обслуживание и общественное участие в содержании престарелых и нетрудоспособных.

Усиление открытого характера общества, увеличение общественной мобильности связаны, главным образом, с равенством в воспитании, обучении. А это требует, чтобы растущая доля семейных расходов по воспитанию покрывалась общественными пособиями и льготами. Важной задачей является и усиление общественного равноправия женщин.

Основной принцип развития социалистического характера распределения доходов — большая дифференциация заработков в зависимости от индивидуальных выработок и общественной полезности труда, при одновременном противодействии возникновению чрезмерных неравенств. Однако даже наиболее низкие доходы должны обеспечивать удовлетворение минимальных общественных потребностей, отвечающих данному уровню развития.

Далее в статье рассматривается система предпочтений в потреблении, структура потребления и воздействие на ее изменение, исходя из того, что планирование не может ограничиваться регистацией «автоматических» тенденций, так как во многих отношениях они имеют неблагоприятные последствия. Авторы считают особенно важным улучшение жилищных условий.

В то же время они констатируют: уже для удовлетворения нынешних общественных потребностей недостаточен настоящий уровень экономического развития. Минимальная задача заключается в обеспечении постепенного устранения нынешних напряженных моментов, возникающих из-за неудовлетворенных, общественно обоснованных потребностей, и противодействии появлению новых острых диспропорций и противоречий. В этом аспекте авторы подчеркивают значение инфраструктурных капитальных вложений (например, в области обучения, здравоохранения), указывая, что доходы и потребление населения должны расти взаимоувязанно при одновременном развитии инфраструктурных учреждений, требующихся для их удовлетворительного использования.

Acta Oeconomica Vol. 9 (2), pp. 153–165 (1972)

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SOME CONNECTIONS BETWEEN THE INTERNATIONAL MONETARY SYSTEM AND EAST-WEST ECONOMIC RELATIONS*

The socialist countries are interested in the reorganization of the western monetary system, since they desire to avoid the emergence in world dimensions of trade wars and protectionism. With a properly organized international monetary system, and based on mutual economic interests, a new period in the development of East-West economic relations may ensue in the seventies. Joint efforts by countries with different social systems are necessary to bring about an East-West economic cooperation covering a wider sphere of economic life.

The primary external force of economic development for the socialist countries — including that of the Council for Mutual Economic Assistance members — is the dynamic expansion of mutual relations. This fact characterized and made possible the results achieved by these countries in the past and it will also be the determining force in the future. This is reflected in the long-term development conceptions of Hungary, in the plans of the other member countries, and in the Complex Program which is aimed at the intensification of integration within the CMEA.

At the same time, the economic development and integration policy of the socialist countries recognizes that, supplementary to this main guideline, East-West economic relations will also develop fast — conforming to the Leninist principle of peaceful coexistence. The expansion of such relations organically fits into our own integration efforts, which are certainly not aimed at the creation of a closed autarkic community. From this stems another feature of expanding East-West economic relations, i.e., —that this area can no longer be restricted to the field of foreign trade or foreign trade financing. Production cooperation among enterprises of different countries, purchasing of licences and know-how, financial relations not directly related to foreign trade are among the areas important in East-West relations.

But beyond the fields just mentioned, monetary and financial factors — affecting wider spheres — also deserve attention; these — directly or indirectly, to a smaller or greater extent — influence the whole of the world economy

* Adapted from the original Italian publication: "La riforma del sistema monetario internazionale e le relazioni economiche Est-Ovest" in EST-OVEST, Quadrimestrale di studi sull' EstEuropeo. No. 1. Trieste 1972. Anno III. (Istituto di Studi e Documentazione Sull' Est-Europeo.)

and within it East-West relations as well. I wish to approach the question of economic cooperation with the capitalist world precisely from the aspect of some topical problems in the monetary situation.

The experience of the 25 years following World War II has shown the important role which a settled state of international monetary relations can play in the economic development of advanced capitalist countries. The monetary system reorganized in Bretton Woods contributed greatly to the fact that the capitalist world could develop relatively dynamically and without deeper economic crises. The same can be stated regarding world trade.

The reverse relationship also holds true. Without settled financial relations, international commodity trade and monetary turnover could not have developed smoothly. If we consider what important role the international division of labour plays in the economic life of many capitalist countries, it can be readily seen that a world-wide monetary crisis can quickly become an obstacle to economic development. This is even more true, if the monetary crisis comes about as a result of the dissolution of the international monetary system.

In 1971 we were witnesses to a monetary crisis of this type. Last year a situation developed in the Western world which was unparallelled since the world economic crisis of 1929—1933; as a matter of fact, the whole international monetary system got into crisis. *In practice*, the Bretton Woods system ceased to exist already by the end of the sixties. Without an international agreement to this effect, the Western world shifted to a dollar basis and thus got into a state of *ex lex*. After the announcement of President Nixon in August 1971, the monetary system created in 1944 dissolved also *legally* and it became clear to everyone that a *comprehensive* reform was unavoidable.

From the viewpoint of the business world, the monetary crisis raised particularly sharp problems, since it meant an unfavourable effect on the development of world trade. Because of the monetary uncertainty, business risks have increased. As a consequence of the transitory abandoning of fixed exchange rates, the secure basis of business calculations — formerly considered to be more or less given — has ceased. Thus, part of business profits had to be used as insurance against monetary risks. Had this situation proved to be lasting, profits would not have been sufficient even to cover the growing risk of exchange rate fluctuations; this, in turn, would have caused a further setback in the business activity of the capitalist countries.

Under such conditions at the end of 1971 the Western world had to face the following alternatives.

(1) A way had to be found, in a relatively short time, for a compromise bridging the conflicts of interest regarding the methods to be used for solving the monetary crisis. A new international monetary system would have to be formulated conforming to new economic and political power re-

lations; in this case new impetus would be given to the development of world trade and thereby the danger of an economic crisis could be reduced.

(2) Should the above efforts fail, the prospect of trade wars, a slowdown in business, and even the emergence of a deeper economic crisis would have to be faced. As a result of the American measures, the signs of this alternative began to appear. The economic situation in several Western countries was characterized by a declining growth rate, a new rise in the unemployment level, the spread of inflationary trends, and an unfavourable development of stock exchange quotations.

When at the December 1971 meeting of the Group of Ten in Washington a compromise decision was taken on raising the price of gold — and, accordingly, on the devaluation of the dollar, the official re-valuation of individual currencies, the widening of the bands for exchange rate fluctuations, and the abolition of the 10 per cent American import tax — a choice was made between the alternatives mentioned, *in the direction of realities*. And this was of no small importance, since this was the first time in the last 40 years that the American currency was devalued — an action formerly thought unbelievable by many observers. But, however important were the measures taken by the Ten and no matter how much it was emphasized that the calmness of money markets would be secured for a relatively long time, the more realistic exchange rates and the greater flexibility offered by the wider margins for exchange rate fluctuations are still insufficient for the elimination of fundamental shortcomings in the international monetary system. I even challenge that, as a result of the Washington agreements, the preliminary conditions for a comprehensive reform of the international monetary system have come about.

I perceive the major problems in the following aspects.

(1) The international monetary system invariably relies *on the national currency of a single country*, the U.S. dollar. Thus, the fundamental internal contradiction persists, that while the passive balance in the U.S. balance of payments is (in principle) a precondition for the smooth functioning of the mechanism, it undermines at the same time the stability of the system. Of course, we are already past the date when we could speak about the stability of the monetary mechanism, since — as I have already indicated — the international monetary system in the old sense does not exist any longer. Yet the maintenance of the central role of the dollar represents an increased danger, since the American currency cannot be exchanged for gold and has thus become internationally uncontrollable. After the announcement of President Nixon in August last year — when the conversion of official foreign dollar holdings into gold was also officially suspended — the international monetary system has lost its regulating tool which it enjoyed for more than two decades (i.e. the convertibility of the dollar into gold). However modest this regulating role was in practice, it still forced the American government in the sixties

to refrain, at least formally, from breaking with its economic policy aimed at improving the balance of payments.

By suspending the possibility of converting foreign dollar holdings into gold, the United States has definitely demolished the foundations of the Bretton Woods mechanism. It was precisely its convertibility into gold that enabled the dollar to play the role of the basic pillar in the international monetary system — a role adopted and supported by the U.S. Congress in the Bretton Woods Agreement Act of 1945.

(2) It follows from what has been said that the U.S. has retained the possibility to continue its irresponsible expansive policies — involving short-term foreign debts — at the expense of its allies. This policy consists of misusing the key currency role of the dollar; its pursuance was a fundamental cause of the currency crisis of the last year.

(3) The possibility of continuing the above policy exists when no decision has been taken as yet on the consolidation of the liquid (mostly short-term) paper-dollar claims accumulated by foreign central banks. The sum of these dollar claims exceeded 45 thousand million dollars by the end of 1971 — growing to two and a half fold in the course of the year — and thus beyond the level actually needed for liquidity. Under such conditions, the central banks of the developed capitalist countries will not be much inclined to receive great quantities of dollars flowing out from the U.S.

Many have expected that the establishment of more realistic exchange rates and a simultaneous expansion of the margins have created the possibility — in spite of the system of fixed rates of exchange — for the central banks of Western Europe to be less compelled to buy dollars. But the central banks can use this possibility only as long as the dollar exchange rates do not fall to the lower boundary point of intervention. Then the old play starts again and the central banks have to face the same decision as they did a few months ago, that is: continue to buy dollars and increase their reserves in an undesirable manner; float the rate of exchange of the dollar; or revalue again. The developments of the first months of 1972 on the foreign exchange markets raised this very problem.

(4) Beside structural problems, a few factors of business fluctuation must also be considered, above all, the domestic economic background of the American currency. Based on the central position of the dollar, as mentioned earlier, the international monetary system may receive new shocks from this side even in the short run.

The economic policy of the American government reached a turning point between the Washington conference of the Ten and the announcements of President Nixon in the middle of August. This was the period when the whole range of economic policy measures was deployed to stimulate business domestically; with this the presidential election campaign of the year received its

start. The temporary bridging of and compromising in the international monetary field fits into this pattern. The political guideline of the U.S. is well characterized by the fact that domestic political and business matters are given priority even at a time when the central problem of other Western countries (in spite of their internal economic difficulties) is the widening international monetary crisis. The efforts of the Nixon Administration to bring about an upswing in the U.S. economy in the course of the election campaign proved already that the official government program — promising a radical and near improvement in the balance of payments — was economically ill-founded and served only to reassure the allies.

No doubt, with the adjustment in parity, the competitive position of the USA has improved by about 10 per cent on the average as compared to the previous situation. This is a potential advantage, when we consider that the U.S. balance of trade deficit was 3 billion dollars in 1971, but it is hardly conceivable that the balance of trade should improve significantly in 1972. It would be a mistake to overestimate the size of the expected improvement in the balance of payments. The expansive internal monetary policy started on a wide scale (and of an intensity unprecedented for years), the large volume of money, the low interest rate and the expected business boom strongly challenge the possibility of a spectacular improvement in the balance of payments as officially prognosticated. Should this assumption prove to be true, then — as a result of oversupply on the market — we can reckon with a weakened U.S. dollar, the possibility of a renewed crisis in the international monetary system, and other unfavourable consequences on business, trade, and finances.

(5) Finally, the way in which the U.S. government organized the acceptance of the devaluation of the dollar by the Congress did not enhance the judgement of the dollar by foreigners and understandably caused uneasiness in the financial world. It is not common in international practice to make the legal recognition of a modification in the rate of exchange, officially announced and accepted by the market, dependent on further foreign trade concessions. This is nothing else, but a new method of economic warfare, suited to shake the trust of governments in agreements concluded; furthermore, this introduces another element of uncertainty into international economic relations.

From all of the above the conclusion may be drawn that at the December meeting of the Ten no steps were taken in the interest of eliminating the *structural* problems of the monetary system. On the contrary, the Washington agreement underlined the fact of structural tensions. Therefore, two fundamental conclusions can be and should be drawn for the future.

The first lesson, proved by the monetary events which took place in 1971, is that the fundamental laws of economics finally break through the willful economic policies pursued by individual governments. The possibility of

resisting economic logic (and the duration for which it can be done) depends on the extent to which a given economy is protected by various administrative measures as well as on the economic and political power of the country in question. In the case of small and economically weak countries, resistance can last only a few months, while bigger countries may hold out longer, but in the end they all must conform to facts. Only the USA could afford — relying on its economic power — the luxury of delaying the necessary decisions for a decade. True, the economic development of the Western world was thereby disturbed, upsetting the whole international monetary system; it is certain that the first step toward recognizing the facts of life — the devaluation of the dollar — will be followed by others.

The second lesson is that in a given period the international monetary system has to reflect the economic and political power relations among the participating countries. This was expressed in the decisions taken at the Bretton Woods conference and in the system which developed. But in the past 25 years the power relations have profoundly changed. This is proved by the growing influence of the Common Market — within it especially of West Germany — and Japan's growing influence on the talks aimed at the reform of the Bretton Woods system. The new centres of political and economic power developed in Western Europe and the Far East caused a shift in the economic centre of gravity in the Western world. The earlier sovereign position of the USA must be changed for one which is still considerable, but not outstanding or overwhelming. The junior partners rightfully demand that the U.S. should consult them in every question affecting the common interest.

The developing countries should also be given a greater role in the new monetary system, since their interests are not taken sufficiently into account at present. It is an untenable situation that the club of the Ten — with the IMF assisting — makes decisions on the modification of exchange rates of the most important currencies without reckoning with the effect of these changes on the monetary and foreign trade position of the developing world. The president of Peru was justified in stating at a recent conference of 95 developing countries in Lima that the existence of the third world has hardly played any role up to now in major monetary and economic decisions.

Last but not least, the birth of the socialist economic system in the framework of the CMEA and its fast development have brought about new power relations which also must be reckoned with in providing new foundations for the international monetary system.

From these lessons the only conclusion which can be drawn is that *an urgent reform of the international monetary system is needed which would reflect actual political and economic power relations.* This, however, can be secured only if the reorganized monetary system satisfies the following major requirements:

1. The monopolistic situation of a *single* country in the arbitrary creation of international liquidity (at the expense of other countries) must be abolished; thus, the system must not rely either on the dollar or on any other national currency.

2. *Liquidity* necessary for the smooth development of international economic relations must be developed; thus, the gold standard in the classical sense is also unacceptable.

3. At the same time, by creating stable values for foreign exchange holdings, countries must be made interested in the lasting accumulation of such holdings; *this can be achieved only if, as a final guaranty of the system, the direct relation with gold is maintained.* (This is why the system of Special Drawing Rights, which is based essentially on the dollar, cannot be a solution either.)

4. The lasting disequilibrium among the most important currencies must be liquidated, which means a general adjustment in *foreign exchange rates.*

5. The *flexibility* necessary for warding off the consequences of transitory market fluctuations and non-structural imbalances must be built into the system.

I believe it is possible to prepare the foundations for such a system, although the road leading to it will be full of debates and compromises. The parity adjustments carried out in mid-December and the widening of the margins for exchange rate fluctuations already secured the most urgent, although not the most important conditions. But the creation of the decisive criteria still lies ahead. Obviously, in this fight every country makes efforts to maintain its advantageous position even at the expense of others. Such an effort may be expected mainly on part of the USA for which the present system is one-sidedly advantageous. Sooner or later, however, every country will feel compelled to subject national interests to larger interests related to the expansion of the international division of labour and to the smooth development of the international economy. The recognition of this truth is a precondition for a stable solution of the international monetary problems.

This objective could be best reached in the following way:

— a *universal* international financial organization should be created under the auspices of the UN (thus including the socialist countries as well) based on equal rights of member countries; this body should be invested with the power to issue — within the framework of rules to be established — *a new international currency.* The new money must not be linked to any national currency, since only this way can it fulfil the role of key currency.

— The *price of gold* should be determined in terms of the new international currency (which plays the role of key currency), taking into account the real value of gold.

— From the new key currency, *issues* would be made, at definite dates — according to the requirements of international liquidity and with regard to the interests of the member countries. The new money issued should be proportionate — in a ratio conforming to world economic needs — to the quantity of gold bought by the organization or made available to it by its members.

East-West economic relations — retrospect and perspectives

The reader has certainly asked the question already: What is the interest of the socialist countries in the reorganization of the international monetary system on a sound basis?

The answer to this question lies along several lines. In the period of the second scientific-technical revolution — however different the socio-economic sytsem of the various countries in the world may be — different countries must be even more aware of the unity of the world market. In our age no one can prepare any longer for isolated economic development or for autarky. Conclusions for the future must be drawn in view of this fact.

Differences in policy and ideology cannot hinder the acknowledgement and recognition of economic realities. This, in itself, would warrant the necessity of creating an international monetary system conforming to the mutual interests. But the socialist countries are interested in the reorganization of the Western monetary system also because they would like to avoid the unlashing of trade wars and protectionism on a world scale; such events could occur if we did not quickly and effectively succeed in preventing a renewal of the monetary crisis. We are for the development of East-West relations, for a foreign trade free from discrimination and for joining in the international division of labour on an ever wider front. This is why we gladly accept and support every initiative and effort which takes realities better into account than heretofore.

I believe all of the above follows naturally from the tendencies expressed for some time in East-West economic relations and from the possibilities now facing the socialist and capitalist countries (including, among other things, settled international monetary relations and a universal monetary system).

In this context, I think that a few major features and aspects of East-West economic relations deserve separate comments.

(1) It is an accepted fact that the atmosphere of cold war following World War II, along with a decline in trade forced by the U.S. upon its allies, has missed its aim. Relying on their internal resources, the socialist countries have repaired their war damages in a relatively short time and, as a result of dynamic development, have transformed the patterns of their economies.

Of course, with an intensive East-West cooperation this could have been achieved much quicker and more efficiently. Buth that the damage suffered by the capitalist countries, because of the narrowing relations with traditional trade partners must not be underestimated, is also obvious.

(2) Having recognized this unfavourable situation, the first phase of development of East-West economic relations began in the mid-fifties and, although not free from fluctuations or problems, lasted until the end of the sixties. This period was characterized, particularly at the end of the decade, by a highly dynamic development of foreign trade. The exports of socialist countries to the developed capitalist ones trebled between 1960 and 1970, reaching $ 8,4 billion, while their imports increased from the same countries to three and a half-fold, reaching $ 10.4 billion. Within this framework, the CMEA countries increased both their exports and imports by about 15 per cent each in 1969—70 compared to previous years.

Thus, I perceive the main features of this period in the rapid development of East-West trade; I could also say that this was an era of *quantitatively measurable* results. It is all the more surprising that while trade with the socialist countries has gained increased importance in the case of West European enterprises, official U.S. circles have not changed their policies regarding East-West trade. Due to this situation, while the share of the USA in world trade is at about 16 per cent, its share in East-West trade is only 4 per cent. This means that American businessmen renounce, by fault of their government, exports of the magnitude of 1 billion dollars annually in favour of the Common Market, England, Japan, Canada, and other countries.

The features of this dynamic period also include — to stress again a positive feature — an expansion of banking transactions related to financing foreign trade and as a result we already think in terms of internationally accepted norms. In addition, various forms of East-West financial relations developed and became traditional, such as the mutual arbitrage and deposit business and — in recent years — medium-term loans aimed at development have also appeared. The growing number of socialist, first of all Soviet, banking interests and representations operating in Western Europe also illustrates the expansion of financial relations. Along this line, it is worth mentioning that the National Bank of Hungary has strengthened its banking interests in Vienna and has established representations in London, Zurich and Paris. Finally, in this context we should note that the first long-term bonds of the National Bank of Hungary have been successfully launched in the London capital market. A new form of economic relations, complementing the above, are the widening production and trade cooperation agreements and discussions among enterprises in the socialist and capitalist countries.

All these possibilities and results — which indicate the possibility of a more broadly based economic cooperation scheme and hence signal the next

development stage in East-West relations — could not, of course, have been born without mutual trust and mutual economic interests.

(3) Based on the above I see this new phase materializing in the seventies, provided both sides avail themselves of the possibilities and provided that realities are recognized in time by business circles in the West. If adequate conditions — among them the liquidation of discriminatory limitations (still existing in some fields) and the normalization of financial and monetary relations — are secured, it can be expected realistically that *the period will be characterized not only by quantitative results, but also by qualitatively more advanced and novel forms of cooperation.*

I perceive three groups of fundamental factors on which my assumptions are based.

The first is that — in spite of repeated ultraright-wing attacks and provocations — I am optimistic about the future of East-West political relations. The Soviet—West German, the Polish—West German, the four-power West-Berlin and related agreements and the Conference on European Security proposed by the socialist countries allow us to conclude that conditions will be created in Europe for a lasting political détente in the next few years. The final liquidation of the remnants of the cold war and the general normalization of interstate relations can also be expected. Hopefully, the above processes will start a similar movement all over the world, restoring the atmosphere of trust among different countries.

The second important factor in the new phase of East-West economic relations may be found in the development trends of the socialist countries, above all those of the CMEA members. These tendencies are complex, of course, but I believe that some of them should be mentioned briefly here.

— In 1971 the implementation of new, medium-term economic development plans began in the CMEA countries. Greater emphasis has been placed in these on: technical progress; efficiency and productivity; and — related to living standards policy — programs aimed at the satisfaction of the demand for consumer goods. It is a fact that objectives aimed at economic development goals of intensive character have become general to an extent not yet experienced in any previous five-year plan period. From the demand aspect this means a growing potential for imports of machinery and consumer goods from the West. From the supply aspect exports of similar products to Western countries could also grow significantly, as a result of the development projects accepted. The share of the CMEA member countries in world trade is likely to grow in the coming years. I think it is hardly conceivable that with their 33 per cent share in world industrial production they should continue to participate in international trade with only a 10 per cent share.

— In the long-term development plans of the socialist countries — precisely in order to utilize the advantages inherent in the international division of

labour and in creating optimum plant sizes — the idea of joint investments by the socialist countries has come to the fore in several fields (e.g. in the chemical industry, in developing various raw material bases, etc.). From the viewpoint of East-West relations, this may mean huge volumes of individual import transactions and — following the realization of these joint investments — the possibility of major deliveries by both sides as well.

— In harmony with these objectives of economic policy, the strengthening of progressive elements in the systems of economic control and management will continue in the socialist countries. The importance of money and credit will be emphasized more within the framework of planned economies and the importance of enterprise decisions — affecting international relations — will also grow. Such tendencies, reflected in the Complex Program (which is aimed at intensifying the integration of the CMEA member countries), should lead to the spread of more flexible forms of East-West economic cooperation and to production agreements among enterprises. In my view the expansion of financial relations, affecting as they do economic development, will also receive increased emphasis. This may mean that the widening of East-West credit relations may gradually exceed the limits of financing foreign trade, a trend which has already emerged.

The third factor is that the Western countries must be aware even more that trading among each other cannot be the optimum way of expanding markets. (With the deepening of the international division of labour and the general creation of political preconditions, this process is bound to accelerate.) There is a limit to trade in the markets of the Western world; an expansion beyond this can take place only at the expense of competitors and this may lead to a sharpening of trade conflicts. Economic policies aimed at the maintenance of a relative full employment and balanced economic growth may promise success — with the generally growing role of foreign trade — only if stable and ever widening absorptive markets are secured. The socialist countries mean such an absorptive market already, currently at the rate of 11 billion dollars worth of goods. By the end of the current decade, the socialist countries may mean a market of 25 to 30 billion dollars annually for Western goods. (This estimate may well be on the low side in the light of recent trends.) And this disregards qualitative changes which are also expected. An even more dynamic growth could ensue in the seventies, if only the USA pursued non-discriminatory trade with the socialist countries. The volumes envisioned can certainly be significant from the viewpoint of enterprises (and the business cycle) in the capitalist countries.

From these prevailing trends the capitalist world will draw the conclusion also that economic relations, cooperation and the volume of trade with the socialist countries must be reviewed and increased. Many signs indicate that even the U.S. — which earlier considered trade with the socialist countries

as primarily a political tool of the cold war — started to reconsider its earlier negative stand regarding East-West economic relations. This becomes manifest, among other things, in the following events: the increasing number of visits by American businessmen and politicians to socialist countries; the authorization given to the Eximbank to finance American deliveries to the socialist countries; the visit of the U.S. Secretary for Trade and Commerce to Moscow; the great wheat deal between the USA and the USSR at the end of 1971; the huge export licence issued for American deliveries related to the truck factory in Kama; and the Moscow discussion of President Nixon in May and its expected favourable results.

* * *

On the basis of the above exposition, my overall view is that — in the wake of economic development after World War II and the easing of the international economic situation initiated by the socialist countries the world economy has come to a crossroad. One of the possibilities (the conditions of which are given from both the economic and the political aspect) is that the favourable trend of development followed recently will remain and — recognizing realities — discriminatory measures hindering economic expansion and other remnants of the cold war will be gradually eliminated. The other alternative would involve the renewed fortification of still existing walls; in the final analysis, this would hinder a more balanced development of the world economy and could lead to the halting of positive processes and produce possible setbacks. The choice between these two possibilities has not yet been made and such a decision is likely to be the result of a longer process. However, it is certain that mutual efforts are needed by countries with different social systems for an expansion of cooperation in even more aspects of economic life. On the part of the socialist countries this willingness exists; we are for dynamic development in this field too. To what extent we succeed in implementing our efforts depends partly on the Western world recognizing the favourable nature of this alternative for itself and partly on finding a common basis of principles from which a lasting perspective can evolve. This can be nothing else than the Leninist policy of peaceful coexistence and the acknowledgment of mutual economic interests. The first *practical* step of major importance in this direction would be the convocation, at the earliest possible date, of the Conference on European Security.

МЕЖДУНАРОДНАЯ ВАЛЮТНАЯ СИСТЕМА И НЕКОТОРЫЕ ВОПРОСЫ ЭКОНОМИЧЕСКИХ ОТНОШЕНИЙ МЕЖДУ ВОСТОКОМ И ЗАПАДОМ

Я. ФЕКЕТЕ

Осуществляемая социалистическими странами политика экономического развития и программа интеграции учитывает в качестве реальности факт быстрого расширения экономических связей между Востоком и Западом, которые сегодня уже выходят за рамки

внешней торговли и внешнеторгового финансирования в узком смысле слова. Конъюнктурные и валютные факторы, действующие в мировом хозяйстве в целом, могут затрагивать также экономические связи между Востоком и Западом, так что наблюдение за этими факторами является также и интересом социалистических стран.

В результате заявлений президента Никсона, сделанных им в августе 1971 года, созданная в Бреттон—Вудсе валютная система распалась и в юридическом отношении. В декабре «Группа десяти» приняла решения, учитывающие реальные условия, но недостаточные даже для обеспечения спокойной подготовки общей реформы. Международная валютная система должна отражать соотношения экономических и политических сил в современном мире. Это можно достичь в том случае, если под эгидой ООН будет создана универсальная — включающая также и социалистические страны — международная финансовая организация, которая будет уполномочена эмитировать в соответствии с потребностями в ликвидности новую международную валюту, в которой реальным образом — то есть на гораздо более высоком по сравнению с нынешним официальным уровнем — будет выражаться и цена золота.

Социалистические страны заинтересованы в реорганизации западной валютной системы также и потому, что они желают избежать развертывания в мировом масштабе торговых войн и протекционизма, что станет неизбежным, если не удастся предотвратить в короткие сроки возобновления валютного кризиса. При наличии должным образом организованной международной валютной системы, на базе взаимных экономических интересов в 70-ые годы сможет наступить новый этап в экономических связях между Востоком и Западом. На этом этапе, помимо наращивания объема традиционных торговых связей, могут возникнуть такие новые формы сотрудничества, как, например, производственно-торговая кооперация, лицензионные контракты, долгосрочные торговые и платежные соглашения. Возникновению и распространению новых форм сотрудничества может оказать содействие, с одной стороны, улучшение международной политической атмосферы и, с другой стороны, многие экономические факторы, действующие в этом направлении как на Востоке, так и на Западе. Установление более широкого экономического сотрудничества между Востоком и Западом тем не менее требует взаимных усилий стран с различным общественным строем. Созыв конференции по вопросам европейской безопасности мог бы явиться первым крупным практическим шагом в разработке программы таких усилий.

Acta Oeconomica Vol. 9 (2), pp. 167—179 (1972)

S. Szegő

THE EFFECTS OF WESTERN INFLATION ON THE HUNGARIAN MONETARY EQUILIBRIUM

An attempt is made to quantify the effect of world market prices on money circulation and price changes in Hungary. The conclusion is reached that in the period 1969—1971, although changes in foreign trade prices led to a slight inflationary pressure, they could not be blamed entirely for the rise in domestic prices.

One of the important channels of systematic effects between foreign trade and other fields of the economy is *the effect of foreign trade on money flows*. The sale of commodities for "foreign" currency and the purchase of foreign commodities affects national economic monetary processes directly in the following way: *exports* are realization for the national economy, in other words, the source of *money income* while *imports* are equivalent to *decreasing the demand* in money terms for commodities produced in the national economy.*

From the point of view of efficient supply and demand the amount of money corresponding to imports behaves in a way identical with permanent money savings.

In continuing to study foreign trade from the side of monetary processes, a separate explanation is needed, if exports and imports are not treated as singular monetary acts, but are taken into account as all money movements started off by foreign trade money flows. The money receipts created through exports complete further movement as *enterprise receipts, enterprise incomes wages, and budgetary incomes*. Exports thus exert their effects on domestic turnover through money circulation many times in excess of their own value. In the same way, the amount of money spent abroad on imports exerts a deflationary effect not only corresponding to the value of the imports but more than that since the money withdrawn from domestic circulation also ceases to exist as money inducing further monetary movements in money circulation.

Aside from this, import inputs affect more than domestic monetary movements, as inputs taking place abroad. The imported commodities enter

* Exports and imports have such a sharply opposite effect on domestic money circulation only insofar as both economic processes are taken into consideration in a restricted sense, as the multitude of exchange transactions with foreign countries. Another point of view, however, is that the commodities exported and the commodities procured through imports are an integral part of domestic commodity and money flows. Thus, in relation to the movement of the imported commodities we can speak of money incomes as of money expenditure and, in the same way, commodities exported not only appear in domestic money circulation as money income but also as money expenditure.

the production and distribution process at home, they serve as a basis for creating money, and thus the money sent on its way multiplies in a similar manner to the money "imported" through exports.

Based on these considerations, the method to be reviewed is designed to determine the ratio of monetary movements in Hungarian money circulation induced by exports to and imports from the capitalist countries. Exports constitute a money-multiplying and imports a money-withdrawing process. The export effect in percentage of import effects expresses whether capitalist foreign trade has had an inflationary or a deflationary effect on the Hungarian national economy. On this basis it is possible to determine the extent to which the inflationary process developing on the capitalist markets — which affect Hungarian foreign trade — contributed to the roughly 13—14 per cent general price level increase in the Hungarian national economy between 1965 and 1970. The extent to which this latter process constitutes a problem in the general equilibrium position of the Hungarian national economy can also be determined.

The effects of world market price trends on the Hungarian economy (1969—1971)

World market price trends and foreign trade prices

In the capitalist world during the post-war period we can observe a separation of domestic and world market prices. This separation appears particularly sharp when we note the differences in the rise of the domestic price level and the world market price level. This is shown in Table 1.

Table 1

Price trends in some developed capitalist countries between 1957—1968

Country	Producer price index	Consumer price index	Consumer price index in percentage of the import price index
	in percentage of the export price index		
Austria	135	136	150
Belgium	115	140	140
France	105	121	133
Great Britain	—	114	130
Federal Republic of Germany	107	162	147
Italy	128	166	169
Sweden	114	134	138
United States	107	121	124

Source: Reform of the economic mechanism. Developments 1968—1971. Budapest, 1972. Akadémiai Kiadó. p. 136.

In spite of the uniformization of the international monetary system, and successful endeavours towards the convertibility of the currencies of the developed capitalist countries, the removal of the barriers of protectionism, innumerable agreements urging free trade and domestic inflation, *the essential stability of world market prices, with the exception of the past few years, was a palpable fact.*

This can raise the question of how this could come about. The low level of capitalist world market prices can, among other things, be derived from the fact that there is less net income realized from export prices than in domestic prices. In fact, in many cases capitalist forms view exports as a "realization market" which makes it possible for them to make better use of capacities, and to organize the forces of production more rationally. In the case of exports, direct profit orientation for individual ventures or short periods of time is pushed into the background. At the same time, state monopoly capitalism has used the profit orientation of the exporters in its export-supporting policies to provide incentives for and to regulate exports. The sharpening of international competition also forces the capitalist state to give special treatment to commodity deliveries abroad. To a certain extent, export prices are *dumping prices* and often the losses deriving from these are paid for by the domestic consumer through increased domestic prices. All means of protectionism were and are being used as incentives for exports and regulators of imports, including measures of open and hidden protectionism.

According to this, the past 20 years of world economic history also prove that the study of foreign trade, its practical regulations and incentives cannot be limited to those relations which exist among foreign and domestic prices, the currency exchange rate and the balance of payments, simply as a result of the operation of the market mechanism. This leads to the conclusion that the denial of a price system which rigidly separates foreign prices from domestic prices need not lead to the idea that foreign prices should directly prevail domestically. Even if a freer operation of foreign prices on the domestic market is economically justified, this does not mean that there is no need for incentives, transmissions, slowing-down effects, etc. In a similar manner, the abolition of a system which rigidly separates external from internal economic processes cannot lead to the complete union of foreign and domestic money. This is proven by the fact that today there exists no country with convertible currency whose money would have the same value abroad as at home.

Inflation has spread over the capitalist world market in recent years. In 1969 export and import prices in the OECD countries rose by 3.8 and 3 per cent, while in 1970 the rise for both was nearly 6 per cent [1]. This annual 6 per cent rise showed a most uneven distribution within the year. The record rate of 7—8 per cent, which characterized the first half of 1970, was followed by a sudden moderation in world market price rises, and in the latter half of the

year it was "only" 3—4 per cent. This sudden change of pace "misled" those drawing up economic prognoses, who forecast a further price moderation for 1971. However, in 1971 a new increase in the rate followed, and according to premilinary calculations, the rate of increase in prices reached the 6—7 per cent level.

Among other reasons explaining the rapid rise in world market prices over recent years is that *the accelerating rate of national inflations* has even taken hold of in countries with hitherto comparatively stable currencies. The fast rise in domestic cost and price levels was connected to a slow-down of production and to diminishing profitability in most of the developed capitalist countries. Under circumstances like this, the attempt to have *the rise in costs recognized in world market prices* and to compensate for unfavourable trends in profitability by rises in export prices, was unavoidable.

The inflation, which had become general in capitalist countries, finally led to the devaluation of the international means of payment, the dollar. Since world market prices are prices expressed in dollars, the devaluation of the dollar automatically led to a rise in the world market price level. The rise in the price level between 1970 and the first half of 1971 due to the devaluation of the dollar is assumed to be 4 per cent. [2]

The rise in prices caused by the jerky boom in world trade had a strong effect on Hungarian foreign trade. In *1969* import prices rose by 3, and export prices even more sharply, by 7 per cent. Therefore, *the terms of trade developed favourably*, the improvement being *3.8* per cent.*

As a result of the price increase, in 1969 the rise in real foreign trade turnover was smaller than money circulation. According to calculations by the statistical department of the Ministry of Foreign Trade, about 25 per cent of the rise in exports and about 23 per cent of the rise in imports were due to price changes. About 70 per cent of Hungary's active foreign trade balance with the capitalist countries was due to favourable trends in the terms of trade.

In *1970* prices of Hungarian exports to capitalist countries rose by 9 per cent while import prices only increased by 4.2 per cent, which means that the terms of trade improved by *4.7* per cent. With regard to export products, the rise in material prices was most significant. As a result of the rapid and sudden jump in export prices, barely more than half of the 1970 rise in export turnover is a real rise. And 14 per cent of the rise in imports may also be attributed to the increase in prices alone.

Despite the favourable terms of trade in 1970, Hungary's foreign trade

* The price indices and terms of trade indices do not contain the machinery group, since Hungarian foreign trade in machinery consists, for the most part, of individually produced machines. I will deal later on with the price trends of machinery imported from capitalist countries.

balance with the capitalist countries showed a deficit, because of the large increase in imports.

The first half of *1971* was characterized by a drop in exports and a rapid rise in imports. With regard to prices, the "cooling down" of the world market boom — first of all in the commodity group of materials — caused price drops unfavourable to our exporters. Only part of the price losses in exports could be compensated by price gains in imports, since the price drop had a smaller effect on the more highly processed goods, with higher quality parameters, which have a greater weight in imports.

Research dealing with trends in the world market have a *sceptical* opinion of the future because of a number of unfavourable factors. The crisis of the international monetary system and the sharpening trade war may hinder significantly the expansion of the world economy. In a number of countries there are already increasing sings of a recession. Nixon's programme, intended to liven up the American economy can only boast of slight results. In 1972 raw material prices are expected to continue to be pressed down, and price drops must be expected in the field of foodstuffs. Since no change can occur in the pattern of foreign trade with capitalist countries within a few months (towards products on a higher level of processing), Hungary's turnover with the dollar-accounting countries will continue to depend primarily on the development of world market prices for materials and agricultural products.

An experiment at quantifying the effects of the capitalist world market price increases on money circulation in Hungary

With regard to the years 1959 and 1970, I experimented with calculating 1. the effect of changes in capitalist *foreign trade turnover* and 2. the impact of capitalist foreign trade prices on Hungarian money circulation.

With the given magnitude of the price-coefficient, the entire system of Hungarian foreign trade regulation had to be taken into consideration regarding domestic money circulation effects, since the volume of expenditure on imports and export revenues are determined jointly by domestic prices, foreign prices, the price coefficient and "financial bridges".

I calculated the dollar value of *export turnover* in domestic forints by multiplying the value of exports not requiring subsidies with a 60-forint foreign exchange coefficient, and regarding exports requiring subsidies I added the subsidy per unit of exports for the corresponding year to the foreign exchange multiplier. A direct comparison of the data received in this way could not be effected with domestic money circulation, since the latter involves multiple counting. I arrived at a cumulated sum from export turnover by multiplying the forint value of exports with the average velocity of circulation of domestic money.

I studied the effects of capitalist *export prices* on money circulation separately. Here I did not compare total export turnover to money circulation, but only the part of the increase in exports stemming from price increases.

In the examination of the effects of capitalist *import turnover* on domestic money circulation, I took into account first of all that imports are in essence paid with the dollar incomes derived from exports. For this reason, I multiplied the dollar expenditure on imports with the domestic forint revenue per dollar (foreign exchange coefficient plus subsidy). The imports calculated in this way were multiplied by the circulation velocity of money in the manner already reviewed.

After substracting the increase in volume from the rise in imports, I obtained the portion attributable to *the rise in import prices*. I again compared the sum gained in this way with domestic money circulation.*

The results of the calculations may be summed up as follows:

a) With regard to *the effects of the increase in export turnover* it had to be taken into consideration that money income originating in exports, — whether it precipitates as enterprise or budgetary income — behaves in a way homogeneous with money incomes formed in other ways. The money flowing in is spent by the enterprises and the budget, and in this way new incomes are formed, which are again spent. Therefore, the money corresponding to the commodities exported creates money flows amounting to the multiple of its own value.

With the calculations completed, I came to the conclusion that *money flows induced by capitalist exports* in 1969 came to 42 per cent of total money circulation and in 1970 to 45 per cent.** This might be interpreted as follows: 45 per cent of total domestic money circulation consists of money flows which — if not directly, then through various transmissions — are linked to different export transactions. Therefore, the prices realized in export transactions may have had a 45 per cent effect on total money flows although this effect is likely to be slowed down, while it "breaks through" the multiple transmissions. It follows from the data that the measurable effect of capitalist *exports* on money circulation increased by 6.5 per cent in 1970.

* I do not want to describe the lengthy calculations here and will deal only with the analysis of the final results. As a result of the computations I arrived at data whose reliability depends to a great extent on the preciseness of the data on money circulation and on the circulation velocity of money. The high money circulation effects of capitalist exports and imports can in part be explained by the mergins of error in calculations. However, to a certain extent, the explanation is that part of domestic money circulation which is affected by capitalist foreign trade is linked with the money circulation affected by socialist foreign trade. Therefore, the monetary effects of the two markets overlap. For this reason, the sum of the figures indicating the effects on money circulation of capitalist foreign trade turnover is more than 100.

** I received this by multiplying the average circulation velocity of domestic money with export turnover (cumulated export turnover), and dividing this value with total domestic money circulation.

b) The inflow of surplus money corresponding to the rise in capitalist *export prices* and the money circulation induced by this surplus money came to *2.4* per cent of total money circulation in 1969 and to *3.3* per cent in 1970. *The effects of the money inflow on domestic money circulation following the rise in export prices thus grew by 36 per cent in 1970 as compared to 1969.*

c) In examining the effect of *capitalist imports* I found that in 1969 imports affected 42.2 per cent and in 1970 about 53.9 per cent of domestic money circulation. Therefore, by 1970 the effect of capitalist imports on money circulation rose by 27.7 per cent.

d) The surplus of money expenditure stemming from the rise in *import prices* calculated with the method applied, comprised 1.07 per cent of money circulation in 1969 and came to 1.94 per cent in 1970. *Therefore, the effects of the rise in capitalist import prices on money circulation in 1970 rose by 81.3 per cent in comparison with the previous year*, which was well in excess of the rise in the effect of money circulation on total import turnover. This leads to the conclusion that the rise in import prices had a more intensive effect on domestic money circulation than the change in the volume of imports.

In order to evaluate the results reviewed, the following points of view have to be taken into consideration: the relationship between import turnover and domestic money circulation is *qualitatively different* from the relationship between the latter and export turnover. A comparison of the money brought in through exports and the money circulation induced by this money with total domestic money circulation is justified because *it is an organic part* of this turnover, in fact it is comprised in it. There are other arguments in favour of comparing import turnover and domestic money circulation, since the money paid for the imports leaves the domestic circulation and therefore, cannot form a part of it.

Despite this, imports have an effect on domestic money circulation. On the one hand, they *reduce domestic purchasing power* and, on the other, they *reduce domestic income formation.* In a similar way to savings they also reduce the multiplier effect, for money spent abroad is only money expenditure and does not appear in any economic unit domestically as either money receipt or spendable income.

When, therefore, in our calculations we multiplied capitalist imports by the domestic circulating velocity of money, we did not receive data which would be real in the sense that they characterized money flows which actually took place. We only received data which supplied information on the extent it would have effected domestic money circulation had the money spent abroad been spent domestically. This is, therefore, intended to help to analyze the *deflationary effects* of import turnover on domestic money circulation.

Now we will examine the combined effect of capitalist exports and imports on money circulation.

Table 2

The effect of capitalist export and import turnover on domestic money circulation (in percentages)

Year	Export effect	Import effect	The export effect in percentage of import effect
1969	42.86	42.22	101.3
1970	45.64	53.91	84.6
Percentage of growth	6.5	27.7	

In comparison to 1969, the domestic money withdrawing effects of capitalist imports grew by 1970 about four times as fast (27.7 per cent) as the money multiplying effect of exports (6.5 per cent). In 1969, the domestic forint revenue from exports was in excess of import expenditure, while in 1970 forint expenditure was in excess of revenues.

Table 3

The effect of changes in export and import prices on domestic money circulation (in percentages)

Year	Export effect	Import effect	The export price effect in percentage of import price effect
1969	2.43	1.07	227.1
1970	3.32	1.94	171.6
Percentage of growth	36.6	81.3	

The effect of price changes in the capitalist markets on domestic money circulation was stronger in exports in both years. *In 1969 the money circulation increasing effect of the rise in export prices was 127 per cent greater than the money withdrawing effect of import price increases and in 1970 it was 71 per cent higher.*

If we compare the data in Table 3 with the data on export-import turnover effects, the following difference becomes obvious: in 1969, total foreign trade turnover had a very slight effect on inflating money circulation. The effects of the foreign trade *price changes* in this direction were much stronger. *In 1970 foreign trade turnover was, on the whole, strongly deflationary in effect, but the effects of foreign trade price changes continued to increase money circulation to no small extent.**

* The coexistence of deflationary and inflationary trends is not an exceptional phenomenon. In the process of inflating money circulation there are always deflationary effects present – either hindered or swallowed by price increases – and vice versa, deflation becomes predominant by overcoming the inflationary trends operating in certain fields of the economy.

Import price as a cost factor

The effects of imports on money flows can only be measured realistically if we introduce into our analysis a new point of view. Until now, imports were taken into consideration as a factor releasing money flows opposite to that caused by exports: in this respect imports amount to the spending of income, and therefore are deflationary in effect. In this part we *examine imports as a factor in domestic inputs and, therefore, as a price-forming and income-forming factor*. It is obvious that in this way the import price is determining costs and its increase raises the domestic price level too.

This new point of view justifies modifications in methodology. Imports in this approach are not "paid" by the national economy through exports, but by the enterprises who use them. In this way an important feature receives emphasis, namely, *that imports do not cost the enterprises the same amount as they do the national economy but are cheaper for the former than the latter*. Even inclusive of customs duties, less forint input was needed for one dollar of capitalist imports in 1969–1970 than received for one dollar of exports, inclusive of subsidies.

At the enterprise level, the "forint cost" of imports is arrived at by *subtracting the price subsidies from the total of dollar imports calculated with the foreign exchange coefficient, and adding the customs duties*. However, the sum received in this way *shows only current non-cumulated inputs* for import products. *The import products*, in a manner similar to other products, are linked with the process of national economic production (running through several phases of production until reaching final use). Therefore, import inputs accumulate and in this way the effect of the rise in import prices also multiplies, since on the other side the flow of import commodities is accompanied by changes in income and corresponding money flows. Quantification of the cumulation of enterprise import inputs was also completed with the aid of the circulation velocity of money.

The money flows caused by the rise in import prices (*on enterprise level*, taking the multiplier effect into consideration) came to *1.2* per cent in 1969 and to *2.2* per cent in 1970 of money circulation. If we take into consideration that domestically, behind this increase in money circulation (alongside the rise in the domestic price level), there is a real commodity production and distribution process taking place, we must draw the conclusion that *the money circulation surplus induced by the rise in import prices exerts only slight inflationary pressure in national economic dimensions*. The foreign price increase (owing to the "braking" price policy which to a significant extent holds down the multiplication of these price increases) had no significant effect on the domestic price level. Therefore, the 1969 and 1970 rise in the domestic price level was *decisively caused by domestic factors*. However, the rapid increase in the effects on money

circulation calls attention to the fact that with respect to its *dynamics*, the rise in import prices was an essential factor.

This, at the same time, means that the domestic price system is sensitive to trends in foreign prices. Of course, this sensitivity varies by different areas of the national economy. "Price raising centres" may emerge in certain points of the economy. The true effect of these centres is larger than what average figures for the whole of the national economy can show.

In the calculations reviewed above, as I mentioned, the price indices do not contain the machinery group. Ignoring the price changes on *machine imports*, is justified — in addition to the difficulties of calculating price indices for the machines — by the fact that price fluctuations of recent years have had but a slight effect on machines. Despite this fact, between 1966 and 1970 the domestic prices of machinery imported from non-socialist countries rose by 36 per cent. (3) As of January 1, 1968 in starting prices alone, the change in the foreign exchange coefficient caused a 4 per cent and the introduction of customs duties a roughly 45 per cent rise. The price increasing effect of the tariffs did not operate in reality to this extent, for tariff burdens were sharply reduced already in 1968. Aside from this, much of the rise in machine prices was caused by importing more modern machines.

In 1971 the rise in capitalist import prices definitely slowed down and, with regard to *total* exports, the export price level even declined and the foreign trade balance showed a deficit. We were not yet able to complete calculations, but after reflecting on the factors which can be taken into consideration I feel we can draw the conclusion that the effect of capitalist foreign trade on the domestic price level declined significantly in 1971 in comparison to 1970.

Conclusions

In the past two years, despite increases in import prices, imports from capitalist countries grew rapidly. In 1971, the growth of national income was 7—8 per cent, while imports from the capitalist countries rose by 21 per cent. *This means that capitalist imports grew at three times the rate of the national income in that year.* The data of the previous two years also call attention to a disproportion between the growth rate of capitalist imports and the national income (in 1970 the rise in imports was 43 and in 1969 it was 15 per cent).

There can be no doubt that the *major part* of the insensitivity of imports to import price trends is explained by the fact that under the domestic price system the importer does not feel the rise in foreign prices or only feels them to a smaller extent than the "real change". The reason for this is primarily that a significant part of products imported from the capitalist countries have either fixed or maximized prices domestically and, therefore, the burden of the price increase is borne by the state budget.

The inflation of import demand to this extent cannot, of course, be explained exclusively by the fact that the domestic price of the imported commodity rose to a smaller extent than the foreign price or did not rise at all. The dynamics of imports, the changes in imports from one year to the next are determined by a series of factors, the most important of which are these: the import volume of the base year; the difference between the changes in the foreign and domestic price levels; the increase in the incomes of the population, the enterprises and the state; the income elasticity of imports; and the price elasticity of imports.

The rise in Hungarian imports and the conspicuous inelasticity of imports with respect to price are caused by complex processes. In the very first year of the reform it turned out that the domestic product prices introduced with the reform were high, and the profit level realized in the prices was exaggeratedly high under the given system of regulation. However, due to the system of enterprise fund formation valid at present, in comparison to the present volume of state and enterprise investments, even the overly high enterprise incomes proved to be insufficient. The majority of enterprise level development is realized from external resources, and on the basis of external decisions. *The formation of enterprise profits and of the sources of credit* (including the budget income from these profits and the credits to finance budget deficits) as well as *the equilibrium problems of material production led to a situation wherein demand exceeded supply* — both in personal and productive consumption and in accumulation.

An article by T. *Róna*, examining the factors affecting price trends in Hungary, points out the exaggerated rise in profits (4). Between 1965 and 1970 *the general price level of the economy rose by 13—14 per cent*. T. Róna derives the rise in the price level from three factors: trends in live labour input, in embodied labour input and in the net income level. He points out that the price-increasing effect of embodied labour input was 14 per cent, that of net income changes 32 per cent, while in contrast with the previous two factors, the effect of live labour input on the price level had a negative effect of 4 per cent.

However, the rapid rise in net income per unit of national output was not accompanied by a corresponding growth in the accumulation potential of the national economy. One part of the exaggerated demand was tied down by the rise in the price level caused by the rise in demand while the other part exerted pressure as unsatisfied demand both on the domestic market and on imports. *The disturbance in the foreign trade balance, and the rapid growth in imports, therefore, can be explained by the unsatisfactory situation in the general equilibrium of the national economy.*

Accordingly, the stagnation of capitalist exports is no proof of the insufficiency of the foreign exchange-coefficient and the present level of export subsidies to provide export incentives. After a nearly 60 per cent rise in exports

from dollar accounting countries in the previous two years and taking the drop in the world market boom and the pressure of domestic demand into consideration, the fact *that exports remained at a given level and did not drop significantly, can be evaluated as definitely positive*. The present stagnation of exports cannot force us to raise objections against current export incentives of the enterprises.

With the present contradictions of national supply and demand, *import prices cannot fulfil their economic function of channelling such goods*, that is, the orientation of producers and consumers. If unsatisfied demand is too great, imports can rise even with increasing prices, particularly because the increase in import prices can be passed on by importers — through raising sales prices, making use of government supports, or in other ways. Therefore, the question of passing on the effects of foreign prices to domestic ones can only be raised if based on a joint study of all factors determining supply and demand in the national economy. The domestic effects of import prices, the credit system determining the national economic supply and demand, the budget, investments, and foreign trade are inter-related in a many-sided manner. There can be no border marked among the various fields of the economy and none can be examined except according to its own logics.

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ВЛИЯНИЕ КАПИТАЛИСТИЧЕСКОЙ ИНФЛЯЦИИ НА МОНЕТАРНОЕ РАВНОВЕСИЕ В ВЕНГРИИ

С. СЕГЭ

Изучение вопросов взаимодействия между различными национальными ценовыми и финансовыми системами, экспорта и импорта инфляции занимает важное место в экономической литературе последних лет. Интернациональное движение денег и тогда оказывает воздействие на внутреннюю ценность, устойчивость денег, на формирование уровня и пропорций внутренних цен, если национальная экономическая политика стремится к ослаблению этого воздействия, или — в крайнем случае — жестко изолирует внутренние деньги от заграничных, а систему внутренних цен — от внешнеторговых. Экспорт и импорт воздействуют на внутренние денежные процессы не только как самостоятельные денежные действия, но и как составные элементы многосторонней взаимосвязи между внешней торговлей, капитальными вложениями, потреблением, сбережениями и уровнем цен.

Автор пытается на цифрах проанализировать, какое влияние оказало изменение цен мирового рынка в 1969—1971 гг. на денежное обращение и динамику внутренних цен в Венгрии. Она приходит к выводу, что рост внешнеторговых цен в этот период оказал лишь весьма незначительное инфляционное давление на народное хозяйство в целом. Несмотря на это, исключительно быстро растущее воздействие внешней торговли на внутреннее денежное обращение в 1970 году позволяет сделать вывод о том, что внут-

ренняя система цен и денежное обращение в Венгрии чувствительно реагируют на изменение внешних цен. Эта чувствительность еще усиливается вследствие сокращения субвенционирования импортных цен из бюджета.

Между внутренним влиянием импортных цен, системой цен, кредитной системой, оказывающей влияние на народнохозяйственный спрос и предложение, госбюджетом, капиталовложениями и динамикой внешней торговли имеется многосторонняя взаимосвязь. В Венгрии цены на импортируемые товары, в силу общих проблем, связанных с народнохозяйственным равновесием, и, в частности, чрезмерного спроса, не пригодны для выполнения экономических функций цен в регулировании импорта. Импорт весьма неэластичен к ценам. Это происходит, главным образом, из-за того, что импортеры бремя возросших цен посредством повышения продажных цен перекладывают на покупателей, или же — путем использования субвенционирования из бюджета — на народное хозяйство.

В конечном счете автор приходит к выводу, что вопрос передающегося эффекта изменения внешнеторговых цен может рассматриваться только на основании совместного изучения всех факторов, определяющих народнохозяйственный спрос и предложение.

Acta Oeconomica Vol. 9 (2), pp. 181–194 (1972)

A. PESENTI

THE INTERNATIONAL MONETARY CRISIS AND ITALY

The author, a well-known Italian Marxist, analyses the new features of the international monetary crisis and its effects on Italian and world economy. He stresses the increased role of finance capital and warns against the increased danger deriving from the actual abolition of the gold-exchange standard. This only serves US interests, since they are in a position to issue dollars in unlimited amounts while the other countries are under obligation to accept them at a fixed price. The author advocates the reintroduction of convertibility, but also the creation of a new international reserve currency.

I think that we cannot speak of the influence of the international monetary crisis upon the Italian economic situation and policy, if we do not agree to a common statement on the general causes of the present crisis.

Instead of an extensive introduction let me restrict myself to some assumptions.

The *first* assumption is that, in my opinion — as I said on the occasion of the Gramsci Institute seminar in January 1970 on "Italian Capitalism and the International Economy" — we can divide the post-war period in the capitalist countries into three stages. The first, characterized by the capitalist reconstruction and reconstitution of the world imperialist system, under the rule and absolute predominance of the USA, ends around 1958–1960. The second, characterized by high rates of growth and a sufficient stability of capitalist world economy, although marked by partial crises and changes in the balance of power among the imperialist countries, ends around 1968–70. I believe that the stage which follows is one of growing instability and of big shocks of the whole capitalist system, a stage of strengthening in the process of the internationalization of capital, and, therefore, of growing conflicts among the capitalist countries.

All this takes place in the consistent framework of a declining supremacy of US imperialism, which opposes this tendency using all the powerful economic tools at its disposal.

The *second* assumption is that the growing instability of the whole capitalist system and the changes in the balance of economic power among the imperialist countries have indeed their origin in the real process of production, i.e. in the changes which have occurred in the process of the creation of surplus value

or in the productivity of labour and in the transformation occurred in the capitalist enterprise, but also in the growing importance of monetary and fictitious capital in the mechanism of capitalist reproduction. For this reason, in my opinion, the economic crisis increasingly assumes the aspect of a monetary and financial crisis. The recent crisis of the international monetary system in itself testifies very clearly to this growing importance of monetary instruments in the strategy of the multinational corporations and of contemporary imperialism in general.

I do not develop here all the theoretical bases and the practical consequences of these assumptions.

I shall recall briefly, as well known facts, some modifications which have happened in the economic structure of contemporary imperialism in this field.

One of these is the extension and the growing importance of the "category" of *money*. The creation of primary currency can be decided by the monetary authorities without any strict limitations. New kinds of money and new instruments for managing it are developed. At the same time, the function of bank-money is increased. Its creation in growing amounts by a more and more monopolistic bank system becomes more and more possible by the expansion of fictitious capital. This fictitious capital, as we all know, develops at a rate much faster than the rate of real accumulation, or of real capital growth. The same fact also helps to create new means of payment, contributing particularly to the possibility of creating money with differentiated amount and values. That is to say, it is now much easier than before for monopoly capital to differentiate the types of currency and prices, circulation for capital and circulation for consumption, wholesale and retail prices, domestic and export prices.

Price is always the vehicle for the distribution of social income. Price variations managed by monopoly capital extend exploitation to the process of income redistribution, thus increasing the primary exploitation which originates in the production process.

For this reason *fictitious capital*, growing at an increasingly fast rate, becomes the most important instrument for domination by monopoly capital. Thanks to its mobility, it impresses on the "capital" as a whole in its process of surplus value expropriation an increasingly financial and sometimes speculative direction and management. All these phenomena are of course connected. That is to say, the Leninist category of "financial capital" has developed new forms. Capitalist enterprise becomes more and more the enterprise of financial capital, that is to say of a conglomerate in which, in order to obtain maximum profits, financial criteria of management prevail over what may be called the "productive" criteria of previous capitalism. The consequence is that the big corporation exerts its power over productive capital by means of its domination of fictitious capital, which thus receives new impulses to multiply and express itself in new forms.

The other typical phenomena of imperialism, such as the *export of capital*, take on new aspects and become increasingly an expression of the process of the internationalization of capital. In this field state monopoly capitalism becomes every day more active by means of the export of "public capital" and the various kinds of aid and support to "private" capital exports. On the other hand, the process of capital internationalization reveals itself particularly in the seizing of the dominant shareholding of single corporations or of investment trusts or holdings, in the creation of international corporations for investments and of the new Eurodollar market. This fact better explains, in my opinion, the actual outburst of the process of capital internationalization and the expansion of multinational corporations.

The role of directly productive capital exports has a relatively reduced importance. It is much easier and more profitable in the capitalist world to seize the dominant shareholding and subsequently collect the capital in the individual country, to export, if necessary, patents and know-how techniques and in this way to dominate productive capital with lower risk and higher profits. Naturally, the export of commodities is also increased in this way.

Fictitious capital, as we know, is much more instable and movable and this fact explains why economic instability grows side by side with speculative and parasitical phenomena.

The most important weapon in the general strategy of today's capitalism appears therefore ever more to be managed currency, in the broad sense of the word.

As I already pointed out in 1946, managed currency can be considered a new characteristic of contemporary imperialism. It is true that this feature may be included in the more general category of state monopoly capitalism, but I think that it is much better to examine it separately.

The essence of the contemporary monetary management is, as we know, *slow inflation*, which means a process very different from the big inflations of the war and post-war periods. It is a managed and institutional inflation. Bourgeois economics tends to disguise the class character of this slow and managed currency inflation and to study only the quantitative connections, for instance between inflation and economic growth, or inflation and unemployment, or to discuss the immediate and superficial causes of inflation, to make the very unscientific distinction between cost inflation or demand inflation. But nobody can deny that regular inflation serves as a powerful weapon in the class struggle to lower real wages and raise profits, to ruin non-capitalist rentiers or savers, to lower the real rate of interest and, in consequence, allow a "cheap money" policy for capital which increases the inducement to invest based on expected profit. We all know that managed currency — together with the other instruments of state monopoly capitalism, particularly budgetary and fiscal policies — supports the policy of the monopoly capital in order

to introduce increasingly differentiated prices. The difference between domestic consumer prices and export prices or between wholesale and retail prices is generally increasing. This means differentiated values of money for capital ists and for workers and the various other social strata and countries. Managed currency inflation thus also becomes a powerful instrument for interimperialist competition. For this reason the rate of inflation depends on many social causes, but ultimately on the course of the class struggle and of interimperialist contradictions and competition. This is now recognized by many scholars: for instance Prof. Roy *Harrod* recognized that to combat inflation it is not sufficient today to adopt monetary and financial measures such as to reduce the volume of global demand. The recent cases of the United States, of Great Britain, of Italy showed that demand was not excessive, in contrary, it remained below the potential of national supply, but nevertheless, inflationary tendencies arose. The wage-price spiral is a sociological, or so to say a class problem rather than a "pure" economic problem. Besides, the wage-price spiral has its own self-feeding dynamics.

Certainly there are some objective limits to money management. An excess of inflation is self-defeating. It is necessary therefore to regulate the rate of inflation: this is the reason why in capitalist countries the monetary policy swings between the classic poles of deflation and excessive inflation, this is the reason for the so-called stop-and-go policy. But technically a fair or appropriate rate of inflation does not exist and much less can an "international" rate of inflation exist. We Marxists emphasize more realistically that the rate of inflation depends on many factors which are different and specific for each capitalist country, on the specific market structure, even if all these circumstances can be reduced to two fundamental ones: the rate of growth of labour productivity and the power relations in the class struggle, which also vary.

This is the real reason why rates of inflation are different from country to country. Certainly we can distinguish in this process two big classes of countries: the developed or imperialist countries and the underdeveloped ones exploited by imperialism, where the conditions within which inflation acts are quite different. Also among the imperialist countries we find different conditions, like the unequal degree of monopolistic domination, the particular structure of the market, the acuteness of the class struggle, the different rates of growth in the productivity of labour, and all these factors lead to different and changing rates of inflation.

All this also means that it is very difficult to calculate a general and real rate of inflation in an individual market but it is much more difficult to do this for the international market. We cannot realistically calculate an international rate of inflation, so that the notions of "international price", of "purchasing power parity" become ever more abstract and difficult to deter-

mine concretely. What is today the international price of a commodity? What level of prices expresses the purchasing power parity?

We have to remember these facts in order to conclude that to bring an international order into this so confused situation is almost impossible and it would also need a system capable of controlling the international monetary flows, the movements of financial capital, the rate of interest policies, that is to say to create an international monetary discipline. How can this be possible in imperialism, particularly today, when the interimperialistic contradictions are so acute and when managed currency and fictitious capital have become the most important weapons for the imperialist competition and domination?

It is necessary to consider the actual international monetary crisis in this context. The Bretton Woods agreements tried to introduce an international regulation into monetary management. But the system decided was an expression of the international power relations of that time. The fact that the dollar was chosen as basis of the world monetary system increased the contradictions of the imperialist system as a whole. Subordination to the USA and imperialist class solidarity postponed the growing of the interimperialist contradictions, so that their solution is today not only much more difficult, but also it will involve greater costs for all the capitalist economies. Indeed, in the gold standard system the basis of the individual and general monetary system was gold. True, the gold market was ruled in London, and thus the world monetary system, or rather the system of the countries in the capitalist orbit, was ruled by London, that is to say by the pound sterling — with well known consequences. But this fact did not reduce the "intrinsic" character the money had and by consequence there was scarce possibility of managing it. Besides, the pound never became officially the world money. The parameter had therefore always an objective character. It was a commodity produced in a system of commodity production even if the prices of these commodities were imposed in the international market by the most advanced countries which had the highest labour productivity. Today, in the stage of imperialism, when all the prices are monopolistic and political prices, with the Bretton Woods Agreements the currency of a single country — the U.S. dollar — became the basis of the world monetary system. It is true that it was a dollar with a determined value, with a legal gold content of 0.888671 grams and convertible, but it was always a dollar of the USA. This was not a theoretical mistake, as some economist now say, but a well-calculated political choice that ratified the absolute and greedy economic monetary and political supremacy of the USA within the imperialist system. This political choice linked the world monetary system to the fate of the dollar, the real and effective dollar, issued in the USA by monetary authorities, in accordance with the interests of the USA imperialism and with the criteria of their decided economic and foreign policy regarding money management. In fact, convertibility was then

allowed only to the other central banks, that is to say, to other political and not only monetary authorities which were politically linked to the USA.

The effective dollar, even though in many agreements mentioned as the standard dollar, became in this way the account money for the most part of the agreements and contracts, the basis for the currencies' parity, the reserve and the intervention money, that is to say, the world money. This real situation was then sanctioned and obtained full right first with the gentlemen's agreement of March 1968 and then with the Nixon decision of August 15, 1971. We all know the tremendous advantages won by the USA imperialism from this particular position. Every supply of dollar found its demand. For this reason with the increasing rate of inflation in the US and, therefore, of the effective devaluation of the dollar with respect to gold and to the standard dollar of 1944 (even if the political price of gold was conserved at the same level), the advantages were growing. The "dollar export" was going up and became for the USA the most important and profitable affair. It was possible to export the monetary and fictitious capital expressed in dollars, to seize foreign corporations, to develop bank branches abroad, to create foreign deposits with a multiplying and magnetizing effect, to attract local savings and deposits, to build up the new Eurodollar market. This market — free from every monetary and fiscal control — has enormously supported the expansion of the American multinational corporations and, in general, the US investments abroad. This market stimulated also the agreements and the mergers of the multinational non-American corporations and, therefore, the concentration and the internationalization of capital.

We all know that the consequence of the US economic and monetary policy reflected rapidly in other capitalist countries, causing there economic instability and crises. The excess and really devalued dollars, bought at their standard price, entered the central banks' reserves, causing an expansion of the inflationary process. The same dollars were often reintroduced into the Eurodollar market; the modifications in the rates of interest in the USA spread rapidly, etc. All these facts are well known. Well known is also the fact that the permanent and increasing deficit of the US balance of payments (until the last years due only to the export of capital) was and is a deliberate policy, that became possible just because the dollar was the reserve and the interventionistic money of the imperialistic system. The particular nature and the specific effects of the exports of money and of fictitious capital, as well as the expansion of the multinational corporations, together with the monopolistic competition, explain also why these exports were especially directed mostly to the highly developed countries, as the figures show, and why the exports of new capital towards the underdeveloped countries and why aids were reduced.

The damages to and the costs for the other capitalist countries of the US policy were growing and becoming every year less bearable. At the same time,

the rebellion against the US foreign economic policy was facilitated by the change in the power relations between the other capitalist countries and the USA.

As we know, the dollar crisis which broke out on August15, was the expected consequence that opened a new situation in the interimperialist contradictions. This crisis may perhaps be a sign of the diminishing power of the American supremacy, but it cannot reverse the general tendency of the changes in the structure of world imperialism and in the use of its new institutions and instruments. At the opening of the crisis, after the Nixon declaration announcing the inconvertibility of the dollar and the 10% surtax on imports, the position of the US imperialism and the position of the other imperialist countries stand face to face very clearly. From the viewpoint of the US the first aim was to reduce imports and to keep the Bretton Woods Agreement alive, in order to preserve the dollar as the basis of the international system, that is to say, to reach openly a "dollar standard" and to conserve in this way their instrument of domination. The second proclaimed aim was to reach a consistent revaluation of the other capitalist currencies relative to the dollar. The latter was an old request. The USA have for a long time found complacent economists (as they did at the Conference of the International Economic Association in Montreal in 1968) who upheld the thesis that the blame for the monetary disorder was not to be put on the countries that had a deficit in their balance of payments like the USA but, on the contrary, on the countries with active payments balances and that the solution was a revaluation of these currencies and then to keep floating rates of exchange. This thesis, suiting USA interests, particularly if linked to other requests by the US, like the "burden sharing", allowed the continuation of the US monetary and financial policy.

On the side of the other capitalist countries, the position was to accept an agreed revaluation of their currencies and to help in this way the US balance of trade only on the following conditions: (a) The USA had to abolish the 10% surtax on imports; (b) They had to devalue the dollar against gold or to raise the dollar price of gold, naturally with the assumption that this was a premise to restoring the convertibility of the dollar; (c) The USA had to accept a reorganization of the world monetary system, in which the world standard money would be no more the dollar, but a new account money. The burdens of the settlement of the damages done by the US policy could be borne only on these conditions.

The contrast between the two standpoints seemed to be very sharp, but in reality the other capitalist countries did not draw the logical conclusion of their assumptions. They did not write the death certificate of the Bretton Woods Agreement, did not refuse the US ultimatum nor did they start a new resolute policy against the USA.

The compromise reached on December 18 appears until now a surrender to the American position, a consolidation of the inconvertible dollar standard. The abolition of the surtax on imports was the only and very poor advantage in comparison to the acceptance of the high currency revaluation and of the principle of burden-sharing. But worst of all was the acceptance of the dollar standard without claiming the abrogation of the Bretton Woods Agreement, without asking openly that the dollar should be substituted as reserve and account money of the world, by the Special Drawing Rights or other monetary instruments. The small dollar devaluation of only 8%, against the gold price clearly meant that the US had and have no intention of restoring convertibility. Of course, until the world monetary system is based on the dollar, the "dollar standard" is even more convenient to the USA than the previous situation, because they have now no limits to their inflationary policy. The dollar export remains also today the most advantageous business since the world monetary authorities are bound to buy the dollars, ever more inflated, at the agreed fixed price. Thus the internal contradictions of the monetary system were not resolved or lessened, the powerful instrument put in the hands of the US imperialism was not broken. This is now openly recognized by some Central Bank Governors, like Mr. *Carli*. He said on 15 March 1972 in Zurich "The solutions agreed at the Washington conference last December certainly do not show innovating virtues and the agreement reached did not eliminate the internal contradictions of the international system of exchange rates. It did not modify substantially the situation outlined in the sixties: on one side the USA, keeping the dollar inconvertible into gold or other reserve instruments, rejected every possible constraint to the management of their monetary and economic policies, and on the other side the other industrialized countries, with the commitment to buy inconvertible dollars without limits when the exchange rates of their respective currencies would fall by 2.25% below the lower limit of the fixed parity, have confirmed the will to proceed like in the past in the management of their balances and to accept therefore to be exposed to the variations of the events in the US business.

The logic is that the USA clearly manifest they have no intention to change their typical exploitation policy. The enormous deficit in the US balance of payments is still increasing, the domestic inflationary policy is still continuing — it is sufficient to consider the huge deficit spending — the export of capital goes forward, and the interest rate policy is certainly not attractive for the repatriation of dollars to the USA.

If there is something new, it is only the increased US pressure in the field of trade agreements, particularly on the EEC and Japan, in order to make the US competitive in the world market and boost in this way the USA commodity exports, to reach a surplus in the balance of trade.

But if we have a better look at these claims, we can see that the pressure

is particularly strong for the agricultural and basic products, where the US request is a reduction of the import duties of the European countries and first of all the abolition of every preferential treatment.

Of course, the US multinational corporations have less interest in industrial protectionism. From their profit point of view the origin certificates count for very little; their branches or associates abroad exist to export commodities and to repatriate profits in the USA, everywhere these commodities are produced. We know that the American production abroad, still growing, has reached 20 per cent of the domestic production of the USA and five times the total of US exports. USA imperialism has now a greater interest in forcing agricultural exports (one cannot export the land). We have also to consider that the "preference system" and the system of the "associate countries" are instruments of the European neocolonialism in order to safeguard their imperialist interests and links with the less developed countries. US imperialism wishes to break these links in order to penetrate deeper into the less developed countries, to penetrate more easily and without screens and better to replace European imperialism. Besides, the recent conference of UNCTAD at Santiago has been a complete failure as we all know: no measure has been taken to help the developing countries in order to reduce the growing difference between the rich and the poor peoples. In conclusion, the interimperialistic contradictions are still growing: the crisis is not yet resolved or lessened.

When the August crisis broke the Italian Communist Party took a firm and clear position. In a public official declaration and I personally in a meeting of bankers and international scholars, we declared that it was in the interest of the working class to avoid a general economic crisis. Therefore, we did not suggest an open economic war against the USA which could lead to a disruption of in international trade. But we said that it was necessary: *a)* to compile officially the death certificate of the Bretton Woods Agreement, *b)* to refuse the burden sharing pretension, *c)* to promote a reform in the international monetary system; that this reform had to put an end to the rule of the dollar, to dethrone the dollar as reserve and intervention currency, to create a new basis for an account money, which would express also the interests of the less developed countries, establishing at the same time a new international body of control in which every country would be represented and where the vote would be on equal terms and not on the basis of the funds subscribed.

In making these proposals we were quite aware of the difficulty of the situation. We know that it is impossible under the imperialist system to regulate the managed currency and the rate of inflation from an international point of view. This is impossible either from a theoretical, or from a practical point of view. We know that it is very difficult under imperialism to calculate a general and real rate of inflation in an individual market and, therefore, it is much more difficult to do this for the international market. If we cannot cal-

culate an international rate of inflation, the notions of "international price", of "purchasing power parity" become ever more abstract and difficult to determine in the concrete. It is impossible to create an international order particularly today, when the interimperialistic contradictions are so acute and when the managed currency and the fictitious capital become the most important weapons in the imperialist competition and for domination.

We expect that imperialism will have in future a greater instability, but *navigare necesse est,* to navigate is necessary, even if there is a stormy sea. Our proposals were the wisest ones.

The Italian monetary authorities and particularly the Governor of the Bank of Italy could not neglect our Marxist analysis of facts.

Even in the past they had to contrast the pretensions of the USA imperialism and the invasion of the US monopoly capital. If we read the latest Report of the Governor of the Bank of Italy held on 31 May, we can recognize an objective interpretation of the actual monetary contradictions. But class solidarity and the defence of the capitalist system prevail.

This choice is very clear in the words of *Carli.* He said in the report quoted: "In face of those people who, criticizing the foundations of our system, from the actual difficulties draw at the same time the confirmation of their opinions and the hope that radical changes are approaching, there are those, like the one who is speaking, who believe in the principles which are the basis of the actual system.

They are conscious of the necessity of adapting the economic institutions to the changes in the historical situations. They perceive in the delay of this adjustment, apart from the mistakes in human actions, the principal causes of the imperfections of the system and they endeavour to introduce the necessary remedies."

This aim is directing the Italian monetary policy.

In order to save the international monetary system the Italian monetary authorities accepted the compromise imposed by the USA in December 1971. But for a long time, I remember the Conference of the I. E. A. in Montreal, they refused to revalue the Italian lira against the other European currencies or the Japanese currency. You know that the dollar was devalued against the price of gold by 7.9 per cent. The Italian lira was devalued in comparison to the dollar by 7.5 per cent, the same as the French franc, so that it means a real devaluation of 1.5%.

The second problem was defence against speculative capital movements, the question of the Eurodollar market and the assault by the US and other multinational monopoly capitalists to seize the Italian companies. The Italian monetary authorities did not consider it necessary to introduce formal restrictions on the monetary movements. But they had and they used all the instruments to control and to reduce these movements. They are still proposing a

control on the Euromarket — for instance to fix some reserve ratio and sterilize the recycling — they opposed practically to the seizing of the dominant shareholding of the Italian corporations or holdings. I can give some examples. Some years ago US capital tried seize the Bank of Agriculture: the Bank of Italy opposed. Much more important was the case of the Strade Ferrate Meridionali or Bastogi, an important holding which dominate many big Italian corporations, among them the Montedison.

An important multinational corporation made an open public offer, to buy 20 000 000 shares at a high price, without saying the name of the buyer — it was the Hambros Group. The monetary authorities opposed not openly, but practically and the manoeuvre did not succeed.

The Italian monetary authorities agree with the necessity of substituting the dollar as reserve and intervention money. But they believe that it would be a very long process. They think that a heavy fall in the dollar exchange rate would lead to harmful consequences for the world and Italian economy. They therefore act by homeopatic doses. They know quite well that the dollar will not return to convertibility and they are bound to buy dollars at the agreed fixed prices.

For this reason they think that it is necessary to reduce the opportunity of buying dollars by reducing the surplus of the Italian balance of payments in the dollar area and to sterilize the dollars in the bank reserves. They think that this will be possible: *a)* by increasing the internal consumption or demand and reducing in this way the surplus of the payments balance, *b)* by diverting the Italian exports and credits to the socialist countries and to the other countries outside the dollar area, *c)* by creating a regional European monetary system, in which the reciprocal credits will be compensated so that these will be only one common monetary balance with the USA.

This is the most important problem in the opinion of Mr. *Carli*. He said in his cited report: "In the presence of further deficits in the US balance of payments the problem arises what sector has to absorb the newly created dollars: the commercial or the central banks. If dollars available to the commercial banks increase, it would be necessary to adopt measures in order to avoid mutiplying effects on credit of such proportions as to disturb the credit and monetary policies followed in the individual countries. Probably the effects would be more easily controlled if the newly created dollars were acquired by the central banks, even if such a policy could not be pursued for a long time. From this situation derives the necessity of reinforcing the European monetary area and its transformation into an attractive center of the largest aggregate of countries disposed to link their currencies on the basis of fixed rates of exchanges with the European countries." . . . "Under these conditions the conviction of transforming the European Community into a monetary area with a specific individuality in the framework of the international monetary

system was reinforced. After a decision of the Council of the Community it was decided since April 24, 1972 that floating limits of the community currencies about the reciprocal parities will not exceed the 2.25%, instead of the 4.50% figure which results from the application of the maximum limits of floating actually consented to in respect of the dollar: ± 2.25%; there will be an internal regulation of credits and debts so that the dollar rate of exchange with the community currencies will reach the intervention limits depending on the global surplus or deficit of the Community as a whole."

I have also briefly to point out that this monetary policy is carried out in a difficult and complicated economic, social and political internal situation.

As you probably know, the Italian economy is now passing through a structural and not only a business crisis. The class struggle is becoming in Italy much more acute and this happens in a framework in which the imperialist interpenetration and the influence of the international economic and political situation are ever more growing. The much more acute class struggle of the last years had some economic consequences: it accelerated the process of monopolistic concentration and re-structuralisation and worsened the endemic crisis situation of the small and middle independent industries, (by the way: it was necessary to create a new public rescue institution, the GEPI); it increased the rate of inflation and simultaneously the export of capital; it drastically reduced the capital investments. The fall in investments would be higher without investments in the industrial public sector. Until 1970 these facts did not have the consequence of strongly reducing profits. Indeed, even if the rate of the annual increase in investments was on the average 7.3% in the period 1950—1960, 12% in 1962—63, zero in 1964—69, and below zero in 1970—71, in industry until 1970 the productivity per man-hour increased always almost at the same rate (6.4, 6.7, 6.4 per cent, respectively). Now after the hot Autumn 1969 the situation changed and from a capitalist point of view it is necessary to raise the rate of profit. This can be obtained in a capitalist structure only by a change in the direct relationship between wages and profits, by increasing the productivity of labour, by freezing the real wages, by increasing the rate of inflation, by also using all the instruments of state monopoly capitalism. This means an economic policy in order to improve the economic, social, political infrastructure, to raise the social investments. Besides, this economic intervention will reduce the external costs, therefore help, but not change the functional relationships governing the economic development of a capitalist system. To raise the global demand both internal and external, to reduce the high actual monetary liquidity is another aim of the Italian economic policy. All these aims are not contrasting in general the aims of the monetary policy towards the international monetary problems. But there is a big single exception: the increasing integration of the Italian economy in the European economic area will certainly lead to new contradictions and difficulties.

In conclusion we can foresee a trend in the monetary policy of capitalist countries based on:

a) a free fluctuation of the dollar *vis à vis* the E.E.C. currencies as a whole, the reciprocal relations of these latter being based on relatively fixed parities,

b) the establishing of short-term capital controls and an agreement on a code of conduct for long-term capital movements between great monetary areas,

c) preparing the ground for a gradual resumption of convertibility by replacing at the same time the dollar as a reserve asset.

The new reserve currency is not yet in sight. Maybe a function in this sense will have the extension of the SDR, with a basis on gold or not a gold revaluation, as suggests Professor *Rueff*. These measures can prepare the creation of a new account money by a new International Monetary Fund.

For the moment the substitution of the dollar as reserve asset goes on slowly on the trend of creating a new regional European currency and perhaps of other regional monetary areas.

The new crisis due to the floating rate and the consequent devaluation of the pound, created new difficulties for the aim of reaching European currency and for the functioning of the agreement of April 24. The temptation to devaluate is for some currencies, like lira, very strong.

МЕЖДУНАРОДНЫЙ ВАЛЮТНЫЙ КРИЗИС И ИТАЛИЯ

А. ПЕЗЕНТИ

Автор анализирует воздействие международного валютного кризиса на итальянскую и мировую экономику. Он отмечает, что ход событий принял такой оборот потому, что денежный и финансовый капитал приобретает все более растущее значение в процессе капиталистического воспроизводства. Выпуск денег в настоящее время является почти неограниченным правом и возможностью финансовых властей. Известно, что фиктивный капитал возрастает быстрее, чем реальное накопление. Вывоз капитала также приобрел новые черты и пользуется всесторонней поддержкой монопольно-капиталистического государства. Быстрое распространение многонациональных предприятий — также новое и опасное явление современного капитализма.

Современные капиталистические деньги имеют манипулированный характер, и сознательная политика медленной инфляции служит эффективным орудием в руках монополистического капитализма. Таким образом, деньги имеют иную стоимость для капиталистов и иную — для рабочих. Манипулированные деньги являются также и мощным орудием капиталистической конкуренции.

Заключенные в Бреттон—Вудсе соглашения попытались упорядочить после окончания второй мировой войны международную валютную систему, но уже тогда можно было видеть, что предоставление центральной роли доллару было хорошо продуманным политическим шагом, направленным на обеспечение господствующей роли США. Твердый курс и ускоряющаяся американская инфляция создали благоприятное положение для внешней экспансии американского капитала, что оказалось наиболее прибыльным бизнесом для американских капиталистов.

Дальнейшие трудности создает рынок евродолларов, где происходит дальнейший рост и без того избыточного количества долларов. Все это вызывает серьезные нарушения в экономике и финансах остальных капиталистических стран.

США преднамеренно осуществляют политику дефицита платежного баланса и даже прямо заявляют на международных формах что, совсем наоборот, причиной валютного кризиса являются страны с активным балансом.

Остальные капиталистические страны напрасно пытались бороться с вредной для них американской валютной политикой, а заключенный в декабре 1971 года компромисс опять-таки обеспечил благоприятные для США условия.

Италянская буржуазия, в качестве представителя которой в настоящей статье цитируется председатель правления Итальянского Национального Банка, иногда с успехом противостоит проникновению американского капитала. Согласно автору, в образовании такой позиции значительную роль сыграла также Итальянская коммунистическая партия.

В заключительной части статьи автор высказывает предложения относительно консолидации международной валютной системы. Он предлагает восстановление обратимости, но одновременно с этим также и создание новой резервной валюты.

Acta Oeconomica Vol. 9 (2), pp. 195–207 (1972)

INTERVIEWS

THREE INTERVIEWS ON WORLD MONETARY PROBLEM

F. MACHLUP

LET US FORGET GOLD*

In January 1972 two leaders of the International Economic Association were staying in Hungary: *President Fritz Machlup*, Professor Emeritus of Princeton University, and *Professor Luc Fauvel*, Paris, Secretary-General. The weekly Figyelő (Observer) availed itself of this opportunity to discuss with Professor Machlup, the well-known authority on international finance, one of the inspirators of international monetary reforms and a consultant to the American government, the currency problems of the day as well as the forthcoming International Economic Congress to be held in 1974. The following is the text of this interview revised by Professor Machlup.

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Observer: You have several times advocated the cause for dethroning gold and appealed to the government of the United States and the public opinion of the world "to forget gold" as a monetary instrument. Please, give us further information on the idea of demonetization of gold.

Professor Machlup: It is not easy to explain my position in the course of a short discussion. In any case, the use of the word "demonetization" of gold is of little help in clarifying the issue.

The United States does not buy gold for monetary purposes. This means, the monetary authorities no longer increase the amount of money through purchases of gold and, thus, gold no longer plays the traditional role in the creation of money. One may say, therefore, that the United States has demonetized gold in the sense that gold is no longer "monetized". This, however, does not mean that the USA is selling its gold reserves. On the contrary, it has stopped selling gold to foreign monetary authorities, and sales to private buyers were stopped as far back as 1933. If demonetization of gold is to mean sale of monetary gold stocks in the market, this demonetization has not yet begun and may not begin for a long time. There is a third sense in which one may speak of demonetization of gold: reducing its share in total monetary reserves. This share has drastically declined and will continue to decline in the future.

In the years to come the monetary authorities may change their minds and dispose of some of their monetary gold reserves. However, it may take a long time until they begin to sell and still longer until they will have sold all their monetary gold. In this context, let me point to a historical example:

* The interviews with Professors F. Machlup and N. Kaldor were made by I. WIESEL, editor of the economic weekly "Figyelő".

the demonetization of silver was decided upon by the United States in 1873, but it took 99 years to sell all the monetary silver. The last sales from official reserves of silver took place in 1971; now it's all gone.

In brief, in the demonetization of a monetary asset two stages have to be distinguished, the first, when further purchases for official monetary reserves are curtailed or stopped, and the second, when the selling-off out of official monetary reserves begins, continues and is eventually finished. In the USA the first stage has been accomplished.

Observer: What part did the creation of the dual gold-market and its functioning play in this process?

Professor Machlup: The establishment of the two-tier system in March 1968 was associated with the announcement that certain monetary authorities, including those of the United States, would no longer acquire newly mined gold as additions to their monetary reserves. The two-tier system of gold transactions means that there is a free market, where a true market price of gold can develop. Separated from this market there can be official transactions with gold, exchanges between monetary gold and dollars, for which an exchange value is arbitrarily fixed. This fixed ratio, now 38 dollars for one ounce of fine gold, is at present largely hypothetical, because it is only a nominal price at which no actual transactions take place. Between March 1968 and August 1971, there were official gold transactions at 35 dollars an ounce. Now most central banks do not convert gold into dollars nor dollars into gold.

The link between dollar and gold was cut in August 1971 and, in my opinion, this situation will persist in the future. I know that the leaders of some central banks wish to re-establish the link with gold by some (more or less limited) convertibility of officially held dollars into gold, but I also know that an increasing number of financial experts on international monetary affairs, practitioners as well as theorists, are taking a stand against it. I would not recommend that we ever return to official convertibility between gold and dollar.

In this context I may mention that as early as 1965 I suggested that the American Government should consider discontinuing the convertibility between gold and the dollar. I repeated this in a strong recommendation in 1968, pointing out at that time that, if we did not take this step without delay, we would be compelled to take it not later than in three years. My warning proved correct.

It will eventually be recognized by the world that gold has become a metal like any other metal and should be discharged from its functions in the international monetary system; this will be for the benefit of all countries.

Observer: Did the devaluation of the dollar solve the currency crisis?

Professor Machlup: I would formulate your question differently, because to most people devaluation of the dollar refers to the change in its gold parity, which in fact is nothing but a change in the book-value of monetary gold in terms of dollars. This has practically no economic effects. What is important, however, are the changes in the exchange rates between the dollar and the currencies of the other countries with large shares in international trade and finance. The rates of exchange between the major currencies had to be modified because they were quite unrealistic. The US dollar was overvalued. As a consequence, the economic law according to which there is an oversupply in any overvalued commodity had prevailed. The excess supply of dollars in the

foreign-exchange market was absorbed at the excessive prices by the central banks of the other countries, because they refused to lower their buying prices. Since their central banks continued to absorb the ever-increasing dollar flood instead of stopping it by reducing the prices they paid for the dollar, the United States finally took actions that persuaded the others to agree to the necessary adjustments of the exchange rates.

It is generally hoped that as a result of these adjustments, that is, as a result of the reduction in the external exchange value of the dollar, the oversupply of the dollar will eventually cease. However, the oversupply cannot come to an end immediately; in my opinion, one or two years are needed for the new exchange rates to exert their influence on international trade and to produce the surplus in the American trade balance that is required to restore balance in international payments.

However, it must not be assumed that the current exchange rates will ensure equilibrium for a long time. Prices and incomes in all countries are constantly changing and international price ratios vary all the time. The rates of exchange among the currencies have to adapt themselves to these changes if price inflations and unemployment are to be avoided. Even if the pattern of exchange rates agreed upon last month — in December 1971 — is approximately correct, in the sense of being compatible with balance in international payments, one must not expect it to remain correct under changing conditions. I therefore regard it as only temporary. I strongly and emphatically recommend the adoption of rules for continuous readjustment of parities and exchange rates.

Observer: Thus, you do not share the principle of the fixed currency-parities and rates of exchange, which is one of the pivotal points of the current functional mechanism of the International Monetary Fund.

Professor Machlup: Even under the so-called system of fixed par values, the exchange rates among most currencies have been subject to great variations. The system did not contribute to stability. It caused several countries to postpone necessary adjustments far too long and then make the changes in big jumps. As it actually worked, it was a system of jumping exchange rates. The big jumps gave bad shocks to international trade and capital movements, and bad headaches to ministers and governors.

If in the future the parities of currencies were adjusted in a crawl or glide, that is, frequently but always only a little, say, by a quarter or a half of one per cent at a time, but in short intervals, the adjustments would not cause any shocks to trade and finance; they would not have any serious political or psychological significance, nor would they entail any loss of prestige for the governments in question. The change of the parities would not be reported in a sensational way by the daily press, because nobody would be interested in the "news" that the par value of the currency has again been modified by a small fraction of one per cent, for the third or fourth time in six months.

It is furthermore quite probable that, with a permissible margin of adequate width for exchange-rate fluctuations around the parity, a small change of the parity would leave the exchange rate in the market unchanged. The combination of gliding adjustments of the parities and wider bands for permissible fluctuations of exchange rates around parities can perhaps be called "the gliding-band system of exchange rates." To make things more specific, I propose a margin of $2^1/_2$ per cent (that is, a band of 5 per cent) around a parity gliding by a maximum of 2 or 3 per cent during any 12 month period.

In the opinion of some people, fixed exchange rates serve best the balanced growth of international trade. In my opinion limited flexibility of exchange rates serves the growth of international trade much better. With varying exchange rates sometimes exporters and sometimes importers are getting into a more advantageous position, leading to a larger volume of international trade. This extra impulse to trade is absent if the exchange rate is invariant. And if it is kept invariant at an unrealistic level, governments resort to restrictions and trade suffers.

Observer: Could you inform the readers of the "Observer" about the work of the International Economic Association and your discussions in Budapest?

Professor Machlup: The International Economic Association is the parent organization of the various national economic associations. I cannot from memory tell you exactly how many such national societies are operating, but I believe their number is around 45 or 50. It is not quite accurate to call it the "parent organization", since the children were born earlier than the parent and, to all intents and purposes, the young parent was adopted by the much older children.

UNESCO was the initiator in establishing the International Economic Association.

Various specialized conferences, two or three each year, are organized by our Association on a number of subjects, where the representatives of the individual specialized disciplines present the findings of their research and exchange their ideas. Every six years, and in the future every three years, we organize a congress which is open to every member of every national society.

It is almost certain that the International Economic Association will hold its next congress in 1974 in Budapest. I hope that many members of many national societies will participate in our deliberations in Budapest and that our work will be successful.

Observer: Thank you for the interview.

N. KALDOR

MONEY AND GOLD

Nicholas Kaldor, Professor of Economics at the University of Cambridge, an economist of international reputation and of Hungarian origin, visited Hungary recently at the invitation of the Institute of Economics of the Hungarian Academy of Sciences. In his lecture delivered to the Academy of Sciences he mentioned — in the context of the crisis of the monetary system of the world economy — the idea of a world currency based on a basic-materials-standard. He was asked by the Hungarian weekly Frigyelő (Observer) to amplify his views. Below we reproduce the text of this interview in English.

Professor Kaldor: I have been thinking a great deal on how an international currency backed by, and convertible into basic materials, could be brought into being and how it would function. In 1964 I prepared, along with two other economists (A. G. Hart and Jan Tinbergen) a memorandum for the first UNCTAD conference concerning an international Commodity Reserve currency. The impulse to the idea stemmed originally from Marshall's proposal of a "symmetallic" currency system. According to this notion the "standard" on which a currency is based would be expressed not in terms of a particular quantity of a particular metal (like gold) but of several metals in fixed proportion to each other (for example, 1 ounce of gold plus 5 ounces of silver etc.).

The basic principle of our commodity-reserve plan was that the neo-currency should be convertible into a commodity "bundle" or "basket"; for illustrative purposes 30 different basic materials (foodstuffs and feeding stuffs, fibres and metals) were chosen to make up the composition of the "basket". The weight of any particular commodity in the "basket" was to be fixed by reference to the value of world trade in that commodity as a proportion of the total value of the trade in *all* commodities.

A detailed proposal was worked out according to which the International Monetary Fund would issue a currency of its own called "bancor", some of which (amounting to $ 5 billion) would have come into existence as a "fiduciary issue" in exchange for long-term obligations of the Governments of the present reserve currency countries (the U.S. and the U.K.) and would have served the replace, in the books of the central banks, equivalent amounts of dollar and sterling balances; the rest would come into existence in exchange for commodity stocks held by National Governments the ownership of which would have been transferred to the IMF. Once an initial reserve of commodities had been built up in each of the commodities in the required proportions — this might have involved supplementing the take-over of Government-owned stocks by purchases of some of the commodities in the open market — the scheme would have been put into operation on a prearranged day after which the IMF would have been ready to buy or sell warehouse certificates of the "commodity bundles" at fixed buying and selling prices in terms of "bancor" with a 5 per cent margin between the buying price and the selling price. Hence the average price of the commodities included in the bundle of 30 commodities (which comprised 30 per cent of world trade of *all* primary products) would have been stabilized within that range. If the market prices of commodities had fallen below the buying limits (on the average) it would have been worth while for trading companies to buy up commodities in the individual markets

and sell them in appropriate bundles to the IMF and *vice versa*, if the average price of commodities had risen above the selling limit.

Observer: A scheme of this kind is only capable of stabilizing commodity prices if the Fund has adequate reserves at its disposal at the start.

Professor Kaldor: In our project the International Monetary Found would in the first place have acquired the huge commodity reserves (in wheat, rubber, metals, etc.) owned by the Governments of a number of countries, chiefly the USA. It was envisaged that out of such reserves some $20 billions worth of commodities would have been taken over by the IMF, in return for cancelling equivalent liabilities owed to Central Banks. Thereby the dollar standard could have been brought to an end in a flexible way, since by selling the reserves the USA would have effectively repaid their foreign official creditors, who would have received balances denominated in 'bancor' in exchange. In this way the dollar deposits could have been converted into bancor deposits without any disturbances.

Observer: Would this reserve have had an operative, mobile character or would it have represented a stable set of goods?

Professor Kaldor: Apart from various rules to cover exceptional or emergency situations the relative quantities of the various goods in relation to each other were to remain unchanged at any rate for a number of years. For example, instead of 100 dollars representing a certain quantity of gold, 100 units of "bancor" would have represented X quantity of gold, *plus* Y quantity of wheat, *plus* Z quantity of copper, etc.

Observer: Thus would these ratios have been established in terms of physical units of measurement?

Professor Kaldor: Yes, physical quantities of standard grades (which would have had their equivalents in terms of other grades). Thus, the currency issue would have been "covered" by a definite quantitative combination of a number of basic materials. The proportions would have been revised periodically in the light of changing trends in world trade.

Observer: This system appears to be rather complicated?

Professor Kaldor: It is indeed. Precisely for this reason, I have been thinking more recently of a much simpler solution. The rich countries have invented a new world money — the Special Drawing Rights. For the time being, this world money has no "coverage" at all, it is of a fictitious nature and it cannot be converted into gold or anything else except into national paper currencies. Its value depends entirely on the willingness of countries to accept it instead of gold or dollars. So long as it is so accepted by every country — on the understanding that it can be used in payment to other countries — it has a value without any "real" cover — in much the same way in which the paper money issued by a particular country has a commodity-value in that country without any real "cover" behind it. There is a difference however in that individual countries have full sovereignty within their *own* jurisdiction: each Government can make its own paper money "legal tender" within its own area and thereby enforce its acceptability by law. The national courts will protect any debtor who tenders payment in terms of the current legal tender to his creditor; and the Government can also insist that payments of numerous kinds (such as taxes, for example) should be "tendered" in legal money.

In the international context, there is no similar way of *enforcing* accepta-

bility, and in my view "paper gold" schemes such as the Special Drawing Rights are acceptable only in the shadow of a major currency, such as the dollar, and in relatively small volume. I therefore regard the idea that international paper money can be introduced with the same success as national paper money a naive one — so long as international agreements are not "binding" on nations with the same force as national law is "binding" on the individual citizen.

Observer: The development of the Special Drawing Rights into an international money is now called the "Barber Plan" following its advocacy by the British Chancellor of the Exchequer.

Professor Kaldor: Yes, and I would also regard the Barber Plan as a naive conception if it aimed at *replacing* both gold and reserve currencies. The readiness with which new money would be accepted would depend on the degree of conviction by the Central Banks of every country of its full acceptability. It is enough if one or two important countries begin to have doubts of its full acceptability in all future periods for such corrency to become universally unacceptable. But the new currency would be doomed to failure even if some countries put limits or restrictions on its acceptability. For example, the kind of restrictions which now exist in relation to the dollar might impose insuperable difficulties in the case of SDRs. As is well known, the members of the Common Market have a special agreement according to which, in settling the monthly accounts with each other, each country is obliged to tender payment to other countries in a "bundle" of payments media — the bundle containing dollars, gold, sterling, SDRs etc., in the proportions in which these "media" exist in the paying country's monetary reserves — rather than simply in dollars, as was the case under the IMF rules. (Italy, for the time being, is exempted from this particular obligation.) The fact that such restrictions do not render the dollar altogether unacceptable is only because the dollar is also the national currency of the United States and is therefore *directly* convertible into all the numerous products of American labour. The dollar therefore possesses "direct convertibility" in terms of U.S. made commodities which is never in doubt, and which depreciates only as the price level of goods in the U.S. rises over time.

In the case of "paper SDRs" however there is no such thing as *direct* convertibility. SDRs acquire real value in terms of goods through their convertibility into national currencies. Once this latter kind of convertibility is in any way brought into question, there is no limit to the extent to which they might fall in value. There would be no "floor", as would always exist in the case of the dollar or sterling on account of their direct buying power in terms of commodities.

Unless all the major countries always submit themselves to the "rules of the game", the chain of acceptability is liable to be broken sooner or later, and the very risk of this happening would, in my opinion, prevent an international paper money assuming an exclusive or a dominant role in the world's monetary reserves.

Observer: What can then be done in the future with the SDRs already issued?

Professor Kaldor: The SDRs could be made use of so as to set up international commodity price-stabilizing schemes for basic materials, the so-called "buffer stocks", which have frequently been advocated since the last war.

This would mean that SDRs would come into existence through the sale of commodities and not, (as now) by way of an automatic allocation — without any "quid pro quo" — to member-countries according to their quotas. The IMF (or some other international institution) would take over Government-owned stocks of particular commodities as counterpart to the SDRs already issued and also for further issues and would thereafter be ready to buy and to sell the commodities for which such schemes are in operation so as to stabilize their prices within certain limits. This would also mean that the "backing" for the currency would be in terms of goods of various kinds which could vary in relation to each other — not in terms of a single "bundle", a particular combination of such goods.

Observer: Would gold, too, figure among the basic materials?

Professor Kaldor: I do not have any objection against gold and other precious metals, provided that the price of gold is not raised in relation to other goods — at least not dramatically.

Observer: The proportion of basic materials and foodstuffs in total world trade is declining. Consequently, the system advocated by you would lend a helping hand, through the creation of money, to the developing countries.

Professor Kaldor: This is one of the main objectives of the proposal. By means of this system the poor countries could be helped far more effectively than by any other alternative — and as a result of the automatic operation of the system and not of *discretionary* aid. This of course is also one of the difficulties with the plan. Any scheme which carries with it automatic aid for the poor countries is apt to be frowned on by the "donor" countries since it lacks the political advantages of discretionary aid. Indeed if by means of such a scheme the terms of trade between manufactures and primary products are altered in favour of the latter, it is no longer a question of "aid" — it is a scheme for re-distributing income between the industrial sectors of the world and the primary producers of the world.

A necessary condition for the proper functioning of the system outlined is that the prices of basic materials which are within the international currency scheme should be the same in all countries (with due allowance for transport costs of course) when prices in terms of local currency are converted into SDRs at the ruling rates of exchange. This means that countries participating in the scheme must impose no restriction on either importation or exportation of all such commodities the prices of which are stabilized by means of internationally operated buffer stocks. They should be free to vary their exchange rates in terms of SDRs if the local costs of production are too high or too low, but they should impose no specific restrictions or levies which isolate the internal prices of such commodities from world prices. For the main purpose of the scheme is to ensure an increase in the *world production* of basic commodities associated with a proportionate increase in the *world incomes* of the producers (in terms of international currency) so as to induce an appropriate increase in the demand for industrial goods (by means of multiplier and accelerator effects) that would induce the consumption of basic commodities to increase in response to an increase of their production. In this way, the sustainable rate of growth of the world economy is maximized.

Given such an international stabilization scheme for basic commodities, there would no longer be any justification for policies of protecting domestic producers by means of variable import levies which have the effect of isolating

domestic prices from world prices. In other words policies such as the "Common Agricultural Policy" of the Common Market would loose all justification. The current justification for this wholly anti-social policy of the rich countries of Europe (anti-social both in relation to the interests of their own industrial workers, and of the producers of the developing countries) is that the current world market prices of basic foodstuffs are the result of "dumping" by major surplus countries, such as the USA. However if this rule of *no* restriction on importation is universally applied, "dumping" would become impossible, and world prices could be fixed at reasonable levels — at levels high enough to make production remunerative in the developed countries as well as the developing countries. There would then no longer by any justification — by the USA *or* by the Common Market — to follow agricultural policies that isolate their producers from the influence of world competition.

Observer: Assuming that different basic commodities are convertible into money, or *vice versa* would not the so-called "Gresham's Law" prevail so that the international authority would find itself holding more and more of the "bad" commodities, whilst it would run out of its stocks of "good" commodities?

Professor Kaldor: It is certainly possible that *at any given set of relative prices* stocks of some commodities would decrease considerably, while stocks of other commodities would accumulate not only absolutely, but in relation to turnover. Hence there is need for periodic adjustment of relative prices (perhaps once a year, perhaps only once every second year, depending on experience) so as to keep the variation of the stock/turnover ratios of individual commodities within certain limits. The principles of such price-adjustments would have to be laid down in advance, and they would have to be such as to make the price reductions of some commodities compensated by the price increases of others, so that the stability of a price index (weighted by the current consumption of the various commodities) should be preserved.

H. GIERSCH

EAST-WEST ECONOMIC RELATIONS AND THE INTERNATIONAL MONETARY PROBLEM

Professor Dr. Herbert *Giersch*, Director of the Institute of World Economics, University of Kiel, was invited by the Hungarian Council for World Economy to an informal discussion with the members of the Council and invited guests on East-West economic relations and other problems of contemporary world economy. By this occasion Professor Giersch was so kind to give the following interview to the Editor.

Editor: How do you assess the prospects for East-West economic relations in the coming years?

Professor Giersch: I cannot share those opinions which are based on the extrapolation of past trends and which forecast only a moderate expansion in East-West economic trade in the next couple of years. As far as West Germany is concerned, I see a vast scope for the expansion of imports for the benefit of our consumers and workers. We are a high-wage country and we are bound to have even higher wages in the future. If we want to maintain anything like price level stability we must replace labour intensive domestic production by less expensive imports. This will be to the advantage of countries with lower wages that can supply these imports. I do not see any East European socialist country which could not be a potential supplier in these mutually beneficial trade relations. Of course, I must add that a large number of our producers would not share my opinion, particularly those who would have to look for other products, other techniques or even other jobs when they felt the pressure of competition from low wage countries. They should adjust as early as possible; and they need, therefore, to be warned. This is why the Institute of World Economics at Kiel has embarked upon a series of studies into the export potential of various countries and the supply elasticities of various products from those countries. The studies, I hope, will also indicate where there are possibilities to increase the export potential by means of joint ventures, foreign investment or loans. Taking into account all this in a dynamic setting I am confident that most people and governments are by far not aware of the wide scope for a mutually beneficial expansion of trade between East and West. Economists must become active and tell them.

Editor: Which are the preconditions for the development outlined by you?

Professor Giersch: The main precondition for more trade is, of course, mutual interest. This exists, as I said. But there may be a need for institutions to adjust to this basic condition. What changes are presumably more important? The answer is evident from the history of world trade. We know by experience how much trade and welfare are limited by bilaterialism, and bilateralism is almost inevitable if there is no free convertibility of one currency into another. To put it differently: multilateralism requires that a trade surplus with country A can be used to cover a trade deficit with country B or C. It appears to me that East-West trade still suffers from bilateralism. In this respect it resembles the trade among West European countries before the creation of the European Payment Union. And we know how much the EPU contributed to eliminating barriers to intra-European trade. To have more multilateralism in East-West trade we need a currency that is generally accepted as a means of settling

deficits and surpluses. Which currency could most easily play this role? I suppose that both the Soviet Union and other East European socialist countries still consider the dollar as a useful and acceptable currency. The dollar still is the transaction currency in international trade. If you earn more dollars you can import more from everywhere in the world. Now, there happens to be a country which has accumulated more dollars than most economists, including myself, would consider to be optimal; I mean the Federal Republic of Germany. An inflated money circulation due to the inflow of dollars calls for an anti-inflationary remedy in the form of imports. If Hungary wants to earn dollars to pay for more imports from another socialist country which in turn wants to import more from some Western country, which need not be West Germany, then let us work out a trade agreement between the Federal Republic and Hungary which provides for a sizeable bilateral deficit of the Federal Republic to be settled in dollars. If Hungary needs investment to develop her export potential before she can earn dollars in West Germany the first to be contracted would have to be a long-term loan.

Editor: Which should be, in your opinion, the characteristic features of a future international monetary system?

Professor Giersch: The main features should be an optimal flexibility of exchange rates, an agreement on the optimal extension of the Special Drawing Rights, and the funding of the so-called dollar overhang, i.e. the transformation of the excess dollar holdings of Central Banks into long-term loans. The funding could take the form of government agencies acquiring bonds and even stocks from American owners in American markets. As to the Federal Republic for instance I have suggested the transfer of the Bundesbank's excess dollar-holdings to 10 or 15 investment trusts that should acquire American stocks and bonds or real estate or any other real values they deem appropriate for maximizing returns. The investment trusts could very well issue certificates free of charge to workers or at a discount value to savers who have been suffering from imported inflation. Certificates handed over to workers could be used as an inducement for abstaining from excessive wage increases. The investment trusts could thus help to fight the inflation that was caused by the excessive inflow of dollars.

As far as the Special Drawing Rights are concerned I am much in favour of a strict predetermined quantity rule. An increase by 5—6 per cent per year should be sufficient; of course, you need more international liquidity if the exchange rates are rigidly fixed than if there is some flexibility. If all exchange rates were freely flexible the need for exchange reserves would be theoretically zero, since you need reserves only if you want to intervene in foreign exchange markets. The amount of reserves is thus directly depending on the extent of flexibility. A flexibility of 4.5 per cent, as the Smithsonian agreement provides, is not too bad, but what is needed in addition is the permission to change par values in small steps and at short intervals in order to adjust the exchange rates to international differences in cost and price trends.

This approach is not easily understood by politicians and it is not backed by most bankers who advise politicians, because they are thought to be experts. Experience shows that politicians are very reluctant to change exchange rates. A change in par values must, therefore, be made mandatory. When the level of reserves reaches an upper or lower limit governments should have to alter par values, i.e. to revalue or to devalue. If this occurs at short intervals the

countries can avoid those abrupt and large changes that have disturbed international trade in the recent past. The IMF could and should obtain the right to ask governments to change par values under certain conditions. If governments are reluctant, I am sure that the international speculation mechanism will speed up action as it has done in the past.

I may add, that greater exchange rate flexibility and quicker action with regard to par values are needed by some countries to fight inflation and by other countries to fight unemployment. Moreover, I think that structural change in the world economy will become more pronounced in the future and that governments in the face of structural change will take resort to protectionist measures unless they are forced to let the price-mechanism play its role in the international monetary system.

Editor: What are the experiences of the floating of the Mark?

Professor Giersch: The period from mid-May to mid-December 1971 is too short to serve as a basis for general lessons of experience. Nevertheless, I shall try to draw some conclusions.

Most people including bankers thought that the floating will be a merely temporary affair. The exchange market was mostly concerned with guessing what the new par value would be. Moreover, there was the disturbance by the Nixon decisions of August 15. In these circumstances forward markets did not develop quickly enough or could not function as smoothly as they would have done under more normal circumstances. Nevertheless the floating had anti-inflationary effects, since it permitted the Central Bank to pursue a restrictive monetary policy, which accentuated the profit squeeze. In fact, the floating produced a healthy recession, but a recession without unemployment. The preceeding recession of 1966/67 had been of a different character. As a matter of fact it had been advantageous for the export industries that benefitted from unemployment and lower wage costs, but sold their products at rising prices in expanding export markets. Floating, as a substitute for the recession, left exports not untouched. That is why German industrialists were so enraged about it. The Smithsonian agreement put an end to the anti-inflationary policy. A new export boom is developing, synchronized with an upswing in the American economy. We shall feel this inflationary pressure pretty soon.

Editor: Which are the possibilities for a common floating policy of the EEC and how can French and German interests be harmonized?

Professor Giersch: The longer we wait with a common floating policy, the smaller will be the chances that it can work. As time passes, the differences in economic policy will become increasingly relevant and will endanger a common policy vis à vis the dollar on the basis of present cross rates within the EEC. France pursues a policy of accelerated industrialization, Germany is over-industrialized and has to shift towards the tertiary sector. A common floating policy may, therefore, require some differentiation with scope for more inflation in France and scope for some more stabilization policy in West Germany.

Editor: What percentage could be considered as a normal rate of inflation? Do you share the opinion of Samuelson about 4 per cent?

Professor Giersch: You know, that when in 1966 in the Federal Republic the consumers' price level rose by 4 per cent per annum for just a few months the Government had to resign. Now we have an inflation of 5 to 6 per cent, but there is less worry about, except among the old aged people. Theoretically,

any rate of inflation is bearable, if you have automatic adjustments of all contractual incomes and prices by means of index clauses. For the time being, the Central Bank practically forbids the use of index clauses. They rightly fear the emergence of a new unit of account, if not of a second currency. But if the inflation reaches 5 or 6 per cent, the permission of index clauses becomes almost unavoidable to protect the market system from the coming untolerably injust. Inflation is always a chance for those who are clever and a source of hardship for those who are weak and who depend upon what they have saved in the past. Index clauses may come too late to help them. That is why I think that inflation has to be fought from the very beginning. In an open economy, however, you cannot fight inflation while having fixed exchange rates, at least not in this inflationary world. That is why we need a flexible monetary system and why I have been for almost a decade a partisan for it.

REVIEWS

I. Wiesel

UNGARISCH—ÖSTERREICHISCHES VOLKSWIRTSCHAFTLICHES KOLLOQUIUM

Die Ungarische Gesellschaft für Ökonomie veranstaltete am 24. und 25. April 1972 ein ungarisch—österreichisches Kolloquium über die aktuellen Fragen der Entwicklung des Steuersystems. Die Besprechungen wurden in einer Atmosphäre schöpferischer Arbeit — auf Grund von österreichischer und ungarischer Seite eingereichter Abhandlungen — gehalten.*

An der abschließenden Sitzung des Kolloquiums haben — von österreichischer Seite — Professor Dr. W. Weber, Vizepräsident der Gesellschaft Österreichischer Volkswirte und — von ungarischer Seite — Dr. Ottó Gadó, stellvertretender Präsident des Landesplanamts und Präsident der Abteilung für Finanzwissenschaft der Ungarischen Gesellschaft für Ökonomie, die Resultate der zweitägigen Beratung ausgewertet.

Prof. *Weber* betonte, daß das Treffen der österreichischen und ungarischen Ökonomen sehr nützlich war, da es Gelegenheit für solch einen unkonventionellen Gedankenaustausch bot, für den es bisher keine Möglichkeit gegeben hatte. Er hob hervor: die Fragen der ungarischen Ökonomen, und die eingereichten Abhandlungen ermöglichten es — einerseits — das ungarische Steuersystem, und einige seiner Probleme besser kennenzulernen und — andererseits — solche Teilfragen aufzudecken, die man nur auf Grund der fachliterarischen Information kaum klarstellen hätte können.

Professor Weber skizzierte die zu erwartenden Wirkungen des Mehrwertsteuersystems, das in der österreichischen Wirtschaft von 1.1.1973 ab eingeführt wird.

Ottó *Gadó* sprach in seinem Sammelreferat darüber, daß er das Kolloquium für nützlich hält, da die ungarischen Ökonomen von den österreichischen Kollegen weitläufige Informationen über die allgemeinen theoretischen und praktischen Probleme erhielten, die bei der Einführung der Mehrwertsteuer auftauchen; diese Informationen können — kritisch bewertet — auch bei der Entwicklung des ungarischen Steuersystems eine gewisse Hilfe gewähren. Darauffolgend analysierte er die ökonomischen Eigenheiten der Mehrwertsteuer und deren technische Relationen. Auf Grund der österreichischen

* W. Weber—H. G. Ruppe: Die österreichische Umsatzsteuerreform; C. J. Raidl: Mehrwertsteuer und Preisniveau; H. Lexa: Die betriebswirtschaftlichen Probleme der Mehrwertsteuer; H. G. Ruppe: Die österreichische Umsatzsteuerreform und der Außenhandel; I. Vincze: Die Besteuerung der ungarischen Unternehmen, und Konzeptionen in bezug auf die Weiterentwicklung; T. Bácskai—K. Pécsi: Einige volkswirtschaftliche Aspekte der Anwendung der Mehrwertsteuer in Ungarn.

Erfahrungen befaßte er sich mit den — sich im Laufe der Umstellung auf das Mehrwertsteuersystem — erhebenden Übergangsschwierigkeiten und mit den verschiedenen Methoden, die zu deren Überbrückung dienen.

Die außenwirtschaftlichen Relationen der Mehrwertsteuer analysierend hob er hervor, daß diese in österreichischer Realisierung vom Standpunkt des wirtschaftlichen Wettbewerbs aus neutral sein wird. Dem Prinzip der im Bestimmungsland gültigen Besteuerung entsprechend, muß dem Erlaß der Exportumsatzsteuer eine Besteuerung des Imports folgen. Er wies darauf hin, daß die Einführung des neuen Steuersystems in der österreichischen Wirtschaft unter Aufrechterhaltung der gegenwärtigen Währungskurse verwirklicht werden soll.

Das Sammelreferat widmete den Beziehungen zwischen der Einführung der Mehrwertsteuer und dem Preisniveau eine besondere Aufmerksamkeit. Auf die von österreichischen Ökonomen eingereichten Aufsätze hinweisend stellte O. Gadó fest, daß die Einführung des Mehrwertsteuersystems auf das Verbraucherpreisniveau in Funktion von fünf Faktoren wirkt. Diese sind: Die Größe der Steuersätze, die Unterschiede zwischen den alten und neuen Steuerlasten, (diese beiden Faktoren können numerisch gestaltet werden), die konjunkturelle Lage in der Zeit der Umstellung, die Gestaltung der Nachfragepreiselastizität einiger Produkte, und letztens, der Wettbewerb von der Seite des Angebots. All diese erwägend, rechnen die österreichischen Ökonomen infolge der Einführung der neuen Steuer auf eine zweiprozentige Steigerung des Konsumentenpreises.

Schließlich skizzierte er die Hauptargumente der in dem österreichischen Wirtschaftsleben andauernden Diskussionen über die Einführung der Mehrwertsteuer. Er ließ sich auch darüber kurz aus, welche Aufgaben bei der Weiterentwicklung des Steuersystems unter den ungarischen Verhältnissen an der Tagesordnung sind.

Im Laufe des nach Abschluß des Kolloquiums geführten Gespräches betonte Professor W. *Weber*, daß sich zwischen den ungarischen und österreichischen Ökonomen seit mehreren Jahren eine fruchtbare Zusammenarbeit entwickelte, doch trugen diese Beziehungen in erster Reihe einen persönlichen Charakter. Jetzt ist es erst dazu gekommen, zwischen den beiden ökonomischen Gesellschaften in einer Vereinbarung die Zusammenarbeit in den — vom Standpunkt der Beziehung zwischen den beiden Ländern — aktuellsten theoretischen und wirtschaftspolitischen Fragen festzusetzen. Das nächste Thema der beiderseitigen Besprechungen wird zum Beispiel die wirtschaftliche Zusammenarbeit zwischen Österreich und Ungarn sein.

Er stellte fest, daß die politische Lage in Europa, die Außenpolitik, sowie die nahestehende wirtschaftliche Größenordnung, und der wirtschaftliche Entwicklungsstand der beiden Länder es ermöglichten, einen — der österreichischen und ungarischen operativen Wirtschaftspolitik dienenden — kontinuerlichen wissenschaftlichen Gedankenaustausch zu führen.

Er wies noch darauf hin, daß vom Standpunkt der beiden Länder das gemeinsame Studium der sich in Europa gestaltenden Integrationsprozesse sehr wichtig ist. Er gab seiner Überzeugung Ausdruck, daß das gegenseitige Verständnis oft deshalb nicht zustandekommt, weil Deutungsabweichungen vorkommen die aber durch Konsultationen zum Teil aufgehoben werdenkönnen.

Er teilte mit, daß die Delegation die Gesellschaft Österreichischer Volkswirte vertritt, die sich als ein Ziel setzte, eine günstige Wirkung auf die öster-

reichisch—ungarische Zusammenarbeit auszuüben. Er betonte mit Nachdruck, daß zwischen Österreich und Ungarn nutzbringende unternehmerische Kooperationen zustande gekommen sind, und er davon überzeigt sei, daß die intensivere Zusammenarbeit zwischen den Ökonomen der Entwicklung des gegenseitigen Handels der beiden Nachbarländer dienen werde.

Abschließend äußerte er sich anerkennend über die Organisationsarbeit der Ungarischen Gesellschaft für Ökonomie und betonte, daß die Zusammenarbeit der Ökonomen der beiden Länder für die Zukunft eine breite wissenschaftliche Kooperationsmöglichkeit bietet.

BOOK REVIEWS

KORÁN, I.: *Jövőkutatás és gazdasági előrejelzés.* (Futurology and economic forecasting.) Budapest, 1972. Közgazdasági és Jogi Könyvkiadó. 229 p.

The accelerating development of economic and social life, the "accelerating time" have given rise to world-wide interest in the future and called for scientific research and forecasting in this field. This development has resulted in a rapidly growing number of studies and books all over the world trying to explore future growth paths of individual countries and continents. The complexity of our age, however, has set new standards and requirements for any scientific research and decision making process, especially in a socialist planned economy where future has always been a major concern.

The first steps in this field have already been made also in Hungary. A number of path-breaking studies have appeared recently by various Hungarian authors, discussing the theoretical problems of futurology and economic forecasting. Exploring future development trends and forecasting economic growth will be, however, a risky undertaking unless the profound knowledge of the experts of particular fields is supported by an array of reliable scientific methods, simple and sophisticated ones alike.

Dr. Korán's book "Futurology and economic forecasting" is among the first in Hungarian to provide methodological foundation for this relatively new branch of science by presenting a detailed picture of the scientific methods applicable in futurology and economic forecasting.

In the three separate parts of his book the author devotes attention not only to the individual methods and the methodological problems encountered in forecasting and exploring long-range perspectives, but general theoretical questions as e.g. planning, technical progress, etc. are also dealt with.

The first part with the title "Forecasting" treats various topics. First definitions are given for the concepts of futurology and forecasting. In the author's opinion, forecasting and futurology constitute special types of investigations conducted along the "time axis". While forecasting aims at the near future (covering a period of up to 20—25 years) futurology is concerned with distant horizons, 40—45 years ahead. This is followed by a description of conditions underlying and justifying the ever increasing use of and need for scientific research into the future i.e. futurology and forecasting. One of the major factors calling for forecasting is the acceleration of growth and development in the field of both economic and social life. Sciences and scientific research are no exception to this phenomenon.

Scientific and technical progress is usually regarded as one of the most complex problems of our age. It is generally held that we have just entered the stage of scientific-technical revolution where the main engine of technical-economic

growth is the development of sciences. Innovations and scientific discoveries, however, appear in a random manner. Can this process be forecast at all? In the affirmative answer given by the author also the difficulties and problems are discussed especially in respect of exploring future trends of scientific research leading eventually to innovations.

A relatively large part is devoted to problems of forecasting foreign trade (prices, market developments, competition, etc.) and future prospects of the international division of labour which are ever so important in the case of small economies like Hungary. Market research and forecasting of sales possibilities (both in the socialist and capitalist countries) play a predominant part here. The importance of this field is underlined by the fact that impulses of technical progress affect the individual countries via foreign trade and to the extent of their participation in the international division of labour. Forecasts of future world market prices, especially that of relative prices, constitute an essential part of any forecast of foreign trade.

This part is concluded with a general and brief survey of the methods of economic forecasting, in the course of which the history of these methods is presented and and some classification problems are also mentioned.

The second part is concerned with the description and appraisal of the various methods following the classification adopted by Professor Erich *Jantsch*.

Economic growth can be measured in terms of changes per unit of time. Parameters obtained in this way are extremely helpful when analysing development paths of individual economies. Trend extrapolation, enjoying world-wide popularity among research workers, relies on these parameters when preparing forecasts. After discussing the underlying basic assumptions of trend extrapolation, Dr. Korán presents the most frequent function forms and the method of parameter estimation applied in economics. He also points out the limitations to this method emphasizing at the same time its extreme usefulness both in short- and long-range forecasting.

Of the methods based on intuition it is the Delphi method that is discussed in the greatest detail. The next group of methods relies on analogy (historical, geographical, technical, etc.) when exploring future prospects and preparing economic and technological forecasts.

Methods applied on aggregate level for forecasting are discussed under a separate title. These usually start with forecasts of the individual parts and the overall picture is obtained by piecing together these "mosaics". Linear programming and other input-output methods are among the best known procedures to be mentioned here.

Application of probability and game theory (Monte-Carlo procedures) permeates every field of forecasting. Their use is far from being general at the moment, but experts say they will be more widely used in the future. Finally, the method of eclectic economic and functional modelling is described.

This part ends with the discussion of problems connected with the classification of methods of futurology and economic forecasting.

As for the future prospects of methodological developments in the field of forecasting and futurology, the author believes that a rapid expansion of information supply ("data banks") is expected, which will be accompanied by an increased use of optimization techniques and, as a consequence, also of active rather than passive forecasts.

The third part, essentially a collection of reading material for those interested, serves as an illustration of how to use the methods presented above for the investigation of the future prospects of the Hungarian economy. This part includes six separate studies. The first one with the title "Ideas concerning the perspective

growth of our economy" deserves attention in the first place. Reckoning with a growth rate of 3 to 6 per cent of the per capita real national income, the author derives a series of estimates for the expected level of development of the Hungarian economy at the turn of the century, around the year 2000. Then he goes on to sketch out the corresponding structure of the economy together with the future growth of the population, the human potential. The standard of living is an important element of economic growth, therefore in the last paragraph some alternative hypotheses are discussed concerning the expected development in this field. The further five studies dealing with the future prospects of energy resources, metal consumption, metallurgy, chemical and food industries provide also a deep insight into the future growth of the particular sectors of our economy.

Dr. Korán's book written evidently by an expert in the field, may serve as an excellent textbook in the methodology of futurology and forecasting, presenting at the same time the latest Hungarian developments in this new branch of science.

S. NAGY

VINCZE, I.: *Árak, adók, támogatások a gazdaságirányítás reformja után.* (Prices, taxes, subsidies, following the reform in economic control and management.) Budapest, 1971. Közgazdasági és Jogi Könyvkiadó. 279 p.

The study is a summary of deep-reaching research into a long period. Its structure is clear, well-arranged and its style is easily understandable and concise. From the point of view of conciseness the author uses an identical scale to measure facts and problems. Highly and less debated questions are all explained with thesis-like briefness.

The book consists of an introduction and two major parts: 1. Price policy questions, and 2. Issues regarding the system and the subsidy system.

The first part begins with a comprehensive analysis of the present system. According to the author, "The concept of price system includes industrial producer prices, building industry prices, agricultural producer and purchasing prices, transport tariffs and consumer prices." (p. 15). On the basis of the above definition, the chapter surveys the fields of the price system, and records with strict historical truthfulness the major principles of the price reform, together with a discussion of the achievements. The train of thought of the chapter is illustrated with rich statistical factual data. This part of the study is rather empiric in nature, a logical, orderly description of facts, data and guidelines. Theoretical comments and analyses can only be found on rare occasions.

The next chapter deals with the national independence of the price system, as well as with the relationship between foreign trade prices and domestic prices. The author gives a many-sided and convincing proof of the autarkic nature of the price system while calling attention to the dangers of both the autarkic price system and radical solutions which do not take actual conditions into account. In studying the trend of relations between international and domestic prices the author draws the conclusion that domestic prices have not approached, but in many fields, have moved away from international prices.

The most interesting chapter in the first part of the volume, which contains the most of theoretical analysis, is entitled "The Level of Proportions of Industrial Producer Prices". From the point of view of the advance of the Hungarian price system Imre Vincze views the creation of the "single level" producer prices as one of the most essential features of the price reform, and then — and this is the true scientific merit of the chapter — he endeavours to define the factors determin-

ing an artificially constructed price system. In the next part of the chapter the author discusses problems in the theory of value. The study, in essence, traces back price trends to inputs, and sharply criticizes the views which attribute a role to use value (therefore, to demand, or more precisely, to the market factor) in shaping the magnitude of prices. "However, the deviation in price cannot be reduced to either the utility parameter or to the efficiency of the one or the other in utilization, but it depends decisively on the production costs with which the individual types can be manufactured." (p. 11) Thus, in price calculations the study attributes an absolute determining role to supply as against economic history of the socialist countries — unfortunately — sufficient causes can be found for the formation of such an opinion. Despite this, it would seem more expedient to discuss long and short-term price trends separately, for in this case the role of use value and demand can be seen in a different light. It can hardly be challanged at least among Marxist economists, that in the longer run socially necessary input determines the centre of prices. However, in the short run trends of certain concrete prices the importance of use value, and demand is not negligible, particularly in the case of non-balanced economic growth or market pressure. (Imre Vincze himself recognizes this in other parts of the work, e.g. on page 137.)

The chapter dealing with the agricultural price level is one of the most valuable, and highest standard parts of the book. The author first studies the disparity of the agricultural price level, and then includes into his analysis the price level of the means of agricultural production of industrial origin, completing the analysis of agricultural prices with international comparisons. The major conclusions of the chapter: in Hungary there is no agricultural price disparity; the purchasing prices of agricultural products and the producer prices of foodstuffs are higher than international prices: the supporting of agriculture is a global phenomenon; insofar as agriculture and a number of branches of the food industry cannot "produce" a rouble for 40 forints, a dollar for 60 forints, this is not because of the high cost of the means of production but because of the low productivity, poor organization and high production costs of agriculture.

The final chapter in the first part: the returns of production and prices. The author continues a long-standing debate in this chapter of his book. With a thesis-like brevity he presents the train of thought of the "returns principle" and his proposals. Unfortunately, even with the best intentions it is impossible to review here the principle of returns without simplification. A thorough analysis of the problems related to the returns theory would require a separate study. Imre Vincze has not undertaken this in his book, either, and instead he summarizes his standpoint. "I feel that formation of the production structure of the national economy is sharply limited as a function of the returns to use value." (p. 167) It is precisely for this reason that Imre Vincze considers it incorrect both in theory and practice to apply preferences and dispreferences on a broad scale on this basis.

The second part of the book deals with the financial regulation means operating in industry, agriculture and foreign trade, with the future of the turnover tax system, and in conclusion with tax supports and the interrelations of the state budget.

The author gives a comprehensive outline of the system of financial regulators, and then analyzes the experience of the years 1968—1970. He devotes a separate chapter to the taxation of production and to problems related to the relative prices of production factors. On the basis of the experience of 1968—1971, Imre Vincze outlines one possible road to improving the financial regulators: "In the course of my examinations I have reached

the conclusion that an identical ratio of taxation of basic production factors (live labour, fixed assets) as well as the withdrawal of a significant part of the net income realized in the producer prices could take place in an economically rational and objective manner with adequate taxation of value added (TVA). At the same time, the present wage tax and the contribution on assets engaged would be eliminated." (p. 198)

Taxation of value added (Mehrwertsteuer) is spreading with violent speed throughout the Western European tax systems. Taxation on value added replaced the general "all-phase" gross turnover tax in Western Europe. The reason behind the tax reforms were fundamentally the cumulative effects of earlier turnover taxes. By turning gross turnover tax into net, with the production of the taxation of value added they established tax-neutrality for both foreign trade and domestic suppliers, and this corresponds at the same time to the endeavours of the European Economic Community at harmonizing taxes. These reasons do not exist in Hungary. The study does not propose the tax on value added fundamentally as a turnover tax — it could not propose it in this way since it would get into contradiction with the author's concepts regarding the level of prices — but as a direct tax influencing the price ratios of production factors. This proposal is daringly new in comparison with the Western European tax system, and to my knowledge has not yet been applied in any tax system in the world.

A useful supplement to the book is the appendix which shows the turnover taxes and price subsidies of the major types of commodities and services.

To sum up: the book by Imre Vincze provides a comprehensive picture of the experience gained in the period since the introduction of the reform in economic control and management. He surveys in detail the practical results related to the price, tax and subsidy system, takes a stand on debated issues, and whenever possible makes proposals for solving the problems of financial regulators.

B. BUDAI

BARTKE, I.: *Az iparilag elmaradott területek ipari fejlesztésének főbb közgazdasági kérdései Magyarországon.* (Major economic issues regarding development of the industries of industrially backward areas in Hungary.) Budapest, 1971. Akadémiai Kiadó. 184 p.

In Hungary the territorial problems of industrial development are public affairs affecting broad circles of society. Specialists, engineers and economists dealing with territorial planning and development have written many articles and studies which have dealt mainly with the disproportionate territorial location of industry, and with problems stemming from this. A large number of articles in newspapers and periodicals, as well as several books on the topic approached the issue first of all from the practical, economic policy and social aspects, while examination from the viewpoints of economic theory lagged behind the practice of territorial planning and development. The volume by István Bartke, within the series of "Economic Papers" published by the Publishing House of the Hungarian Academy of Sciences is an important step forward in the progress of territorial economics as a science in Hungary. The author is an outstanding representative of the generation of economists who in recent years have begun to examine the spatial structure of the economy with scientific intent. Several articles by István Bartke on this subject have been published in the "Közgazdasági Szemle" as well as in other periodicals. This work is a summary of the research he has completed so far.

The book contains eight chapters reviewing and analyzing the territorial

questions of industrial development. The subject is supplemented with 47 tables and two maps, as well as a rich bibliography.

The first chapter deals with the regional aspects of economic development, territorial development and industrial development, as well as with the relative character of the territorial development of industry. The second chapter discusses the international experience of industrial development in the greatest detail yet found in Hungarian literature. The author shows international experience in the light of socio-economic development, taking social relations into consideration. He outlines the model, points out the territorial development of industry, showing the problems of the industrially overdeveloped areas, of those with a one-sided industrial structure and of the industrially backward areas. Finally, the author deals in this chapter with the territorial institutions of industrial development: with the formation of coordinated industrial areas and the "industrial estates". The former spread throughout the practice of the socialist countries, including Hungary. In essence the coordinated industrial areas were created as a result of coordination in both time and space of development planned for a single area, while the system of "industrial estates" spread in the capitalist and developing countries. Public or private enterprises prepare certain areas for accepting industry, without knowledge of concrete requirements. They introduce public utilities, and possibly construct the industrial buildings, and then sell the area. In recent decades the industrial estates have been considered important means for the territorial orientation of industrial development. (At present there are two areas in Hungary, Mátészalka and Dombóvár, where public utility construction is underway in a similar manner to industrial estates preparations.)

The third chapter treats the historical trends in the territorial location of industry. Relying on census data it shows that the territorial disproportions in Hungarian industry, which cause such problems today, developed at the end of the past century. The author points out that post-World War II efforts did not eliminate these disproportions, either. The industrialization begun in the 1950's slowed down following preliminary results, and "beginning to moderate industrial backwardness in the different areas of the country at a significant rate became an economic policy task from the end of the 1950's on". (p. 71)

The fourth chapter shows the method for determining the levels of industrial development in different areas. According to the conclusion of the author "we can view the quantity of live and embodied labour included in the product in the interests of the national industrial product as a criterion of the industrial development level of a territorial unit". (p. 72) István Bartke discusses the territorial location of the industrial forces of production first on the basis of traditional indices, i.e. industrial employment compared to the population, and the value of fixed assets engaged in industry, divides the counties into development groups by bringing these factors to a common denominator. Then he examines the industrial development of the areas on the basis of national income produced in industry, and compares the results received with different methods. Finally, he deals with the problems of industrial development and agricultural level, as well as with the levels of other supplementary branches and with population migration.

A significant achievement of the work of István Bartke is the elaboration of a method for measuring the industrial development level and for calculating the national income produced by industry in different areas in a manner applicable to practice.

In the fifth chapter the author shows the territorial units which can be applied in measuring the degree of industrial de-

velopment. He completed examination of the degree of industrial development for 75 sub-areas, and points out the interrelations between industrial development and concentration as well as the industrial pattern. Finally, he analyzes the results of development between the years 1960 and 1965.

In the sixth chapter the author treats the question of factors influencing the efficiency of industrial development in the industrially backward areas. After clearing up the concept of operational efficiency, he examines differences in the efficiency of the individual areas, and then the interactions of productivity and efficiency, followed by an analysis of the efficiency of investments.

In the seventh chapter he deals, unfortunately very briefly, with some interrelations regarding industrial development in the industrially backward areas under the present economic mechanism.

In the eighth and final chapter the author summarizes the most important thoughts with reference to the industrial development of the industrially backward areas, which can be summarized as follows, "The gradual elimination of industrial, and together with it, partly economic backwardness in certain areas of the country, is on the one hand the political task of the socialist state, and on the other hand, in the long run, one of the conditions for the economic development of the entire country." (p. 160).

István Bartke's book can greatly help the domestic application of international experience, providing practical aid towards the industrial development of industrially backward areas, and contributing to a scientific foundation for territorial economics.

Z. TATAI

KEBSCHULL, D.: *Entwicklungspolitik — Eine Einführung.* Düsseldorf, 1971. Bertelsmann Universitätsverlag. 190 pp.

The Federal Republic of Germany became recently the biggest capital exporting country after the U. S. and Britain, vying with the latter for the second place of the list. It is thus of considerable interest to get first-hand information about the development policy of a country which carries out direct foreign investments at the annual rate of some $ 1 billion, the share of the developing countries amounting to about 30% in the years between 1966 and 1969 as against 31—38,4% in the years between 1961 and 1965.

The author does not propose to develop new theories or a new strategy, his aim is more modest: to submit a broad, informative survey about the problems of development policy and aid, their objects and forms, as well as about the measures required to attain economic growth within the prevailing socio-economic structure.

Indeed, the book is very well documented and a lot of useful references and statistics have been collected; it is perhaps no exaggeration to call it a small encyclopedia of data related to the Third World in general and to the issues of development policy in particular.

The reviewer is bound to be interested, however, in the specific aspects of West German "Entwicklungspolitik", and, of course, in the author's views.

Dr. Kebschull is fully aware that the preservation of national independence shares top priority with the raising of the standard of living in the developing countries, and that the fear of neocolonialism is deeply rooted. As he sees it, national independence and unity may be furthered most efficiently by economic progress, yet for the achievement of a satisfactory rate of growth it is not sufficient that the upper strata give up part of their privileges: the aid of the advanced countries is indispensable too. In this respect he has no illusions: in his belief the develop-

ment assistance accorded by industrial countries is being motivated first and foremost by political factors, economic considerations emerging only later, and humanitarian or welfare objectives playing throughout a marginal role.

West Germany is no exception to this rule, as evidenced by an official statement made in the period of the cold war and quoted in the book: "The task of development policy is to find ways and means to establish close cooperation and permanent ties with the developing countries in order to render possible the achievement of a number of foreign policy objectives of the Federal Republic . . .", such as reunification, non-recognition of the "other Germany" etc. The author also acknowledges the complete failure of the Hallstein Doctrine, for long time a pillar of West German development policy, coupled as it was with constant threats to break off diplomatic relations and cut abruptly all development assistance if the developing country did not behave.

In Dr. Kebschull's belief this "narrow-limited approach" is today out of date, without being substituted by a clear-cut policy so far, although he admits that no development policy may be conceived without political implications. Even the SPD stated e.g. in 1965 inter alia: "Political conditions are not to be set, but whoever accepts something from somebody, is morally committed not to administer stabs in the back of the donor." The programme of the SDP/FDP coalition does not explicit any political objectives, envisaging merely the further development of relations with the Third World and more intensive efforts to work out a common development strategy.

What is then the FRG aiming at in the developing world? Although technical progress has undercut the importance of the control of natural resources, the GFR intends to secure its industry in this area the same position as enjoyed by American and Japanese industry. But more relevant than raw material supplies is the striving for the expansion of exports. The European Economic Community is seen to bring about a unilateral cyclical dependency of West German economy on a few industrialized countries which are the main outlet for the overwhelming part of West German exports. The tapping of the markets of developing countries may offer a chance of a regional diversification of exports.

A relatively little known aspect of West German development policy is reviewed by the author in a small but significant subchapter on military aid. The technical term for this sort of assistance is "aid for the procurement of military equipment and for training". ("Militärische Ausrüstungs- und Ausbildungshilfe") As the public hardly knows about it, politicians prefer to keep silent on it; even the adjective "military" is usually omitted in the official parlance. Dr. Kebschull specifies that between 1962 and 1969 the military assistance extended by the GFR to some 17 African and Asian states amounted to DM 276 million and that it is mostly free of charge; currently it is about DM 45 million per annum.

We are informed that military aid is channeled through the West German Foreign Office which thinks it cannot forego its use as an instrument of foreign policy.

In the chapter on the organization of development assistance the author reviews the relevant West German institutions, including those tied to political parties.

In what we consider the key chapter of the book Dr. Kebschull evaluates the significance of foreign direct investments both from the viewpoint of the host countries and of West German development policy. He is convinced that direct investments are the best instruments for the transfer of technological know-how; they also create jobs: according to a survey based on a sample of 53 West German enterprises with 95 projects in 25 countries of the Third World, 50,9% of the responding companies employed more than 500,

26,8% more than 2000 persons, thus easing the problem of unemployment. Direct investments may also contribute to the diversification of the productive structure and the composition of exports, as well as to the liquidation of monoculture. According to the data quoted by him, manufacturing accounts for 75% of West German direct investments and extractive industries merely for 11% as against 20—25% in the case of U.S. and British investments.

The distrust of foreign investors in the developing countries is based in his view on the following arguments: (a) foreign corporations, owing to their economic weight, are in a position to assert their influence in politics in undesirable ways; (b) they earn too big profits and transfer too much of it abroad.

There is no attempt to deny that the first of the aforementioned objectives may be well founded. His prescription is joint ventures. As to the second, doubts are expressed as to the possibility to define exactly when are profits "too big". Anyway it is stressed that the average net return of West German foreign direct investments in developing countries between 1965 and 1967 was a mere 6,25% as against 9% in the case of British, and 12% in that of US investments. This is believed to be sufficient evidence to make any charges of exploitation — as regards West Germany — objectless. The same thing holds as to the rate of reinvestment: U. S. companies reinvest 18%, the British ones 34% of their profits (without the oil industry), while West German enterprises some 70%. The conclusion is then reached that West German corporations go a long way to satisfy the requirements of developing countries.

In his summary Dr. Kebschull suggests that the difficulties of the "take-off" in developing countries should be overcome by international cooperation within a framework where both parties have the same rights and the same chances. It is admitted that this was far from being the case in the past as testified by the charges of imperialism and neocolonialism raised both against American *and* West German direct investments (some recent instances: the expulsion of West German development experts from Guinea, the participation of the FRG in the Cabora Bassa project). In this context West German corporations are seen to be the target of bitter criticism to the extent that their image begins to approach that of the United Fruit in Central America.

If neocolonialism means exerting political and military pressure, the FRG may get an easy clearance. If, however, the exploitation of economic dependence, the upholding of the status quo and coalition with those in power are sufficient criteria for neocolonialism, West German development policy is held to present many shortcomings and omissions.

The proposals to eliminate the prevailing negative effects of development aid include the handing over of the execution of both bilaterally and multilaterally financed projects to the entrepreneurs of the host countries; the stabilisation of the rate of interest of loans on a lower level; the abolition of any commitments to effect purchases in the donor country in case of bilateral assistance; to draw a line between the objectives of foreign policy, foreign trade policy and development policy.

The reviewer is left with the impression that these suggestions are partly pious hopes, partly, of course, not far-reaching enough. One can hardly share the conviction of the author that they may create an atmosphere conducive to a cooperative partnership. It is also to be regretted that Dr. Kebschull abstained from dealing with a number of important issues such as the role of the international corporations in the developing countries without which it is in our view sheerly impossible to tackle the problems of the Third World. Worldwide sourcing, this significant new phase in the field of direct foreign investments is disposed of in exactly 6 lines referring to the comparative advantage

of low-wage countries in the manufacture of labour-intensive semi-finished products and finished goods, mentioning only Hong Kong-textiles. This is all the more surprising as West German corporations are probably the most active followers of their American counterparts in the field of offshore manufacturing.

Even so the book is undeniably extremely useful and particularly praiseworthy are the efforts of the author at an objective assessment of the shadowy aspects of West German direct investments and development policy.

The reviewer must confess, however, that he is unable to endorse the view that West German corporations are — because of their lower rate of profit and higher rate of reinvestment — less "exploitative" than the U.S.-based, British etc. companies as this seemingly better record is due to the specific conditions under which the GFR reentered the league of the big capital exporting countries. Nor can he underwrite the thesis that foreign direct investments in their present form may contribute substantially to the welfare and economic growth of developing countries.

GY. ÁDÁM

TUGENDHAT, CH.: *The Multinationals.* London, 1971. Eyre & Spottiswoode. 242 p.

The book — as stressed in the preface — concentrates almost exclusively on the countries of Western Europe and North America. Even so the author thought it necessary to underline that his main problem in preparing his text has been the dearth of reliable statistics and *the reluctance of companies to reveal information* which they regard as confidential — and it appears they regard as confidental nearly everything that does not appear in their annual reports.

This reviewer found that some plain statements of facts by the author are extremely revealing about the nature of international corporations:

"... The Swiss provide an extreme example of secrecy, but most continental companies reveal as little as they can. Indeed they are so secretive that the European Institute of Business Administration has to make with second-hand U. S. case studies because it cannot get enough from Europe ... Many of the issues dealt with in this book, such as the movement of funds between different countries, the allocation of export markets to subsidiaries, and the way decisions are taken on where to locate new plants, are regarded by all companies as *top secret*. They never discuss them in public and only with governments *under severe pressure* ... Government statistics are usually worse than those of the companies, and the governments themselves more secretive."

One is left wondering: is the operation of international corporations to be held "a household secret" of contemporary capitalism? Is there not some implicit connivance between the corporations and some (if not most) governments — despite their much advertised conflicts — not to give away some of the innermost specifics of the working of the system as it would arouse too vehement passions and protest? Can meaningful analyses be made at all if everything that matters is "top secret"?

Let us see how the author tackles this problem.

On the basis of the admittedly rough and ready calculation of Judd Polk ("every dollar of book value investments generates two dollars a year of sales") the conclusion is reached that international companies will produce over $ 300 billion of goods outside their own countries in 1971, or *more than the total value of world trade.* Even if there is some double-counting in this, — as Mr. Tugendhat carefully observes, — "it is still an awe-inspiring measure of the enormous and pervasive influence possessed by international companies".

He is thus fully vindicated when expressing his belief that *it is wrong to think of the companies in conventional national*

terms: "The over-riding aim of each one of them is *to pursue its own corporate interest which is separate and distinct from that of every government, including the government of its country of origin.*" It is admitted in all fairness that there is, of course, an overlap between a company's interests and those of the governments of the country where it is involved, and that in most cases that overlap is greatest with its own home government. The gist of the thing, however, is to be seen in what the director of the Swiss Nestle Alimentana — as quoted by the author — says: they are "a breed of their own", they have "the particular Nestlé citizenship".

We may add: this is no peculiarity of the European internationals (although there are well founded doubts whether Nestlé may be considered a "pure-bred" European company). The presidents of US-based internationals think in similar ways about their business empires. Thus Mr. Geneen, president of the ITT is said to view his company not as a collection of plants and products but as a mystique. ITT-men consider themselves an elite corps dedicated to a single cause: operating profits shall increase every quarter. To that cause they are expected to sacrifice, if need be, their outside interests and family life. In the words of a former executive, it is a whole way of life to work for ITT, like joining a monastic order, not just working for a mortal company. (The Time, May 1, 1972. pp. 43—44)

Indeed, "they", the international corporations are "a breed on their own".

Nor is it unnecessary to keep in mind the definition of the duties of the managers of the companies: they must set aside any nationalistic attitudes and appreciate that in the last resort their loyalty must be to the shareholders of the parent company, whose interests must be protected even if it might appear that it is not perhaps in the national interest of the country in which he is operating. Mr. Tugendhat calls it a blunt enunciation of *the doctrine of company before country*. He certainly adds that many executives would take exception to this doctrine, but one may be permitted to express doubts about the duration of the tenure of office of such executives . . .

We also very much agree with the author when he objects to attempts to present the international companies as organizations with a long history so as to deflate the novelty of the phenomenon, the most striking characteristic of the modern multinational company being its central direction that became possible — owing inter alia to the communications- and transport-revolution — only in the last two decades.

The author's treatment of "the American invasion" may be thus summed up: even if the pace of advance is slower, the invasion will continue, as most of the influences that set it off are still present, and some are stronger than ever. We missed, however, the exposition of the wider implications in a more forceful manner.

The chapter on the European merger boom reflects the growing preoccupation with the "diseconomies of scale". The key sentence of the chapter on Trans-european doubts is that the failure of European industry to progress further and faster towards transnational cooperations is one of the chief disappointments of the European movement, heightened by the extent to which EEC-companies have sought to cooperate with, or allowed themselves to be taken over by Americans and other non-members. The elaboration of a European company statute is seen to be only the first step on a very long road, but its implementation and efficient operation is not expected to be a short-term proposition.

One of the most relevant chapters is dealing with international companies and world trade. In 1966, 22% of Britain's exports were accounted for by transactions between related concerns; already in 1964 the sales of US-based international corporations to their affiliates abroad

accounted for about 25% of all US exports. It is assumed that in several smaller European nations international companies play an even larger role than in Britain and the US. Some instances are referred to when companies openly threatened to take reprisals against governments whose policies they did not like. The inference drawn by the author is unobjectionable: "The position of multinational companies makes nonsense of conventional theories of international trade as taught in classical economics."

Mr. Tugendhat also mentions the pioneers of what became by now perhaps the main avenue of worldwide sourcing when he lists computers, agricultural machinery and motors as examples of industries which achieve their economies of scale through the manufacture of components and parts in several different countries, so that the finished product is the culmination of an international cooperative effort.

But when he ventures into the extrapolation of past or prevailing trends one may wonder again about the meaningfulness of the exercise. In his view on the basis of present trends it seems quite possible that by 1980, 40% of Britain's manufactured exports could be provided by U. S.-controlled companies, and a further 10% by other foreign owned concerns, while *most of the rest* will be accounted for by British companies with international interests.

Now there is a growing feeling that the "ceteris paribus" prerequisite common to such forecasts will just not hold. Precisely because of the rapid expansion of international corporations it is to be presumed that it simply cannot go on forever as the process creates increasing anxiety (witness the recent warnings of the British T. U. C.) and opposition against "the sky is the limit" philosophy of growth-centered global companies. Although protests are never and nowhere voiced against too much export, just on the contrary, the sharing out of most of British exports between a club of big and biggest international corporations implies their quasi-takeover of industry, still the most substantial sector of U. K. economy (or at least one of its most dynamic branches) and foreign trade by the internationals which would certainly be resisted by the countervailing powers that be.

The delicate issue of the transfer of funds between affiliates of the same company, "a running battle of wits between multinational corporations and governments" is illuminated by the extremely candid statements of two managing directors whom the author interviewed:

"We would not knowingly break the rules anywhere. We always employ one set of experts to tell us what they are, and another set to tell us how to get round them."

"It is the job of governments to make the rules, and our to find the loopholes".

A number of instances outline the contribution via financial transactions of international corporations to the devaluation of the pound in 1967, the same thing happening in France in 1968 and 1969. The survey is very instructive but it is somewhat surprising to learn that — in Mr. Tugendhat's words — "it is not immoral to do this. Quite the reverse; a company or individual would be foolish not to take such precautions (i.e. hedging). If by some means they were prevented from doing so, the volume of international trade would be much reduced". Thus full absolution is given both to companies and individuals with large amounts of capital to protect themselves as best as they can against sudden changes in the value of currencies. The implication appears to be that there are two sets of laws: one holds for the man of the street, the small savers, the "rank and file", the other for companies and individuals with big assets. One is left a bit gasping by the author's explicit identification with the principle of "company interest über Alles".

Yet Mr. Tugendhat seems to sense no contradiction between this stance and

his firm belief in the *raison d'être* of the nation state:

"The central feature of our politico-social system will remain the nation state, to which people look for the management of the economy, the constant improvement of their standard of living, defence against internal disorder and external attack, and the solution of political and social problems. His country and his sense of nationality will remain the focal points of a man's loyalty."

We frankly do not see how this creed can be reconciled with the permissiveness as regards the manifestly disloyal financial manoeuvres of U. K.-based and other international companies.

But if the nation state will remain the central feature of the politico-social system, the question logically arises: what to do then about the international companies, "which, as a group, become an ever increasing source of industrial power and influence", as the author puts it? With a perceptibly deep sigh, Mr. Tugendhat resigns himself to the fact that "the occupational hazard of all authors is to produce a straightforward solution". He is against any international agency regulating the companies' investment activities. He is also against an international ombudsman. What's then his prescription?

— Global corporations should be prepared to provide governments with far more information about their international activities and plans than has hitherto been considered necessary.

— Any coordination that may take place between governments and corporations should be informal. There would be no question of the company asking for permission to proceed or the government refusing it. Each side would simply be keeping the other in touch with its plans for and views of the future. As at present the company would only seek official permission when it wishes to embark on a specific project for which the law lays down that official permission is required.

Fortunately a reviewer is not required to produce watertight solutions. He may restrict himself to state his profound disbelief in the efficiency, even the feasibility of such an "industrial concordat".

GY. ÁDÁM

BURTIS, D.—LAVIPOUR, F.—RICCIARDI, S.—SAUVANT, K. P. (eds.): *Multinational corporation — Nation state interaction.* An annotated bibliography. Foreign Policy Research Institute. Philadelphia, 1971. 290 p.

Multinational (international, global etc.) corporations became so important in the early 70's that an annotated bibliography about a specific aspect of their operations, viz. MNC — nation state interaction appears fully justified and may be considered filling a gap. The main feature distinguishing this bibliography from most others then is that it focuses on the political implications of MNCs rather than on their management and business functions. The reviewer welcomes this approach: few things seem to him more annoying and vexatious than the pretention that MNCs are concerned only about business and shun having to do anything with politics.

The bibliography documents in more than 700 entries the conflicts, accomodations and political transformations that spring from MNC — nation state interaction as analyzed or reviewed in scholarly articles and books since 1964 to 1970, and covers the following key aspects of the interaction process: (1) the political/economic impact of the MNC on the nation state; (2) the response of the nation state; (3) the response of the MNC; (4) the response of organized labour; (5) the structural consequences of the MNC for the international system.

The possibility is held out that at some future date the bibliography will be updated and expanded. Indeed, a more com-

plete coverage of extra — U. S. (Australian, Japanese etc.) English-language publications and last not least of the papers of the critical and Marxist variety as well as of the growing literature on MNCs in the developing world would be highly desirable. We are aware that this is a tall order and the editors of the present volume are doubtlessly to be credited with having performed an extremely painstaking but very useful task.

GY. ÁDÁM

KOMLÓ, L.: *A mezőgazdaság iparosodása a tőkés gazdaságban.* (L'industrialisation de l'agriculture dans l'économie capitaliste.) Budapest, 1971. Közgazdasági és Jogi Könyvkiadó. 433 p.

Dans son nouveau livre, László *Komló*, présente au lecteur d'une manière très plastique et accessible à un large public le modèle du processus de l'industrialisation de l'agriculture capitaliste. L'industrialisation de la production agricole, ou en d'autres termes, la transformation de la technique et de la structure de l'agriculture, ainsi que son intégration aux autres branches de l'économie, constituent l'un des processus les plus caractéristiques de notre époque. Ce procès se réalise, quant aux pays capitalistes, principalement dans le cadre des exploitations paysannes traditionnelles, tandis que dans les pays socialistes, cette évolution s'accomplit dans le cadre des grandes exploitations coopératives. A cela s'ajoute que dans les pays capitalistes, c'est une industrie développée qui fournit les moyens de production les plus modernes nécessaires à la transformation de la production agraire, tandis que dans les Etats socialistes, l'industrialisation de l'agriculture se fait presque parallèlement à la création de l'industrie elle-même. Du fait des différences existant dans la structure et le niveau de développement de l'agriculture, des possibilités et des solutions diverses concourent au sens général du développement dont l'essence est que l'agriculture se met à produire les matières premières agricoles en recourant à des méthodes similaires à celles mises en oeuvre par la production industrielle, et cela en perdant ses cadres et ses moyens de production traditionnels, tout en gardant ses particularités propres.

László *Komló* s'est fixé pour but d'étudier les tendances les plus générales de l'industrialisation de l'agriculture capitaliste, dont l'analyse est susceptible de fournir les indications les plus utiles du point de vue du développement hongrois. Dans cet esprit, c'est avant tout le côté technique de l'industrialisation de l'agriculture qui a fixé son attention, et ce sont ainsi les chapitres touchant cet aspect des choses qui constituent les parties les plus réussies de l'ouvrage. On comprend aisément que les aspects sociaux de cette industrialisation sont plus contestables, car leur évolution possible est moins aisée à prévoir de façon certaine, à partir de l'état présent, que les voies du développement technique.

L'industrialisation de l'agriculture progresse sous l'effet de diverses impulsions venues de l'extérieur. Ce sont d'un côté les secteurs spécialisés dans la transformation et la circulation des produits agraires, et d'un autre côté les branches qui fournissent l'agriculture en moyens de production qui font progresser ce processus conformément à leurs besoins propres. L'agriculture doit nécessairement atteindre un degré de développement lui permettant d'accepter ces effets extérieurs et de jouer un rôle actif dans la coopération verticale.

La dernière étape de la voie suivie par les produits agricoles est celle du commerce des produits alimentaires. C'est dans les Etats industriels évolués, et non dans les pays agraires retardataires, que ce secteur développe au plus haut point ses exigences vis-à-vis des producteurs agraires. Parallèlement au niveau du développement, les habitudes des consommateurs changent elles aussi: les produits de bonne qualité,

entièrement ou semi préparés, riches en matières nutritives et de grande valeur, sont de plus en plus demandés. Corrélativement, les grands magasins d'alimentation sont eux-mêmes élaborés de façon à accueillir des masses de marchandises livrées en grands lots, triées, préparées de diverses manières, empaquetées à l'avance. Des centres d'achats et d'approvisionnement communs assurent l'abondance du choix offert par les supermarchés. Ce sont ensuite ces centres qui entrent en contact direct avec l'industrie alimentaire ou l'usine productrice.

Parallèlement à la modification des besoins de la consommation et du commerce, l'industrie alimentaire connaît elle aussi des changements importants. A côté des activités traditionnelles, de nouvelles branches de l'industrie de transformation apparaissent, à la place des anciennes usines de petites dimensions s'élèvent d'immenses ensembles où les matières premières agricoles sont transformées à la chaîne en des produits finis, aux formes et à la composition les plus variées. Les usines de l'industrie alimentaire fabriquent en grandes séries des produits de qualité uniforme, et du fait de la composition organique accrue du capital, les industriels ont intérêt à faire marcher leur équipement en permanence toute l'année. Ces particularités de la production industrielle et les besoins concordants du commerce déterminent dès l'abord les impératifs qui se posent à la production agraire.

On ne peut satisfaire dans l'agriculture les besoins venant de l'extérieur qu'en introduisant une production de masse mécanisée. De nos jours, les moyens techniques nécessaires à l'industrialisation de l'agriculture ne sont plus fabriqués par les exploitations agricoles elles-mêmes: ils sont fournis par l'industrie mécanique, celle du bâtiment, l'industrie fourragère et génétique. Dans certains secteurs et sous certains rapports, les conditions techniques de l'industrialisation de l'agriculture existent déjà, dans d'autres domaines, les recherches nécessaires sont en cours. On ne peut considérer les formes actuelles de la mécanisation et de l'emploi massif des produits chimiques comme définitives: des principes et des procédés plus efficients les remplaceront probablement. Ce qui importe, ce n'est pas le type de machine que l'on utilise à l'heure actuelle, mais le fait que le développement technique dans son ensemble conduise à l'expansion des procédés industriels.

L'industrialisation de l'agriculture est pleinement possible du point de vue technique dès le moment où, dans le pays intéressé, son introduction devient socialement et économiquement nécessaire. Cependant l'application de la technique moderne exige une production bien plus vaste et bien plus spécialisée que les moyens traditionnels. De plus, ces usines agraires doivent disposer de rapports directs avec les branches qui devancent et qui suivent leur production, et cela aussi bien dans le domaine de la production que du marché. A l'heure actuelle, dans les pays capitalistes évolués, ces rapports étroits entre les exploitations agricoles et les entreprises industrielles et commerciales s'organisent sous la forme de l'intégration verticale. L'intégrateur est en général le maillon le plus puissant de la chaîne verticale, c'est lui qui concentre également entre ses mains les plus grands bénéfices. L'entreprise intégrante provient le plus souvent de l'industrie alimentaire, et rarement de la sphère commerciale. Les coopératives agricoles tentent quelque fois de concurrencer les grosses entreprises capitalistes, mais le manque de capitaux et certains problèmes issus de leur structure, de leur organisation, entravent l'extension du rôle autonome intégrateur des coopératives. Les coopératives se trouvent obligées de fusionner avec les entreprises capitalistes, et dès ce moment, elles ne protègent plus les paysans de «la nécessité de liquider tous ceux dont la production intégrée n'est plus rentable du point de vue de l'entreprise» (p. 263).

Dans une étape supérieure de l'intégration, il devient nécessaire de trouver une solution au problème de plus en plus aigu de la terre. En effet, la production massive des matières premières agricoles nécessiterait en principe la formation d'immenses domaines, mais cela demanderait, à côté des investissements de capitaux actifs, des moyens financiers qu ne rapporteraient qu'un profit minime au propriétaire. Le prix croissant de la terre ne fait qu'accroître encore les charges que représenterait l'achat des terres. Il est évident que la séparation de l 'usine agricole et du capital terrien est indispensable pour l'industrialisation de l'agriculture. Diverses idées ont été lancées pour la réalisation de cet objectif. On a proposé par exemple que des sociétés immobilières agricoles ou l'Etat achètent les terres offertes à la vente et les donnent en location à des personnes désireuses d'en organiser l'exploitation et disposant du capital actif nécessaire. Il se peut également que «l'entreprise intégrante soit finalement contrainte d'intégrer le capital terrien également, d'acheter donc la terre et d'établir ses propres entreprises agricoles." (p. 278) Cette solution est concevable au moment où les bénéfices actuels, inférieurs même au taux du profit moyen, cèderaient la place au surprofit du fait de l'introduction des méthodes industrielles.

En fin de compte, toutes les voies imaginables du développement aboutissent au même résultat: la fin de la propriété paysanne traditionnelle de la terre et la fusion du capital agricole et du capital non agricole. En même temps, sous l'effet de l'introduction des méthodes industrielles dans la production agraire, la différence existant, dans le sens économique du terme, entre le travail agricole et le travail industriel disparait également. Les rapports agraires fondés sur la petite production marchande sont remplacés par de puissantes usines employant des ouvriers salariés, et le monde paysan traditionnel cède la place aux villes industrialisées. Autrement dit, avec la transformation technique totale de l'agriculture, «le grand capital établit dans ce secteur économique aussi des rapports de production aussi purement capitalistes que le sont ceux qui dominent les autres secteurs de l'économie capitaliste.» (p. 282)

Ce bref aperçu nous permet de voir par lui-même que le procédé le plus frappant mis en oeuvre par l'auteur est la recherche des points identiques dans le développement industriel et agricole. Cette manière de procéder et de construire des modèles est certes utile et permise, mais elle ne va pas sans laisser un sentiment de lacune. La plupart des critiques estiment que l'auteur aurait dû présenter, au delà des identités, les différences existant entre ces deux domaines. Il semble quelque peu arbitraire de dire que l'évolution de l'agriculture capitaliste doit suivre les mêmes chemins et laisser derrière elle les mêmes étapes que l'industrie, alors que le passage du travail purement manuel à la production mécanisée se présente quelque cent cinquante ans plus tard. Les problèmes eux-mêmes posés par la transformation technique et structurale de l'agriculture diffèrent également des difficultés connues par l'industrialisation capitaliste et nécessitent l'élaboration de méthodes, de solution pratiques, de programmes de réformes d'un type différent.

Les chapitres touchant le développement technique présentent soit la situation actuelle, soit les perspectives à court et à long terme de l'évolution. Mais lorsque l'auteur traite des rapports de production de l'agriculture industrielle, il parle avant tout de certaines tendances à longue échéance. Ces parties sont très intéressantes, mais il est assez évident qu'au cours des dix années qui viennent par exemple, ce n'est pas la liquidation des coopératives autonomes ni l'introduction du capital terrien dans le circuit général du capital qui seront à l'ordre du jour. Les tendances à moyen terme de la modification des rapports de production

agricoles occupent une place de moindre importance dans le livre de László *Komló:* ce sont donc là des problèmes qui demandent à être résolus.

Cette dissonance entre la présentation d'un côté des phénomènes à court terme du développement technique, et de l'autre de l'évolution à long terme des rapports de production provient selon toute probabilité de l'absolutisation des points identiques indiqués par l'évolution de l'industrie et de l'agriculture capitalistes. Le mérite de pionnier de László *Komló* est d'avoir produit un modèle parfaitement fermé de la transformation de l'agriculture en industrie, mais chemin faisant il s'est éloigné de plus en plus de la réalité. Il n'est pas impossible que cette conception se réalise une fois — plutôt dans un pays socialiste que capitaliste —, mais il faudra pour cela résoudre encore un très grand nombre de problèmes qui dérivent justement des particularités du développement agraire capitaliste.

Dans sa préface, l'auteur oriente lui-même correctement le lecteur sur ce qu'il pourra trouver dans ce livre. Ces indications font certainement que ceux qui lisent l'ouvrage de *Komló*: économistes, sociologues, historiens, ou spécialistes de l'agriculture, de l'industrie ou du commerce, éviteront certaines méprises. Les discussions elles-mêmes, en inspirant l'auteur à rédiger sa préface et à porter certaines corrections mineures à son texte, ont contribué à éclairer correctement l'essence de ce travail et à donner à l'ouvrage de *Komló* la place qui lui revient dans la littérature économique agraire

K. Forgács

MODIFICATION

An announcement on the organization of a WORKSHOP IN MATHEMATICAL ECONOMICS was published in the last number. Please note that the dates for the above Workshop, which will be held in Schloss Rheda (University of Bielefeld), Western Germany, have been advanced to June 17 – July 14, 1973. Under the direction of Professor C. C. von Weizsäcker, the workshop will be exclusively in English for a maximum of 25 European scholars and lecturers, preferably under 30 years of age.

Applications, with curriculum vitae academic training and background in spoken English and mathematics, and a note on research activities of the applicant, should be addressed to Professor C. C. von Weizsäcker, Institut für Mathematische Wirtschaftsforschung, Universität Bielefeld, 4840 Rheda-Schloss, Germany. Information may also be obtained from the IEA Secretariat, 54 Boulevard Raspail, Paris 6ème (President: Fritz Machlup, Secretary General: Luc Fauvel).

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Direction-Rédaction:	Institut d'Etude du Développement Economique et Social, 58, Boulevard Arago – 75013 – PARIS – (tel: 331-28-01)
Abonnements et ventes:	Presses Universitaires de France, 12, rue Jean de Beauvais. 75005 – PARIS – (tel: 033-48-03) (CCP: PARIS n° 1302-69)

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A kézirat nyomdába érkezett: 1972. VII. 25. – Terjedelem: 10,75 (A/5) ív

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VOLUME 9
NUMBER 3–4
1972

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Megjelenik évi 2 kötetben. Megrendelhető az Akadémiai Kiadónál (1363 Bp. Pf. 24.), a külföld részére pedig a Kultúra Könyv és Hírlap Külkereskedelmi Vállalatnál (1389 Budapest Postafiók 149).

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A. F. Butov

LEGAL AND INSTITUTIONAL FORMS OF EAST-WEST ECONOMIC CONTACTS

The paper is based on a lecture read by the author at a conference of economists in Budapest, June 1972, organized by the International Peace Research Institute and the Hungarian Scientific Council for World Economy. Questions of East-West economic contacts are discussed under the aspects of legal and institutional forms.

At present one of the actual problems of the development of the world economy is the relationship between the socialist countries and the industrially developed capitalist states. As a consequence of a whole series of objective causes economic relations between countries with different social systems have evolved primarily within the limits of the European continent. It is in Europe that the Problems of economic relations between East and West come to the fore most explicitly and could find the most appropriate form of solution.

The economic potential of present-day Europe is considerably superior, by its size, to that of other continents and regions of the world. The states of Europe invest every year colossal sums in new industrial equipment, in civil construction and in the modernization of all branches of the economy. At present the investments in the CMEA countries and in the countries of Western Europe are, in absolute figures, approximately on the same level and their absolute sum exceeds 300.000 million dollars a year.

The huge investments relying on the latest achievements of the scientific-technical revolution guarantee the high growth rates in the European economy, technology and industrial production and thus permit the broadening of the economic relations between East and West.

The further progress of the legal and institutional forms of co-operation between European states will, to a great extent, depend on the success of the *conference on problems of security and co-operation.*

In my opinion, one of the main tasks of the all-European conference is the creation of a system of obligations that would eliminate any threat by force, or any use of force, in the mutual relations between states and guarantee the observance of the principles of territorial integrity, non-interference in internal affairs, equality and independence of all states.

The adoption, by the participants of the conference, of obligations to observe the principles of peaceful coexistence of states irrespective of their social systems would lay firm foundations, in terms of international law, for the whole system of European security. Another of its prime objectives would be the creation of regional organization for the problems of European security and co-operation.

The positive solution of these problems is strongly connected with reaching such agreements on expanding trade on the basis of equality, on economic and scientific-technical relations promoting the development of political co-operation between the European states.

This presumes the necessity of working out agreements and conventions regulating the further development of trade, economic and cultural relations between states in Europe on the basis of the principles of mutual benefit, in respect of each other's sovereignty and non-interference in each other's internal affairs.

Thus, I come to the conclusion that the European conference on problems of security and co-operation may give impetus to the appearance of new norms of international law which will regulate economic relations in Europe taking into consideration the interests of all countries.

One may presume that the conference will adopt a recommendation for setting up one or more standing committees to take concrete measures for the development of co-operation. These institutions may work either together with the UN Economic Commission for Europe or independently. I do not intend to determine the scope of activities of these new institutions, I am speaking about the possibility of their appearance in the future.

If the economic relations are viewed in all-Europeans terms, the UN Economic Commission for Europe plays a certain co-ordinating role. Owing to its destination and structure ECE creates vast possibilities for the constructive discussion of various aspects of all-European trade, of its general problems, of the problems of trade policies and of the concrete practical as well as technical matters, in spite of its insufficiencies discussed in previous sessions.

It was exactly this international organization in which, on the initiative of the USSR, proposals were put forward aiming at a general agreement on European economic co-operation, on the development of the energy basis of Europe, on the establishment of an all-European trade organization in the framework of the ECE, on measures to be taken to facilitate trade among all interested countries of Europe, etc.

No need to prove that this initiative of the USSR is directed, above all, at the creation of a wide interstate agreement on the actual problems of all-European co-operation.

Unfortunately we must admit that not all problems have been solved in spite of the fact that the two parts of Europe have certain parallel economic interests which require, if they are to be realized, an all-continental co-operation.

Economic communities and East-West economic contacts

Within the limits, in which mutual co-operation can be broadened, the economic policy of the states acquires great importance. It can promote or hamper the development and strengthening of the objective tendencies deepening the international division of labour and of the internationalization of production. Here legal measures become effective instruments in regulating economic processes both within the individual European states and within the framework of economic communities.

It has been shown in practice that trade and scientific-technical relations may successfully develop on a bilateral basis within economic communities of states. However, as soon as the integration processes in Europe begin to reflect the objective tendencies of the internationalization of economic relations, countries belonging to different economic communities should shape their relations with due regard to the actual situation. The position of the socialist countries toward the *Common Market* is clearly outlined in L. I. Brezhnev's speech on the 15th Congress of the Trade Unions: "The Soviet Union does not ignore the situation actually evolved in Western Europe including the existence of an economic community of the capitalist countries, the Common Market. Our relations with the participants of this community will, of course, depend on the extent to which they will recognize the realities in the socialist part of Europe, especially the interests of the countries of the CMEA. We are for equality in economic relations and against discrimination."

The present relaxation of political tension, the atmosphere of growing mutual confidence and matter-of-fact co-operation create conditions for eliminating discriminative measures and all kinds of limitations from the practice of economic relations between socialist and capitalist countries.

As the problems of economic relations between states with different social systems come to the fore in international life, the problems of regulating international trade, as the most universal and effective means of developing mutual economic relationship, acquire primary importance. International trade becomes the most important sphere of interstate relations. Therefore the means of international law for the regulation and normalization of trade and economic connections between states acquire great importance in international relations in general. Any solution of problems relating to international economic co-operation is unavoidably connected with the legal regulation of relations between two or more states.

The principles of the respect of state sovereignty, the non-interference in each other's internal affairs and the self-determination of peoples constitute the most important and irreplaceable guarantees for pursuing an independent external economic policy, of the unhindered mutual development of economic connection including trade relations.

These are the very principles on which the external economic policy of the socialist countries is built both in their mutual co-operation as well as in their relationships with the countries of the capitalist world.

The integration processes going on in the economy of the socialist countries are not aimed at shaping a uniform supranational economic policy of the CMEA in respect of the industrially developed capitalist countries of Western Europe. The complex programme of integration relies on the respect of the sovereignty of the individual member countries of the CMEA in their relations with any country which does not belong to the CMEA.

Socialist integration contains no element hindering the development of economic co-operation with Western countries. On the contrary, it realizes the necessity of using the advantages offered by the international division of labour with the countries of Western Europe.

Socialist countries acquire in Western Europe machines and equipment, patents and technological processes on a growing scale. In the imports of socialist countries from the countries of Western Europe machines and equipment constitute about 40 per cent. During the past years the import of consumer goods has increased. The share of this group of goods in the total imports of the CMEA countries from Western Europe is, for the time being, not more than 7 per cent. Mutual trade may be widened by increasing the deliveries of machines and equipment and, also, of consumer goods to socialist countries.

Deliveries from the socialist countries play an important role in ensuring the raw material basis of the industry of Western European countries. The socialist economies deliver to Western Europe 25 per cent of their import of coal and sawn timber, 20 per cent of their rimport of crude oil products and 40 per cent of their import of wood [1]. During the past years the export of machines and equipment and other industrial goods to Western countries has also grown, and socialist countries are eager to increase this export in the long run.

Long-term trade agreements and agreements on scientific-technical co-operation

Trade agreements and contracts between socialist and capitalist countries on the basis of the fundamental principles of international law constitute a reliable means of further developing economic relations. They become effective legal means in strengthening and expanding trade between all interested countries of the world without regard to differences in their economic and social systems, in promoting all-European economic co-operation. This has been proven by the practice of economic co-operation between socialist and Western countries.

Long-term trade agreements will remain a solid legal and material basis for a stable and predetermined development of trade. The broadening of the practice of long-term trade agreements will contribute to the stabilization of economic relations and to the general improvement of the economic relations between European states.

In the future development of all-European co-operation the practice of the socialist countries to conclude wide-scope *agreements on economic and scientific-technical co-operation* will acquire growing importance. The system of agreements linked with the concrete forms of economic co-operation in the trade, production and scientific-technical relations will be improved on the basis of these wide-scope agreements. Such agreements are signed by governments but without legally binding the governments to make concrete deals in the trade, production or scientific-technical co-operation. The intergovernmental agreements provide a legal basis for the whole complex of possible trade and economic relations between the countries concerned. The aim is that the norms of the internal legislation of these states including customs, currency, transport and administrative regulations should not slow down mutual co-operation. Factually the organizations, enterprises and firms of each country are encouraged to participate in the realization of both the current five-year plans and the future long-term plans of co-operation. This broad and long-term approach to co-operation provides a stable basis for the development of bilateral relations. Thus, the activities of the governments with regard to the fulfilment of long-term agreements on economic and scientific-technical co-operation may exert considerable influence on the further development of all-European economic relations.

The current long-term agreements have opened up wide possibilities for the establishment of concrete business connections between industrial firms, organizations, scientific centers of the socialist and capitalist countries of Europe. At present the member countries of the CMEA and Yugoslavia have more than 400 agreements with Western firms on long-term industrial co-operation, regular exchange of parts, components, fixtures and technical experience, joint production and sale of products, carrying out joint scientific and experimental work, and so forth.

Mixed committees

Mixed committees determining the basic ways of the fulfilment of the agreements and opening up existing reserves for the broadening of mutual relations constitute the direct working bodies guiding all kinds of co-operation. The committees represent a relatively new institutional form corresponding to the tasks of the development of connections on a bilateral basis.

These committees draw up the programmes of promoting bilateral co-operation for 5—10 years. Their work contributes to the transformation of economic ties between East and West from short-term business links into long-term contacts. And this is exactly what is needed at present for the formation of a stable intra-European division of labour and for the realization of the most promising forms of co-operation.

Industrial co-operation and specialization

The activities of mixed committees have already yielded tangible results in the field of the co-operation of European states. There is successful co-operation going on between the Czechoslovak industry and French firms in the production of power equipment, of huge presses and of Diesel engines. Hungarian enterprises together with a West-German firm produce numerically controlled machine tools. Romania and France are co-operating in the production of cars, Yugoslavia and Sweden, in shipbuilding. The USSR together with France, the GFR, Italy, Austria, Belgium and other West-European countries are jointly realizing projects in automobile manufacture, oil production, in the chemical industry, machine building, metallurgy as well as in various branches of the light industries.

This form of co-operation between socialist and West-European countries is highly promising in spite of its as yet insignificant share in the economic relations actually existing between East and West. The industrial co-operation on an interstate level is becoming a basic form of utilizing the achievements of scientific-technical progress.

The branches where specialization and co-operation in production between socialist and capitalist countries may successfully develop can already by revealed within the existing relatively narrow framework of production co-operation between East and West.

Such branches are, for instance, machine building where the nomenclature of products produced is exceptionally large, and there is a parallel production of the same type in several countries. Here, production can be specialized, and enterprises may enter into an active international division of labour.

The expected rapid development of energy production in the European countries puts on the agenda of co-operation the questions of specializing the production of power generating machinery and electrotechnical equipment. In the framework of the CMEA the production of generators, electric motors, electrical measuring instruments etc. is already specialized. In the future it may be possible to build up co-operation between socialist and capitalist countries in the production of sophisticated equipment complexes for

nuclear power stations. The first steps in this direction have been made by the French firm "Rateau-Schneider" and the Turbine Factory in Harkov which have worked out jointly the design of a turbine for future nuclear power stations. It is not impossible that the results of this co-operation will be used at the nuclear power station being erected now in Hungary with the help of the USSR or at a similar station planned to be built in the GDR. Wide-scale co-operation may be achieved in the joint construction of nuclear power stations both in Eastern and Western Europe. There are bases for joining efforts in the production of transport vehicles, of equipment for the chemical and the food industries and for machine-building enterprises.

New institutional forms

We may say that co-operation in production between Eastern and Western Europe has gone through the period of primary experience and the coming years may be devoted to searching new and more effective forms of production organization on the basis of specialization and co-operation. Even today more sophisticated forms of co-operation covering production, research and the sale of products can be applied but require the use of new means of the legal, administrative and economic regulation of the interconnections between firms, enterprises and organizations of the socialist and capitalist economic systems.

Aware of the close ties of production co-operation, in its existing form, with foreign-trade exchange, West-European firms are extending their practice of establishing *permanent agencies in the socialist countries*. This permits more exact deliveries and a search for new reserves of broadening exchange. By the beginning of 1971 more than 20 firms and organizations had their own agencies in Moscow. There are agencies also in other socialist countries. The further extension of economic relations between East and West will greatly depend on the activity of the agencies of Western firms and on that of the respective departments of the ministries of socialist countries.

The institutional mechanism of matter-of-fact co-operation between East and West cannot expand relations without the active participation of banks. The growing dimensions and new forms of co-operation require the perfection of financing ec-onomic relations between East and West. Until recent times the financial side of the co-operation had been provided for mainly by short-term and long-term credits granted by firms and not by banks. Western banks and groups of banks have not yet adopted the practice of *granting long-term credits* for the realization of big economic deals in the field of East-West relations.

A certain solution to this problem in foreign trade has been found by the banks of socialist countries in establishing affiliated or mixed companies

in Western Europe for financing East-West trade. Among them there is the Soviet bank "Vostok" in Zurich. Seven Western banks and the Polish Trade Bank have established the mixed affiliated body "Centrofin", a French-Rumanian bank has also been established. According to its statute the international CMEA Investment Bank may place its loans in the West. The attraction of bank capital into financing foreign trade does not solve all problems of East-West relations. It is necessary to have colossal long-term credits to carry out the projects regarding mineral resources, infrastructural development, establishing mixed industrial companies. In other words it is necessary to have important financial means for promoting the most promising forms of co-operation in the interests of both the Eastern and the Western partners.

Practice raises the question already today: which are the real possibilities of promoting co-operation for *establishing joint producing plants* and for their subsequent joint operation.

There is ground to presume that the countries of Western Europe which feel now or are to feel soon the shortage of raw materials and of products gained by the processing of raw materials, may readily welcome such co-operation. In some branches joint producing activities may extend not only to the extraction but also to the processing of raw materials.

There are, for the time being, numerous difficulties in the way of the realization of such projects. By no means do all West-European industrial firms have the necessary capital, experience and technical knowledge to implement large industrial projects planned in the European socialist countries. For this purpose it is also necessary to have important sources of credit which may be provided for only by a group of several Western banks.

The use of western capital in the production activities of socialist enterprises requires the solution of some problems of legal and economic nature.

Foreign capital is not impersonal; there is always a definite juristic person behind it. It is necessary clearly to determine the conditions and scope of the production sphere where foreign capital may co-operate with socialist enterprises.

Industrial co-operation, in all its possible forms, represents a new and perspective field of all-European economic co-operation. But exactly because it is a new form, its various aspects (economic, trade-political, financial and legal aspects) need further detailed study. This complex of questions is not an insoluble problem under conditions of growing confidence between Eastern and Western countries. As it is stressed in the "Declaration about peace, security and co-operation in Europe" adopted at the conference of the Political Consultative Committee of the member countries of the Warsaw Treaty in January 1972, "under conditions of peace, the diverse forms of mutually advantageous relations between European states in the economic, scientific-technical and cultural fields should be widely extended".

By now some success has been achieved in the economic co-operation of socialist and West-European countries. However, the results are far from having attained the optimal volumes and the high level of perfection in their forms. The next task remains the joint search for new legal and institutional forms of co-operation between the countries of Eastern and Western Europe. Wide-ranging and stable economic relations created on a mutually acceptable basis will determine the general climate of co-operation in the European continent.

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ПРАВОВЫЕ И ИНСТИТУЦИОННЫЕ ФОРМЫ ДАЛЬНЕЙШЕГО РАЗВИТИЯ ЭКОНОМИЧЕСКИХ ОТНОШЕНИЙ МЕЖДУ ВОСТОКОМ И ЗАПАДОМ

А. Ф. БУТОВ

В статье, написанной на основе доклада на международной встрече экономистов в Будапеште, организованной Международным институтом мира и Венгерским научним советом по мировой экономике автор исследует главным образом, в аспекте правовых и институционных форм возможности развития экономических связей между Востоком и Западом.

Автор указывает, что принятие участниками общеевропейского совещания о европейской безопасности обязательств по соблюдению норм мирного сосуществования могло бы заложить прочную основу для всестороннего развития этих связей. Признание в качестве реальности сложившихся в Европе экономических объединений государств способствовало бы, с одной стороны, использованию возможностей, заложенных в двусторонних связях и, с другой стороны — расширению этих связей. Ведь социалистическая интеграция исходит из соблюдения суверенитета отдельных стран-членов СЭВ в вопросах внешнеэконо мических отношений с любой страной и не препятствует развитию экономического сотруд ничества со странами Запада.

Затем автор рассматривает отдельные формы и институции экономических связей — международные долгосрочные торговые договоры и соглашения, соглашения о научно-техническом сотрудничестве, смешанные комиссии, промышленную кооперацию и специализацию — и исследует заложенные в них дальнейшие возможности для развитий этих связей.

Далее автор отмечает возможности развития пока еще не существующих или имеющихся только в зачаточном виде форм и институций. Таковыми являются: постоянные представительства крупных западных фирм в социалистических странах, предоставление долгосрочных кредитов консорциумами банков западных стран для осуществления в социалистических странах крупных проектов, главным образом, по разработке полезных ископаемых, создание совместных производственных объектов и их совместная эксплуатация. Автор отмечает, что форма промышленного сотрудничества нуждается в тщательном изучении с экономической, торгово-политической, финансовой и юридической точек зрения; однако эти проблемы разрешимы при совместных усилиях и на взаимно приемлемой основе.

Acta Oeconomica Vol. 9 (3—4), pp. 243—258 (1972)

G. ADLER-KARLSSON

PROBLEMS AND PERSPECTIVES OF EAST-WEST ECONOMIC CONTACTS

In the first part this paper-read by the author at a conference of economists in Budapest, June 1972, organized by the International Peace Research Institute and the Hungarian Scientific Council for World Economy — takes up two main problems, first, the widening gap between countries on different development levels, and then the trade off problem between increased economic relations and efficiency, on the one hand, and international interdependence or loss of sovereignty, on the other. In the second part I will touch upon three main sets of questions, credits, industrial co-operation agreements, and the problem of ownership and of "social system".

A widening gap

To my mind much unwarranted optimism has been voiced about the prospects for rapid increases in East-West economic relations. A quick look at statistics will show that these relations have expanded rather smoothly since 1954, that is, since the first signs of détente in the Cold War. During these 18 years East-West trade has expanded pretty quickly but it should be noticed that during the last years the relative share of East-West trade in total world trade has stagnated, and that some commentators even have predicted difficulties in maintaining this level.

I do not think that the recent Nixon—Breshnew meeting will change this trend very quickly. The agreements between Western Germany and Eastern Europe may be more conducive to trade expansion, but even that is questionable. The détente in East-West relations has consisted of many small steps, and I personally do not see why the latest political developments should have spectacular results for East-West economic relations.

This relative pessimism is based on some economic and political factors which already have been much discussed here. Among them are the trend towards protectionism in the West, the long-term bilateral trade agreements inside the East which seem to preclude a too rapid expansion with the outside world, the remaining traits of the Cold War, embargoes and other discrimination, the inward-lookingness of the European Common Market, the structural disequilibrium in commodity composition, and the difficulties arising from relations between two different social and economic systems. I will not repeat

what has been said about all these factors. Instead I will try to add one further complication, which is rarely observed in East-West trade literature.

A study of the East-West economic relations must take into account two facts. The first one is that the average level of economic development in the OECD area is unquestionably much higher than in the CMEA area. This is historically so, and need not necessarily be related to the differences in economic systems. Secondly, some of those problems which are difficult in East-West relations are of the same nature as those which exist between rich and poor countries. We need only think about the necessity for credits, the composition of commodity trade, and the deficiencies in marketing ability of the socialist as well as of the underdeveloped countries.

I have personally come to ask myself if many of the problems in East-West economic relations are not caused much more by the differences in development level than by the differences in economic systems or the remnants of the Cold War and other similar factors. I do not say that it is so, only that it may well be so.

This is a highly disconcerting question because if it does point to a serious problem, as I believe it does, then we have reasons to be somewhat pessimistic about the "natural" economic tendencies for future East-West relations. Because it seems as if the natural tendencies for economic gaps would be to remain stagnant in relative, and widening in absolute terms, at least, unless very strenuous efforts are made to narrow them. Let me just point out a few examples.

In spite of the huge Italian Cassa per il Mezzogiorno program for Southern Italy, a recent study has clearly revealed that Northern and Southern Italy have had almost exactly the same relative growth during the 1960's, meaning that the absolute gap between the two regions has been widening.

We also know the past development and the present trends between rich and poor countries. As is shown in the book on *The Widening Gap* [1], edited by Barbara Ward, *the Pearson Report* implicitly indicates that during the second half of the present century, from 1950 to the year 2000, the average gross national product per capita in Africa and Asia may grow from $ 100 to $ 400, while in the OECD area it may grow from $ 1,500 to $ 7,400. That is the absolute gap may grow from $ 1,400—$ 6.000.

It has been said several times during this conference that the growth rates in Eastern Europe have been much higher than in the Western countries. May I say that even this is open to doubt. As one of the most prominent Western experts on such comparisons, Professor *Abram Bergson* at Harvard, has shown in a recent article in *World Politics* [2] the growth of labour productivity in OECD and CMEA seems to have been more or less identical between 1950 and 1967. If that is so it can be doubted if the historically founded economic gap in per capita level between Eastern and Western Europe has even tended to become closed during the last two decades.

Another recent study, presented in *Voprosy Ekonomiki*, April 1971 [3] has also shown that the CMEA nations, just like the underdeveloped nations, have had a declining share in total world trade. It also indicates that if the present trends continue the CMEA areas may, after another decade, produce some 40—50% of world industrial production but only have some 8—9% of world trade.

Wherever you look at the development of traditional economic gaps it does seem as if the "natural" trends were towards increased absolute gaps, much more than towards an automatic closing of them. This may in fact also be something which does influence East-West economic relations. We do not understand the underlying reasons for these seemingly cumulative developments, but we have good reasons to believe that they do exist. If this is so, it implies an extra reason to be somewhat pessimistic about the future development of East-West trade.

East Europe may have some of the same difficulties as the underdeveloped countries in competing in world trade, some of the same difficulties in modernizing their economic structure, and some of the same difficulties in improving the structural composition of the commodity flows. Eastern Europe is likely to have these difficulties in a smaller degree than the underdeveloped countries, but they may have them much enough to experience serious difficulties also in the future competition on the world market.

Economic independence and efficiency

A second observation of a more speculative kind refers to the general desire of all nations to climb up the ladder of economic hierarchy, of "catching up with" and to overcome the richer nations, as not only Khrushchev but also Mao has expressed it.

This problem of "catching up" is certainly not only an economic, but also a political one. If the catching up has to be done by reliance on foreign capital and foreign technology — as is normally the case — the politicians have to face what may be called a trade off between independence and sovereignty, on the one hand, and foreign interdependence with economic efficiency, on the other.

This is also a completely general problem, not one related to differences in systems.

The division of labour has gone very far and the degree of specialization in modern industries is high. A few firms are becoming specialists on the production of certain types of advanced machinery, in the same way as a few artisans became the outstanding experts in their own production fields in an earlier period. No nation, especially no small nation, can hope to become efficient in the production of all modern means of production, just as no artisan could hope to gain excellence in all fields.

It is also a fact that most of the modern technology, know-how and products are developed and effectively controlled by companies of the richest Western nations. In order to catch up, the relatively less developed have to get hold of the modern gadgets from the rich nations. But in this process of importing the modern technique the relatively underdeveloped nations have to face the risk of becoming dependent on the exporting ones.

This is a problem which Canada has had to face in relation to the United States; which Sweden is facing in its negotiations with the Common Market; and which has been one of the major reasons behind the West-European integration itself, in front of the threatening US domination. This trade off is also a central problem in the debate about neo-colonialism in underdeveloped countries and some authors, for instance Tibor *Mende* in his latest book *De l'aid à la recolonisation*, has drawn the conclusion that the poor countries would gain from choosing a higher degree of independence and less reliance on modern Western technology.

As is well-known, economic dependence may also be transformed into political actions. A case of relevance in an East-West trade conference is that of the American demands for extraterritorial validity of its discriminatory legislation against trade with Communist countries. Many American subsidiaries in Europe, legally corporate citizens in West-European nations, have been forced by US legislation to restrict exports of technically advanced commodities to Eastern Europe, in spite of the European legislation permitting such exports. In Canada, where more than half of the industry is controlled by US capital, this has been politically very sensitive. In one government report it was even suggested that Canada should take up the problem in the United Nations to condemn American interference in the economic life of other nations [4].

Thus I do believe we are justified in stating that there exists a general problem of how to balance off the desire both for increased economic efficiency with the help of relations with richer nations, and, at the same time, maintaining as much national sovereignty and independence as possible.

This is certainly a problem, a political problem, also in East-West economic relations.

The literature is flooded with discussions about how trade or economic relations can be used to influence the policy of the other system. Practice is, unfortunately, also filled up with examples of factual actions to use trade for political reasons. Thus, it may be said, that this trade-off problem is even more acute in East-West trade than in almost all other sectors of world trade.

Especially the Soviet Union has, for very well-founded historical reasons, tended to stress the necessity to guard the national independence with the help of a strict control of foreign trade. And the Soviet Union has been able to do it, without too much loss of efficiency, because of its enormous size.

But when the same type of stress on economic independence, largely caused by Western actions of an economic warfare type, has been transferred to the small East-European economies, these nations have certainly suffered a marked decrease of internal economic efficiency because of the restricted foreign trade.

This is part of our historic inheritance, with which Eastern Europe, and indeed all of Europe, are struggling today, and for which we hope that a European security conference may advance solutions, and lead to a greater confidence between the two sides of the ideological divide. With the United States' President going to Moscow, and with the West-German treaties with the Soviet Union and Poland ratified, the political development does seem to justify a greater stress on economic efficiency and a smaller one on economic independence in Eastern Europe. The process in the trade field would certainly also be speeded up if the United States, Japan and the NATO allies quickly buried the Western political trade discrimination of COCOM.

Let me, however, add a complication to this seemingly simple trade-off problem.

I would say that it is an illusion in the modern world to believe that national independence, in some absolute sense, can be maintained by keeping down direct trade and economic relations with other nations.

The modern communications, radio, TV, newspapers, books, tourism, etc. create a form of interdependence which may be equally troublesome for a government. The international so-called "demonstration effects" are such, that a government which economically isolates its nations, may get such a low economic efficiency, and such a sluggish economic development, that the internal political tension can lead to uncontrolled upheavals and explosions, which have to be suppressed with very unfortunate measures, that nobody likes.

Thus, if a nation tries to avoid the direct interdependence of the outside world, by a low level of participation in the world economy, it runs the risk of falling into an indirect dependency via the demonstration effect. The government cannot give its people the standard they want, they cannot even give it the hope of narrowing the gap to the richer nations — and the people react.

A total and complete national independence or sovereignty does not exist today; it is an illusion on which no stable policy can be built. What we have is only *degrees* of interdependence and sovereignty. The factual problem is to choose the right balance between the degree of a) direct and b) indirect interdependence between nations, and c) the desire to "catch up" with the richer nations.

In any actual situation, the problem is which steps can be taken to optimize this difficult choice, to get a better degree of balance between the conflicting goals.

The problems of credits

From an economist's point of view it is natural that credits flow from relatively richer to relatively poorer nations. As the level of GNP per capita in Western Europe and North America on the average is unquestionably higher than in Eastern Europe, it would seem natural that credits would flow from West to the East. This has also been the case, but in fairly restricted flows.

From the point of view of increasing economic efficiency, credit is only a moderately good instrument.

With the help of credits the borrower can buy modern instruments, machines, means of production, even turn-key projects from the lender, hoping that the returns from the capital goods bought will be enough to cover both interests and amortizations. But the problem with modern types of means of production is very often how to get them to function, and function efficiently. A computer without a good programmer is a waste of money. And credits as such do not bring in the operating or management know-how, which would make the modern machines working at top efficiency.

Credit, thus, forces the borrower to do much of the learning process by himself. It functions somewhat like a school in which the teacher just would hand over the ABC-book to the children, telling them to learn how to read by themselves, while he just watched them from the cathedra. This is not optimal.

But credit has anyway been the first and most common instrument used for improving East-West economic relations. This is probably due to the fact that credit is believed to have very small political implications for sovereignty.

We can separate out three different forms of credits, short-term commercial credits, long-term development credits, and bonds.

One point I would like to make is that, at least in the East-West context, there is very little difference between these three forms.

All Eastern countries have for a long time been very eager to get commercial credits of up to, say, five years duration. The expansion of such credits from the West to the East has also been enormous during the 1960's according to some studies, even more extensive to Eastern Europe than to the underdeveloped nations. This type of credits seem to be something which is accepted as normal by everybody. All Eastern nations accept it, the Soviet Union as well as Hungary and Romania. All Western nations extend it, even if the United States still have some discriminative regulations, which U.S. enterprises, at least, have to circumvent. No one seems to worry about the political aspects of such credits, which possibly may be taken as a proof that none such exists. The only worry which is sometimes expressed is about the

size of the credit flow; some Western commentators expressing the fear that one or another Eastern nation will not be able to repay their debts. However, the Eastern payment record is excellent and the debt burden is still nothing like that of many underdeveloped nations, why such fears are rightly dismissed as groundless.

For longer term development credits the situation seems to be slightly but not very different, both on the Western and on the Eastern side.

On the Western side there has earlier been an internal discussion, in which the United States tried to persuade its NATO-partners not to give any such long-term credits as that could be considered as an "aid" to the potential enemy. In the middle of the 1960's that was a big headache for everybody involved in East-West trade.

However, as political relations have improved, such attempts at discrimination have stopped. Except for some restrictions on credit guarantees to East-Germany, the Western restrictions which still exist on credits to the East mainly have an economic motivation, in that all OECD-nations are interested in avoiding a too advanced competition in credit terms, leading to dangerously lax conditions and too long repayment periods. But from the political point of view it is hard to find any Western hesitations to grant long-term credits to Eastern Europe.

Being a Westerner, I do not know much of what is happening under the surface in Eastern Europe. But sometimes it is said in the West, that an opposition does exist in Eastern Europe to too heavy capital imports via long-term loans. There exists a fear of becoming too much tied down with Western loans, that too much Western influence will be brought in via such credits.

Possibly it is fears of that kind that explains the absence until recently of Eastern Europe from another extremely important credit market, that of public bonds.

It was recently reported that Japan had suggested to the Soviet Union that part of the immensely big common investment schemes in Sibiria, which have for a long time been discussed, should be at least partly financed by the Soviet Union floating a big bond loan on the Japanese capital market. Similar ideas have earlier been voiced both in Western Germany and in London City. But except for, at least to my knowledge, one Hungarian loan of 50 million dollars a year ago, and one by the COMECON bank recently for 140 million dollars, nothing practical has happened.

This, I think, is regrettable. It seems to be a common opinion among specialists on East-West economic relations that one essential precondition for a rapid growth of these relations is an increased stream of long-term capital. I do not see why the Eastern nations should not tap the Western capital market, in order to be able to modernize their economies with Western technologies. The Euro-dollar market is today estimated to $ 55 billion. If Eastern Europe

had a share in it, equal to its share of Western trade, that is some 5%, Eastern Europe should be able to borrow $ 2.5 billion in Euro-dollars. And for the Western investors, East-European securities should be a good investment. The East European nations have got an excellent payment record, so far; no one doubts the ability of the Eastern nations to get their taxpayers to pay interest and amortizations on foreign loans; and, contrary to many nations in the poor part of the South, you in Eastern Europe offer the most excellent guarantee against the fearful spectre for any capitalist, that of getting his bonds confiscated in something so horrible as a socialist revolution.

Thus East-European bonds should be rated as first class securities.

Let me also add that from the dependency point of view, I do not see why anybody should be very much concerned with credits, or especially with the differences between the three types mentioned.

If commercial credits expand progressively, it in fact means that they become a permanent source of capital, not so different on the macro-plan from the long-term credits, e.g. the 1.2 billion D-Mark that the Soviet Foreign Trade Bank borrowed for the German steeltube-Soviet gas trade. And if the long-term credits are guaranteed by government contracts or by formal bonds, I do not see a great difference.

If, in the unlikely case that these debts would not be repayed, I do not think that the reaction in the West, and the division of blame, would be different on any of the three types. Whether it would be the commercial borrower, the government, or the Foreign Trade Bank that defaulted in payment, the Western lender would in all cases alike hold the socialist state responsible for it.

Let me add two points of "private opinion" on credits.

The first one is, that I think the Western nations should write off the old and irritating tsarist bonds and the lend-lease debts. Especially the last issue is highly irritating. The Soviet Union certainly paid its way in the Second World War in blood with 20 million dead. To any outside observer the American unwillingness to write off the lend-lease debts shows nothing but a materialistic petty-mindedness!

Secondly, it is obvious that we are going to see long and troublesome negotiations during the next years for a reform of the international monetary system. So far the socialist countries have been kept outside of all important decisions. If we are serious on global economic co-operation for the future — as the ABC-weapons demand of us — then, I think, also the socialist nations should be brought into the world monetary decision-making system. How, is impossible to say today, but soundings and negotiations about this problem should be undertaken in a serious manner. It is also clear that one precondition for East-West monetary co-operation is that the present internal monetary muddle, if you excuse my expression, inside the CMEA area must first be cleared up.

International co-operation agreements

Essentially we have three types of such co-operation agreements.

The first one is the industrial co-operation agreement proper, which regulates co-operation on specific tasks, such as interchange between Eastern and Western enterprises of raw materials, components and technical know-how.

Secondly, we have the joint tenders. These seem mainly to have been undertaken for construction work in underdeveloped countries. Normally either the Western or the Eastern partners have undertaken to be the main contractor for a tender and the other partner usually becomes subcontractor.

Thirdly, we have a few cases of joint ventures, characterized by the fact that not only production or marketing is jointly regulated, but also that the economic risks and profits are genuinely shared between the partners. Most of these joint ventures are formed outside of Eastern Europe. However, the Yugoslavian foreign investment law has permitted a number of joint ventures inside Yugoslavia and in Romania and Hungary similar forms of co-operation are now legally possible, even if they have not yet been much used in practice.

Obviously, this type of agreements have many favourable effects, such as expanding markets, economics of scale, interchange of modern technology, etc. A certain interdependence of operations arises from these agreements and on the East-European side it is necessary to take them into consideration in the larger planning context. However, it should not be more difficult to integrate such an agreement into long-term planning, than it is to plan for a commodity export, which is necessary for repayment of heavy credits. On the contrary, as these agreements often give rise to balanced two-way flows of commodities, the difficulties might even be less than in the case of normal exports.

While these types of agreements are new *in East-West relations* during the latest ten years, the form of co-operation is in no way new. Inside the Western countries all these forms, and several more, have a long tradition. You cannot open a business journal, or even the *Herald Tribune*, without every day finding reports on such co-operation agreements between Western partners. What is new is thus not the form of co-operation as such, but only that they are now extended to East-West relations.

Some of this co-operation looks like what before the Second World War was called cartel agreements. In fact, I personally think that much of what is today called "international economic co-operation" is nothing but the old type of cartel co-operation, to exploit monopoly or oligopoly positions. The only difference is that we are now using a positively loaded concept, while before we used a negatively loaded one. This is no mean feat by the industrial public relation men!

From the Eastern point of view, this may sound very derogatory. However, with the present rate of technological process and conversely, obsolescence of production, it is certainly necessary to create instant market outlets for new products by which the innovational monopoly profits can be reaped. This is in itself a very good reason for, for instance, the Hungarian pharmaceutical industry to enter into licensing agreements with Western companies, who can offer an excellent market outlet for Hungarian innovations in pharmaceutical products.

The above-mentioned three types of direct co-operation is what we have, but there is a lot of co-operation which we do not have, which both sides would like to achieve but which, so far, they have not been able to achieve. It must be realized that even if the new forms of industrial co-operation between East and West form a very positive development, the volume of these relations is small in comparison with intra-Western relations of the same sort. From the point of view of direct co-operation the East-West relations are still in an infant stage. If we want to increase them, I believe it is necessary to introduce more institutional flexibility into the system.

Let me in this context comment upon a diplomatic phrase which has been heard several times these days and which seems to be a basic assumption of many conferences of this type. It is always stressed that the new forms of East-West relations must be based on "mutual and equal benefits", and from that the conclusion is drawn, that both sides have to change their institutions to about an equally big extent.

On the micro-level, that is, in an agreement between a Western private company and an Eastern state enterprise, it is evident that there must exist a feeling of mutual benefits, and possibly even of equal benefits, from a given deal. If both sides did not have this feeling the deal would, of course, never take place.

On the macro-level, however, I think we must realize that the situation is different and that the Eastern countries are more interested, and to some extent more dependent on East-West economic relations, than are the Western ones. A single look at the trade figures indicates that, relatively seen, East-West trade is 3 to 4 times as important in the total foreign trade of the Eastern countries than to the Western ones. And in terms of technology, which is the most dynamic element in foreign economic relations, the flow is certainly more important for the East than for the West.

This situation, combined with the historically founded lower development levels of the Eastern nations, leads me to believe that the diplomatic and often repeated phrase, "mutual and equal benefits" in reality hides a weaker bargaining position for the Eastern nations. If that is correct it may also follow that the Eastern nations may be forced to undertake a relatively greater change in their institutional arrangements, than the Western nations,

if they are to achieve the trade expansion which all nations say that they desire.

In other words, Eastern Europe may have to consider if its present "legal and institutional pattern" — as the second point of today's agenda is formulated — is optimal, or if it may need to be changed.

This question leads me back a discussion of a basic problem.

Ownership relations and East-West economic contacts

Social systems are living and flexible organs, that grow and decline, that function well, or that are sick and have to take medicine to cure themselves. A stable and unchanging social system must, to my mind, be a dead social system or, at least, one suffering from *rigor mortis*.

This opinion is valid for all parts of the system, including that part which handles foreign economic relations.

Before going into the foreign relations aspect, however, let me make a little detour around the concept of ownership. It is evident that the concept of ownership is crucial in understanding the differences between the two systems. The basic definition of capitalism and socialism, as is well-known, centers around this concept.

As I have tried to explain in a small booklet called Functional socialism [5], ownership should not be considered as an indivisible concept which you can either have in its totality or not. Ever since Roman law, ownership, which fundamentally is a legal concept, has been defined as the summary of all the functions which an owner can exert over the owned object or the owned means of productions. The owner is, in this context, defined as the one who can exert all functions which by written or customary law have *not* been taken away from him.

On this definition it is no question that Sweden, in spite of much state influence in the economy, is a capitalist society while, for instance, Hungary, in spite of a certain amount of decentralization during the last years, remains a socialist society. But what may be more important than this formal definition is the distribution of ownership *functions* between different subjects in society. That is, if the state influence in the Swedish economy centralizes more and more functions, and if the Hungarian system decentralizes more and more functions to individual entreprises, the practical functioning of the two systems may become much more similar to each other than the formal definition would suggest.

A deeper analysis would, of course, also have to take into account which values guide those social actors who exert the various ownership functions. This, however, must be left out here.

To come back to the living socialist systems let me thus, once more, summarize the material by saying that any major system, with all its mixed subsystems, can be looked upon as a big matrix in which the various social actors concerned with the means of production, such as formal owners, managers, politicians, bureaucrats, legislators, bankers, etc. are arranged along one axis and all the ownership functions, such as management, finance, research, planning, etc., along the other.

As functions all the time are moved between various subjects or actors, and as some subjects disappear while others are born new, we have a flexible and living system which is able to respond to the changes in productive forces inside the system.

Does, you may ask, all this abstract talk have anything to do with the practical problems of East-West economic relations?

I believe it does. I believe that we cannot avoid an open discussion of ownership as a concept of relevance for the future development of East-West economic relations. This is because of three basic reasons.

A. The first one is that the direct ownership lines are today an important determinant of world trade. This is true for general trade. It has, for instance, been estimated that between 1/4 and 1/3 of both British and American foreign trade is nothing but transfers between different national units of the same multinational companies. It is also well-known that the multinational companies expand at a rate which is considerably higher than both world production and international trade, meaning that this type of intra-company transfers is likely to become an ever growing share of total world trade.

Even more important are the direct ownership lines for trade in technically more advanced commodities. In his book Sovereignty at Bay [6] *R. Vernon* has estimated that the 187 biggest US multinational enterprises, who in all have some 8,000 subsidiaries around the world, export manufactured goods for some $ 9 billion from the United States, $ 12 billion from Western Europe and Canada and $ 1.4 from the underdeveloped countries.

The total Soviet export to all destinations in 1969 were approximately $ 12 billion, too, that is, what these 187 US companies exported, *only* in manufactures and *only* from their West-European and Canadian subsidiaries.

In the most developed of the underdeveloped areas, that is Latin America, these 187 US companies were responsible for approximately 40% of the total Latin-American exports of manufactures. If you add to that the exports of all other smaller American companies, plus all the West-European and Japanese ones who are active in Latin America, it seems likely that, at least, 75% of all Latin-American exports of manufactures are handled by foreign multinational companies.

This is by no means an ideal picture or something which should be striven for. This is neo-colonial dependency in a very high degree. Here the

trade-off I spoke about earlier has clearly become too one-sided from the point of view of the underdeveloped countries.

But, those figures do illustrate one thing and that is the interconnectedness between ownership and foreign economic relations. It is almost hopeless for an outside competitor to press himself into this type of "international trade", which often is nothing but an intra-company transfer in an enterprise integrated from the raw material base in the underdeveloped countries to the retail outlet in the rich Western nations.

One way for the East-Europeans to achieve the much desired increase in the export of manufactured goods is certainly to get connected, in one way or another, to this framework of intra-company trade.

B. The second consideration in this context is that *formal* ownership in Eastern Europe is something that is close to taboo, even to discuss.

Not completely taboo, as some small private enterprises do exist in manufacturing, and as large private agricultural sectors still are to be found. But, even so, formal ownership is something that is not likely to change very much in the foreseeable future.

If an individual Soviet or Hungarian citizen cannot own a factory, it seems to me pretty inconceivable that a private foreigner will be allowed to do it. This, I guess, is what the foreign business partners must reckon with. Even if there has been some change on this point recently, indicating that joint companies could be set up with foreign capital as minority owners up to 49%, or perhaps even 50%, the prevailing intra-Western forms of total integration between different national companies via formal ownership is not likely to come about in East-West relations.

C. From these two observations my third point follows. If the expansion of East-West trade is partly restricted by the present Eastern incapacity to increase the exports of manufactured goods; if increases of such commodities are hard to achieve without relying upon the multinational companies who control much of the marketing outlets; and if such connections are not likely to be created through formal ownership fusions; then the solution to the problem may be found in a flexible handling of the ownership *functions*, according to my little theory exposed above. Even if formal ownership is exluded for Western companies in Eastern Europe, compromises on functional ownership may possibly be achieved in such a way that both sides will become satisfied.

It is here impossible to take up all those functions which are involved, but let me just mention some of the more important ones, to illustrate the practical relevance of my theoretical proposition.

One of the most important functions is that of *management*. Western Europe for a long time believed that its economic inferiority in relation to the United States was due to a so-called technological gap. Studies in the

OECD have, however, indicated that it is much more a question of management gap than of a technological gap. In Eastern Europe all available evidences indicate that you have a management gap in the leadership of economic units, not only with respect to the United States but also to Western Europe. It is self-evident that Eastern Europe is not going to permit multinational companies to take over all management functions over productive units in the Eastern countries. But it is quite possible to consider agreements by which East-European countries could bring in Western management consultants, or train their own managers in the West, or even agree to co-ordinate some important management decisions with the Western ec-onomic partners, with a view to overcome the present deficiencies in the Eastern management functions and co-ordinate commercial strategies.

Another important function is that of *marketing*. As already said, Eastern Europe would gain much if it, in one way or another, could export via existing Western marketing channels. This can be done by subdeliveries of products which are marketed under well-known Western trademarks or even by agreements to produce and export goods unter Western trademarks, profiting from the established advertisements and retail channels.

The Eastern *research and development* is a third area where agreements with Western partners might be highly useful. Estimates indicate that of the research and development expenditures in the non-socialist part of the world 70% is used up by the U.S.A. and 28% in the other OECD-countries, and 2% in the underdeveloped countries. Even if the United States devotes half of its R and D expenditures to the military sector, the 40% which goes to industry is still bigger than the total West-European R and D expenditures. And certainly they are much bigger than corresponding expenditures inside Eastern Europe, devoted to the development of non-military commodities. Thus Eastern Europe could greatly benefit by co-ordinating their relatively small R and D expenditures with those of their Western partners.

Distribution of *profits* is also a function which could be used to improve East-West relations. Even if the East-Europeans are not willing to let a Western partner own more than 49% of the capital in a joint venture inside Eastern Europe, it should be possible — and it has been reported that it has actually been done — to let the Western partner get up till 70% of the profit of such a joint venture. In that way the ownership would correspond to the Eastern wishes, and the profit, which is the thing that really interests the capitalists, would correspond to Western wishes. Capitalists can be brought to do almost anything if they are offered good profits!

A function which is mainly of interest to the Eastern partner is that of *economic planning*. I do not see, however, why it should be impossible to take into consideration in the planning process any types of long-term agree-

ments of the sort discussed above. With a little bit of good will the bureaucratic inertia should be possible to overcome.

What is more, if you in Eastern Europe worked out the possibilities for each and every here relevant ownership function; considered how much you would be willing to share with a foreign partner on each of them; and drew all the functions together in a coherent pattern for bargaining; then, I believe, it would be possible to create that flexibility which would help you to retain at least 51% formal ownership and to keep away from all accusations that your are going back to capitalism. In this manner you could not only create a desired flexibility in the system but also, in fact strengthen the socialist system which you have chosen.

This may be a good way to balance off the desire for both economic efficiency and economic independence; to avoid the harmful political results of the "demonstration effects"; to counteract any "natural" tendencies for the economic gap between East and West Europe to widen; and possibly even to close the presently existing gap.

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ПРОБЛЕМЫ И ПЕРСПЕКТИВЫ ЭКОНОМИЧЕСКИХ СВЯЗЕЙ МЕЖДУ ВОСТОКОМ И ЗАПАДОМ

Г. АДЛЕР-КАРЛСОН

За последние годы нередко наблюдался ярко выраженный оптимизм по вопросу развития экономических связей между Востоком и Западом. Несмотря на несомненное расширение этих связей, автор все же не предполагает значительного роста темпов этого расширения и увеличения удельного веса торговли между Востоком и Западом в мировой торговле.

Данное мнение основывается на целом ряде соображений, с большинством из которых, как правило, согласна вся специальная литература. Однако, автором приводится и точка зрения, которая уж не так общепринята, а именно, он считает, что страны-члены СЭВ могут рассматриваться как группа стран, находящаяся между более богатыми странами-членами ОЭСР (Организация по экономическому сотрудничеству и развитию) и неразвитыми странами южной части континента. Исходя из этого, затруднения, имеющие место в отношениях со странами ОЭСР, являющиеся общими для развивающихся стран, могут быть, хотя и в меньшей степени, действительны и для стран-членов СЭВ. Данным обстоя-

тельством, отвлекаясь от различий в идеологии указанных двух групп стран, может объясняться небольшой удельный вес участия стран-членов СЭВ в мировой торговле.

Другой проблемой, связанной в первую очередь не с различием в общественно-экономических строях этих стран, является то, что стремления к достижению уровня сравнительно более развитых стран (путем импорта технологии и know—how), как правило влечет за собой частичную утрату суверенитета и национальной независимости. Это относится ко всем странам. В современном мире полный суверенитет — иллюзия. Социалистические страны имеют весьма обоснованные исторически причины (систематические попытки западного мира воспрепятствовать развитию социалистических экономик посредством различных форм экономической холодной войны) не желать чрезмерной зависимости от Запада в результате импорта такого рода. Однако в настоящий период становится общепризнанным, что экономическая эффективность в Восточной Европе может быть повышена при перегруппировке части внешнеторгового оборота в рамках СЭВ в каналы отношений между Востоком и Западом.

Однако возможность такого изменения зависит от гибкости этих двух систем в преодолении как институциональных различий между двумя системами, так и порою имеющих место идеологических антипатий. Автор склонен считать, что страны-члены СЭВ находятся, по сравнению со странами-членами ОЭСР, в менее благоприятном положении при переговорах, так как последние могут требовать от социалистических стран большей институциональной гибкости, предполагая, что они действительно заинтересованы в развитии экономических связей с Западом.

Хотя новые формы прямого промышленного сотрудничества между Востоком и Западом и показывают многообещающий путь, все же объем восточно-западных соглашений такого рода составляет лишь незначительный процент соглашений, заключаемых во все большем числе между западными странами. Таким образом, разрыв в объеме сотрудничества и впредь может возрастать, указывая на то, что социалистические страны все еще не используют все возможности по повышению эффективности их экономик путем сотрудничества с Западом.

В заключение автор рассматривает вопрос о необходимости большей гибкости социалистических стран как в институциональном отношении, так и в сотрудничестве с капиталистическими странами. Если собственность толковать как «совокупность всех функций собственника по владению обладаемым им объектом», что является первоначальным определением данного понятия в римском праве, то эта большая гибкость в институциональных соглашениях привела бы к расширению связей между Востоком и Западом, и это отнюдь не поставило бы под угрозу социалистический характер стран-членов СЭВ. Повышение производительности труда и экономической эффективности являлись бы результатами, как раз укрепляющими социализм в Восточной Европе.

Acta Oeconomica Vol. 9 (3—4), pp. 259—286 (1972)

O. GADÓ

THE DEVELOPMENT OF PLANNING AND MANAGEMENT METHODS IN HUNGARY

On the occasion of the 25th anniversary of planning in Hungary the author reviews the development of Hungarian planning and management methods over the past quarter of a century.

The development of planned economy, of the planning and management methods used in Hungary cannot be surveyed in a single study without certain limitations:

— development had to be outlined without using the methods of economic history, analysing documents and quoting the relevant decisions;

— planning and management methods are closely interrelated with, and even depend on, prevailing economic policies, yet I did not want to set myself the aim of describing — under the pretext of the development of methods — the development and changes in the economic policies of these twenty-five years (though, naturally, I will frequently refer to interrelations with economic policy).

I think, however, that it is quite natural to deal more extensively with the methods used after the reform of economic control and management, introduced in 1968.

The first steps

The beginnings of planned economy reach back to August 1947, when the National Assembly adopted — on the initiative of the Hungarian Communist Party — the Three-Year Plan, the major objectives of which were met, as is well known, by the end of 1949, that is, in two and a half years.

This Three-Year Plan aimed at the reconstruction of the Hungarian economy afflicted by the war and, therefore, material and financial resources and even public interest had to be concentrated mainly on the realization of investment goals.

At the beginning of the Three-Year Plan the overwhelming part of industry was still privately owned and thus the planned course of development had to be influenced mainly by the direct credit policy of the National Bank of Hungary, through the refinancing of the major banks.

In March 1948 the industrial enterprises with over 100 employees were nationalized, and thus direct state ownership soon developed a more concrete framework to planned management. It is worth while remembering that the first tools of state control were — apart from development problems — the financial plans of the enterprises as early as in the summer of 1948. These were discussed first each month, then every quarter, checked against the Three-Year Plan mainly with respect to investments and then approved. In the early days these plans were the first surveys of the nationalized economy and were used to regulate it to a certain extent, mainly to secure order. Thus, control was initially exercised through monetary and credit management; this role of money was pushed to the background only later on in the first period of the livelier development of planning in physical terms.

It was characteristic of financial plans, that enterprise management was conceived on the model of budget-financed bodies. Both receipts and expenditure had to be planned and approved by major titles, so-called headings and subheadings. It soon became, however, clear that this form of control and management did not suit the substance of enterprise management, and the frequent — often ulterior — modification of the subheadings also brought to the fore the bureaucratic elements of control. At that time we did not sufficiently know the "khozraschot" system applied in the USSR, which finally became and has since remained the fundamental form of management of enterprises as separate units of public property.

In the first period control was — justifiedly — highly centralized. The above-mentioned financial plans, and through them the implementation of the three-year plan on the enterprise level, were supervised by the Business (later: Enterprise) Financial Committee organized by the Supreme Economic Council. This Committee consisted of representatives of the economic ministries (initially few in number), the Ministry of Finance and of the National Planning Office (organized in 1947). The secretarial tasks were gradually taken over by the Ministry of Finance. The Committee dealt with the problems of sectors, industries and enterprises, played an economic organizational role and regulated the relation of enterprises with the budget.

The Credit Council — functioning under changing names — decided individually on the credit applications of enterprises. (After the nationalization of the banks in 1948 the financing of enterprises became practically centralized in the National Bank.)

Soon upon its organization the National Planning Office drafted a comprehensive plan covering the whole of the economy and the entire reproduction process, and broke down the Three-Year Plan into shorter periods and by topical problems. Owing, however, to the given stage of economic development, to the rather slow emergence of the control apparatus and to the insufficiency of information in those days, the National Planning Office could

not devote serious attention to anything but investments. The non-enterprise investments — or the foundation of some new enterprise — were initiated by the Planning Office with the Ministry of Finance responsible for compiling its budget. In the enterprise sphere the plan targets were implemented mainly with the help of investment credits.

Thus, the first steps of planned economy were relatively rudimentary and mainly of a financial nature. Centralized control was characterized by the secondary role accorded to the "physical" approach. Moreover, financial control was wholly centralized, and even the primitive forms of material incentives (director's funds, premia) developed only by the end of the period.

The First Five-Year Plan (1950—1954)

In spite of the rudimentary nature and deficiencies of the control methods applied in the Three-Year Plan, it was a great success. Our own experiences and a closer acquaintance with Soviet practice resulted in a five-year plan — sanctioned by Parliament in Act XX:1949. — This was already much more like the later plans of the emerging planned economy. Socialist state administration gradually assumed a definite shape together with the division of labour and of responsibilities among the controlling agencies so indispensable in a planned economy.

In the period of industrialization, the First Five-Year Plan was highly investment-centered. The actual operative control of the economy was based on the annual and quarterly plans. There were many formal elements, particularly in the quarterly plans (e.g. the lag of the preceding was added to the next quarter, rendering it unrealistic from the outset).

By its complex character, the plan provided the opportunity for the emergence of new forms of control. The most characteristic new feature of planning was that the physical, and primarily quantitative, approach came to the fore. The Planning Office aimed at planning the reproduction process in every detail and to control the national economy mainly by determining the quantities to be produced and by allocating them in a wide area. If differences emerged in implementation, efforts were made to achieve planned development mostly with the aid of new indicators and measures complementing the plan.

Quite naturally, this approach to planning gave birth to the control relying on instructions. The fundamental tool for implementing the plan was created by breaking down the complex national plan to the economic units.

Yet, *within* the state machinery a particular decentralization evolved: the proliferating economic ministries obtained wider management authority; the tasks and the means of the plan were determined by the Planning Office

for each ministry, and were then "broken down" to subordinated organs by the ministries. (I will not dwell on the rather frequent and diverse changes in the system of lower bodies, organized between the ministry and the enterprises, bodies of an administrative nature, constituting a step in breaking down the plan.)

In a system where tasks and means were determined in physical units of measurement, the role of finances was restricted to helping the implementation of the plan by making available, more or less automatically, the means of financing and to signalling deviations from the plan. Also the tools of material incentives (mainly premia, but partly also the director's fund) were related to plan fulfilment.

It follows from the "physical" approach that the value of gross output was computed on the basis of about 4—5 thousand major products (marked by two letters and two figures, the former generally indicating the releasing industry, the latter, the group of products). The production and allocation of the products were broken down, as obligatory indicators, to the addressees: the ministries and then to enterprises. Investments were planned in a more aggregate form, only according up to the two letters, i.e. the industries.

Owing to the diverse indicators which were difficult to synthesize, the value of gross output obtained a particular role and importance in industry. Though this indicator was intended to serve as a summary expression of volume, it also became the cause of many distortions (deterioration in quality, production of unnecessary goods, unjustified extension of co-operation — in general, of cumulation, etc.). As a result, the interests of economy and efficiency were pushed to the background, though prime cost reduction, productions costs and profits were always to be found among the multitude of plan indicators and, in fact, their fulfilment was linked with certain financial consequences.

The use in planning of a complete system of national economic balances started in 1951, although in a relatively simple form.

The physical approach and the ambitious economic objectives involved the necessity of a relatively wide-ranging central system of material allocation. If, namely, the objectives of the plan are high and if the individual enterprises concentrate on the implementation of their own plans — the more complicated the developing internal relations of production become, the greater the chance of shortages cropping up here and there.

The well-known thesis that the driving power of progress consists of needs exceeding possibilities, raised the practice of "shortage economy" to the status of a theory. In practice, obviously, this thesis suffered strong distortion. It was clear, already while planning, that there would be shortages in some products. These, therefore, were rationed, allocated, yet the shortage could not be prevented and this led to serious distortions.

Such a situation developed particularly in 1951 when the targets of the five-year plan were considerably raised, the growth of manufacturing in the plan period was set at 210 per cent instead of the original 86, and the growth of productivity at 92 per cent instead of 54 per cent. Investments were similarly raised to a considerable extent, from 50,000 to 85,000 million forints. The economic conception of the plan to become "a country of iron and steel", pushed the heavy industry — or rather sector "A" of industry — to the fore to an extent exceeding both our domestic possibilities and investment capacities. The other sectors were necessarily pushed to the background, leading to the neglect of agriculture and that of the light industries, of infrastructure in general, and even of the regular raising of the living standards of the population.

Even agricultural planning and control relied on administrative measures. In 1951 the share of the socialist sector in agriculture did not reach even 30 per cent, and the share of the producers' co-operatives, brought about in later years mostly by coercive measures and hardly supported materially, also lagged behind the planned level. Here the breaking down of the plan took the form of "obligatory delivery". The procuring agencies of the state paid prices much below the value of the products delivered.

In compliance with the general system, the planning of investments also bore the marks of the physical approach. Together with the financial estimates, the products necessary for implementation (e.g. machine tools and other equipment, building materials etc.) were also subject to allocation. But, owing to the unrealistic targets, quantities that could not be procured either from domestic production or from imports came to be allocated and the exaggerated investment projects could thus not be realized.

The overambitious ideas affected the targets of foreign trade as well. Setting out from the calculated growth of production, the First Five-Year Plan reckoned with a continuous surplus in the balance of trade, trying to secure it through an obligatory allocation system and export tasks determined by products. Owing, however, to the exaggerated stepping up of production targets, the foreign trade plan could not be implemented either.

Price policy complemented the system of planning and control. The determination of prices was entirely an administrative task, but the theoretical basis of the price system was not given an economic formulation. The price reform of 1951, however — while abolishing rationing — served as an economic coercion against the peasantry, secured great accumulation for the development of industry, and established the price system of cheap foodstuffs and services and of expensive industrial products — the full correction of which could not be achieved to this very day.

Were these planning and control methods good? Without claiming that *this* extent of centralization, and *such* preponderance of the physical approach

can ever be expedient under peaceful conditions, it must be clearly seen that

- in the given situation and at the development level of the Hungarian economy,
- with the given general qualification of staff at all levels,
- amidst the tension elicited by the Korean war and by other international events (perhaps even exaggerated),

some degree of strong centralization of control was a necessity. The fundamental factor responsible for the unrealistic exaggerations of the control methods was the overtension of aims in economic policy. In addition, the atmosphere of general political mistrust, inspired from above, also engendered central commands, and this again necessitated strict administrative control. Even material incentive was embodied rather in fear of disadvantages.

The hesitations and repeated changes in leadership starting in 1953 within the Hungarian Workers' Party, and particularly the new economic policy announced in 1954 only contributed to internal difficulties of a disrupted economy by the end of the first five-year period — mainly by stopping some investments, dissolving a large part of the agricultural co-operatives and by differences in opinion among the leadership of the party.

Without a five-year plan: counterrevolution, and a new reconstruction period (1955—1960)

Considerable results were achieved by the national economy, mainly in industrial production, also in the period discussed in the preceding chapter. Yet the further planning and control methods were influenced rather by the grave disproportions and distortions emerging from the acceleration of the five-year plan.

How can the situation be characterized? The drawing up of the five-year plan for 1955–1959 was on the agenda, yet — owing to the economic disproportions and to the well-known events of internal policy — it had to be abandoned.

On the other hand, mainly to counteract the economic failures — various ideas of rationalization emerged. Accordingly, new producer prices should have been established and measures worked out for strengthening the independent accounting of enterprises. The number of compulsory plan indicators was meant to be reduced, together with bureaucracy, also changes in the staff and organization of the government machinery would have been welcome. These ideas were the reflections mainly of the economic difficulties and debates about internal policies but without a definite economic or political background.

In the final analysis, the years 1955—1956 were characterized by fluctuations in production and by a growing neglect of efficiency. On the whole,

control relied on the annual plans and on shorter-term measures. But co-ordination was insufficient, the individual chapters of the plan lived, as it were, their independent lives: the plans of technical development, of investment, of production and of cost reduction were detached from one another. From the point of view of the development of planned economy this would be enough to characterize the period, which ended in the counterrevolution.

Development started again after the defeat of the ignominious counterrevolution, with the creation of political stability, with the start of regular productive work and the controlling activity of the state machinery, that is, practically in mid-1957.

But as soon as power relations were unequivocally settled, the Hungarian Socialist Workers' Party and the Government initiated an economic project of a character that would have been inconceivable before. In the so-called Economic Committee a large number of specialists discussed and worked out many ideas that were to materialize ten years later, in the reform of the economic mechanism.

It was, however, obvious that once the problem of political power was settled, the work of the economy could not be organized with long-term reforms involving social effects, but only with purposeful, quick and efficient central measures serving the correction of economic mistakes. It was in this sense — essentially conforming to the earlier practice of planning — that the Second Three-Year Plan, for the years 1958—1960, was worked out.

Without fundamental changes in the planning and control methods used — partly relying also on the work of the above Committee — a few alterations of importance for the future were made:

— It was decided to regard the approved (annual or three-year) plan as a yardstick for measuring plan-fulfilment. This did not, of course, exclude in principle the possibility of modifying the plan, but since 1957 this has not happened. Thus, the government may decide that a deviation from the approved plan is necessary, but this does not amount to a simultaneous modification of the plan itself. In the course of accounting and reporting the starting point is always the plan, and deviations must be justified. Accordingly, the role of the approved enterprise plan strengthened also in breaking down the plan.

True, after some time, on the basis of various necessary deviations, the practice of the so-called "plan correction" developed, eventually distorting the prevalence of the correct principle. Still, the laying down of the principle and its practical application meant a strengthening of the controlling function of the plan, and this increased the seriousness of ulterior reporting (accounting) on every level.

— In practice, the annual plan became the shortest period of the state plan. The abandonment of monthly and quarterly plans already reflected the

realization that the national economy cannot be conceived as one *single* enterprise. Owing to the increasing complexity of the internal relations of the reproduction process, central interventions required deep-going analytical work, preparation and adequate time. By abandoning the monthly and quarterly plans, greater care had to and could be devoted to the analysis of economic development. Though, owing to established practices, this was not easy to achieve (as it is simpler *mechanically* to confront plan and fact figures) yet this was an essential element of further economic development.

— It was in this period that the first attempts were made in economy-wide economic planning to solve complex intersectoral problems in an organized manner, to fit these into the framework of the plan. Thus, e.g., without securing the requirements in materials, and component parts of more advanced products, technical progress could not be planned efficiently.

— Also the first steps towards collating the plans among the CMEA member countries were taken in this period. In practice this meant the collating of the mutual deliveries of some important products, although the major partners had already adopted the practice of informing one another about their plans in detail.

— The reform of producers' prices was implemented with January 1, 1959; it abolished the earlier losses of the extracting and basic-material industries, raised producer prices by 54 per cent and consistently limited the role of turnover taxes to consumer prices.

— Profit-sharing as an incentive for the enterprise collective was introduced as early as in 1957. The system made the whole collective interested *in raising* profitability (expressed as the quotient of the value of profits and output). It became, however, soon clear that the fundamental incentive for workers are wages, and profit-sharing can only be a complementary factor. The choice of the forms of wage payment became the right of the managers, and the exaggerated use of piece-rates was reduced.

— The so-called average wage regulation applied from the beginning of 1958 meant an essential change. Owing to the failure of the — sometimes changing — sanctions attached to the relative wage-fund control (proportionately to production) this was abandoned. In the course of the average wage regulation the extent to which the enterprises could increase average wages was established for them, in principle in a differentiated manner, in practice almost identically. In addition, the number of the staff was regulated at times in a different manner. At any rate, this measure withheld enterprises from the exaggerated overfulfilment of the "indicator" of gross output which frequently had detrimental effects, and also forestalled distortions in relative wages.

— In harmony with the above, the principles relating to the revision of work norms also changed. Prior to 1956 the revision of norms was intended

to correct distorted relative wage proportions as well — always in a centrally directed manner and always connected with reductions in wages — and this was one of the causes of discontent. Together with a rise of about 20 per cent in wages in 1956—57 it was set down that the norm must be such as can be fulfilled with normal efforts by a worker of average capacity; it was also established under what conditions a manager is obliged to change the norms of a plant — to keep them up-to-date — in a way which must not involve reductions in earnings. (Since then, the only wide-scope revision of norms took place in 1961; it was centrally ordered and controlled, and resulted in no reduction in earnings.)

— The separate chapter of the plan on technological measures gradually lost its importance after 1957. The objectives and instruments of technological development are now reflected in the other chapters of the plan (mainly by investments). On the other hand, the effects and requirements of technical progress came more and more to the fore. Thus, the idea of complex programmes, of technical-economic conceptions started maturing. (In the end all this found its place and growing role in national economic planning beginning from 1968.)

— Though I wish to refrain from discussing special features of individual branches, I have to stress the measures taken with respect to agriculture. As an early idea of the later reform of the economic mechanism, obligatory delivery was abolished at the end of 1956 and the contract prices applied in procuring agricultural products were raised. Since many co-operatives dissolved and small agricultural holdings again became important factors after the counterrevolution, the obligatory plan instructions were gradually abolished, with the exception of the state farms. (Only the compulsory prescription of the area under bread grain was maintained till 1966.) Instead, a control system relying on prices, credit, state subsidies, that is, on indirect methods, developed. These methods led to considerable results in agriculture and laid the economic foundation for the confidence which in 1959—1961 resulted in the voluntary — and now final and successful — socialist reorganization of agriculture.

The measures listed above were related to control. The planning methods remained on the whole the same. A new feature, however, was that the new economic policy — having learned from old experience — felt the necessity of more realistic analyses and thereby prompted more realistic planning. The Planning Office also made efforts to neglect unnecessary details and piecemeal indicators. It was a new feature of planning that in 1959 the input-output table was used for the first time — in connection with the transition to new prices. (The first statistical input-output table was compiled for 1959.) Since then the compilation of the input-output table has become an integral part of planning and an indispensable tool of plan co-ordination.

As can be seen, the new political atmosphere created by the HSWP, the new economic policy evolved on the basis of a critical analysis of earlier years, and relied on Hungarian endowments, on close co-operation with the Soviet Union and the other member countries of the CMEA, it had an enlivening and fertilizing effect on the methods used in planning and control. Meanwhile, the objectives of the Second Three-Year Plan, covering essentially a new reconstruction period, were substantially overfulfilled thanks to a faster improvement in domestic performance and to the many-sided help o. the socialist countries. These three years were not only those of reconstrucf tion, but also became the foundation for further fast development as well-

The Second Five-Year Plan (1961—1965)

As a result of the development described above, the Second Five-Year Plan was drawn up at the end of 1960. This was the First Five-Year Plan really to serve as a basis for implementation and remain in force unchanged throughout the whole plan period. The Second Five-Year Plan provided for more moderate quantitative growth and took into account actual possibilities more rea listically. It determined several qualitative requirements: in industry the ma in tasks were the improvement of productivity, the modernization of pro ducts, the improvement of quality, and the raising of the technical level. A major objective remained to develop agricultural production faster and to create the necessary economic, political and organizational conditions in order to achieve this. Relying on a relatively dynamic development, it also prescribed the gradual raising of living standards.

The plan, however, overestimated the possible growth rate of agricul-cural production and failed to draw the conclusion of the socialist reorganization of agriculture in 1961, which required the investment of substantial central means to consolidate the newly established large-scale co-operative farms. At the same time, the plan overestimated the possibilities of cost reduction in industry and thereby the relative growth of national income (in comparison to the gross social product), and this became a source of "over-allocation".

The consolidated relations, the economic policy and its consistent implementation provided substantial help also to the development of planning and control methods. The most important feature was the novel formulation of the relation between five-year and annual plans. The economic policy of the period in question is embodied in the *Act on the Five-Year Plan*. But the Government — which approves the *annual plan* on the highest level — has the right to deviate from the corresponding yearly indices of the five-year plan in the interest of implementing the fundamental objectives of the plan —

and this does not amount to a modification of the five-year plan. Nevertheless, in practice — owing to the deficiencies mentioned and to the cyclical fluctuations in the investment activity — the annual plans continued to serve as a basis for controlling the economy.

An important change in the planning process was the abandonment of preliminary limits and the plan proposals of the ministries based on them. Practice has, namely, shown that the preliminary limits were not considered as final by the Planning Office itself (and thus it made no sense to restrict the ministerial proposals by them), and the plan proposals could not serve as a basis of a consistent national economic plan either. In the co-ordination process of planning essential departures had to be made frequently from the proposals (this led to much bargaining, and finally the ministries felt that the plans relating to them were not their own but dictated). The introduction of "joint planning" was meant to remedy the situation, that is, after having worked out the preliminary limits — but without breaking them down — the Planning Office and the ministries drafted the plan proposal by continuous collation. The ministries engaged in this work most enterprises subordinated to them — essentially with similar methods.

This was the time when the organized collation of five-year plans of the CMEA member countries started. A foresighted collation of the national plans enables these to comprise the mutual commodity deliveries and the harmony between national development objectives to become stronger. This process has become an important pillar in formulating the five-year plans.

The task of multilateral collation was essentially promoted by the bilateral Mixed Committees set up in 1961—1962. Since then these high-level committees have regularly devoted their activities — always on a bilateral basis — to disclosing the possibilities of promoting international co-operation and also to organizing co-operation.

After lengthy debates the idea of continuous ("sliding" or "rotating") planning emerged. In the early stage of the debate the idea of drawing up plans each year — always for a period of five years ahead — was also raised but this soon turned out not to be feasible since

— the addition of a further year without a complete survey of the process would be a mere formality and
— it would be an exaggerated task to survey each year a plan for five years. Nor would information for this be available.

Thus, the idea began to take shape that in drawing up annual plans it was expedient to complement the computations with the data of the next year. As regards the five-year plans it was found expedient to survey in the middle of the plan period the expected fulfilment and — possibly in the third year together with the plan for the fourth year — to formulate the perspectives for the next five years and the conception of development. This

allowed a foresight beyond the current five-year period — indispensible for the adequate control of economic processes.

These elements of planning, which can be considered as lasting, were formulated at the time of the later reform of the economic mechanism, but the first practical steps in this direction were made already at the time of the Second Five-Year Plan.

An essential step forward was, as mentioned, the regular compilation of input-output tables prior to the completion of the plan to secure internal consistency. These tables are called upon to check the interrelations between the detailed computations performed by the individual branches.

Efforts at a rational handling of plan indicators became more and more characteristic in implementation. This consisted in the dropping of superfluous indicators from the central plan, and in granting a twofold right to the economic ministries:

— the aggregate of the plan broken down to enterprises could deviate — generally within centrally determined limits — from the part of the national economic plan addressed to the ministry,
— they were no longer obliged further to break down *every* compulsory indicator and could even substitute others for them.

This gave birth to an interpretation of the relation between the national economic and the enterprise plans — which was to prove efficient — that, within certain limits, the high-level plan need not necessarily agree with the sum of the lower-level plans.

At that time a duality began to emerge according to which planning activity resulted in approved indicators expressing the plan, and also in a wide computation material of which not every indicator was compulsory. In practice, however, this theoretical distinction frequently became blurred, and the computation material of the plan became a compulsory indicator on a lower level.

One important measure taken in this period was the organizational change affecting the industrial enterprises in 1963—1964. As a result, the number of economic units (enterprises) substantially decreased. Owing to considerable centralization, in several cases national enterprises or trusts emerged which comprised entire industries. The control of these large units demanded a higher standard of work, yet permitted a better survey of the national economy, the internal regrouping of assets — among plants and factories belonging to bigger enterprise units — as well as the centralization of the material and intellectual basis of technological development. At the same time, in some cases, owing to superfluous or exaggerated centralization, several big enterprises and trusts acquired a monopolistic situation, the only remaining competitors being artisans, co-operatives, apart from imports.

As can be seen from the above, the control methods did not change essentially, yet some major steps should be emphasized which may be considered as precursors of the later reform. Among these can be listed the introduction of the charge on assets in 1964, implemented at that time without changing the producer prices or the price system. One of the objectives was to stimulate enterprises to utilize efficiently the assets available to them, and that the "single inputs" of the economy, made available to the enterprises in the form of fixed and liquid assets, should have a greater role in enterprise calculations.

In the period of the Second Five-Year Plan several attempts were made to increase the importance of efficiency in enterprise management beside improving the quality of output. The domestic prices were not suited for this purpose, and the prices prevailing in foreign trade were frequently unknown to the enterprises. Since efficiency cannot be expressed by an unequivocal indicator, this factor was pushed to the background in the methods of plan instructions, if only for administrative reasons.

Nevertheless, many efforts were made to give efficiency indicators a role in the decision process on state investments. A separate indicator was used to determine the efficiency of exports. This expressed the domestic inputs necessary for acquiring foreign exchange (minus the related imports) by "cleaning" the inputs from the elements of net income included in them owing to the system of cost accounting. But working out these indicators was very labour-intensive, the "cleaning" could only be approximate, the results were available only *ex post* and could thus have little effect on developing a more efficient pattern of exports. But the principle that it was possible and even necessary to make changes in the pattern of products became generally accepted.

At that time, to make the objectives regarding foreign exchange earnings more efficient, the export delivery obligation of producers were prescribed in terms of foreign-exchange forints (meaning the domestic value of the rouble or dollar sums calculated at the official — medium — rates of exchange). Namely, an overfulfilment of delivery obligations prescribed in current forints did not always yield more foreign exchange. The introduction of the new indicator promoted the idea that the interests of the producers in exports should be related — conforming to the interests of the national economy — to the increase of foreign-exchange earnings.

Most important were perhaps the measures which provided the foundations for the independent financial management of agricultural co-operatives. (These were introduced with January 1st, 1966, that is, at the start of the Third Five-Year Plan.) In its settlement, the most important items were: introduction of accounting for depreciation, of building up depreciation funds, the cancellation of credits the co-operatives were unable to repay (in the

socialist reorganization of agriculture almost all investments were financed with credits, irrespective of creditworthiness), the new system of state supports for investments and ameliorations, and of those granted to co-operatives with unfavourable natural endowments — essentially having the character of supplementing income. Also state procurement prices were raised better to conform to the new conditions. It was similarly clear that the level of agricultural prices was relatively lower in comparison to industrial producer prices and, therefore, an adequate income of the farms could be secured only with relatively lower taxation (e.g. agricultural co-operatives were not to pay charges on assets) and with several kinds of direct support or with indirect ones incorporated in the prices of the industrial articles used — e.g. agricultural machinery, fertilizers, etc.

The important steps taken with the aim of consolidating the common co-operative farms were always complemented with measures relating to the maintenance of household plots and to the development of animal husbandry within the latter. All these combined into a firm basis for the development of socialist agriculture. It also became clear that agricultural farms could be efficiently controlled with indirect methods.

In the Second Five-Year Plan period the factors affecting living standards came emphatically to the fore. While the First Five-Year Plan said that "... the standard of living must rise by 35 per cent on an average", now precise indicators were worked out, and also the necessity of policies for income stratification was recognized. Thus, the relations, dispersion of incomes and factors hidden by the averages relating to society as a whole and even to individual strata had to be analysed. This was the only way in which the objectives of living standard policies could be more concretely formulated.

It was in these years that the Party formulated the objectives of living standard policy: the regular improvement of the living conditions of the population as a whole and also of every stratum, and the achievement not only of a global equilibrium between the income of the population and commodities and services, but also within the pattern of the latter. Thus, the planners had to pay increased attention to problems like the pattern of consumption, the scarce commodities, the elasticity of incomes and of prices of products, the character of the savings of the population, the propensity to save, etc. The growth rate of consumption had to be established with due regard to national possibilities for having a satisfactory supply of goods because of its impact on the social atmosphere, and this was supported by economic incentives.

This principle of general validity was later deliberately complemented with the consideration that a continuous rise in living standards must simultaneously result in a reasonable differentiation of earnings and in a rational equalization of per capita family incomes. This provides a firm basis for

wages policy and social monetary benefits (mainly pensions and family allowances) and for the co-ordination of the two.

The development in 1961—65 was considerable; transitory improvements were due also to changes in some factors of planning and control, yet emerging internal tensions necessitated and justified a fundamental modification of planning and control methods. Underlying these economic changes of unprecedented importance was the resolution taken by the Central Committee of the HSWP in December 1964.

The Third Five-Year Plan (1966—1970), the reform of the mechanism

The necessity of finding new methods followed partly from the economic endowments of Hungary (small area, relatively scarce raw material resources, the important role of agriculture and foreign trade), and partly — as a new circumstance — from the dwindling labour resources of a lasting nature and from the lag in the infrastructural field (whose development has since become a fundamental condition of economic growth). We have to face an intensive development stage of the economy — and particularly of industry. Beside the changes in the macroeconomic proportions of the national economy, a growing role must be played by changes in the microstructure, the fast growth of efficiency and of a flexible adaptation of production to market requirements.

These objectives can be attained most efficiently and relatively fast by applying a system of economic control which properly links central planning to the (regulated) market effects reflecting the commodity and money relations and securing a much greater autonomy than earlier to enterprises. At the same time, the initiative and the creative activity of the working masses must be enhanced, enterprise interests brought into harmony with national economic ones, and interests of the individual workers with those of the enterprises. This will enable the democratic elements of economic control to unfold themselves.

The new system of economic control and management worked out in the course of three years came into force on January 1st, 1968. Although the Third Five-Year Plan covering 1966—1970 could not yet reckon with the effects of the new system of control, the spirit of the reform could be felt both in the objectives and formulation of the plan as well as in the planning and control methods applied in 1966—1967. The methods which later were to become integral parts of the reform, asserted themselves gradually.

The Third Five-Year Plan (1966—1970) was successfully fulfilled: on an average, equilibrium improved while foreign trade increased rapidly, the growth rate of personal consumption and of individual real income accelerated and

— as against fears preceding the reform — full employment was maintained. Consumer prices were stable, the price level increased by 2.4 per cent altogether in the three years following the reform. Internal supply improved both for the consumption of the population and for the material supply of production.

Yet earlier tensions persisted and, in the area of investments, even increased.

As was the case with every earlier full-scope revision of producer prices, enterprise profits exceeded the planned ones also in 1968. In spite of this, thanks to circumspect regulation, no serious problem emerged in respect of personal incomes. Undoubtedly, however, the greater profits than planned did not make the solution of the investment — and budgetary — difficulties any easier and the situation following the introduction of the reform was more favourable for enterprises than had been initially assumed.

The scope of the present study does not allow to go into the minor details of development. I also assume that the general principles of the reform — and even the substance of the methods used in the course of control — are known. I consider it, however, important to review a few elements of the planning and control methods which I deem most important for our main subject.

Let me note that the generally accepted terminology is used in this study: I speak about planning when I mean the process of drawing up the plan, while the plan is the final product of the process. Within the concept of planning we distinguish the document approved (Act of Parliament and the government resolution securing its implementation in the case of the five-year plan and the government resolution in the case of the annual plan), the computation material of the plan and the legal instruments (decrees and resolutions of government, decrees of ministers and instructions by secretaries of state) which comprise the measures and regulators of plan implementation. Similarly, since the so-called indirect means of implementation came to the fore after the reform, it is more expedient to talk about plan implementation than using the general notion of plan-fulfilment, though the latter is still used in literature and common speach.

a) The reform changed the relationship between the plans covering different periods. In the coherent system of national economic plans, economic control and management relies on the five-year plan. A five-year period can still be concretely surveyed, yet it is long enough to register the effects of the conception aiming at the development of the economy and at its structural transformation. A five-year plan, the computation material of which covers the entire economy, comprises the main objectives of development and its requirements. The aims formulated in the plan and the complex system of means serving their attainment is organically complemented with the system of economic regulators, coordinated in method and extent; these influence

(regulate) the decisions of the enterprises and the market in order to achieve the planned development of the national economy under their combined effect. An important stage in drawing up the five-year plans is their collation with the CMEA member countries. In the period of the Third Five-Year Plan this assumed more organized forms than before.

Beside the priority of the five-year plans, the annual plans also have a novel task: the aim is to survey the development of the economy in its entirety each year (as mentioned, together with the year immediately following it), and, if necessary, to take operative measures for changing the tendencies that deviate from the objectives of the five-year plan or have a detrimental effect on the equilibrium situation of the national economy. Thus, the annual planning is also a complex task but does not determine the objectives and proportions of development; it rather examines the tendencies of economic processes, assessing, to a certain extent, the business trends and, if necessary, initiating the correction of tendencies, mainly in the sense of strengthening equilibrium (modification of regulations, etc.). But in the interrelated system of plans and regulators some, mainly operative, elements are delegated into the framework of the annual plans.

The long-term plan is also a part of the system of plans. An attempt to formulate the outlines of a 15—20 year development plan of the economy was made in the early sixties. The drawing up of a perspective plan meeting high scientific requirements (for the period of 1971—1985) was started only in 1969.

b) After 1967 the system of plan-addressees (ministries, etc.) was abandoned and where a breakdown is needed, this follows economic branches and industries as units. This was a substantial change in planning and meant that the plan comprised the activities of statistical units (enterprises and co-operatives) irrespective of their supervisory bodies (ministries or councils). This results in economically more stable units and facilitates the building up of longer time-series. In addition, in planning — primarily in long-term planning — problems affecting several branches (as e.g. protection of the environment, motoring, etc.) have also come to the fore.

Such a method of planning necessitates a sharp distinction between the *supervisory authority* of the ministries (rights deriving from social ownership: foundation and liquidation of enterprises, determination of the lines of activity, appointment and dismissal of leaders, appraisal of their activities, issuing of instructions if necessary, etc.) and their *branch responsibility*. The scope of the latter includes the interpretation of economic policy for the branch, i.e. the particular industry, the working out of development concepts, issuing adequate guidelines, the implementation of special considerations in the regulating system in view of the peculiar features of the industry, surveying its development, etc.

According to these considerations the plan of the national economy is a complex one and *is not divided into complex* branch plans (covering every aspect). In our conception, the "branch" has no autonomous decision authority, nor any right to determine the indirect means of regulation. Without these, the essential criteria of the plan are missing. Relying on this consideration, in addition to the national economic plan, plans are compiled only by the economic organs, the councils and the enterprises. (Later we shall come back to the latter.)

The central organ of national economic planning is the National Planning Office. But the functional bodies (ministries or other national agencies covering the whole of the economy in some respect) and the branch (supervisory) organs must participate in this work right from the start. As far as possible, the tasks of the organs participating in planning are concrete and this is a great progress over the earlier forms of co-operation mentioned.

c) Direct decisions (resolutions), indirect economic regulators and other rules of official nature are called upon to serve plan implementation. Direct regulation is related generally to major investment projects; otherwise the reproduction process is influenced by indirect regulation.

The direct decisions relate mainly to such development projects as are of fundamental importance for the structure and development of the economy. Besides, the non-enterprise activities are generally regulated by direct instructions and limits (lower-level decisions are taken here on the utilization of financial limits). Central decisions are understood to mean acts of Parliament, decisions taken by the council of ministers, by ministers, by other national authorities and, with certain limitations, also those taken by the local councils.

Separate emphasis should be laid on the central programmes which prescribe a few objectives fundamentally determining the whole development, the ways of their realization and the means to be used for some longer period. These are few in each five year, e.g. in the Fourth Five-Year Plan there were six such programmes.

d) In compliance with the reform the National Planning Office as a central planning body ceded the tasks of allocating materials and products to the earlier National Price Office becoming now the central body of product-management under the name of National Price and Materials Office.

Material and product balances continue to be drawn up (they number now 90 and 70, resp.) in the framework of planning. They are generally implemented without central interference. In a few exceptional cases (affecting now 37 products) the turnover must be controlled with official allocations (quotas, obligatory trading channels, etc.). These are usually contained in the annual plan. Thus there is the closest co-operation between the Planning Office and the body carrying out the allocation.

A new relationship evolved between planning and crediting mainly in respect of investment credits. The main principles of crediting are contained in the Credit Policy Guidelines adopted by the government. Beside the credits available under the general credit principles — at times and in amounts depending on the objective to be attained — some economic branches, industries or individual development projects are granted separate credit quotas. Decisions on these are also prepared in the framework of planning.

e) I shall emphasize such methodological problems of planning as are characteristic in this stage of development:

— The Central Statistical Office has worked out a new system of national economic balances (accounts) covering the entire national economy, modernizing the categories used in planning as well as the methodology of compilation; introducing a few new notions.* Also the methodology of national-economic planning has gradually approached this system of balances facilitating the use of statistical fact figures and of time series in planning and analysis.

— The increased importance of money and commodity relations has resulted in a greater role of prices and price changes. The planning of monetary processes is increasingly important and so our plans had to be drawn up with due regard to the planned price changes. This requires the accounting of the complex effects of planned official price changes, the prognostication of price changes in the domestic and external markets, and the planning of the multiplying effects of the prince changes. (If the plan intends to show the dynamics of development, it continues to use constant (comparable) prices.)

It need not be emphasized that this novel task — which cannot rely on international experience — has caused and still causes many problems. Yet I am of the opinion that in five-year and annual planning we must not and cannot renounce the planning of current prices, and so the optimum planning of prices must be approached by the common efforts of research workers and practical planners.

— The application of mathematical methods is also gaining ground in planning. What I have in mind are e.g. linear programming, optimizing models which rely on the input-output tables and permit the working out of co-ordinated and then optimized and aggregated variants of the branch development concepts for the plan period. Although in the period of the Third Five-Year Plan these methods were used *ex post*, for checking the traditional planning and revealed the optima after the event, their continuous improvement permits them to be used in the regular planning work in the same way as the input-output table is used for the internal co-ordination of the plan.

* See: [1]

But the mathematical methods are used not only in comprehensive work: research, initiatives and experiments aimed at the mechanization of various partial works greatly contribute to the scientific foundation of our future plans.

With their complexity and speed these computations provide much help to planners, but the mathematical methods and the optima computed with their aid cannot, by themselves, produce a ready-made economy-wide plan.

f) Planning and regulation mutually affect each other, as has been mentioned above. The task of regulation is to secure the development, direction, rate and proportions of consumption and investment, the development of external and internal economy as laid down in the plan; to secure both the economic conditions for the realization of interstate economic agreements and the continuity of domestic supply; the implementation of the development (investment) proportions envisaged in the plan and the planned growth of money wages, etc. Thus, regulation stimulates efficient management and the production of up-to-date and economic products.

Interpreting the harmony between the plan and the regulators in the above manner, it will also be clear that the planned nature of the development of the national economy cannot be simply measured by confronting the planned and fact figures of the various targets contained in the plan. It can only be a starting point whether the direction and proportions of development conform to the planned ones. Therefore, the methods of regulation follow from the general objectives of economic policy, the concrete system of the regulators and much more the measures applied from national economic planning. It is in this way that the planning of regulation becomes the task of the national planning apparatus, taken in the broad sense. It should be thus clear that planning mainly consists of co-ordination, while the issuing of concrete instructions relating to the individual tools of control falls into the scope of authority of the relevant functional bodies.

The planning of regulators should rely on the known effects of the actually functioning control system. Before the plan assumes its final shape the targets, proportions, rates, etc. taken into account in the course of planning and the possibilities of the regulation have to be reexamined since the inner logic of the regulation system mutually affects practically everything. Naturally, the analysis of the operation of the regulation system is a continuous task, as is the permanent observation of the economic situation and of the implementation of the plan objectives. The considerations arising from a continuous analysis as well as the effects of the functioning regulators are taken into account by planners in the modification or improvement of the latter.

Thus, at the end of the planning process, the plan and the regulation developed and modified in the course of this process are in harmony and fulfil the roles of objectives and tools.

The regulating system must be consistent with the plan and help the implementation of the objectives of economic policy set out in the plan. It should be realized that the interests of enterprises co-operating with each other are sometimes contradictory and the desired effect can be frequently attained by a conflict of opposite interests enhanced by the regulation. A rigidly uniform regulation may cause unjustifiedly different economic conditions, hence the special characteristics of the activity of some sectors (and within that: of industries) must also be taken into account in the regulation.

Efforts should be made to use stable methods of indirect regulation enabling the enterprises to think in terms of perspectives and to take risks within rational limits. Since regulation rests on the consistent system of conditions of the national economic plan, in case of a substantial change in conditions (overfulfilment or non-fulfilment) the regulators — or, in all certainty, their extent — can and must be modified. The effect of the regulators is felt in enterprise management with a certain time-lag only and this must be reckoned with in all modifications.

In the final analysis, the uniformity of regulation — interpreted in the above sense — distinguishes between economically advantageous and disadvantageous activities and secures clear economic judgement.

The briefly outlined principles raise some contradictory requirements and, therefore, one of the most important new tasks of control activity consists precisely in the relatively most favourable co-ordination.

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As has been mentioned earlier, council and enterprise (co-operative) plans are drawn up in addition to the national economic plan.

Earlier, the plan determined the development activity of the *councils* in a breakdown by branches — frequently by projects. The budget controlled them in similar detail. Though formally the councils had independent income, in practice this allowed only a narrow margin for autonomous decision. In the course of development it has become clear that the responsibility of councils to their electors requires gradual expansion of the scope of decision of the councils in questions immediately affecting the living conditions of the population (order of development, the way of implementation, etc.). Today the Council of Ministers specifies only a few development tasks of the councils (and also finances them), a considerable portion of decisions and financing coming under the authority of the councils. Their revenues are composed of their own tax collections (to these belong also, as local taxes, a 6 per cent tax on the profits of state-owned enterprises and a one per cent tax on the gross income of agricultural co-operatives) and of the part of centralized revenues ceded to the councils (mainly a part of the charge on assets and the wage tax).

Although the extent of the revenues ceded to the councils is differentiated, the objective of economic policy to eliminate the differences within the country in respects of infrastructural supply cannot be reached without further direct government supports given to the councils.

Thus, the financial regulators limiting the decision possibilities of the councils are designed to secure the regional proportions of the national plan. In addition, the decisions of the councils are guided also by the computation materials both of the Planning Office and the branch ministries.

The role of regional planning has considerably increased. Since this is not limited to the economy of the councils, a lively discussion is going on between the central and the territorial bodies mainly on formulating regional development policies.

The *enterprise* plans are based (together with those of the co-operatives) on government decisions concerning some major development projects, on interstate agreements (mainly within the CMEA) negotiated with the participation of enterprises, on central information given about the national economic plan and its branch details and, last but not least, about the economic regulators. In this way the plans of the ecomomic units can be fitted into the national plan and reflect the ideas embodied in the latter.

In the course of enterprise planning this is done by continuous consultations with the controlling agencies. By the application of the tools reviewed the national economic plan expresses — even without further breakdown — the social requirements necessary for enterprise activity.

Perhaps it will not be superfluous to remind readers of the interrelations I referred to in connection with the earlier development phases, that is, of the fact that neither the hierarchical structure of planning from below upwards, nor the mechanical, rigid numerical interrelation between the national economic and the lower-level plans has existed in the last 15 years in Hungary.

The present method briefly reviewed here aims at developing harmonious relations between the national economic and the enterprise planning activities. (Five-year plans for the enterprises under this system were drawn up for the first time for the years 1971—1975.)

On the whole, the reform of the planning and control methods — the greatest one in our socialist development implemented at a single stroke — has been successful as regards its economic and social implications alike. This is due, last but not least, to the circumspect preparation made with the leadership of the Party, to the good co-operation between theoretical and practical specialists and to the extensive educational activity preceding implementation. The workers and the economic leaders, most affected by the reform, adopted the principles of the reform and — in spite of some deficiencies — their activity was a fundamental factor in the results achieved.

The Fourth Five-Year Plan (1971—1975)

The last stage of the twenty-five-year development ends in our very days.

The five-year plan now under implementation was worked out under the economic conditions created by the reform. The interrelation between planning and the regulating system asserted itself — even if under initial conditions. Act IV: 1970 on the Fourth Five-Year Plan comprises, in the spirit of the reform, the economic objectives of the period, the means of implementation and the main principles of the regulating system.

The objectives of the plan are called upon to secure the building of socialism on a higher level, and this is further served by the instruments of regulation and implementation. The raising of efficiency, the improvement of productivity, rational management of labour and of the assets engaged — these are the major objectives the achievement of which must be attained with the aid of the methods of planning and control reviewed. All this can be based on the results of industrial development reached in the sixties, and on the large-scale socialist farms established and consolidated with deliberate organizing and controlling activity (and complemented with the household farms of the co-operative members).

The implementation of the Complex Integration Program of the CMEA member countries, adopted in the meantime, has also begun. This is intended mainly to improve planned production relations and, in the longer perspective, the role of money and commodity relations.

The planning work, lasting two and a half to three years, was deliberately divided into three phases:

— In the early stage planning was directed at the formulation of initial principles. By relying on the analysis of the experiences of economic growth and of the objective external and internal conditions of possible growth in the plan-period, as well as on the disclosure of the factors limiting development, these principles outlined the possible direction of economic policy and economic growth, together with the character of the variants to be worked out.

— A thorough discussion of the initial principles was followed by the formulation of the plan conception. Planning was characterized mainly by problems of development, international co-operation, the pattern of production and, in general, by endeavours aimed at rendering work more efficient.

Efforts were made to support the formulation of the national economic plan conception with various partial conceptions. As regards productive activities, various "technical-economic conceptions" were worked out partly by the National Board for Technical Development and partly by the branch ministries. These evaluated the situation of important economic activities and formulated ideas about development. Yet they did not fully fulfil their role,

since part of the technical-economic conceptions was not worked out at all or not with the necessary contents, or too late.

The working out of partial conceptions of economic policy proved to be successful (such as the conceptions relating to employment and living standards, to investments, to the development of international economic relations, etc.). These provided useful help not only in the preparatory phases of the national economic plan but — after their further improvement — also for the drawing up of the final plan. However, in the course of the first planning conducted in this way there were no similar conceptions available on some other important partial areas of economic policy (technological progress, regional development, financial, credit and price policies).

The examination of several variants in the course of drawing up the plan conception proved to be particularly useful and important. Two or three basic variants and several further sub-variants were prepared and of course not each of them was found to be of the same value.

— Under the given conditions, the working out of the five-year plan conception was a successful and useful venture. The conception pointed well to the objectives and tasks of economic policy for 1971—1975 and took a stand in respect of every important problem, yet left sufficient scope and possibilities for further planning. The conception was approved in January 1970.

The preparation of the second stage of planning was started in the second quarter of 1969. Considering the relatively short time available and the conditions of those days, we succeeded in giving a better founded and co-ordinated final form to the Fourth Five-Year Plan than the earlier ones had. The experiences indicate that, in spite of some problems in investment activity, development stands on the whole nearer to the targets of the five-year plan than at any time earlier and that by consistently adapting it to the economic policy the Plan Act can successfully be implemented.

Ex post evaluation has shown that it is not expedient, nor absolutely necessary to separate too rigidly the different phases of planning. A phasing may be expedient for reporting to higher bodies and — mainly — in respect of alternative solutions, but in the organization of planning work the phases may overlap to a greater extent.

The methods used in working out the Fourth Five-Year Plan greatly differed from the earlier planning methods. As a result of the introduction of the new system of economic control and planning, the categories of economic nature came to the fore (e.g. by sectors, industries, etc.), a greater emphasis was laid on the planning of income processes, on the planning of prices and, in general, of processes expressed in value terms. These planning methods secured the unity and internal harmony of the various plan computations better than the earlier ones, as well as their linking to the planning of the main economic processes.

Though the methods used need to be improved in many respects, the plan worked out in this way provides vastly improved foundations for reaching a higher level.

The same statement holds for the co-operation of the central planning agency (the National Planning Office) with the functional and sectoral organizations participating in national economic planning in various ways but essentially in every phase of planning.

Finally, in connection with plan implementation, I would like to point out a few topical problems of management, since the methods of planning and control must be improved now by concentrating on the solution of these.

An outstanding problem is the easing of the *investment tension*. For a long time, this tension has been manifest between (mainly building) capacities and current demand. In recent years it was characterized by the fact that the rapid growth of investment activity exceeded our possibilities, that — in spite of considerable additional costs — investments got protracted and their efficiency was not satisfactory. We now intend to remedy the situation — regarding both government-financed and enterprise self-financed investments — by restricting the start of new construction and concentrating thereby capacities on the completion of projects in process. In addition, financial responsibility for decisions (for planned and actual costs, and for yields) must be enforced.

The further evolution of the reform also requires us to reduce the overlapping of decisions (state and enterprises) and also in financing resources, as well as to enhance flexibility of the enterprises to adapt themselves to market requirements — mainly in industry and in distribution.

The investment tension demands that planners assess more realistically the monetary resources available for development, their use for financing investment into fixed or liquid assets, as well as the changes in investment prices and costs, by carefully surveying the various factors affecting the said processes, providing thus a reliable foundation for regulation.

In the course of further development the exaggerated determination of the plan telling on the decentralized financial resources must be reduced, the possibilities of extending credits increased and their selecting role relying on profitability strengthened. All this means that the plan must reckon with considerable reserves on every level.

Another essential point where tension arises in the economy is the *state budget*. Since only 60 per cent of enterprise profits go to the budget, while 100 per cent of other net income elements are paid in, the deterioration was partly due to the fact that the share of profits within the total net income originating in enterprises increased at the expense of the other net income elements (e.g. charge on assets etc.), and partly that the increased investment activity raised the claims on the budget. In addition, the regular increase

of living standards required the growth of operating costs of the budgetary institutions and of social insurance expenditure in excess of that of the national income.

To counterbalance these effects in 1971 the centralized part of profits had to be increased — to an extent still tolerable for enterprise incentives. The remaining deficit in the budget was then financed from credit resources (even at the expense of restricting crediting activities). A final solution may be expected partly from a vigorous increase in the efficiency of economic activity and partly from the gradual reduction of the exaggerated budgetary support which still is frequently to be found in the enterprise sphere.

Though *prices* developed on the whole according to plan, this could only be achieved with repeated and substantial central interference (mainly by financing the cost-increases of some, mostly imported, articles from the budget). Contradictions developed between the enterprises applying more liberal forms of pricing and those selling at officially fixed prices or at prices fixed among socialist countries by longer-term agreements, when these enterprises came into contact or started competing. In view of the importance of the development of consumer prices and their role in the entire regulating system, efforts must be made, beside operative control, to solve better the theoretical problems involved.

The problems of the *balance of trade* arise at times in different ways: though development in 1968—1972 can be described on the whole as satisfactory, in future particular attention must be paid to expanding the export-potential of the economy and to counterbalancing the growing import requirements.

Foreign market effects should have a more consistent influence on domestic price and cost relations. At the same time, it must be kept in view that — although the connections of Hungarian economy with the socialist economies are much more important than those with the rest of the world — trade with non-socialist countries is also considerable. An optimal harmonization of the two kinds of effect is an important task of regulation at any time.

Though the *productivity of labour* has significantly improved in recent years, further deliberate improvement is an indispensable condition of development. It is necessary, therefore, to change the present relative cost relations of the factors of production (labour and capital) according to the requirements of the intensive stage of development, and to accelerate technological progress and its qualitative improvement by using material incentives.

Since 1967, most changes in the regulators have been related to the *wage management* of state enterprises. The basic principle of the regulation is that the rise in average wages is linked to requirements. These were originally defined in terms of profits, and later essentially in terms of raising profits. The director of the enterprise has — in agreement with the local trade union

committee — wide possibilities of transfer between raising wages, paying profit shares and allocating sums for social and cultural purposes within the enterprise. No doubt, this seems to be perhaps the most difficult point in our regulating system and one burdened with the most internal contradictions. It seems that we have not yet succeeded in solving the contradictions adequately in the Hungarian system of regulation (and in this respect we do not differ from the other CMEA member countries). The possibility of better solutions is being sought in further development.

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Reviewing the development of the 25 years we may say that since 1957 the planning and control methods have continuously developed in the wake of a consistent economic policy.

The reform was born from the economic policy in the preceding ten years and from the planning and control system of that period, it strengthened the positive elements of practice in these ten years and wanted to provide tools for the liquidation of the deficiencies disclosed.

Throughout the whole period efforts have been made to observe the peculiarities of the Hungarian economy and to adopt whatever we could from the practice of the friendly socialist countries.

The planning and the controlling-regulating system developed in 1968 constitutes a version of socialist planned economy, adapted to the circumstances of Hungary and relying on the combined effects of central planning and of a regulated market. The system has proved its viability, efficiency and, under the present conditions, it is definitely better suited for implementing our objectives of economic policy than the old one was. It may be assumed that the gradual evolution of the economic integration of the CMEA member countries will influence the economic mechanism of every country, and, at a higher level of integration, the methods of the individual countries will approach one another.

The present methods impose increased responsibility upon the makers of the national economic plans for the reality of the plan, the complex interrelations between targets and means, as well as for a consistent modification of the existing system of regulation in harmony with planning.

The initial results of the reform encourage and oblige us to eliminate the methodological deficiencies mentioned in this study, to search for better solutions in order to implement more consistently the principles of the reform laid down in 1967. The system outlined in this study is not a rigid one; it can and should be improved with the aim of strengthening the elements of planning and control.

The economic development in the last 25 years is of historical importance, the way covered by planning and the control methods allow us to be optimistic

as regards continued fast development and enable us to secure further successful progress in the Hungarian economy with the aid of efficient management adapted to our consistent economic policy.

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РАЗВИТИЕ МЕТОДОВ ПЛАНИРОВАНИЯ И УПРАВЛЕНИЯ В ВЕНГРИИ

О. ГАДО

Автор настоящего очерка обозревает отражение экономической политики истекшего двадцатипятилетнего периода в развитии методов планирования и управления. В результате макроэкономического подхода к проблемам и характера концепции автора особый акцент получают те взаимосвязи, которые в 1968 году привели к коренной реформе методов планирования и управления.

Первые две главы охватывают период до 1966 года. На этот период приходится переход к плановому хозяйству, период первого пятилетнего плана (форсированная индустриализация, преобладение натурального подхода), контрреволюция, восстановительный период, выполнение второго трехлетнего плана, третья пятилетка и т. д. Автор охватывает все существенные с точки зрения развития методов планирования и управления моменты рассматриваемого периода и при тщательном учете финансовых аспектов во многих случаях представляет их в новом освещении.

Основное внимание автор уделяет методам, применение которых началось после реформы системы управления народным хозяйством в 1968 году. Помимо обобщения изменений в системе народнохозяйственного планирования, плановой работе, он сравнительно подробно останавливается на организационных переменах и изменениях функции планирования на уровне предприятий и местных советов. В последней главе, посвященной IV пятилетнему плану (на 1971—1975 гг.), производится общий обзор актуальных проблем планирования и управления и указываются важные вопросы, которые еще предстоит решить.

Acta Oeconomica Vol. 9 (3—4), pp. 287—304 (1972)

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CAPITAL-LABOUR SUBSTITUTION*

The article presents the limits in Hungary to substituting machinery for labour under the conditions of the economic regulators operating at present. In the author's view, the need for saving labour by mechanization ought to be higher in Hungary than in the developed capitalist countries. The regulators now in force hinder this process. The unrealistically low tax on wages and the exaggerated burden on capital work to this effect; the price level of consumer goods is much lower than that of machinery. Also the generally applied wage-level regulation has an unfavourable effect, together with the fact that only a relatively small part of the additional yield of investments is available to enterprises for repaying credits. Also the looseness of work discipline (intensity), to be partly traced back to the labour shortage emerging under the effect of the regulators has a retarding effect. In conclusion, some trends (possibilities) for the improvement of the regulators are outlined.

The relative valuation of capital and labour in the actual economic activity is a question of great importance. These relative values determine the extent to which the mutual substitution possibilities may be utilized in production. Looking at the question from the aspect of productive forces, the substitution of capital for labour in a broad sense is in effect a central issue in the historical development of labour productivity and thus in economic growth as well. This substitution process reflects the continuous perfection of the working, tool-making and using man.

We are not going to follow and describe the historical process of substituting capital for labour in this article. Our aim is rather to show what influence the economic regulators prevailing in Hungary have on the interest of enterprises in mechanization and in the application of high-level technology. Our analysis does not aim at specifying those external impulses and internal, frequently contradictory, opinions as a result of which positive or negative decisions are taken regarding mechanization. Our concern here is to characterize the potential scope af activity limited by the economic regulators with a view to enterprise decisions. By economic regulators we understand the system of prices, rules and behaviour norms (including profit and wage regulations) belonging to the financial system.

* For the convenience of the Western readers, labour and capital are used here, instead of the usual Marxian concepts of live and embodied labour.

Delimitation and line of reasoning

We make five preliminary remarks concerning the framework and the line of our analysis.

First: the potential scope of activity given to the enterprises as determined by the economic regulators is only one element (one dimension) of the macro-world that surrounds the enterprises and which is usually referred to as the economic environment. This latter includes, among others, the institutional system of economic control and management with the open and hidden hierarchy prevailing in it. Thus, from this aspect we set a limit to our subject: it is the influence on the enterprise management and on their decision of the regulators — and not that of the whole economic environment — that will be discussed here.

Second: the influence of the regulators is indeed very concrete. Regulations concerning wages, profits, prices, foreign exchange coefficients and customs duties determine the boundaries which determine the sets of feasible activities, favourable and unfavourable for the enterprises. (Obviously, activities which are unfavourable under the present regulations for a given enterprise may become favourable in case of other regulators or those different from the present regulator values and vice versa.) In fact, our aim basically is to analyse and evaluate the position of these boundaries with a view to mechanization activities aimed at saving labour.

Third: in order to make our investigation specific, the assumption is introduced that in the course of activities implied here manual labour is substituted by machines and the result of the mechanization is exclusively a decrease in labour requirements. In this sense capital is substituted for labour also by the replacement of less developed technology by a more developed one (or when the level of technology is increased through reconstruction or additions). Such investment opportunities may be included here where a variant with smaller labour requirements in the process of operation is set against another one with smaller capital requirements. As it is known activities involving exclusively in uni-directional effects are rather rare (they may not even exist); and almost in every case the cumulating effects should also be taken into account. Thus for example, the mechanization of manual interplant transport which does not affect the given production technology may also be accompanied by a change in the stock of liquid capital engaged, by an improvement of material supply and consequently with an increase in capacity utilization. Obviously, in the case of concrete decisions it would be a great mistake to ignore such side effects. However, investigations aiming at abstract, "sterile" activities are justified if general connections are analysed, for example (as in our case) the substitution rates between capital and labour in the economic activity of the enterprises.

Fourth: under the concrete and present conditions of the Hungarian regulating system the effects of substituting capital for labour in the economic activity of the enterprises should be considered from three aspects:

a) The implications of substitution on amount of enterprise profits. This is the most general aspect of consideration in commodity production and this is the aspect which is undoubtedly taken into account in decisions made by enterprise managers in our country. In this context it may be regarded as a "minimum requirement" that mechanization should result in labour savings which permit the realization of an unchanged amount of profits or an equivalent reduction in costs: i.e. the amount of profits in the new situation should be identical with that of the original situation. The analysis of the above minimum requirement permits the description of the relations with the price system and the regulating elements relating to taxes for withdrawing net income.

b) In the present system of wage and profits regulation the development of average wages plays an outstanding role.* Under such conditions possibilities to increase the earnings of the workers of the enterprise are not unambiguously related to changes in the amount of profits. The earnings of the workers may decrease with increasing profits or they may be raised with diminishing profits.**

c) When investigating the relation between the amount of profits and the earnings of the workers we assume that mechanization is financed from the existing funds of the enterprise (or from credits advanced on future funds accumulating mainly regardless of the returns on the investment). However, it is an important question: what is the possibility of raising credits to be covered by the proceeds of substitution. The more the credit burden can be covered from the proceeds of substitution activities, the more activities with high yield can be selected and yield-oriented credit allocation asserted in credit policy. The regulations in force set a limit to that part of profits and depreciation allowance which may be used for investment and thus to profit increments which may be used for debt service. The analysis of minimum requirements implied here — which would ensure credit repayment from the proceeds — shows to what extent the present profits and depreciation regulations limit the opportunities of raising credits on high-proceed investments

* See [1]

** We have in mind here earnings calculated per head of workers employed at a given *enterprise* both in the original and the new situations and not the per capita earnings in general. If persons with high earnings are being employed or persons with low earnings are leaving, the earnings of workers employed at the enterprise may be constant, both in the original and the new situation only if per capita earnings increase. When persons with high earnings are leaving and those with low earnings are coming, the situation is reverse. Further on therefore, by "constant earnings" or increasing or decreasing earnings the per capita earnings of those workers is meant in every case who are employed at the enterprise both in the original and the new situations.

and in given cases on mechanization projects resulting in really major labour savings.

Fifth: Thus we are going to analyse the concrete effect of the regulators on mechanization from the above-mentioned three aspects — connections with the amount of profits, development of earnings, possibility of credit repayment from the proceeds — in a very simplified manner, attributing only the labour saving effect to mechanization. Problems relating to the labour situation, the general state of labour discipline and the need for technological development asserting itself will be discussed in a broader perspective, although without going into details.

The effects of regulators

1. Effects connected with the amount of profits

According to our assumptions the enterprise reduces (or it is able to reduce) the labour requirements of its activity by mechanization; which does not cause any other change. The question is how much labour or wage equivalent should be saved to keep the amount of profits unchanged.

Let us first examine whether differences in the level of economic development and in real wages among countries cause deviations in the minimum requirements. This starting point also permits a relatively simple presentation of some other relationships relevant in this respect.

Suppose that productivity in country B is twice as high as in country A and, accordingly, the purchasing power of an hourly wage is also twice as high. More specifically: assuming identical consumer prices, the average gross hourly wage rate is 10 Forints in country A and 20 Forints in country B. Let us assume further, for the sake of simplicity, that the amount of working time of average complexity required for the production of a "unit" machine in country B is half of that used in country A* (material inputs, depreciation, etc. also expressed in man-hours). Finally let us suppose that, on average, prices are twice the wage inputs in both countries and consequently the "rate of exploitation" is 100 per cent in each of them. On the basis of all these we assume that the production of a unit machine demands 50 man-hour inputs in country A and 25 in country B, and thus their unit price is 1,000 Forints ($=50 \cdot 10 \cdot 2 = 25 \cdot 20 \cdot 2$) in both countries. For the operating costs of the machine we assume 80 Forints per year, for depreciation (taking 10 years

* It would be more realistic to set out from the assumption that productivity differences in engineering exceed the average difference in productivity among the two countries, i.e. the working time required for the production of a unit machine in country B is less than half of the amount needed in country A.

of operation for basis) 100 Forints for charge on capital* (with a 5 per cent annual rate) 50 Forints per year, and finally (with an interest rate of 7 per cent) on 1,000 Forints 70 Forints per year are taken into account as loss of interest. Under such conditions installing the unit machine with a value of 1,000 Forints cause 230 Forints additional costs (depreciation = 100; charge on capital = 50; operating costs 80 Forints per year) further 70 Forints annual interest not received in both countries. The minimum requirement in both countries is thus a saving of 300 Forints in gross wages per unit machine installed, since the additional yearly costs of 230 Forints plus the 70 Forints interest not received — arising due to installing a machine — is not balanced otherwise. This minimum requirement means on average a 30 man-hour annual saving in country A and 15 man-hours in country B ($30 \cdot 10 = 15 \cdot 20 = 300$). If now we assume that productivity in country B is twice as high as in country A also in respect of the labour substituted through mechanization, opportunities for mechanization are identical in the two countries since the minimum requirement of installing the unit machine is the saving of the same amount of labour.

However, this latter assumption is false. We have no reason (and no objective grounds) to assume that the performance of, say, German workers in manual interplant transport exceeds considerably that of the Hungarian ones. Productivity differences between the two countries may be ascribed not to the differences in the performance of manual labour but to those in labour culture: the higher level of mechanization and the generally higher productivity (the acknowledged higher complexity) of labour performed in machine operations in Germany supports this view. All this results in higher wages paid in Germany for manual labour performed in interplant transport. Therefore, the substitution of labour of identical amount and quality by machines releases an amount of wages representing higher purchasing power which offers greater mechanization opportunities. Our example shows that the minimum requirement of installing the unit machine is a saving of 30 man-hours per year in country A and 15 man-hours in country B.** It is obvious that a higher level of development and higher living standards imply actually and objectively greater opportunities for the application of machines.

From what has been said so far one may come to the conclusion that differences in mechanization opportunities arising from differences in the

* In Hungary the enterprises pay a 5 per cent charge on the gross value of their (fixed and liquid) assets engaged into the budget. This should be considered a cost item from the enterprise's point of view.

The interest paid on credits raised and that received on deposits is quite independent from this charge.

** Had we set out from productivity differences in engineering exceeding the average — which would be more in line with reality — the man-hour saving requirements would be greater.

level of development may (and have to) be corrected for "in an artificial way". If in country A a 100 per cent wage-tax is introduced, reducing at the same time other taxes on net income, a situation similar to that prevailing in country B can be "created" without causing any change in purchasing power.* Then the annual saving of 15 average man-hours of labour will appear as a reduction of 300 Forints in costs also in the enterprise of country A, consequently the minimum requirement of installing the unit machine with a value of 1,000 Forints will be an annual saving of 15 average man-hours also in country A.

Such opportunity undoubtedly exists. However, other aspects should also be considered. According to our assumption "the rate of exploitation" is identical in the two countries. This implies that also the rate of accumulation (investment) is identical. Since the level of productivity in country A is half as high as in country B, it is also an objective truth that investment opportunities are also half as large. It should then be considered that investment opportunities for mechanization (substitution of machines for manual labour) are also only half as great. Besides, it may be assumed that in less developed countries manual labour is more general and the field to be mechanized is wider. Therefore, the introduction of a 100 per cent wage-tax, i.e. the "artifical" reduction of the minimum requirements connected with installing the unit machine may mean a violation of the equilibrium requirements: this is not justified, since it may give rise to investment demand that cannot be satisfied.

All these lead to some controlling conclusions. The lower the living standard in a given country compared to the level of development and, as a complementary, the higher the rate of accumulation, the more justified a high wage-tax may be. Not only in order to counter-balance the relatively low wage level, but also for matching the greater investment opportunities by setting lower minimum requirements of investments resulting in labour savings.

In view of the interrelations discussed, apart from a wage-tax other regulator elements which may also be considered influence the relative level of the prices of machines and that of money wages. These may either be applied in line of a wage-tax or parallel with it. Higher turnover taxes on consumer goods mean — a higher price-sum and thus, with a given consumption fund, money wages are also higher and a certain shift may occur between the relative levels of machine prices and wages.

* The wage-tax may have various other functions. A considerable share of expenditure required for the reproduction of labour (e. g. expenditure on education, health and social care) is covered by social benefits both in the socialist and in capitalist countries. Wages are lower than the real reproduction costs of labour if only for this reason. The wage tax expresses among others also this difference.

What can be really analysed from this side is the share of net income in the prices of machines and in the money value of the consumption fund. It is correct to carry out the comparison not only on the basis of the income realized in the last production stage, but also taking into account the so-called total net income contents realized in the preceding stages of production.* The higher the total net income contents of the consumption fund as compared with that implied in machine prices, i.e. the lower the purchasing power of money in respect of buying consumer' goods as against machines, the higher the money wages and the lower the minimum requirements against mechanization substituting manual labour.

We have discussed so far the factors which influence the relative size of the cost consequences of using labour. However, substitution rates are affected also by expenses incurred due to mechanization in the enterprise. It is obvious that, other things being equal, the lower the charge on capital or the rate of interest, the price level of energy and other inputs necessary for the operation of the machines, the lower the minimum requirements of mechanization. In the above context a low living standard and high investment opportunities as compared with the national income may be matched by a regulation keeping the enterprise burdens of mechanization low and vice versa.

Thus, when analysing the influences on the amount of profits it is justified to consider the relative valuation of capital and labour in four aspects:

(1) Level of real wages; (2) the rate of the wage-tax; (3) capital charges at the enterprise; and finally (4) the relative price level of machines and consumers' goods.

1. Productivity, and correspondingly the real wagelevel, are considerably lower in our country than in the developed capitalist countries. This retards the progress of mechanization. As we have pointed out in our earlier example of countries A and B, this is accompanied with relatively higher requirements against mechanization substituting labour. Since our investment rate corresponds more or less to the international average, consequences arising from the lower level of development and the connected lower wage level should be aknowledged as objective — though in a sense negative — endowments.

2. Due to the 25 per cent social security contribution and wage-tax (hereafter collectively called wage-tax) one Forint wage payment appears as 1.25 Forints cost in the enterprise accounts. According to calculations carried out by responsible supervisory authorities the 25 per cent additional cost levied on wages (appearing as a tax) do not cover those social benefits which play a part in the reproduction of labour. The correct rate has been estimated at 40—50 per cent of the amount paid as wages. Consequently, the wage-tax

* Such approximations may be performed with the aid of input-output tables.

rate should be 45 per cent instead of the present 25 per cent. It is acceptable therefore, that the low level of wage-tax has in fact an adverse effect on the mechanization of manual labour (such as interplant transport), and in general on the application of advanced technology at the enterprises.

3. In the example of countries A and B (more or less according to the Hungarian conditions in respect of installing the "unit" machine) with a value of 1,000 Forints we considered 80 Forints annual current operating costs, counting with 10 years of operation, and with a 5 per cent charge on capital further 150 Forints, altogether 230 Forints additional expenses and, finally, on the basis of a 7 per cent interest rate, 70 Forints interest not received. The 5 per cent charge on capital and 7 per cent interest not received taken together appear as total charges on capital engaged. A justified level of total burdens to the enterprise arising from the use of capital could in fact only be estimated from national optimization models based on accurate and actual data. Research results indicate that under highly abstract but realistic conditions the estimated annual rate of interest appearing as the "shadow price" on capital corresponds more or less to the annual rate of economic growth.* Besides, we may consider that the prevailing interest rate is between 5 and 7 per cent in the developed capitalist countries and there is no specific economic difficulty in getting credit with such interest conditions. Because of all these with a 7 per cent rate of interest (interest loss) we think the existence of the charge on capital engaged is at least controversial under the present conditions.

4. Information on the total net income contents of the money value of machines and the consumption fund (or their relative price levels) can be obtained from computations carried out on the basis of input-output tables for 1968. In the branch "Production of machinery and equipment" the total net income contents of 100 Forints net output is 54.5 Forints and the same figure for the material consumption of the population is 48.1 Forints. This means that the price level in the branch producing machines for interplant transport exceeds that of the consumption fund. If the price of a 1.000 Forints machine contained 48 per cent net income i.e. one identical with that of material consumption by the population the price of the unit machine would be 877 Forints.** The price level and, accordingly, the additional costs arising from the installation of the machine and the interest loss would thus be by

* Cf. for example [2].

** For the material consumption of the population the quotient of the total net income contents and the total wage contents is $48.1/51.9 = 0.927$. If, in the relevant engineering branch this ratio were the same, the 455 Forints total net income contents of the 1000 Forint machine would be supplemented by $0.927 \cdot 455 = 422$ Forints total net income. Thus the adjusted money value of the 1000 Forint machine would be $455 + 422 = 877$ Forints. It should be emphasized that we consider here the price levels of the *material consumption* of the population and of the machines. The present structure

12.3 per cent lower, which would lead to a decrease in the minimum requirements.

Let us sum up what has been said above. If we accept that the correct rate of the wage-tax (which is playing a part in the reproduction of labour) should be 45 per cent instead of the present 25 per cent, the minimum requirement would decrease by the coefficient $1.25/1.45 = 0.862$. The abolition of the charge on capital engaged would produce a further decrease by $250/300 = 0.833$. All this would be followed finally by a decrease in machine prices by 0.877 to match the total net income contents of the material consumption by the population. Thus, the "realistic" level of the minimum requirements would amount to 0.63 times the present one ($0.862 \times 0.833 \times 0.887 = 0.63$). The calculation presented supports the statement frequently repeated in the Hungarian professional literature: Labour is "cheap", capital is "expensive" in our country.

2. Effects on the development of earnings

We have investigated the connections between the substitution of machines for manual labour and the regulators in respect to the amount of the enterprise profits. In our interpretation applied so far, the minimum requirements for mechanization just counterbalance the additional costs and interest losses arising from the installation of the machine. Hence the satisfaction of the minimum requirement ensures an amount of profit identical with that of the original situation.

As we have already mentioned, with the present regulation the effect of such individual actions on the earnings of the workers cannot be identified with the effects exerted on the amount of profits.

The separation of effects on the amount of profit from those on earnings is connected primarily with the fact that in the Hungarian practice regulations relating to the taxation of profits, and to the division of profits left with the enterprise for its sharing and development funds, are closely associated with wage regulation. However, in the wage regulation some definite form of enterprise wage level regulation prevails in general. Besides, in some branches a so-called wage-mass regulation is applied. The effects of these two methods of wage regulation and that of profits regulation should be discussed separately.

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of the input-output tables does not permit the inclusion of services whose price level is known to be rather low. It may be assumed that if the calculations covered the total final consumption by the population (including also services provided for the population) the divergence between the price levels would be even greater. In this case for the price of the "unit machine" which would correspond to the price level of the total consumption by the population we would obtain a smaller value (smaller even than 877 Forints).

Under the conditions of profit regulation connected to *wage level regulation* for personal incomes the enterprise may use the sum of accounted wage costs and the *sharing fund* formed from the profits minus the so-called *incremental wage-tax levied.*

The share of profits transferred into the sharing fund is the smaller, the larger the value of capital engaged as compared with the annual wage bill (the higher the organic composition) and also, because of the progressive taxation prior to the formation of the sharing fund, the higher are relatively profits. In case of average organic composition 0.14—0.07 times the increment in profits is due to the sharing fund, depending on the level of profits in the base situation. If the organic composition is twice the average, then 0.08—0.04 times, if it is half the average, 0.22—0.11 times the increment in profits goes to the sharing fund.

Since January 1, 1971 the enterprises are liable to the payment of an *incremental wage-tax* if the annual average wage increases as compared with the preceding year. The rate of the incremental wage-tax is a function of the relation between the increase in the average wages and the per capita incomes at the enterprise. The rate is 50 per cent in case of an increase in average wages amounting up to 0.3 times the increment in per capita enterprise incomes. The corresponding rise in wages *increases* the earnings of the workers at the enterprise (as against higher profit shares) since the incremental wage-tax payment to be deduced from the sharing fund is half of the wage increment. Average wage increases exceeding the 0.3 times increment in per capita enterprise incomes involve progressively increasing tax liabilities. They amount to 1.5—4.0 times the increments in wages, calculated by individual tax grades. Increases in the average wages at the enterprise exceeding the preferential rate *reduce* the earnings (as against having higher profit shares instead of wage increases) because of the incremental wage-tax payments amounting to 1.5—4.0 times the wage increases.

The regulation outlined above permits increases in the earnings of workers who remain at the enterprise, if the amount of profits does not change following mechanization substituting labour and if the wage level of workers who were made redundant (further "workers affected") by mechanization is identical with the enterprise average. In this case, namely, a rise in per capita enterprise incomes takes place (profits are unaffected, labour decreases). In the year concerned this ensures a smaller increase in earnings (7.5 per cent of the saving in wages in an average enterprise) and a larger one (15 per cent of the wage saving) in the following one. This effect of the regulation means a favourable change for mechanization as against the preceding years (in case of the regulators of 1968—70 such activities resulted in a decrease in earnings — although a rather insignificant one).

On the other hand, with the regulation of 1971 the characteristic and widely known feature of the earlier regulation persists that the effect on

earnings of activities *changing the composition of the staff* is determined basically by the direction of changes in the staff composition.* Specifically, substituting machines for workers with high wages is extremely advantageous, while mechanization affecting workers with low wages is disadvantageous for the earnings of workers remaining at the enterprise.

If workers with high wages are leaving, the average enterprise wage decreases due to a change in staff composition. Since the regulation penalizes increases in average enterprise wages, the wages of the remaining workers can be raised in this case without incremental wage-tax liabilities. It is obvious that the enterprise collective is interested in making use of such opportunities to increase wages. The leaving of workers with low wages results in a rise of the enterprise average wage level. The lower the wages of workers who are leaving, the larger the increase in the enterprise average wage level due to changes in staff composition, the larger the burden of the incremental wage-tax and the heavier the losses of the remaining workers.

It can be worked out that, assuming constant profits, if workers with wages twice the enterprise average are leaving, about half of the savings in the wage bill is released for increasing the wages of the remaining workers. If the average wage of those concerned is 1.6 or 1.2 times the enterprise average, then some 40 or 20 per cent of the savings in the wage bill may be used to increase the wages of the remaining workers. In cases, however, when the wage level of workers substituted is 80 per cent of the enterprise average, the remaining workers have a loss amounting to 15 per cent of the saving in the wage bill because of the incremental wage-tax payments in the given year.

It follows from the data — which are not accurate yet give the correct orders of magnitude — that, under the present system of profits regulation connected to wage level regulation, the effect of substituting machines for labour on the earnings of remaining workers depends in fact primarily on how the wage level of the workers affected is related to the enterprise average.

It is obvious that the presented effects of the generally applied profits and wage regulation are irrational in the analysed respect. They are irrational because the evaluation of labour-saving mechanization is linked to the relation of the average wages paid to workers substituted to the enterprise average. This regulation retards the mechanization of the work of precisely the low-paid (unskilled and semi-skilled) workers and promotes that of the highly paid ones. This is contradictory to the task of modernizing and intensifying the production technology and the product-mix which is an objective and timely requirement on the achieved level of economic development. At the same time, this is also a precondition of a more effective participation in the international division of labour.

* Cf. [3, 4, 5, 6].

The scope of application of the profits regulation connected to *wage-mass regulation* has been extended since January 1, 1971. In 1971 wage-mass regulation was in force in the canning, sugar, and wine industries, in state farms, state forestry, railways and road traffic, and in some branches of state procurement. The essence of this type of regulation is that the change in the disposable annual wages is usually 0.4—0.7 times the change in the production indicator (of an output value type in general) in the preceding year. (Differentiated coefficients have been determined for the individual fields.)

The wage-mass regulation promotes heavily mechanization. If the case is the substitution of mechanized labour for manual labour and we assume that this does not affect the output (production value) of the enterprise then — irrespective of the profit development following mechanization — all realized savings in the wage bill can be devoted to the increase of the wages of the remaining workers. Although enterprise sharing funds are adversely affected by reduced profits and thereby reduce earnings too, this is insignificant as compared with the possibility of using the total amount of wages released.

Essentially, from the viewpoint of influencing earnings, profit regulation linked to wage-mass promotes heavily every activity which results in wage savings without affecting production indicators; by utilizing wage savings it creates favourable conditions for supporting the activity also by wage measures within the enterprise.

3. Credit possibilities based on the proceeds of the activities

We have assumed so far that the enterprises carry out investment from their existing development funds and have investigated those connections which, while affecting the amount of profits and earnings may motivate directly enterprise decisions concerning labour saving investments. We have thus assumed the availability of investment resources. We consider the connections already discussed as valid also in cases when, in order to ensure the necessary financial means, the enterprise raises credit in the form of advances on its future development fund (which in the main accumulates irrespective of the proceeds of the particular investment).

Novel aspects of mechanization emerge, which have not been discussed or mentioned so far, if we set out from the requirement that the burdens of the investment financed by the enterprise from credit should be covered from the proceeds of the same investment.*

The present system of enterprise income regulation strongly impedes the raising of credit based on future proceeds of the investment. We have already seen that as concerns influences on the amount of profits the low

* Cf. [7, 8, 9].

rate of the wage-tax, the charge on capital, the considerable disparity between the level of prices of machines and that of the consumption by the population should be regarded as factors retarding mechanization. On average 40 per cent of the depreciation allowance is collected by the state, and a 60 per cent tax is levied on the part of profits which goes to the development fund; consequently only a relatively small part of the investment proceeds helps to expand the development fund. (Credit repayment from own proceeds was somewhat improved by the fact that since January 1, 1971 any amount of profits may be transferred from the sharing fund into the development fund with a preferential tax-rate.)

We are now going to investigate how much labour cost (wage + wage-tax) should be saved in the case of installing a 1,000 Forints unit machine in order to cover credit burdens from the proceeds of the investment.

Let us assume again that the operation time is ten years i.e. the annual rate of amortization is 10 per cent. Since 40 per cent tax of the depreciation allowance is collected, from the 1000 Forints unit machine 60 Forints per year go to the development fund. In the case of an average organic composition (considering the above-mentioned possibility of transferring money from the sharing fund into the development fund and the compulsory formation of a reserve fund at a rate of 12.5 per cent) approximately 36 per cent of the increment in profits goes to the development fund. Taking a five year term of repayment for basis, the annual repayment for 1000 Forints is 200 Forints; 60 Forints of this is covered by that part of the additional depreciation which is left with the enterprise; in order to cover the remaining 140 Forints 140/0.36 = 390 Forints profits increment is required. We have seen earlier that 230 Forints annual costs arise owing to the installation of the 1000 Forints investment, to this on average 5 per cent annual interest, 50 Forints in the given case, should be added. In total, the annual cost increment amounts to 280 Forints. Hence when installing a 1000 Forints machine 670 Forint (390 + 280) should be saved in order to cover credit burdens.

Such a requirement is tremendous and can hardly be met. Applying the usual formula of return this means that the amount of investment should be "recovered" from the cost savings associated with the reduction in labour requirements in 1000/670 = 1.5 years in order that the enterprise could cover the five-year credit repayments from the proceeds of the investment. Considering a 4 or a 3-year repayment period the requirements calculated in a similar way would be 1.2 or 1 year for complete return. It is true for machinery instalments as for investments in general that investments can satisfy such return requirements in exceptional cases only. High requirements impede proceed-oriented credit allocation, consequently the financing of really advantageous mechanization activities from credits, which would permit relatively large-scale economy on labour.

4. Secondary (indirect) effects of the regulators

In our analysis we have tried so far to present as exactly as possible the direct effects of the regulators and have, therefore, relied on strongly simplifying assumptions. We have set out from the assumption that mechanization results exclusively in labour saving and the related enterprise decisions are motivated by the effects of mechanization and the resulting labour saving on enterprise profits, earnings and creditworthiness.

However, in reality the effects, motives and problems of mechanization appear in a much wider context.

In this wider approach, connected mainly with the secondary effects of the regulators, our possibility does not go beyond outlining — rather sketchily in many respects — the problem areas of the regulators. We are going to touch upon the following interrelated problem areas: general labour situation, the state of labour discipline, and the need for technological development in the economy.

Even in the developed capitalist countries mechanization of certain work processes is carried out not on grounds of direct enterprise profitability considerations but because there is simply no labour available to perform specific jobs. In vain is there some unemployment among women and young people leaving school if they are unable or simply unwilling to take certain jobs, e.g. in interplant transport involving great physical strain.

Similar attitude is emerging also in our country. Frequently it is not the profitability consideration that raises the necessity of mechanization but the shortage of labour. Factors accompanying growth play a part in the labour shortage, more specifically young people with ever higher school qualifications are more and more reluctant to take unskilled jobs or jobs requiring great physical strain, and the adult people are also more attracted by high-standard jobs with less physical strain.

The regulators and the given system of economic management and control also contribute to the existing labour shortage. The generally applied wage and profits regulations have the effect that the earnings of the workers at the enterprise are adversely affected by the lay-off of low paid workers and favourably by their employment (the so called "staff-diluting" effect already mentioned). An even more important cause of the existing labour shortage is the unsatisfactory assertion of selectivity in the economy. And due to the interaction of things, lack of selectivity also justifies the highly rigid system of wage and profits regulation, in which there is little scope within the enterprise for the operation of a wage (bonus) system which would stimulate really better and more intensive work. In this situation of "labour is badly needed" and "if I don't like I may leave" the enterprise leaders can take energetic measures less and less frequently against the lack and

slack in labour discipline and the low intensity induces further demand for labour.

When speaking of the labour shortage above we have said that it may force mechanization irrespective of (or as against) enterprise profitability and other considerations. At the same time loose labour discipline which may be ascribed among others also to the tight labour situation, works against mechanization and the application of high-level technological solutions.

The under-utilization of the man-machine "ensemble" is more striking and a source of greater losses than that of manual workers. High-level mechanization leads to a higher integration of the individual work processes and thus it demands high-level organization and co-ordinated work processes. With a low level of work discipline even an otherwise rational mechanization may turn into a factor increasing losses and disorder. Besides, in many cases not the mechanization of individual elements of a given technology is performed while maintaining the process as a whole, but one which changes basically the production process and technology. New technology, however, demands learning and discipline; the transition is necessarily accompanied by difficulties and problems. It seems that at present even the demand for applying modern technology is not at a very high level because of the labour conditions and the loose labour discipline. Perhaps this also contributes to our considerable lag in the application of new technology.

Conclusions

According to the above analysis, the present regulators retard in many cases the substitution of manual labour by machines. The rather severe minimum requirements arising from the connection between the amount of profits and credit repayment and the proceeds of activities have also retarding effects. It is similarly retarding that the loose labour discipline makes the satisfactory utilization of mechanized technology problematic and hinder also in general the emergence of a need for high-level technological development. All this is intensified — under the generally applied wage and profit regulation — by the adverse effect the mechanization of the work of low paid workers has on the earnings of the remaining workers.

Nevertheless, we think it would not be correct to underestimate completely the partially emerging stimulating effects. We have shown that under the general form of wage and profits regulation the mechanization of the work of highly paid workers is extremely advantageous for the earnings. It may be assumed that the mechanization of the work of highly paid male workers employed in interplant transport associated with really great physical strain would have such effects at many enterprises. We have also mentioned

that with respect to earnings the application of the wage-mass regulation in various specific fields strongly stimulates the substitution of all kinds of manual labour by machines. All this is worth noting because ever since the introduction of the new system of economic management and control it has been a constant concern of the enterprises to ensure an adequate rise of the earnings of the workers. We have no information to what extent the enterprises utilize the opportunities discussed here by financing from their own funds. Empirical investigations carried out in respect of enterprises would be highly instructive because they could show how much, within the limits of the scope given by the regulators, the enterprises seek and find the internal, "intra-enterprise" solutions to their problems. Such investigation would perhaps show concretely the hidden obstacles to mechanization which may be even stronger than those on the surface.

Investigating the possibilities for eliminating irrational elements connected with the regulators and retarding the substitution of capital for labour, we are confronted with the basic problems of further developing the economic regulators. The presented, and mainly adverse, effects are not to be belittled, they have a general and unfavourable influence on efficiency indeed. A rational further development of the regulators in respect of the enterprise activity conflicts with a number of mainly macro-economic proportionality and equilibrium requirements, economic policy objectives.

Connections with the amount of profits, with credit repayment from the proceeds of activities suggest the solution almost by themselves. The price level of machines and of the consumption by the population should be at least equalized, the wage-tax raised and the charge on capital should be reduced or abolished. However, such alterations affect the prices of a great number of products or important price factors — not to mention other problems — and cannot be carried out in isolation; they require a general reform of producers' and, presumably, of consumers' prices. This, however, calls for changes in the level of money wages and relative wages. The rate of the profit tax levied prior to the formation of development funds, the share of depreciation (depreciation increment) collected should be reduced or accelerated depreciation should be made possible which would increase the development fund. Such a solution would require the reallocation of the central and enterprise resources (and spheres of decision) and would result in a considerable expansion of demand for credit, etc.

Interrelations affecting earnings have been dealt with from a rather narrow aspect (i.e. from substituting capital for labour). It has turned out also in this context that, within the limits of the wage regulation generally applied, labour productivity, modernization of the product-mix and intensification are adversely affected since the influence of some mechanization activity on the earnings depends on the relation of the wage level of affected

workers to the enterprise average. The wage-mass regulation, however, pulls in the direction of under-utilization of capacities and of an employment level lower than would be realistic. A general solution is sought in two directions. According to the one, the development of wages must not be made dependent on the performance of the enterprise (enterprise profits, enterprise incomes); the principle of "same wage for the same work" should be realized also in relations* among enterprises. Beyond the many problems of principle — affecting deeper spheres of socialist production relations — this line of solution is controversial also because its advocates have not suggested as yet how a rationally operating, applicable wage regulation system can be kept firmly in hand under our concrete conditions. Solutions suggested by others, intending to strengthen collective enterprise interest would, on the other hand, strongly increase the differentiation of earnings among enterprises which causes much concern if only because of its political implications.

We could only indicate the contradictory character of problems, ideas, as proposed solutions connected with the further development of the regulators. This analysis may have thrown light on the difficulties emerging in the context of substituting labour by machines. The problems of mechanization are but one part of the general question complex relating to the regulators and, consequently, a solution can only be found in the framework of an overall revision of the regulators and the general perfection of the regulatory system.

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ФАКТОРЫ, ПРЕПЯТСТВУЮЩИЕ ЗАМЕНЕ ЖИВОГО ТРУДА МЕХАНИЗАЦИЕЙ

Г. РЕВЕС

Автор показывает, какие факторы препятствуют в хозяйственной деятельности предприятий замене живого труда прошлым (механизацией) в условиях экономического регулирования, действующего сейчас в Венгрии.

Автор указывает, что на относительно низком уровне развития и при связанном с ним относительно низком жизненном уровне возможности механизации сравнительно ограничены. Поэтому понятно, что в Венгрии механизация становится обоснованной при достижении большей экономии живого труда, чем в развитых капиталистических странах. Однако вдобавок к этому и действующие экономические рычаги препятствуют замещению живого труда прошлым. Такой эффект имеет нереально низкий налог с заработной платы; чрезмерное обложение капитальных вложений; низкий уровень цен предметов потребления, по сравнению с машинами и оборудованием. Отрицательное влияние оказывает и система регулирования уровня заработной платы, связанная с регулированием прибылей, а также то обстоятельство, что на цели погашения кредитов в распоряжении предприятий остается относительно небольшая доля прироста прибыли, образующегося в результате капиталовложений. Механизации и достижению высокого уровня технического развития препятствует и слабая дисциплина труда, отчасти связанная с нехваткой рабочей силы, возникшей в результате действия экономических регуляторов.

В заключение автор высказывает некоторые соображения о возможных направлениях совершенствования экономических регуляторов.

Acta Oeconomica Vol. 9 (3—4), pp. 305—330 (1972)

Z. Román

AN ENTERPRISE SURVEY ON FACTORS OF PRODUCTIVITY

This article is a review of an enterprise survey covering 60 per cent of the Hungarian manufacturing industry. It presents the major results of the inquiry concerning the relative level of productivity, the expected growth rate, and the enterprise views of the influencing factors.

The nature and method of the survey

Collection of enterprise's opinion and estimates has become popular in two particular fields of economic research. One is the study of business trends (expected output, turnover, employment, investment, etc.) while the other relates to management and motivation, making use of sociological and psychological methods as well. In recent times these two research directions have become merged with the examination of the actual position and organization of the enterprises. For instance, we often come across surveys on the extent to which certain modern methods and techniques are applied (e.g. medium- and long-term planning, direct costing, operation research etc.).

The Research Institute for Industrial Economics of the Hungarian Academy of Sciences has completed a number of surveys of this nature on the goals, the behaviour, the organization of enterprises and on how they judge their tasks and perspectives related to increasing productivity. These surveys were in all cases based on the collection of anonymous returns which enabled the institute to attain a high rate of replies (taking the whole of industry into account, a representation of 50—60 per cent) and mostly sincere and realistic replies.

In some examinations individual, and in other cases, enterprise opinion was collected. The advantage found in collecting individual opinions was that this provides an opportunity for a more deep-reaching examination of subjective influences. (For example, in one of the surveys the data were also processed by the age and position of the executives questioned.) On the other hand enterprise opinion better reflects the points of view examined more carefully by the management, and considered from a number of aspects.

The survey reported here was completed in the CMEA Productivity Work Group, together with Czechoslovak and Polish partners. This inquiry consisted of the collection of enterprise opinions by post on matters regarding relative level, growth and factors of productivity which can be studied with difficulty only if customary, traditional statistical data are used.

The questionnaire was prepared together with our Czechoslovak and Polish partners. After preliminary debates and trial surveys, the finally adopted questionnaire contained a large part which is common in all three countries, and parts which were separately added by the individual countries, in order to meet their own specific requirements. The Hungarian questionnaire included a total of 60 questions (see Table 1), in five groups:

on the nature of the data supplier,

on the relative level of productivity,

on changes in production and productivity,

on the effects and order of importance of productivity factors, and finally

on major individual factors of productivity (related to manpower, investment, economies of scale, and competition).

We requested replies to the questions in four ways:

with numerical values,

by choosing from among pre-formulated replies (this accelerates the reply and makes it probable that the enterprise will not avoid answering even in cases of questions to which it might avoid supplying numerical replies),

ranking the order of importance, and

Table 1

Object and nature of the questions in the questionnaire

Object of question	Number of questions requiring				
	numerical reply	choice among reply possibilities	ranking of importance	written reply	total
Nature of the data supplier		3			3
Relative level of productivity	2	4			6
Changes in production and productivity	12	2			14
Importance of productivity factors		4	2	1	7
Manpower	3	5	3		11
Investment	3	4			7
Economies of scale	5				5
Competitive position	4	3			7
Total	29	25	5	1	60

in writing (in the case of a single question, related to measures considered necessary in order to increase productivity).

At the time of the survey, in December 1970, in many branches of the Hungarian industry all factories or the majority of them were united into one single trust or national enterprise, therefore the questionnaires were sent not only to the independent units but to enterprises within the trusts, and factory units within the enterprises. Of a total of 387 questionnaires which were completed 170 were from enterprises and trusts under ministerial management (these will be termed "independent" data suppliers), while 191 came from enterprises belonging to trusts or from factory units ("subordinated" data suppliers) and 26 came from other council-supervised or co-operative units. We separately processed the replies for each of these groups as well.

The survey covered the manufacturing industry; mining and electric energy industries were excluded. In processing and publishing the data, we used the following grouping:

heavy industry,
of which: metallurgy, metal working industry, chemical industry, building materials industry;
light industry,
of which: textile industry;
food industry.

The break-down of data suppliers by branches and organizational character appears in Table 2.

Table 2

Number of data suppliers according to branches and organizational character

	"Independent" data suppliers	"Subordinated" data suppliers	Total
Heavy industry*	102	83	185
of which: metallurgy	7	14	21
metal working industry	52	30	82
chemical industry	21	14	35
building materials industry	22	25	47
Light industry	46	27	73
of which: textile industry	22	6	28
Food industry	20	97	117
Other industries	2	10	12
Manufacturing industry	170	217	387

* Here and throughout: excluding mining and the electric energy industry

In conformity with the anonymous nature of the survey, we did not ask for the employment figures of the respondents, and we do not know them precisely. In the questionnaires we only asked that the enterprises mark the employment size category to which they belonged. According to approximative calculations the degree of representation was 61 per cent for the whole of manufacturing, which is satisfactory. Within this more serious deviations are in the heavy industry only, where the representation of the metal-working industry is about 50 per cent, that of the chemical industry around 70 per cent, and that of metallurgy and the building materials industry roughly 80 per cent.

In the majority of the 387 questionnaires returned, replies were given to all or nearly all questions. Only for two questions was the response rate low, quite understandably, since for answering these two questions the knowledge of the situation of the foreign partner firms was needed. Only two thirds of the data suppliers gave us replies to the question on the comparative level of productivity, and only three quarters answered the question on the comparative size of production series.

The most important data in the questionnaires were processed for the preliminary report, manually. The full-scale processing of all data was completed by an electronic computer. This included processing by branches, and within this, by the organizational character and size category of the data suppliers. By way of experiment, we completed a separate processing of four groups defined by comparative productivity level within the total number of data suppliers, and of two groups by competitive position, but they showed little characteristic deviation.

A special problem in preparing a summary of the results was to decide on 1) the group of data which was to be considered most characteristic from the organizational point of view, and 2) whether there should be a distinction based on the size of the responding enterprises.

If we take only the replies of the "independent" data suppliers into consideration, we can avoid a certain overlapping of data (between the trust and its enterprises, and the enterprise and its subunits), while at the same time it would sharply reduce (by more than half) the number of replies which could be processed, and attribute greater weight to the large enterprises than they actually represent. The replies of all data suppliers contain certain duplications.

The replies were first processed regardless of the enterprise size. Of course the simple average of these cannot allow for the different importance of small and large enterprises.

Thus we applied two types of weighting. First, we weighted the replies by actual employment (more precisely, by the means of the size-brackets). However, in this kind of weighting the large enterprises, particularly in cer-

tain branches, sharply dominate the averages (for in this way there is a 60-fold difference between enterprises employing less than 500 and more than 10,000 workers). For this reason we prepared a second, "smoothed" weighting, which takes into consideration the differences in size to a limited extent only, the extreme limit being a 9-fold difference.

Essential differences appeared only in a few cases, whether considering all replies, or those of the "independent" and "subordinated" data suppliers, either unweighted, or with the two types of weighting. This reflected the fact that there were only rare differences of definite direction among answers by organizational nature and size.

This experience led to the idea that using a very simple method we can receive a still "weaker" but nevertheless satisfactorily weighted average if we calculate a simple arithmetic mean from the total number of replies and the "independent" data suppliers. (In this case the replies of the "independent" data suppliers are taken into consideration twice, since they also included in the total.) If we wish to characterize the nature of the data with single data series, and do not specify the nature of the data separately, these "weakly weighted" averages are quoted.

In evaluating such surveys it must of course be taken into consideration that there are a multitude of factors which play some part in forming expert opinion. These are first of all: the facts themselves, the *knowledge* of the facts, together with the *interpretation* of the question asked and of the related facts. In this latter the subconscious influence of the respondent can also play a role, along with conscious modification of the reply in some cases. It is very difficult to assess the effects of these factors, and even more difficult to separate them, nevertheless endeavours must be made to do so in order to present a correct interpretation of the replies. We experimented with three methods here. On the one hand, we made use of an approximately 10 per cent sample, members of which were personally interviewed in order to determine how they interpreted the questions, particularly in the case of questions to which we received surprising replies. In a number of cases we had to admit that the enterprises interpreted the question or the reply possibilities in a manner which differed from the one we had conceived when preparing the questionnaire. (We will give examples later on.)

We also experimented by using the basic concept of the Delphi method. We selected the questions considered most important and sent them to 80 non-enterprise experts asking them to give us their own evaluations, alongside the average value of the enterprise replies. We also processed the 40 replies we received. In only very few cases was there a noteworthy difference between the original (enterprise) and the non-enterprise replies. Among others, it should be mentioned that the non-enterprise experts considered the gap between the average level of productivity lower, and put a different emphasis

on the effects of some factors on productivity. (E.g. they felt that the level of enterprise management and organization played a greater role in this gap.) Finally, as another control, in a series of meetings held by the economic and technical associations we again presented the enterprises with the major results of the survey, and listened to their comments on them.

The relative level of productivity and its determinant factors

Detailed statistical comparisons on the relative level of productivity of the Hungarian industry indicate that this reaches about half of that in the developed Western European countries. The gap between Hungary and Czechoslovakia, the German Democratic Republic and the Soviet Union is smaller, but also significant. The replies in the survey indicate that Hungarian enterprises judge their position in about the same way though somewhat more favourably, and the ranking of the branches did also mostly coincide. The gap is larger in the heavy industry (particularly in metallurgy), and smaller in the light and the food industries.

In formulating the question on the comparative productivity level, we deliberately avoided too precise definition of the basis for comparison the enterprises should take into consideration in replying. We simply said that the best European level should serve as a basis for comparison. A more precise, distinct definition (e.g. naming the countries, or making this progressive level) would have made it impossible for many enterprises to reply, despite the fact that the reply can be no more than an estimate in any case. On the basis of *ex-post* examinations we established that, in general, the enterprises based their own comparison on the good factories of the more developed countries, or on the best factories of the neighbouring countries they were acquainted with. The analysis of the replies for the total manufacturing industry (see Table 3) indicated that Hungarian productivity was at 60 per cent of this "leading European level". The value of this datum is weakened by the fact that only two thirds of the enterprises surveyed replied this question, while it is strengthened by the fact that the replies of the "independent" and "subordinated" units, whether summarized in unweigthed or weigthed forms, gave the same average value.

The replies by the "subordinate" units show somewhat greater dispersion than those of the "independent" data suppliers. This can be explained by the fact that the average productivity level of the trusts and large enterprises is obviously more balanced than that of the individual enterprises and factory units subordinated to them.

Customary statistical comparisons usually cover labour (working time) input per unit of output, while our questions also covered material and energy,

Table 3

Productivity of the manufacturing industry in percentage of the leading European level

(on the basis of labour input per unit of output)

Comparative level of productivity	Percentage distribution of answers of					
	independent	subordinate	all	all	data	suppliers
	data	suppliers	unweighted	fully	smoothly	weakly
				weighted		
less than 30%	7	11	9	8	8	8.0
31—40%	14	12	13	12	12	13.5
41—50%	15	19	16	16	16	15.5
51—60%	23	14	19	23	21	21.0
61—70%	18	13	16	19	18	17.0
71—80%	13	18	15	14	15	14.0
81% and more	10	13	12	8	10	11.0
total	100	100	100	100	100	100.0
Average level	60	60	60	60	60	60

Table 4

Relative level of productivity, ratios taking into account both live and embodied labour input

(inputs per unit of output, leading European level = 100)

Industry	Labour	Material and energy	Fixed assets	Material consumption (%)	Fixed asset inputs (%)	Relative level of productivity according to the formulae*			
				in Hungary		$\frac{O}{L}$	$\frac{O-M}{L}$	$\frac{O}{L+F}$	$\frac{O-M}{L+F}$
	1	2	3	4	5	6	7	8	9
Metallurgy	179	106	94	70	54	56	49	75	66
Metal-working	168	105	101	62	30	60	56	68	63
Chemicals	157	103	95	69	58	64	60	82	78
Building materials	213	96	91	49	40	47	49	61	63
Heavy industry	174	103	97	64	45	58	55	71	68
Light industry	156	101	96	69	29	64	62	72	70
of which: textiles	150	104	98	68	34	67	65	76	74
Food industry	159	102	93	80	39	63	59	71	70
All manufacturing industries	167	103	96	66	38	60	57	71	67

* O = gross output, L = labour, M = material and energy, F = fixed asset input.

as well as fixed assets, inputs (in this respect the replies indicated smaller differences than had been expected) and they also asked for qualification of the up-to-date character of the products and technology. In Table 4 calculations give a joint evaluation of live and embodied labour inputs.

These calculations are strongly conditional and their primary aim is to study whether or not the position of the individual branches changes as compared to the average of the manufacturing industry. As concerns also per unit use of materials and energy the industry in the least favourable position appears to be metallurgy, while the building material industry is better placed. For fixed asset input, the more favourable positions of the chemical industry and building materials industry are characteristic. Finally, considering both elements of embodied labour input, the conclusion is that in contrast with calculations of live labour input only, the productivity gap of the metal working industry and the food industry is larger than *average*, while that of the building materials industry is lagging only slightly behind, and the position of the chemical industry appears as more favourable.

In a correct measurement of productivity the quality of the products and their up-to-date nature should also be taken into consideration. A comparison of the productivity level must reflect the fact that in an enterprise or a country productivity is higher not only because the same product is manufactured with less input but also because they produce higher quality, more modern products with identical input. However, it is easier to state this principle than to put it into practice. Since measurement of quality and up-to-date character is often difficult even in the case of individual products, very often the differences in these terms could not be taken sufficiently into consideration in measuring productivity, whether calculations were based on physical units or on indices in value terms.

Therefore, a separate question has been included on how the enterprises judge the quality and character of their products in comparison with "leading world standards".

The concept "leading world standards" is often used to denote best quality, most modern design and technology, but the more wide-spread interpretation implies the ability of competing on the foreign both socialist and capitalist markets. This, in fact, is how the enterprises interpreted the question when answering it.

It is always impossible to avoid a certain amount of subjectivity when qualifying products even if we define what we mean by world standards, the peak or the uppermost third of the scale (in general the enterprises adopted the latter interpretation). The quality and modern nature of a product is generally determined by a large number of parameters. Most products rank, according to these parameters, differently, and to determine a justified weighing system for the parameters is again extremely difficult.

We left it to the enterprises what parameters to take into consideration, what weight to give them, and how to qualify their products on this basis. Of course this is the place where, perhaps much more than elsewhere, the individual enterprises, or even entire branches can judge their products more severely, or less severely. For this reason the replies to the questions must be treated with particular caution.

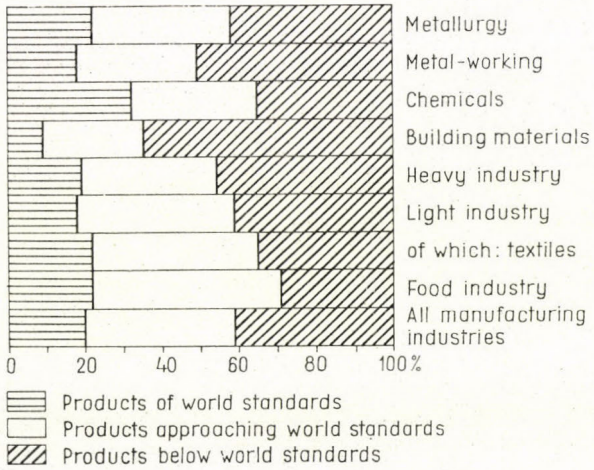

Fig. 1. The products of the manufacturing industry in relation to world standards

In asking the question we indicated three reply possibilities:
the products are of leading world standards,
the products approach leading world standards and
the products are definitely below leading world standards.

We asked the enterprises to estimate the distribution of their products according to these three categories. According to data for the whole of the manufacturing industry (see Table 5 and Fig. 1) there were no essential deviations in the replies of the "independent" and "subordinated" data suppliers, or, on the basis of the weighted results in those of the larger and smaller enterprises.

These average values were calculated from the enterprises' estimates on the distribution of their products according to these three categories. It was clear from the replies that in most enterprises there was a strong dispersion in the quality and character of the products. There was hardly a single enterprise which did not indicate that they have products definitely below world standards, while at the same time in most enterprises, even if the majority of their products were outdated, some products could be judged more favourably. The conclusion is that there are essential tasks in all enterprises both

Table 5

Distribution of manufacturing industry products in relation to leading world standards

(percentages)

Product category	"Independent"	"Subordinated"	All		Heavy industry	Light industry	Food industry
	data suppliers						
	unweighted replies		weakly weighted replies				
World standards	20	19	19	20	19	18	22
Approaching world standards	38	44	41	39	35	41	49
Definitely below world standards	42	37	40	41	46	41	29
Total	100	100	100	100	100	100	100

with respect to the development of the individual products, and to the modification of their production pattern in order of reducing or even eliminating the output of less modern ones and definitely increasing the output ratio of the more up-to-date ones.

According to the enterprise replies, the share of products of world standards is lower than the average in the building materials industry, and higher in the chemical industry. The share of products definitely below world standards is lowest in the food industry, followed by chemicals and textiles while it is higher in building materials.

A similar question was raised with regard to technology, about the share of technologies of world standards, approaching world standards, and definitely below them. The replies indicate strong technological lags. Considering the whole of the manufacturing industry the share of technologies of world standard is 13 per cent, of technologies approaching world standard 32 per cent, and of those definitely below them 55 per cent. While the relationship of products according to the three categories (taking the "weighted" data into account) is 1 : 2 : 2, the technological shares are (roughly) 1 : 2 : 5.

The ranking of factors influencing productivity was asked affecting separately as for its level and its growth and concerning positive and negative effects. With regard to the impact on the level of productivity, the indication of the five most important factors from among 12 factors has been requested while from the point of view of effects on growth, for the past and for the coming 10 years factors for which we requested indications whether their effects were strong or weak. The large number of factors led us to choose this second solution and this was also the reason why we rejected the variant in which the total effects would be divided in percentages among the factors.

This latter method would have given the opportunity for the least ambiguous evaluation, but according to our experience, the use of this method can be recommended only in cases when only a limited number of factors are listed.

The evaluation of the replies on the factors determining the level of productivity was done in four ways, and their arithmetic average will be quoted as the final result. The differences among the four types of ranking, and the calculation of averages are shown in Table 6.

In the judgement of the Hungarian enterprises (see Table 7) their relatively low productivity is primarily due to the lower level of technological equipment of labour, secondly to problems in material supply and co-operation, and thirdly to less modern technology. Other important negative factors are enterprise size, and an often unsatisfactory level of labour intensity and use

Table 6

Several forms of evaluating the order of factors with an unfavourable influence on the productivity level

Factors	Percentage distribution of ranking by the enterprises taking into consideration the				Arithmetic mean
	1st place	1st—3rd places	1st—5th places	1st—5th places weighted*	
Inadequate					
Quality and technical level of product	4.0	4.0	5.0	4.5	4.4
Enterprise size	12.5	7.0	6.5	7.0	8.3
Specialization	9.0	8.0	7.5	12.0	9.1
Technological equipment of labour	27.5	16.5	12.0	14.5	18.5
Technology	10.0	14.0	11.0	12.0	11.8
Auxiliary (material handling, maintenance, etc.) activities					
— volume	4.0	6.5	6.5	5.5	5.6
— productivity	2.5	6.5	8.0	6.0	5.8
Supply of materials and co-operation	16.0	14.0	13.0	13.5	14.1
Labour intensity and use of working time	7.0	11.5	13.0	11.5	10.8
Qualification of manpower	2.0	5.5	8.0	6.0	5.4
Organization and management	2.5	4.5	7.5	6.0	5.1
Other factors	3.0	2.0	2.0	1.5	2.1
Total	100.0	100.0	100.0	100.0	100.0

* The weights given to the 1st—5th places were 6, 4, 3, 2 and 1

Table 7

Order of importance of factors influencing the relative level of productivity

Factor	From the point of view of		Regardless of direction of effect
	negative	positive	
	effects		
Quality and technical level of products	11	1	1
Enterprise size	6	2	3
Specialization	5	3	5
Technological equipment of labour	1	8	2
Technology	3	5	4
Auxiliary (material handling, maintenance etc.) activities of			
— volume	8	9	10
— productivity	7	11	11
Supply of materials and co-operation	2	10	7
Labour intensity and use of working time	4	7	6
Qualification of manpower	9	4	8
Organization and management	10	6	9
Other	12	12	12

of working time. Among factors with positive effects (see Fig. 2), which reduce the gap, the quality and up-to-dateness* of products, enterprise size, specialization, qualification of the manpower and often also modern technology.**

Regardless of the direction of the effect, the greatest weight was attributed by the enterprises to the level of technological equipment and the quality and modernness of products.

A surprising feature in the replies to this question was that the enterprises did not attribute to the level of *management and organization* a more important role. While one third of the enterprises listed it on the first five places among factors with negative effects, very few put it in first place, or in any of places 1—3. The results of the survey have been subject to discussions in various circles on a number of occasions, and this problem has always been one of the central questions in the debates. In view of the fact that the majority of the enterprises listed other factors as more important, many feel

* According to our supplementary interviews many enterprises, incorrectly, considered savings on working time through lower quality as a positive effect.

** The "independent" data suppliers (primarily the trusts and large-scale enterprises) attributed a greater role among the negative factors to insufficient specialization, and shortcomings in supplies of material and in co-operation, as well as in labour intensity and use of working time, and viewed enterprise dimensions and auxiliary activities as less important.

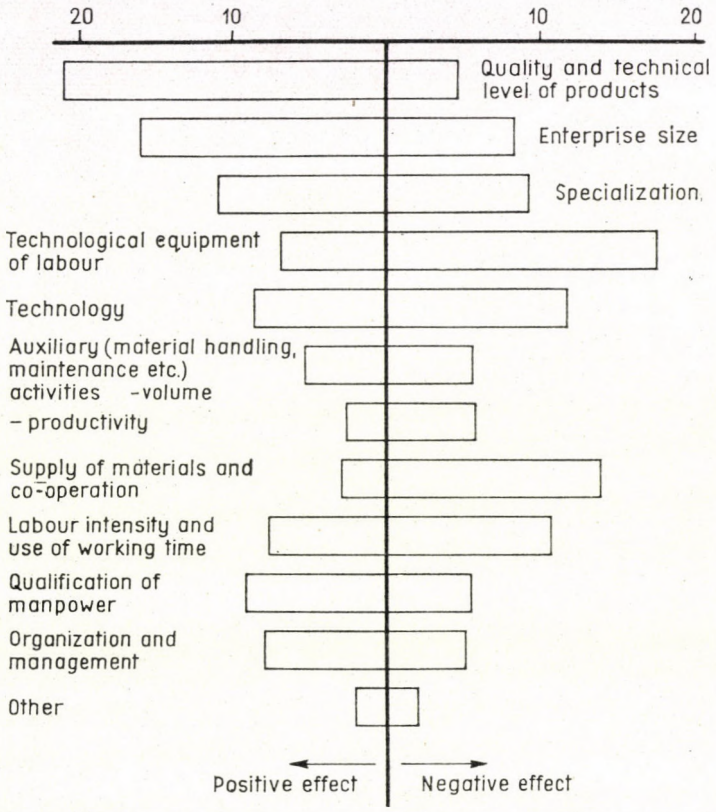

Fig. 2. Ranking of factors influencing the level of productivity

that the critical spirit of the replies was broken when it came to this question. Others, however, feel that with these replies the enterprises wished primarily to indicate the conditions which are necessary (and lacking) for the positive effects of management and organization to operate. It becomes clear from other questions on productivity factors, first of all from those regarding steps necessary to increase productivity, that the enterprises do not underestimate the role of management and organization. For this reason there may be some truth in the latter explanation. At the same time, it was also repeatedly raised in the debates that it is difficult to delimit in principle the role of management and organization. Most of the factors contained in the list also reflect the level of management and organization.

Using a highly hypothetical calculation, and a broader interpretation of the role of management and organization, we attempted to approach the question from the replies by qualifying each of the 12 factors in accordance with the role they may play in management and organization. Accordingly, we assigned a coefficient between 0 and 1 to every factor, reflecting the part

of the effects of this factor attributable to organization and management. (The coefficients for the 12 factors were the following: 0.5; 0.0; 0.2; 0.0; 0.3; 0.5; 0.2; 0.3; 0.2; 1.0; 0.5.) 24 per cent of the lag in productivity was due to organization and management, and 76 per cent to the other factors. This was the point at which there was one of the sharpest deviations between the opinions of enterprise and non-enterprise experts: the non-enterprise experts listed the negative role of management and organization mostly in the first place.

The fact that the enterprises attribute an extremely great role to factors which depend little if at all on investment may be regarded as one of the most noteworthy lessons of the replies. A characteristic feature is that one third of the enterprises did not put the lower level of technical equipment in any of the first five places.

Table 8

Order of factors with unfavourable effect on the level of productivity by industry
(percentage distribution of rankings)

Factor	Metal-lurgy	Metal working	Chem-icals	Build-ing mate-rials	Heavy ind.	Light ind.	Tex-tiles	Food ind.	All manu-fac-turing
Inadequate									
Quality and technical level of products	2.0	6.0	2.5	7.5	5.0	5.5	4.0	1.5	4.4
Enterprise size	15.0	8.5	8.5	5.0	8.5	4.0	4.5	13.0	8.3
Specialization	10.0	11.0	7.5	4.5	9.0	6.5	10.0	6.0	9.1
Technological equipment of labour	19.0	9.0	13.0	23.5	14.0	24.0	25.0	21.5	17.5
Technology	10.5	11.0	9.0	19.0	12.0	10.5	10.5	11.0	11.8
Auxiliary (material handling, maintenance etc.) activities									
— volume	5.0	5.0	9.0	3.0	5.0	5.0	7.0	9.0	5.5
— productivity	3.0	3.5	6.5	5.5	5.0	6.0	5.0	10.0	5.8
Supply etc. and material co-operation	11.0	20.0	18.0	9.5	16.0	14.0	9.0	8.0	14.1
Labour intensity and use of working time	13.5	12.0	14.0	7.0	11.0	10.0	9.0	11.0	11.0
Qualification of manpower	5.0	4.0	4.5	8.0	5.0	6.0	6.5	6.0	5.4
Organization and management	6.0	7.5	3.5	4.5	6.0	6.0	7.5	2.0	5.1
Other	0.0	2.5	4.0	3.0	3.5	2.5	1.5	0.5	2.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Another approach classified the 12 factors into three groups according to whether the elimination of their unfavourable effect depends on the enterprise or on the external circumstances. Enterprise size, the technological equipment of labour, the volume of the auxiliary activities, material supply and co-operation, were dealt with as external factors. Quality of products, the productivity of the auxiliary activities, labour intensity and use of working time together with management and organization have been considered internal factors. The effects of the four unlisted factors have been divided between the former two groups in equal proportions. This calculation gives the result that at least 40 per cent of the gap in the productivity level depends entirely on factors fully within the enterprise.

As expected there were large deviations in judging the role of the individual factors by both enterprises and industries. This obviously reflects specialities in the industry, and differences in the actual situation: while given factors already play a positive role in certain enterprises, in others the same have an unfavourable effect on the productivity level or on the growth rate. (Replies received for ranking the unfavourable factors (see Table 8.) illustrate this point.)

Despite the many differences among the individual enterprises and branches the role of certain factors from among the 12, the same ones got nearly 50 per cent of all rankings in every branch, and the first five factors received 60—70 per cent. Taking the whole of the manufacturing industry, the majority of the enterprises qualified a few factors as characteristically favourable, and others as unfavourable. The former include the quality and technical levels of the products, as well as the qualifications of manpower, while the latter group includes the technological equipment of labour, as well as material supply and co-operation.

The change in productivity and the factors influencing it

With regard to growth of productivity, estimates were requested, on the one hand, for the average annual rate of change in the per unit input of labour materials and energy, as well as fixed assets for the past (1960—1970) and the coming 10 years (1970—1980), while on the other hand estimates of the index numbers of production, employment and stock of fixed assets for 1975 and 1980 as compared to 1970. From the replies to the second question growth rates of productivity between 1970 and 1980 were also calculated, and compared with the direct estimates.

The official statistics only show the *average* growth rate of productivity but do not supply data on the enterprise performance pattern. This survey provided such data. For the period between 1960 and 1970, the majority of the

Table 9

Distribution of enterprises according to the annual average growth rate of productivity between 1960 and 1970 (on the basis of per unit labour input)

Type of change	Metal-lurgy	Metal working	Chem-icals	Build-ing mate-rials	Heavy ind.	Light ind.	Tex-tiles	Food ind.	All manu-factur-ing
No change	—	—	2	—	1	—	—	—	—
Growth	92	85	77	95	86	82	73	89	85
of this:									
—3%	46	33	44	61	43	51	48	56	48
3.1—6%	32	29	22	30	27	22	21	23	25
6%—	14	23	11	4	16	9	4	10	13
Decline	8	15	21	5	14	18	27	11	15
of this:									
—3%	—	5	—	—	3	12	21	5	5
3.1—6%	5	7	9	5	7	5	4	5	5
6%—	3	3	12	—	4	1	2	1	4
Total	100	100	100	100	100	100	100	100	100
Annual average growth rate (%)	2.6	5.0	2.0	2.4	3.5	2.2	1.5	1.6	3.0

enterprises (86 per cent) indicated a rise while 14 per cent reported a drop. The differences in growth rates seem to be large (see Table 9). The opinion of nearly half of the enterprises in the manufacturing industry is that productivity rose by 1—3 per cent, while with 13 per cent of them it rose by over 6 per cent, a year. There was no essential deviation in the distribution of the enterprises whether they were "independent" or "subordinated" data suppliers, nor did the various weigthings alter the results in any major way.

At the same time, for the annual average growth rate of the past 10 years (see Table 10) we received an annual 3.2 per cent from the "independent" and 2.4 per cent from the "subordinated" units. Weigthing shows that the larger enterprises reported larger changes in productivity. The annual 3 per cent productivity growth rate, received as a final answer, is significantly lower than the 5 per cent shown by statistics, but no closer explanation for this could be found. In essence the question referred to an index number of the same type as the one used by the Central Statistical Office. However, the enterprises rarely examine the growth of their productivity over a longer period. In their replies they might have related their own productivity to the annual 4—5 per cent rise in productivity in industry as a whole; they might also have misunderstood the question, or interpreted it in some other

Table 10

The annual average rate of change in inputs
(per unit of output, per cent)

Input	"Independent" data	"Subordinated" suppliers	Total	Heavy ind.	Light ind.	Food ind.	Total
	unweighted			weakly weighted			
Labour							
1960—1970	—3.2	—2.4	—2.8	—3.0	—3.5	—2.2	—2.6
1970—1980	—3.9	—3.0	—3.4	—3.7	—3.9	—3.8	—2.7
Fixed assets							
1960—1970	—0.2	—0.7	0.3	0.1	—0.4	0.8	0.4
1970—1980	—0.3	1.3	0.5	0.1	—0.6	1.5	0
Material and energy							
1960—1970	—0.4	0.2	—0.1	—0.3	—0.4	—0.1	—0.4
1970—1980	—0.3	0.0	—0.2	—0.2	—0.1	—0.5	—0.2

way. The measurement of productivity is one of the more delicate questions in industry and it is not too surprising that deviating interpretations were found. Indeed, whatever the precision in definition, difficulties in this area were to be expected.

Enterprise replies by industries also indicated a lower growth rate than that shown by statistical data. The deviation is particularly large in the chemical industry. According to statistics, productivity rose at a rate of 8.3 per cent a year, while according to the enterprises by 2 per cent only. The deviation is also large in metallurgy and in the food industry.

The direct estimates for the period 1970—1980 can be best evaluated if compared to those for the preceding 10 years. The enterprises expect a greater rise in productivity than earlier; 3.7 per cent instead of the 3 per cent in the preceding 10 years. Although the rate itself is low, the indication of increased growth is reassuring. In estimating the expected growth rate, roughly the same ratios appear between the "independent" and "subordinated" and the larger and smaller respondents as in the assessment of the previous period: in all cases the former expect a growth rate, moving within a narrow zone, exceeding the expectations of the latter groups by 0.7—0.9 per cent.

The "independent" units expect a 0.3 per cent reduction in the per unit inputs of fixed assets against the 0.2 per cent drop in the previous 10 years, while the "subordinated" units are counting on a growth of 1.3 per cent instead of the 0.7 per cent of the earlier period. The average received as a final result does not deviate from earlier trends. According to the enterprises, a very slight change can be expected in the per unit material and energy inputs.

Table 11

Expected average annual growth rates of output employment and fixed assets (%)

Indicator	"Independent"	"Subordinated"	Total	Heavy ind.	Light industry		Food ind.
	data suppliers						
	unweighed			weakly weighed			
Output							
1970–1975	8.9	6.8	8.0	8.5	9.2	9.5	5.4
1970–1980	7.1	5.4	6.3	6.7	7.5	6.5	4.5
Employment							
1970–1975	3.2	2.7	3.0	3.1	3.0	3.2	2.6
1970–1980	2.2	2.0	2.1	2.1	2.2	2.3	2.8
Fixed assets							
1970–1975	10.4	7.9	9.3	9.9	10.4	11.4	7.1
1970–1980	7.2	5.6	6.5	6.9	7.3	7.0	5.8

It would be about one tenth of one per cent (for the whole of the manufacturing industry a reduction of 0.2 per cent instead of the earlier 0.3 per cent).

With regard to expected trends in output as well as employment and stocks of fixed assets, the enterprises provided estimates 5 and 10 years (see Table 11). The "independent" group estimated the annual increase of output for the coming five years as 8.9 per cent, while the "subordinated" ones gave a figure of 6.8 per cent. (According to the weighted data there is no definite deviation in direction between the larger and smaller enterprise forecasts.)

However, for the ten-year period all estimates give a smaller growth rate: the "independents" 7.1 per cent p.a. and the "subordinated" group 5.4 per cent. It is interesting that the differences are rather similar everywhere: between 1.4 and 1.8 per cent. If we recalculate from the forecasts for the ten years and the first five years the growth of the second five years, we get very low figures. According to the weakly weighted data, between 1970 and 1975 production will rise by 8.5 per cent p.a., while between 1970 and 1980 it will increase by 6.7 per cent p.a. Therefore, in the period between 1975 and 1980 the annual rise would be 4.9 per cent. The enterprises were extremely cautious in making this estimate.

In the whole of the manufacturing industry only two thirds of the enterprises are expecting any growth in employment while the others foresee unchanged or even declining employment. The *average* annual growth rate of employment between 1970 and 1975 is 3.2 per cent for the "independent" and 2.7 per cent for the "subordinated" group; the difference is smaller for

the ten-year period: 2.2 and 2.0 per cent. According to the weakly weighted data, taking an annual 3.1 per cent into account for the first five years, and 2.1 per cent increase for the second five year period, between 1970 and 1975 the increase in stock of fixed assets will excess the growth of production, and for the entire period of 1970—1980 the rise will be about identical for both.

Estimates for 1970—1975, that is, the period of the Fourth Five-Year Plan, can be compared with the survey made by the Institute for Economic Research in June 1971, at a date when the enterprises had already completed their medium-term plans for this period. This survey had a representation of 75 per cent by employment, and included a greater part of large enterprises. We can also compare the results of both surveys with some data in the Fourth Five-Year Plan. Since, however, the scope of these data is not completely identical these comparisons can only serve to indicate trends.

For the whole of the manufacturing industry the two surveys indicated a nearly identical production growth rate, 8.5—9 per cent p.a. significantly higher than the national economic plans 6 per cent.

The national economic plan took into account a roughly 2 per cent annual rise in employment, and this was also reflected by the survey of the Institute for Economic Research, while the present survey indicated a larger rise, one of 3.1 per cent. According to the national economic plan in the manufacturing industry the increase in labour productivity should be 4 per cent p.a. while the survey of the Institute for Economic Research indicated nearly 7, and our survey 3.4 per cent increase. There are no comparative data available on the increase in fixed assets, but we know that the plan took into account a deterioration in the output capital ratio. The survey of the Institute for Economic Research showed a more favourable picture: according to their data the ratio of output to total (fixed and liquid) assets in the total manufacturing industry would improve by a few tenths of a per cent. According to our own survey the output/fixed asset ratio would decline by 1.3 per cent.

From the estimates on the growth of output employment and fixed assets in the period between 1970 and 1980 also expected productivity growth can be determined and confronted with the direct estimates reviewed earlier. The rise in labour productivity derived from the ratio of the increase in output to that of employment (see Table 12) is definitely greater though only slightly, than the direct estimate. Here too it is characteristic that the "independent" and large enterprises are counting on a larger rise in productivity than the "subordinated" and smaller units. With respect to the output/fixed asset ratio, the indirect estimate does not show such differences between the individual groups of data suppliers, and there is no essential difference between the two types of estimate either.

The higher output estimates of the enterprises, if they are realistic as to demand for and competitivity of their products, indicate a favourable

Table 12

The average annual growth rate of productivity according to several estimates (%)

Name of index	"Independent"	"Subordinated"	All	All data suppliers		
	data suppliers			fully	smoothly	weakly
	unweighted			weighted		
Productivity of labour						
a) indirect estimates						
1970—1975	5.5	4.0	4.8	5.9	5.4	5.2
1970—1980	4.8	3.4	4.1	4.6	4.3	4.4
b) direct estimates						
1970—1980	3.9	3.0	3.4	4.4	3.9	3.7
1960—1970*	3.2	2.4	2.8	3.5	3.2	3.0
Output/fixed asset ratio						
a) indirect estimates						
1970—1975	—1.5	—1.1	—1.3	—0.9	—1.1	—1.4
1970—1980	—0.1	—0.2	—0.1	0	—0.1	—0.1
b) direct estimates						
1970—1980	0.3	—1.3	—0.5	—0.2	—0.3	—0.1
1960—1970**	0.2	—0.7	—0.3	—0.6	—0.5	—0.1

* Statistical data indicate 5.0 per cent.
** Statistical data indicate —0.4 per cent.

trend. However, a larger than intended part of this higher production will have to be achieved by increasing productivity instead of by employment, and by making better use of fixed assets instead of increasing them. Therefore, one of the lessons of the survey is that the enterprises must more consciously and carefully prepare the basing of the rise in production decisively on greater efficiency of labour and fixed asset inputs. Concepts for the period between 1975 and 1980 must be formed more precisely and realistically as this period approaches.

From the point of view of *the effects on raising productivity* the favourable and unfavourable factors are distinctly separated in the replies of the enterprises, and completely coincide in their evaluations for the past and the coming 10 years. (The technological equipment of labour alone appears as an equally strong positive and negative factor.)

Without distinction between the strong and weak effects, 31 to 80 per cent of the enterprises indicated the positive effects of the factors listed for 1960—1970, with an average of 58 per cent; this ratio was even higher for 1970—

Table 13

Factors with a strong effect on productivity change

Name of factor	Percentage of enterprises who indicated the factor			
	as strongly positive		as strongly negative	
	1960/70	1970/80	1960/70	1970/80
Quality and technical level of products	27	55	3	2
Enterprise size	46	51	3	2
Specialization	21	33	8	2
Technological equipment of labour	27	58	15	2
Technology	26	54	8	1
Auxiliary (material handling, maintenance, etc.) activities				
— volume	10	14	10	5
— productivity	11	17	10	3
Supply of material and co-operation	13	19	23	8
Labour intensity and use of working time	23	34	15	3
Selection and distribution of manpower	10	25	4	2
Qualification of workers	22	42	6	3
Qualification of engineers and technicians	31	57	1	1
Ratio of engineers and technicians	17	42	6	3
Working conditions	14	42	16	4
Work and production organization	18	58	11	1
Material incentives	25	50	6	2
Moral incentives	15	37	2	1
Management	29	63	4	1
Average (unweighted)	21	42	8	3

1980, stand 19 to 89 per cent averaging at 74 per cent. Negative factors were marked in a smaller ratio: for the period of 1960—1970, 11—54 per cent, (average 32) and for 1970—1980, 4—31 per cent (average 13). Of course the ratio was significantly lower with respect to *strong* positive or negative effects (see Table 13).

For a summary evaluation of the replies and for ranking the factors we searched for a solution which sufficiently took into consideration whether the enterprises marked the effects as strong or weak. In *making* our ranking we summarized the placings of the individual factors, weighting the weak and strong effects in the proportion of 1 : 3, and then studied the ratio of the individual factors to the total points calculated in this way. Considering that in our listing there were a comparatively large number of factors, 18 in all, and that the enterprises qualified many factors as important, in ranking

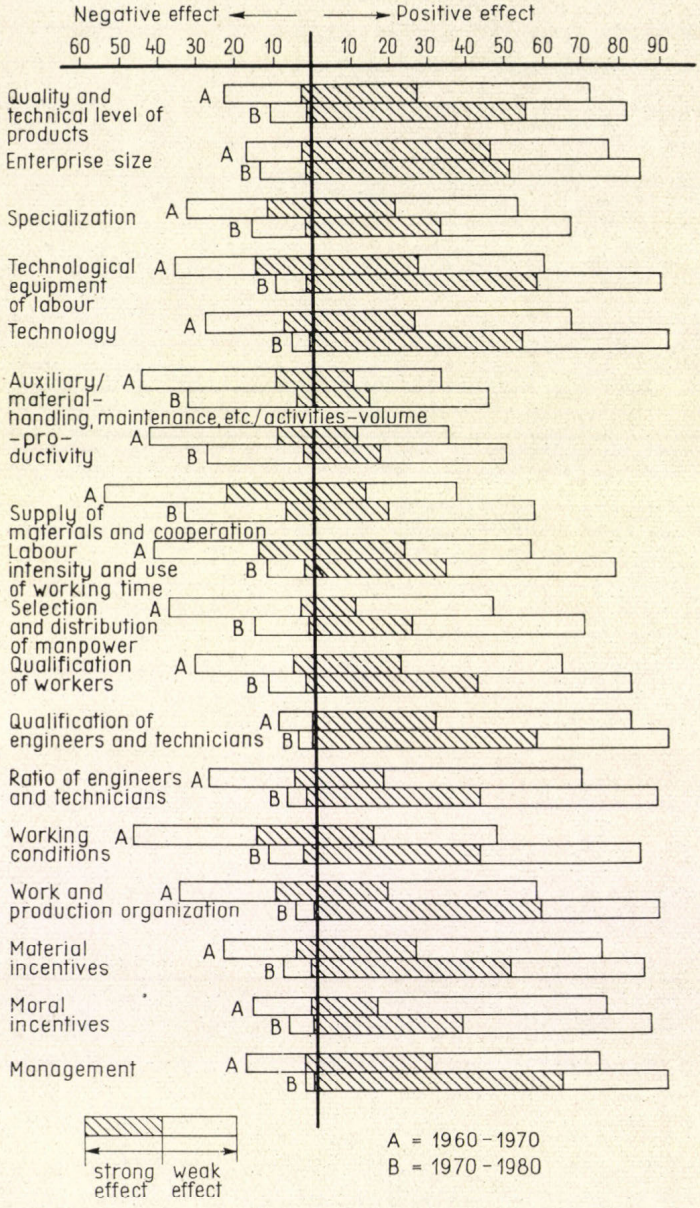

Fig. 3. Ranking of factors influencing change in productivity

the factors we had to treat even comparatively small differences as significant. The results of this calculation appear in Table 14 and Fig. 3.

For the past 10 years, the manufacturing enterprises listed in the first place the role of enterprise size, within the positive factors, while the second

Table 14

*Ranking of factors effecting productivity change**

Factors	Positive effect		Negative effect		Weight given to the factor** increased (+) or declined (—) concerning	
	1960/70	1970/80	1960/70	1970/80	positive effect	negative effect
Quality and technical level of products	3—5	2—6				
Enterprise size	1	+			—	
Specialization				+		
Technological equipment of labour	+	2—6	3—4			—
Technology	+				—	—
Auxiliary (material handling, maintenance, etc.) activities						
— volume			+	2		+
— productivity			+	3		+
Supply of materials and co-operation			1	1		+
Labour intensity and use of working time	+		3—4	4—5		
Selection and distribution of manpower				4—5		+
Qualification of workers	+	+				
Qualification of engineers and technicians	2	2—6				
Ratio of engineers and technicians		+				
Working conditions		+	2	+	+	—
Work and production organization		2—6	+		+	
Material incentives	3—5	2—6				—
Moral incentives	+	+				
Management	3—5	1				

* On the basis of the distribution of the total score given to the factors
** Differences at least 2 points taken into consideration.

place was given to the qualification of the engineers and technicians. Three further factors received approximately the same number of points: the quality and technical level of products, material incentives, and management. Other factors with important positive effects were the technological equipment of labour, technology, labour intensity and the use of working time, the qualification of the workers, and moral incentives. For this same past period within the factors with negative effects on charges in productivity the enterprises place material supply and co-operation first, followed by working conditions. Two other factors received about identical weight: the technological equip-

ment of labour, and labour intensity and the use of working time. They gave a significant role to the (large) volume and (low) productivity of the auxiliary, servicing activities and to the (unsatisfactory) level of work and production organization.

In the coming ten years the role of several factors was expected to change definitely, and in this part of the questionnaire this is indeed the most interesting lesson. In the coming ten years the enterprises expect the most important positive effect to come from the improvement of management, and they assigned to further five factors about identical importance.These are: the quality and technical level of products, the technological equipment of labour, the qualification of engineers and technicians, the level of work and production organization, and material incentives. They attributed an important role, in addition to enterprise size, to the qualification of the workers, to increasing the ratio of technicians to engineers, to improving working conditions and to moral incentives.

Among the factors with negative effects, the greatest part of enterprises denoted invariably material supply and co-operation as the most serious problem. But many enterprises also indicated the expected unfavourable effects of the large volume of auxiliary activities, and their (low) productivity, labour intensity and use of working time, as well as shortcomings in the selection of labour and its distribution within the enterprises. Many respondents mentioned problems related to the level of specialization and to working conditions.

We do not have sufficient space here to show the differences in the replies by branches, and would only add that in essence these factors were considered as the most important ones everywhere (and for the most part, with the same sign), while deviations only appear in the importance assigned to them.

We asked a question on the measures required to increase productivity; the reply was requested in written form and half of the enterprises answered. They marked a total of more than one thousand enterprise tasks. In this case we did not give a preliminary list of factors (for we did not want to influence the replies), but precisely for this reason it was quite difficult to group the replies received. Although a certain arbitrariness cannot be avoided, it emerged rather clearly that the largest part of enterprises earmarked tasks related to the human factors of productivity, management and organization.

A review of the replies given to our question on the four groups of factors mentioned (factors influencing individual performance, investments, economies of scale and position in competition) would exceed the frames of this paper.* Our survey produced interesting results in this respect too (the most note-

* The detailed results of the survey have been published [1].

worthy findings concerned differences between qualifications required and those actually existing, and the comparatively low pressure of competition on the enterprises) and it pointed out a series of problems requiring further research. Despite the contribution of this study our knowledge on the factors of productivity is still very poor, and more research is required in order to understand better and effectively foster the increase of productivity.

Reference

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ОБСЛЕДОВАНИЕ ФАКТОРОВ ПРОИЗВОДИТЕЛЬНОСТИ ТРУДА НА ПРЕДПРИЯТИЯХ

З. РОМАН

Автор излагает главные результаты выборочного обследования, охватившего 387 предприятий, которые репрезентируют 60% венгерской обрабатывающей промышленности. Анкета содержала 60 вопросов о характере предприятий, уровне производительности труда, ожидаемом росте производства и производительности труда, факторах, определяющих уровень и рост производительности труда, об оценке предприятиями их воздействия в порядке их значения.

Изложив методы обследования и обработки данных, автор приводит результаты, полученные относительно уровня производительности труда и оценки воздействующих на него факторов. По оценке самих предприятий, производительность их труда достигает в среднем примерно 60 процентов передового европейского уровня; 20 процентов их продукции находится на мировом уровне, 40 процентов — приближается к последнему и 40 процентов — значительно отстает от него.

Причины отставания в уровне производительности труда предприятия усматривают, в первую очередь, в более низкой технической вооруженности труда, в проблемах материального снабжения и кооперирования, в неудовлетворительном уровне технологии, интенсивности труда и использования рабочего времени.

Согласно ответам предприятий, прирост производительности труда за последнее десятилетие был меньшим, чем это показывают статистические данные. На предстоящее десятилетие предприятия ожидают годовой прирост производительности труда в размере 3,7% при по существу неизменном соотношении продукция/основные фонды и сокращение удельного потребления материалов на несколько десятых доль процента.

На предстоящее пятилетие — период четвертого пятилетнего плана — прогнозы предприятий содержает значительно больший, чем намечается прирост продукции, но также и большее увеличение численности рабочей силы и основных фондов. Их производственные и прочие наметки на 10-летний период уже гораздо скромнее.

В отношении обрабатывающей промышленности в целом в истекшем десятилетии предприятия на первое место из числа положительно воздействовавших на рост производительности труда факторов ставят рост размеров производства, а на второе — уровень квалификации инженеров и техников. Три дальнейших фактора получили примерно одинаковое количество очков. Это — качество и технический уровень продукции, материальное стимулирование и уровень управления.

Относительно того же самого периода (истекшее десятилетие) предприятия среди факторов, оказавших отрицательное воздействие на рост производительности труда, на первое место ставят материальное снабжение и кооперирование, на второе — условия труда. Дальнейшие два фактора, а именно, техническая вооруженность труда, интенсивность труда и использование рабочего времени, получили примерно одинаковую оценку

Согласно мнению предприятий, в предстоящем десятилетии произойдет решительное изменение роли нескольких факторов. Важнейшее положительное воздействие предприятия ожидают от уровня управления, а роли дальнейших пяти факторов придают примерно одинаковое значение. К числу последних относятся: качество и технический уровень продукции, техническая вооруженность труда, квалификация инженеров и техников, уровень организации труда и производства, материальное стимулирование.

Среди отрицательно воздействующих факторов, согласно мнению предприятий, и в дальнейшем решающее значение будет иметь материальное снабжение и кооперирование. Многие предприятия указали на ожидаемое неблагоприятное воздействие (большого) объема и (низкой) производительности труда в подсобных и обслуживающих деятельностях, далее, интенсивности труда и использования рабочего времени и, наконец, недостатков в отборе и распределении рабочей силы внутри предприятия, а ряд предприятий привел также и проблемы в области уровня специализации и условий труда.

Acta Oeconomica Vol. 9 (3—4), pp. 331—342 (1972)

B. CSENDES

THE EXPANDING SCOPE OF ECONOMIC ACTIVITIES IN HUNGARIAN AGRICULTURAL CO-OPERATIVES

In contrast with the rigid division of labour and specialization which operated in the past, as a result of the changes which took place in recent years activities belonging to the production profiles of the co-operative farms (construction, repairs, transport, storing) are viewed as operations serving food production together with processing and realization which appear as extentions to the production process. Building industry activities, machine maintenance and haulage activities have become particularly expanded. The expansion of industrial activities on the parts of the co-operative farms has also had its negative aspects, and new administrative and economic regulations have been introduced in order to eliminate these.

The new system of economic management has started significant changes also in the pattern of productive activities of large-scale agricultural farms.

In the preceding years the division of labour and specialization were categorically interpreted. Even the simplest activities, even if closely related to the agricultural production of the co-operatives as e.g. repair of machines, fodder mixing, processing, marketing etc., were forbidden by legal regulations.

As a result of changes in recent years, activities constituting vertical stages in the food economy as those assisting food production (building, repair and maintenance of machinery and buildings, transport, storing etc.) as well as processing and marketing as extensions of production, are now to be considered as activities belonging to the production profile of agricultural co-operatives. The modern agricultural co-operatives and state farms carrying on ever concentrated production cannot dispense with these activities, otherwise the continuous production would meet with difficulties and a large quantity of agricultural products would be wasted.

The development of industrial activities in large agricultural farms is inseparable from technical progress, modernization, and industrialization of agricultural production; it can be observed both in developed socialist and capitalist countries.

The sudden extension of the agricultural co-operatives' scope of activities in recent years has proved essentially correct.

Reasons of the former restrictions on the scope of activities of large-scale agricultural farms

An adequate extension of the scope of activities is required by the interests of both the socialist large agricultural farms and the national economy.

Natural factors play a significant role in agricultural production. This, however, considerably diminishes with the development of productive forces and the influence of nature will be more and more controlled. Now and in the near future, some factors (e.g. soil conditions) permanently, while others (e.g. weather, precipitation) periodically influence the process of agricultural production as well as its results. Uncertainty of the yields and periodicity in the use of means of production and labour in the specialized large farms with great investments (fixed and current assets) emphatically requires us to lessen the factors of uncertainty and preferably utilize the highly valuable means evenly all the year round. As a consequence the work of an agricultural unit is to be considered as a complex whole, moreover specialization and division of labour cannot reach such a level in agriculture as in other branches of the national economy.

Agricultural co-operatives are farming on large areas (several thousand hectares* each) and have high productive capacities, their means of production are worth several million Forints each and they are capable of mass-production of a number of products. Their work must not be restricted merely to production of raw materials, i.e. to crop production and livestock breeding taken in a strict sense. Some agricultural raw material can be processed most advantageously but at the place of the production. A considerable part of the large agricultural farms can carry out these activities economically, as they produce a large volume of products and some acts of processing can be accomplished with relatively simple equipment and technology. If they are not allowed to carry out such processing, a part of the perishable products will get spoiled on the place of production or while they are transported, so both producers and the national economy would suffer an appreaciable loss. The practice of the earlier years — when processing in the agricultural co-operatives was forbidden or made practically impossible by provisions of law — provides many warning precedents.

The destructive limitation of the scope of activities was the combined result of numerous factors. Let us recall some of the most important ones.

The small-scale farming that became general after the land reform, the preference given to exports often pushing into the background even domestic supply, the administrative system of management inevitably led to restricting the scope of activities of agricultural farms and to the separated develop-

* 1 ha = 119.6 square yards.

ment of the food industry. The socialist production relations were established in agriculture some one and a half decade later than in industry. The development of food industry was separated from that of agriculture also by this time-lag of the latter. It has became obvious only recently — after establishing the socialist large-scale agricultural farms — that food production has to be developed in an integrated way, considering all its interrelations.

The socialist production relations were created in the food industry by nationalizing industry in 1949. It was a characteristic feature of the nationalization of the food industry that a good many of typically small-scale industry units were concerned, mainly in the baking and milk industries. Development after nationalization was characterized by an intensive and highly monopolistic centralization of the enterprises. Centralization and concentration were characteristic of the development of industry as a whole.

The growing concentration and specialization was aimed at improving economic effectiveness. Centralization (amalgamation of enterprises) has promoted concentration. The measures in the early sixties gave an extremely great push to administrative amalgamations. The national big enterprises were established at that time. The amalgamation was often carried out by uniting in one organization enterprises which had no production contacts and in certain branches of industry enterprises having monopolistic positions were thus created. The measures aimed at establishing "clean" production profiles and marking out the "profile owners", which affirmed their monopolistic position at the same time, have also increased concentration and specialization.

Increasing concentration is normally a result of the development of productive forces and up to an optimal plant size it is, as a rule, economically effective and reasonable. However, economic studies of recent years have pointed out, that in some branches of the manufacturing industry, thus also in the food industry, concentration is exaggerated. A comparison with the developed capitalist countries shows that the exaggerated concentration of Hungary's food industry manifests itself primarily in the limited number of small and medium-sized enterprises as well as in their low share in production.

According to the experience of the most developed capitalist countries, the importance of the small and medium-sized enterprises has not diminished; their proportion remains constant and the economic effectiveness is satisfactory, despite the strong monopolistic tendencies. Along with concentration and centralization small and medium-sized enterprises perform important tasks in: a) satisfying such demands which large factories cannot do economically, b) extending the co-operation basis for large enterprises, and c) developing a more favourable regional distribution of industry.

Previously — in the first part of the fifties — also co-operative ownership was interpreted incorrectly. It was a rather wide-spread theorem that group-

ownership is "not consistently socialist" or is an "inferior form" of the socialist ownership. The practical result of this theorem was the restriction of group-ownership, e.g. co-operatives were not allowed to purchase machines, to carry out processing etc. When the development of Marxist theory and the problem of increasing the effectiveness of economic management have highlighted the necessity of a more extensive use of commodity and money relations in socialism, the theoretical and practical questions of the role, nature, and importance of co-operative ownership necessarily emerged. The main stages of this progress were the following: the agrarian policy theses of the Hungarian Socialist Workers' Party declared in 1957 that co-operatives must not be controlled with administrative measures. A further important step was, at the beginning of the sixties, the abolition of obligatory regulations relating to the internal affairs of the co-operatives, so that self-management could be asserted without restriction. This was followed by permitting machinery purchases to the co-operatives, then Act IV:1967 concerning co-operative land-ownership, the reform of economic management and within this the possibility for extending the scope of activities of the co-operatives. The full recognition as well as the theoretical and practical clarification of the role and importance of agricultural co-operatives have accelerated in recent years and led to voting the Co-operative Act in 1971.

The above-mentioned questions — within them in the first place the exaggerated concentration and centralization, the misinterpretation of co-operative ownership — considerably contributed to food industry and agriculture developing on the basis of strictly separate branch concept. According to the then accepted interpretation of development, with the development of productive forces more and more activities *become detached* from agriculture and turn into industrial ones. Moreover all activities which are not inseparably connected to the land *can* be detached from agricultural production and framed into industrial activity. This opinion was complemented by the incorrect interpretation and bias emphasizing the profitability at enterprise level in the food industry. The interest of the enterprise was very often unconditionally identified as that of the national economy. All these resulted in that the improvement of enterprise indicators (indicators of investments, production costs at enterprise level, per unit material costs etc.) increased the national costs of investment, transport and material consumption outside the enterprises; much over the occasional "savings" of the enterprises; while increasing the investment tension, this left idle many existing capacities that still could have been economically operated.

It lies in the nature of co-operative farming that agricultural co-operatives have to ensure the employment and livelihood of their members themselves. Agricultural activity, if taken in a strict sense does not provide — mainly because of the seasonal character of crop production —, either satisfactory

employment or sufficient earning. The extension of the scope of activities affords an opportunity for a fuller employment of co-operative members, for retaining and utilizing the young workers, and for improving the earning conditions. This is why narrowing the field of activities has increased the demand on subsidies too, first of all in co-operatives with unfavourable natural conditions.

The above mentioned view and the practical measures in line with them created, by narrowing the scope of activities of agricultural co-operatives, intolerable conditions: while considerable material values got wasted (deterioration of raw material in the farms, loss of productive capacities etc.), the demands to be satisfied from national funds (investment, transport, subsidies) — which otherwise could have been avoided — increased. All these not only restrained the effective fast development of the national economy but, simultaneously, also unfavourably influenced the political atmosphere. Understandably, when the intensive development of the national economy and acceleration of economic and social progress were put on the agenda, the ideas regarding the field of activities of socialist large-scale agricultural farms and the related practice had to be subjected to revision.

Agricultural co-operatives have recently striven for a complex development of their farming, and extended also the scope of their activities at a relative rapid pace. The extension of the scope of activities was especially motivated by the following:

— Assuring the service activities needed for the modernization of socialist large-scale farming (building, machine repairs, fodder mixing etc.).

— Satisfaction of the needs of the local population and, within this, those of the co-operative members (repairing, servicing and supplying activities).

— Utilization of the local raw material sources (processing of perishable agricultural products, production of raw materials for the building industry, reed production, wood-working etc.).

— Fuller utilization of the means of production in the large agricultural farms.

— Assuring continuous employment.

— Increasing the income both of the farm and the members.

Agricultural co-operatives have paid especially great attention in recent years to increasing *construction activity* and building material production, both necessary for modernizing large-scale farming. The construction activity served mainly to meet their own demands and a smaller part those of their members. More than 50% of agricultural buildings were accomplished by the large-scale agricultural farms (agricultural co-operatives and state farms) themselves. It is understandable because the state and co-operative construction industry could undertake up to now only a small part of agricultural

buildings. Meanwhile, the demand on building continues to increase at a fast rate both in towns and villages. The gigantic task of residential construction will surely not allow the building industry to take a greater part in agricultural construction activity than before. It is therefore necessary to further increase the construction and building material production activities of the co-operatives.

The development of *machine repair* activities is an important expanding field of activities for agricultural co-operatives. If the co-operative repairs its own machines this is a work supporting the smooth performance of the basic activity. Repairs are to be scheduled in comformity with the seasonal use of agricultural machines. An industrial enterprise usually can hardly arrange intermittent repair (that is one concentrated to the winter and work peak periods) efficiently. In addition, in agricultural co-operatives the repair of machinery provides good opportunity for the employment of tractor drivers in the winter period. However, a fuller utilization of the co-operatives' capacities as well as the needs of the co-operative members and of the local population usually make necessary to perform repairs for external customers as well.

Earlier, *mixed fodder production* was carried out only by the enterprises of the Corn Trust. Along with the fast growth of the use of mixed fodders the drawback of the separate development of this activity has become more and more manifested. First of all, the mass transport of fodder to the mixing unit and the retransportation of the mixed fodder to the farms required extremely much transport and loading work. Permitting fodder mixing in the agricultural cooperatives may, beside reducing the transport and loading works, also contribute to a better co-ordination of the livestock breeding with foodstuff production.

Wood-working activity is of relatively little importance in agricultural co-operatives, but it has also developed at a good pace in recent years. The justification for developing this activity may be found, in addition to the better supply of the population, also in providing employment for co-operative members in the dead season of agricultural works.

Food processing is directly related to agricultural production. The most important fields of food processing in agricultural co-operatives are the traditional activities not requiring complicated technical facilities and optimally ensuring the utilization of the local potential. Processing in the agricultural co-operatives may contribute to the fuller use of the local productive capacity and to improving the employment of co-operative members. It may considerably reduce transport costs and the periodic overloading of the capacity of the state-owned food industry. It makes possible to process agricultural products not saleable because of quality or other reasons at the place of production, which otherwise would be wasted. This saving of commodities pro-

duced, while increasing their value by conservation and producing a useful product, reduces the losses and increases the farm income.

In spite of the fact that food processing in agricultural co-operatives has increased in the last year, their sales returns from food processing are still low; moreover in some places a decline appears in comparison to the early initiatives. Agricultural units have invested primarily in the technically simple vegetable-fruit processing (pickling, squash production, wine bottling etc.), however, the development of their meat and milk processing also played a considerable part in improving the supply of the population.

Food marketing is also an activity that belongs to the vertical line of food economy. It was an important objective of the reform of economic control and management to promote more direct contacts between production and consumption. In agricultural co-operatives this is realized most clearly in their independent marketing activity. The co-operatives establish their stores and catering units in the markets, villages and towns. The direct realization generally proved effective and useful: the supply of the population has improved both in quantitative and qualitative terms, the assortment widened. The lack of organs which earlier had been often unnecessarily inserted in the sphere of trade reduced the trading cost and, finally the direct marketing increased the income of the co-operatives as well. However, development has come to a sudden stop in the last year in this field too (the rate of increase of the number of selling units had diminished, several co-operative units have closed down in Budapest).

The stagnation (at some places the decline) of food processing and marketing of agricultural co-operatives has several reasons. The scarcity of financial means necessary for the creation or continuous modernization of the existing sales units plays a role in it. Machines necessary for the processing activity are expensive, the shoprents have risen, the number of processing and sales experts is rather limited. Nor does the control system in force prefer some activities which are again of low profitability. Because of these, the limited resources of the co-operatives are being invested in processing and marketing to a lesser extent than would be needed. However, a further improving of supply would require that agricultural co-operatives should invest their means to a higher extent into the activities in question.

In addition to the activities discussed above, which all belong to the vertical line of food economy, other activities outside of it are also frequent in agricultural co-operatives.

One of the largest field of activities outside the food economy is that of *transport*. (This activity too is partly performed for the co-operative members.) Nearly all agricultural co-operatives possess transport facilities (trucks, tractors, carts etc.) which can be used for transporting their own products or

transporting for others alike. In agricultural co-operatives there are drivers, tractor-drivers, horsemen, and loaders too. Transport for others may be performed by using the transport facilities solely for this purpose or by utilizing the capacity in excess of the own requirements of the co-operative (in periods demanding less work, by extending the daily worktime etc.). The transport activity of a complementary character, performed beside the own transportation of the co-operative is more typical; it is offered mainly in periods other than those of the peak season in agriculture. A fuller use of the transport capacity in agricultural co-operatives is the common interest of the co-operatives and the national economy, and it is in harmony with the development concept of road transport.

The *service activity* of agricultural co-operatives is also significant. Activities of many kinds belong to here: machine repair, maintenance of dwellings, installing gas and electricity, plumbing, joinery, smiths'- and locksmiths' works, laboratory analysis, organizing, data processing etc. A part of these services is being performed for the co-operative members, another part (relatively small up to now), for the population, but they are mostly performed for public institutions. There has been a remarkable dynamic development in recent years in the services performed for the population. Fast development is much needed in this field. With the rising living standards of the population the demand for repair services also rapidly increases. On the other hand, the demand for repair services arising in everyday life (e.g. repair of domestic appliances, wireless and television sets, motor vehicles etc.) remains generally unsatisfied at present, mostly in small villages. The socialist sector could not perform these services up to now nor could the activity of private artisans be relied upon since the development of service activities requires in most instances major investments, which private persons are unable to make. In most villages the only feasible arrangement is to develop the service activities of the agricultural co-operatives.

Agricultural co-operatives produce a considerable amount of industrial products in their machine-shops and other industrial units. In their industrial activity metal working and the production of spare parts are rather considerable, but also rubber and synthetic materials processing, wall-paper and button production, manufacturing of textiles and of chemicals are represented. These goods are produced in the co-operatives on the order of the industrial or trading organs under contracts.

The industrial activity of agricultural co-operatives has quickly developed in recent years notwithstanding that their conventional equipment and the workers' qualifications were hardly adequate for this purpose. The fast growth can be attributed to the combined effect of several factors: to the exaggerated concentration of industry in Hungary, to the efforts of the agricultural units to increase employment, to market demands etc. The industrial

activity of the co-operatives is finally justified by the interest of the national economy and of the farms.

In consequence of the exaggerated concentration industry cannot sufficiently adapt itself to the quickly changing market demands. Because of the lack of small and medium-size enterprises big industrial enterprises are compelled to produce products in small volume and this is unprofitable in large-scale industry. On the other hand, agricultural co-operatives (in the first place those farming under unfavourable natural conditions) are unable to provide continuous employment only with activities belonging to the vertical line of agriculture and the food economy. Moreover, with technological progress labour becomes dispensable in agricultural production to a growing extent. The employment of at least a part of labour thus released in the same locality — especially in settlements which are far off industrial centres — is in the interest of the national economy (it exempts society, for some time, from the great expenses involved by the migration into towns, from costs caused by commuting etc.).

However, it does not follow from the undeniable advantages of industrial activities in the agricultural co-operatives that extending this field could solve either the structural problems of the industry or the troubles of the cooperatives (those of profitability and employment). It can but alleviate them.

Extending the scope of activities of agricultural co-operatives (in the first place of industrial services or industrial production) was accompanied by unfavourable phenomena in the first year, from 1968 to 1969. Some agricultural co-operatives payed their members employed in industrial activities much higher wages than the wage-level of workers in the state and co-operative industry in the same jobs which resulted in dangerous wage-tensions. It occurred that industrial state enterprises employed co-operative members (employees) as workers (a part of them had left the same state enterprise earlier and went over to the co-operative) and their wages, calculated by tariffs exceeding those of the enterprise, were paid to the co-operatives as if the latter had performed some service for the enterprise. Agricultural co-operatives paid then from this income to their members (employees) working in state enterprise wages which were high above those of industrial workers (workers of state enterprises). Not infrequently previously convicted persons of dubious character have made their ways into managing the economic relations of agricultural co-operatives (purchase of industrial raw materials and machines, mediating contracts for the delivery of finished goods etc.).

When these unfavourable phenomena presented themselves, the government took the necessary measures: industrial activities of agricultural co-operatives performed outside their seats were forbidden, strict regulations concerning contracts with industrial enterprises were put into force. Accord-

ingly, agricultural co-operatives must not perform any commission work for industrial enterprises — except for activities belonging to the food and wood economy, reed production and processing — even if the enterprise's seat was within the same administrative territorial unit.

Some questions of further development

Expansion of the scope of activities in agricultural co-operatives has started like a blast and diversified production profiles have become a characteristic feature of co-operative farming. As a result, food supply is better, certain services performed for the population developed faster, conditions for efficient production in agricultural co-operatives have improved, subsidies to several co-operatives farming under unfavourable natural conditions could be reduced. However, experience has shown unambiguously that extending the scope of activities is accompanied by a number of complex economic and social problems, thus it requires careful regulation and co-ordination at the level of the society.

Lajos Fehér has correctly pointed out in his address in the debate of the Co-operative Bill in the Autumn Session of Parliament in 1971, that "the diversified development of production in agricultural co-operatives proved to be a correct guideline", moreover, in the course of extending the scope of activities "a number of new phenomena presented themselves, a part of which is to be promoted and regulated, but we must fight the other undesirable part" [1].

First of all the food processing and marketing activities as well as the services performed for the population by the agricultural co-operatives are in need of support. Development of the desirable proportions is paralysed mainly by the low profitability of these activities and the lack of financial means.

Most problems in the past 2—3 years arose in connection with the engineering, light and chemical industrial co-operation activities not directly related to the food and wood economy vertical lines. These activities were regulated by several government measures even in earlier years. However, it turned out that further regulation is needed. "The industrial production of co-operation character required by the state enterprises is a useful activity as a whole and is to be maintained, but in a better organized form and with stricter state regulation than before, under the leadership of the industry." [1]

The main principles of the stricter regulation at the level of the society are as follows.

Industrial production of co-operation character may be carried out in agricultural co-operatives only by order of the industry, under a contract,

and in compliance with the regulations of the competent ministry. Industrial commodity production for direct sale is not permissible.

In the attraction area of Budapest (if needed in those of other industrial centres too) agricultural co-operatives may not organize further industrial, light and chemical industrial sub-contracting work and the activity of such existing units has be re-examined.

It has to be ensured that proper state and co-operative internal control organs should check upon the activities of the industrial units in agricultural co-operatives more regularly than before.

It is necessary to make wage payment conditions stricter. Agricultural co-operatives, when paying for co-operative employees engaged in sub-contracting activities, may depart from the wages of state enterprises performing similar activity, by not more than 10% (basic wage inclusive of premia and profit shares). By such a wage system disproportions in wages may be forestalled, while partly compensating for the worse working conditions and socio-cultural supply in the industry of agricultural co-operatives.

The regulation also prescribes: if the sales receipts of the co-operative from industrial activity not connected with the food or wood economy vertical are between 30 to 50% of the gross production value it is to be considered an agricultural-industrial co-operative, while those where this proportion exceeds 50% are to be considered as industrial-agricultural co-operatives. In these co-operatives agricultural income-regulation is to be applied to their agricultural activities but that of the industry must be applied to their industrial activities (in the form of the production tax already introduced).

The stricter social regulation contributes towards extending the scope of activities in agricultural co-operatives with advantages for the whole co-operative sector while in accordance with the interests of the national economy. It supports and accelerates the healthy development of useful tendencies and prevents the renewed occurrence of the occasional abuses.

Reference

1. From Lajos Fehér's address. Népszabadság, 23rd September, 1971.

РАСШИРЕНИЕ СФЕРЫ ДЕЯТЕЛЬНОСТИ СЕЛЬСКОХОЗЯЙСТВЕННЫХ ПРОИЗВОДСТВЕННЫХ КООПЕРАТИВОВ В ВЕНГРИИ

Б. ЧЕНДЕШ

В прошлом понятия разделения труда и специализации трактовались крайне узко. Законоположения запрещали кооперативам вести даже наиболее простые и тесно связанные с сельским хозяйством виды деятельности, например, ремонт машин, изготовление комбикормов, переработку, сбыт и т. д.

В настоящее время — в результате происшедших за последние годы изменений — к сфере деятельности производственных кооперативов относят деятельности внутри вертикали продовольственного хозяйства: работы, обсуживающие производство продовольствия

(строительство, ремонт, транспорт, складирование и т. д.), а также переработку и сбыт, возникающие как продолжение процесса производства.

Расширение сферы деятельности обоснованно следующими соображениями:

— обеспечение обслуживания, необходимого для модернизации крупного социалистического производства.
— Удовлетворение нужд местного населения и в том числе членов кооперативов.
— Утилизация местных сырьевых ресурсов.
— Улучшение использования средств производства крупных хозяйств.
— Обеспечение непрерывной занятости.
— Увеличение доходов сельскохозяйственных предприятий и их работников.

В последние годы производственные кооперативы уделяли особенно большое внимание расширению *строительства* и местного производства стройматериалов, необходимых для модернизации крупного производства. Важной областью расширения сферы действия производственных кооперативов является развитие *ремонта машин*. Несмотря на свою сравнительно небольшую долю, в последние годы в деятельности производственных кооперативов получила значительное развитие также *деревообработка*.

В производственных кооперативах наряду с деятельностями, находящимися в рамках вертикали продовольственного хозяйства, получают распространение и иные виды деятельности, выходящие за пределы этой вертикали. Одной из наиболее обширных областей деятельности вне продовольственного хозяйства являются *перевозки*. Значительной является и деятельность производственных кооперативов в сфере *обслуживания*.

Быстрый темп развития промышленной деятельности объясняется рядом факторов: чрезмерной концентрацией отечественной промышленности, стремлением сельскохозяйственных предприятий к повышению занятости, рыночным спросом и т. д.

В первые годы (1968—69 гг.) расширение сферы деятельности производственных кооперативов (в первую очередь, промышленная деятельность и выпуск промышленных товаров) сопровождалось и неблагоприятными явлениями. Отдельные кооперативы обеспечивали своим работникам, ведущим промышленную деятельность, доходы, которые значительно превышали уровень заработной платы работников в соответствующих отраслях государственной и кооперативной промышленности, что приводило к вредным социальным напряжениям.

Когда эти отрицательные явления дали о себе знать, правительство приняло необходимые меры. Так, была упразднена возможность промышленной деятельности вне местонахождения кооперативов. Были введены строгие ограничения относительно выполнения работ на сторону. Согласно принятому постановлению, если выручка от промышленной деятельности вне продовольственного хозяйства и деревообработки достигает 30—50%, производится преобразование кооперативов в сельскохозяйственно-промышленные, а если эта доля превышает 50%, то — в промышленно-сельскохозяйственные. В таких кооперативах на сельскохозяйственную деятельность распространяется сельскохозяйственное, а на промышленную деятельность — промышленное регулирование доходов.

Acta Oeconomica Vol. 9 (3—4), pp. 343—357 (1972)

F. KOZMA

THE EFFECTS OF THE INTERNATIONAL DIVISION OF LABOUR ON NATIONAL ECONOMIES

The study examines the intricate interdependences between the international division of labour and domestic economic efficiency, decomposing them into four basic components: *a)* the relationship between world market terms of trade and the domestic input acknowledged in world market prices, *b)* the export pattern adjusting itself to a dynamic world and the import pattern underlying the development of the domestic dynamic branches, *c)* improvement in national output efficiency due to imported products, and *d)* the improved output efficiency and competitivity achieved through specialization and co-operation. On the basis of these four components the author examines the reciprocal advantages derived from the international division of labour and also evaluates the relationship of these components with economic integration.

A characteristic feature of the modern world economy is that the individual national economies have ceased to be self-sufficient as producers of use values, but they perform an ever growing part of social work deliberately for other economies. At the same time, these same national economies have remained self-sufficient as producers of value. They use the result of their own national labour for consuming their own or other countries' products and accumulate part of it. This may be modified by the balance of the international flow of capital, credit and profits in the longer or shorter run, but this does not alter the dual nature of national production.

The economic connections are mediated by world market exchange relations which form the internal exchange conditions of the countries participating in the world economy, become translated and aggregated through extremely complicated transmissions in international trade into trade relations. Generally speaking, these latter show little resemblance to the input ratios within the individual national economies. Either a country is able to influence world market exchange relations (with its demand, supply, or own internal input conditions) or it is not; a small country is generally not in such a position. Either a country can isolate itself from such effects or it cannot, and a country dependent on the division of labour usually cannot. And if it is neither able to significantly influence them nor to isolate itself from them, it must adjust to them. This process of adjustment affects the economic equilibrium of the country along with its development dynamics, and eventually

the material welfare of the population. If this adjustment is successful and the effect beneficial we say that the adjustment of the country to the world economy (or one of its regions) is *efficient*.

I would like to emphasize that I am speaking of the *national economy* and I would like to assess certain concrete elements of the division of labour also from the national economic point of view. The national efficiency of foreign economic relations does not automatically coincide with effectiveness on the enterprise level. An enterprise can carry on foreign trade or co-operation which realizes large profits, it can also reject foreign economic relations in the interest of larger profits, or can reorientate them from one external partner to another, while this may be detrimental to the national economy. The opposite is also conceivable. This, however, is another matter: the general question of the adjustment of internal exchange and income relations to the optimum requirements of the national economy for adjustment to world market conditions is identical with the general issue of the national economic mechanism and this cannot be solved in a satisfactory manner without clearing up the conditions for the general orientation of the national economy, including the external conditions.

I would now like to experiment with separating the major elements of the effects of the world market on the national economies.

1. Relative efficiency (RE)

If the national economy is in a comparatively early stage of its adjustment to the economy of the world or one of its major regions (in other words, in the process of industrialization) or if it has a highly diversified economic structure adapted primarily to satisfying internal needs, the simplest way of adjustment is if it endeavours to develop or support production activities for regular export purposes in cases where labour is valued higher than average by the world market exchange relations. It is self-evident that simultaneously it either does not further develop, or even reduces the output of those branches in which labour is valued by the world market comparatively low.

This is the old problem of comparative cost on the Ricardian principle, the difference being our consciousness of the decisive influence of given world market price relations on the decisions of the individual national economies regarding the method of adjustment to the international division of labour.

The differences between the domestic and the internationally recognized inputs strongly influence the "RE" effect. For example a branch might "pay off" on the world market for those who produce with at least average productivity but it might "not pay off" for a given economy because of the high domestic social inputs and *vice versa*, a product which "pays poorly" on

the international average might be one which can be efficiently exported due to the fortunate or developed nature of domestic production conditions.

In itself, the "RE" effect derives from two factors, from world market exchange conditions, and from the relationship between domestic input and the input contained in world market prices. In other words, *in general* the world market and its system of value judgement awards or penalizes production activities: both the "award" and the "penalty" may be multiplied or may disappear depending on the level of efficiency of domestic labour as compared with the world market level. In any case, this effect provides incentives towards structural changes on the part of the countries searching for an organic adjustment to the world economy. In the case of free price development the world market revenges itself on the "structural manouvers" of the national economies, in due course, through the price-forming effects of supply and demand. For this reason, a lasting improvement of efficiency on the part of the domestic structure can only be attained in a monopoly situation or within the framework of a regional "protective alliance" intended to aid one given type of industrialization in a collective manner.

This favourable structural effect is automatically present in the more developed economies with larger economic potential — precisely because of the world market power relations — in their ties with the less developed and less powerful world surrounding them. The less the constraints under which the market mechanisms operate, the more strongly their economic superiority will appear. At the same time, a characteristic feature of the less developed and weaker economies and their regional groupings is protectionism, and, to be precise, the introvert type of protectionism which does not pay attention to the competitive conditions of a product on the world market. This consists of the maximum use of the available domestic forces of production: full employment, raising the technical culture of the population, increasing the processing level of the available basic materials etc. This economic policy compares the yields of the various domestic production activities against one another and puts them in the centre of decision criteria. The principle viewpoint is not whether its mining or agriculture is competitive with the mining or agriculture of other countries, but that in the textile or metal-working industry it can make better use of the available investment funds and manpower than in the extracting branches. It has to be added that the given price structure must be comparatively rigid (as a result of a monopoly situation or regional agreement) and sales opportunities must also be ensured (also as a result of monopoly situation or regional preference). Otherwise foreign market competition will strangle these new branches in their embrionic stage.

Another matter, which is not indifferent either, is factor input into one unit of world market price income. Generally, the developing countries have

extensive (not highly qualified) manpower resources and are short of capital, and in many cases, of natural resources as well. Accordingly, their aim is to limit the use of capital as long as there are labour reserves. If, for example one unit of income requires in agriculture more total production factors than in mining, but mining has larger claims on capital than on labour, the country will tend to prefer agriculture to mining from the point of view of developing it for export.

Insofar as the economy does no longer have vast supplies of unutilized live labour, it will place agriculture in the first place on its import lists, while its exports will be simply processed products. The exchange of these commodities will maximize its savings on live labour, within the basic requirement for savings on total labour.

2. Demand dynamics (DD)

In the preceding we have tacitly assumed that there are no restraints on the *volume* of sales of the different commodities. The RE effect takes the relative efficiencies of domestic labour and the world market "price positions" into consideration. But in reality we must also reckon with the dynamics of demand. A national economic growth rate strongly built on the international division of labour is inevitably affected by the dynamics of its export structure; this is in direct proportion to the degree to which the economy is open. It is also effected by the extent its imports structure supports exports and indirectly by the dynamics of the whole of the economy.

Therefore, the structural policy of the national economies must also take into consideration that, *if possible*, there should be a rise in the weight of those export products within total exports, for which demand on the world market is rising. The DD effect is related to the RE effect but the two are not identical. It is not through the high foreign market price of the commodity unit that the efficiency of domestic economy is increased but through the fact that an increasing volume can be placed on the world market and this increases the foreign exchange income of the national economy as well as the domestic rate of growth. The type of country endeavouring to attain the DD effect is one which is strongly dependent on the world economy, with a growth rate strongly dependent on the absorptive capacity of the external markets. This policy assumes the existence of a diversified structure, broad possibilities for "play" in economic policy, the choice between better or poorer than average production activities to be developed. If a country is striving toward exporting machinery, it is wiser if it prepares its economy for imports of mass produced metal commodities and transforms the released capacities to produce components for machine tools, or other machines, provided that the growth rate of the national economy is more securely supported by a lasting

investment boom than if the economy were built on the demand for consumer goods which rises at a slower rate. This however, can only be significant if the national economy is able to become a permanent supplier of investment credit. If not, the dynamics of the total export and import structure towards *the whole* of the world market must be for the most part balanced. In the case of multilateral settlement this balance can fluctuate sharply by trading partners for multilateralism makes this possible. In a bilateral system the dynamics of the system strive towards balance also in bilateral trade.

In cases like this the *flexibility* of the mechanical and human capacities producing for export comes sharply to the forefront, in other words, it is desirable to rapidly change over to the production of other commodities which are more in demand. For the smaller countries and those poorer in capital, of two export possibilities with identical dynamics, it is always more efficient to avail themselves of the one whose technology is less "committed" to produce not more than just one given type of product. This is also an explanation why the smaller countries favour the metal-working industry against the heavy chemical industry, and why the small countries establish the manufacturing of machines which can be produced profitably instead of choosing mass production, or why they prefer the pharmaceutical industry to the petrochemical one.

For the countries with smaller, narrower domestic markets adjustment to the international division of labour becomes the more advantageous the greater the share of commodities with dynamically developing demand in their total exports, and the higher the degree to which their imports or their production "serve" these branches (with raw materials, components, capital goods), as well as the greater the flexibility of their export capacities. Large economies are less sensitive to the latter effect and they keep in view rather the advantages of mass production.

3. The absorption of foreign techniques in domestic activities (TA effect)

We shall now take one further step in concreticizing the abstraction used. We have so far — again tacitly — assumed that the degree of usability of identical products is identical, no matter which country produced them. This assumption can more or less be accepted in the case of raw materials, foodstuffs and products processed on primary level although even in these cases natural conditions, the nature of the technology applied, etc. may cause tangible differences. There are, however, huge qualitative differences in the case of highly processed commodities between the products of countries which industrialized a long time ago, and of those industrialized only recently. It is not all the same whether — let us say — a radio receiver is produced and

sold by a group of experts with three or thirty years of experience. Therefore we might be faced with a situation in which in the interests of faster development capital goods are imported in exchange for agricultural products or those of the extracting industries, even if the annual output of those working in the domestic capital goods industry is valued much higher by the international market than of those in agriculture or in the extracting industry. In this case, in judging the favourable or non-favourable nature of the relationship *the efficiency of domestic production (expressed in world market value terms) is compared not with the efficiency of production for import substitution, but with the improvement in efficiency created by making use of the imported products.* The most widespread form of this TA effect is related to the import of capital goods. This way of thinking of economic policy is characteristic mostly of those countries, which are in the course of transformation from being exporters of agricultural and raw materials to exporters of processed products. If we only judged the structure of international exchange on the basis of the RE or DD effects, we would find phenomena which seem completely irrational: alongside a significant and obviously export-oriented manufacturing industry, machines are being imported in exchange for raw materials and foodstuffs. It is clear that this creates supplementary growth resources only if the rise in the degree of efficiency caused by the use of the imported equipment in production has a direct and indirect multiple effect in excess of the loss in the degree of efficiency caused by the fact that the extracting branches have been maintained or developed at the expense of domestic, manufacturing branches. A similar effect can be attained with the import of consumer goods — in exchange for basic materials extracted on a much lower efficiency level with domestic labour, if the increase in domestic production of consumer goods were to demand — particularly in the short run — a change in investment policy of a dimension which would lead to a deterioration in the efficiency of the other branches, while at the same time a postponement of satisfaction of the demand for consumer goods would endanger growth from the side of the human factor. In this case, for a long time it pays better not to break the investment trends of the raw material and food producing sectors, but to import the necessary consumer goods in exchange for extracted products, or articles in the primary stage of processing.

4. Manufacturing specialization (MS)

The first two effects (RE and DD) are the results of the export and import structure of the economy and of the adjustment of the production pattern to world markets. The "structural manoeuvring" in order to achieve this adjustment is a question of adaptation to business trends even if not a mo-

mentary but a medium or long-term one. *In principle* both may be attained without the development of the forces of production, simply with branch (or intra-branch) regrouping. (In practice, of course, the situation is more complex, which I will discuss in greater detail later on.) The TA effect mentioned thirdly is not the *result* of domestic technical development either but the comparison of the effects of technical imports on increasing future productivity with the present productivity of domestic labour producing commodities suitable for exports.

When discussing the next effect (denoted by MS) the fact in the forefront is that *the development* of the division of labour, particularly of specialization and co-operation in the manufacturing industry, *makes possible a faster development* of the *domestic forces of production through the concentration and more efficient use of the available resources for growth:* it induces an increase in efficiency in the branches affected by the division of labour irrespectively of the original efficiency determined by world market price relations. The MS effect may also appear in those production activities which are judged by world market exchange relations as unfavourable for exports (with the negative effects of the RE, in other words, its disadvantages), and in general it *must* appear unless the country or enterprise entering into the division of labour leaves the development possibilities within the division of labour unutilized. (E.g. if the further improvement of a product is technically "neglected", if it does not meet shipment responsibilities, if it organizes production in small series, etc.). The economy will also find that the division of labour does not pay if the price relations of the products it has undertaken in the divided production are highly unfavourable and this cannot be compensated for by the savings attainable through the division of labour. Therefore it is not certain that the rise in efficiency made possible by the division of labour is in fact realized and turned into increased earnings. At the same time the MS effect *appears not only in those fields where specialization de facto takes place, but, secondarily, it can also affect those spheres to which development spreads from the directly affected areas.* Therefore we must distinguish and in establishing the division of labour take into consideration the primary effect that appears in the efficiency of the branch or factory participating directly in the specialization and can be embodied as cost reduction in the world market or domestic price of the product, and in the expansion of sales. The yardstick of this increase in efficiency is never the efficiency of another domestic branch but the efficiency of the affected production compared to a base period, or the efficiency in comparison with an identical product abroad, i.e. competitivity.

The secondary (tertiary) effects can also take many forms. The production method (organization, technology) developed with the aid of specialization may have a fertile effect on other fields where the experience may be adapted. The productive equipment produced in co-operation may accelerate

the modernization of other branches. Co-operation may open new opportunities for the procurement of foreign exchange for the economy, and thus the maintenance or increase of exports with low efficiency may become superfluous, etc. *From the viewpoint of the national economy, the rate and the scope of the secondary and tertiary effects, induced by the primary one is by no means immaterial.* Nor is it immaterial at what points in the economic development process does an outstanding development induced by the division of labour occur and how these affect one another.

It is wise for economic policy to urge first a division of labour on those points, or to open the way to specialization in those areas, where the most intensive multiple effects on the whole of the economy can be expected and where the separately induced development effects reinforce and accelerate one another.

5. The cumulation of the different effects

So far we have discussed the four most important effects in their "chemically pure" forms. In reality, of course, they are only components of the actual reaction of the economy to foreign market impulses. They can strengthen or weaken one another, can be cumulated and, eventually, they may influence the medium and long-term trend of the balance of payments position and the growth rate of the economy. To separate them from one another and from the movement of these general indices by using traditional statistics is a rather hopeless task. Until economic cybernetics work out a reliable method of calculation we are forced to make decisions which are correct at least in their trends regarding the domestic and foreign economic structural policy, and in the system of regulators implementing these decisions.

In combining the different effects, the combination at the outset of the RE and DD effects with TA should be avoided. This stems from the basic nature of the TA effect. But their combination is highly realistic in a joint study of all the various factors of the division of labour.

a) Simultaneous cumulation of different effects of the division of labour

The division of labour can take place in a form in which the given economy specializes on the export of "well paying" products and the import of "poorly paying" products on the world market, and the "well paying" ones are actually more dynamic, while imports of the "poorly paying" ones form the basis for the exports of the given economy. In this case the RE and DD effects pile on one another. The economy, by exporting commodities which are highly valued and in growing demand on the world market (and freed

at the same time from producing poorly valued commodities) can simultaneously secure its basis for the rise (e.g. through shipments of raw materials, component supplies etc.) and through the rising volume of commodities sold it also increases its income and its growth resources. If through the division of labour it receives the opportunity to concentrate its intellectual resources, this can induce strong technical development in the fortunately "acquired" areas; the RE and/or the DD effect may be supplemented by MS. It is clear that economic policy should prefer those alternatives of division of labour in which the most positive effects cumulate, and which have the strongest effects also when taken individually.

Decision is more complex if effects differing in direction are to be expected, e.g. if the co-operation extends to highly dynamic production activities (+DD) while the division of labour does not promise any significant possibility for technical progress, and at the same time it absorbs significant national economic investment (−MS). In this case the economy must reckon with short and longer-term losses in efficiency deriving from the lack of technical progress and must compare it with the additional resources derived from the rise in realization possibilities. The economy is faced with a similar dilemma regarding specialization in products with RE effect (which have a static comparative advantage) at the cost of importing dynamic products (−DD). In this case a high valuation of the domestic social labour per product unit (+RE) is confronted with the negative dynamic effect which must be taken into account when choosing from among the alternatives.

b) The subsequent cumulation of effects of the division of labour

The national economy forms its international economic ties simultaneously in a number of branches and with a number of countries and the individual effects add up in the beneficial or detrimental changes in its balance and growth conditions.

Taking them individually, the various effects can be conceived as the resultants of the results of the division of labour with the different countries. If, for example, an economy maintains relations with a hundred countries, and one part of them have a positive and another part a negative RE effect, then the RE effects of total trade will be positive or negative depending on whether the overpowering parts are forms which save social labour, or those in which the exchange of domestic labour for foreign one deteriorates the degree of efficiency of domestic labour. In the case of a uniform world market price system this depends solely on the bilateral export and import structures: if a country trades with different geographical regions (or countries in bilateral form) having different price structures, then the resultant of the RE effects is also corrected by differences in the price systems.

The adjustment of the given national economy can be surveyed in its full complexity if the different types of effects with different signs coming from different directions are confronted with one another. If numerical measurement was possible, it would be very instructive to make a quantitative examination (e.g. the question might be the size of the negative RE effect in one trading zone in contrast with the positive TA effect of another zone, and the positive DD effect induced by the MS effect of a third zone, etc.). However, the statistical and methodical conditions to complete such a study are lacking. But in analyzing the foreign economic relations of a country, it is possible to examine the causal relationships in which the effects of the different zones are linked to one another. We know of many national economies which e.g. concentrate their co-operation policies on certain regions mainly for attaining the TA effect, since this is the condition for being able to organize their export and import structures in another region where they can maximize the RE and DD effects. In other cases, they endeavour to combine the TA and MS effects, on one side so that in another region they can attain a massive RE, DD and MS effect. It is characteristic for the foreign economic policy of both of these types of countries that they are in close co-operation with regions more developed than they are, and therefore, they willingly or unwillingly become transmitters of the forces of production of the more developed regions towards the less developed ones. In the case of the first example, the country in question is on a medium or lower-than-medium level of development, while in the latter case it is already capable of using its own manufacturing industry in this relaying activity and can absorb the more developed techniques not only through imports of equipment but through co-operation as well; it can transmit advanced methods to the less developed partners not only through the export of manufacturing industry products but through co-operation too.

The foreign economic political framework of a national economy becomes in all cases crystallized in the branch and country combination alternatives of these four effects.

6. Mutual advantages

The economic policy of a country participating in the international division of labour cannot count on its own advantages alone. Even if the leading economic powers are forced by their own best interests to adjust to their environment, even if otherwise it is characteristic that their conduct rather determines the world economy or that of its individual regions than is determined by it. The conduct of the small countries is rather characterized by adjustment, partly to the large economies and partly to one another. Therefore, it is a rather narrow policy which expects that the conflict of

concepts and measures based on one-sided national interests develops reciprocal advantages. The forecasting and consideration of the advantages derived from co-operation for the partners is therefore an unalienable part of every sober foreign economic policy which the countries cannot pass fully on to the international economic organizations.

The reciprocality of the advantages can be most frequently shown in the case of the MS. Here the division of labour generally takes place in technologically related fields which world market evaluation in all countries judges as "equally efficient" or "less efficient". There can of course be situations when production of a product which is generally depressed by world market terms of trade takes place in one country under exceptionally fortunate conditions, or vice versa, when the production of products which are generally in favourable terms of trade position have a weaker than average return in the economy of one country. The division of labour generally improves production conditions and in this way the participating countries fare better whether their concrete efficiency conditions are similar to those of the majority, or whether they deviate from them.

The situation is generally similar, at least in the longer term, in the case of the TA: the country which wants to develop receives along with the equipment, or other commodities with a similar effect, what it needs in order to improve the efficiency of its national economy while the country supplying the equipment attains a RE or DD effect or both through exports. The balance of mutual advantages is only disturbed if the new industry which develops as a result of the imported means of production and domestic development efforts, narrows down (as a consumer) the export possibilities for raw and semi-processed materials. The efficiency of processing is well ahead of extraction, and the market of the country supplying equipment does not absorb the products produced by the equipment delivered, but continues to demand an unprocessed (conventional) export structure from its partner. The disturbance of equilibrium accelerates particularly if the processing industry of the country importing the equipment with a negative RE effect approaches the exporting country with respect to the technical performance of the products. In the case of importing equipment-producing means of production sooner or later the difference between the rise in efficiency induced by the use of imported installations in contrast to producing them domestically will drop. With a reduction in the positive TA effect the negative RE and DD effects of the division of labour will come to the forefront. The reciprocality of advantages is most incidental and unstable in the case of the RE and DD effects.

In every economy the amount of domestic production factors required to produce commodities equal to one unit of world market price is dispersed differently by branches and by production activities around the nationa

economic average. Surveys on this have proven that the more highly and more evenly developed an economy the smaller the dispersion, and the lower and more unevenly developed a country is, the larger the dispersion. Natural conditions (resources, climate, etc.) also influence this, particularly with respect to basic materials. Therefore it is conceivable that even measuring within a uniform world market price system there can be two countries found which gain mutual advantage in that the one primarily supplies the other with raw materials, food and semi-finished products, in exchange for products on a higher level of processing. This, however, is the exception. In general, precisely because of the nature of the terms of trade, there is a negative RE effect, in other words a loss for those countries which import principally unprocessed commodities in exchange for machines, chemical products, and finished products.

The situation is similar regarding the DD effect. If an economy attains a level on which its exports are more dynamic in structure than its imports, it either becomes a structural creditor (in this case a part of the surplus dynamism is tapped by its debtors) or it is forced to hold back the development of its most dynamic branches, and this hinders its dynamics, or it must switch over from searching for the unstable DD effect to methods creating the MS effect.

7. The advantages of integration

Now we shall ignore those cases in which the resultant of all effects is negative, in other words when participation in the international division of labour is clearly detrimental to an economy. This is difficult to conceive, except for a few cases of economic and political dependency or some other extreme case of an economy which we will leave out of our examination. However, it is even more difficult to conceive a case when the division of labour among two or more countries results in advantages *identical in size* for all of them. Historically, the international division of labour must also serve the approach to each other of economies on different levels of development. Therefore, to a certain extent the principle of mutual advantages includes the provision of *larger* advantages to the less developed economies. The automatism of commodity relations which rule the world economy do not in *themselves* guarantee either equal advantage or greater advantage for the less developed countries. This means that the equilibrium conditions of the world economy (or a major region of world economy) insofar as harmonic development is concerned, must be created and maintained artificially.

The creation of an artificial world economic "climate" favourable from the point of view of its own special growth conditions is something that every economy is striving to achieve individually too. These economic policies in-

clude the elements of endeavours to influence foreign economic conditions together with those to neutralize, weaken and deflect the different external effects. This economic policy aims at relaying the foreign economic effects to the domestic economy in every country of the world. There is no doubt that these external economic policies are suitable for deflecting non-desirable effects from abroad, for preventing an economy to lose in the course of this division of labour or to gain smaller advantages only, while at the same time they restrict the development of the division of labour itself. Beyond a certain point the smaller countries suffer more from the disadvantages of the limits to co-operation than they would from the loss in profits which would be the result of faster development of the division of labour. This is particularly true under conditions when the more developed, stronger economies cooperating with the small countries are themselves in competition with other countries of the world economy, and in this competition their partners are even larger, even more developed economies. Under such circumstances the common development and political interests of the developed and less developed economies prove in the very long run to be stronger than those trends which work in the direction of exploiting the existing potential advantages in the international economic arena of the larger and more developed economies. The trend towards the common interests of the small and large economies operates with particular force and overpowers the dominating trend of the large economy in the socialist international economic relations, where the economic force described above is linked with political forces directed towards aiding the smaller economies. These are the historical situations which create compromises and "protection and defiance" alliances among economies in different "weight groups" of the division of labour, and which redistribute, at least in part, the advantages derived from the co-operation to the benefit of the weaker ones. This is also one of the driving forces for the development of regional economic integration *and integration itself is from this point of view nothing else than the collectivization to a certain degree of external economic policy and the system of equalizing the unequal advantages derived from the division of labour through common efforts*. This refers to both the EEC and CMEA integrations although each has developed fundamentally different forms and mechanisms both with respect to the co-ordination of external economic policies and the compensation systems.

Neither the one nor the other integration is free of problems: it would be very difficult to find the form of movement (changing in space and time) which would sufficiently radically balance (or differentiate in the direction of the less developed) the supplementary resources derived from the division of labour, which would be at the same time the smallest obstacle to the development of specialization itself, and which furthermore would provide sufficient protection for the region without isolating it from the other sectors of the

world economy. The EEC made the removal of the barriers to the international flow of production factors. In other words, the situation it created within the region provided an open road to the positive and negative development of the RE and DD effects with the intention of creating the prerequisites for the more intensive MS effect.

In the CMEA the need for the integration appeared first of all as a need for increasing the weight of the MS effect. At that time this coincided with a certain reduction in the reserves of co-operation based on exploiting the RE, the DD and mainly the TA effect. This is related to a strong equalization process in the branch structure of the CMEA members, which, however, was not accompanied by technical development of similar strength in the branches carrying technical progress, first of all in the countries which had industrialized earlier. This emphasized the differences between the interests of the countries which exported raw materials and foods and those which primarily exported machines, differences which existed at the outset in the field of the RE and DD effects. These characteristics increasingly spread in the 1960's to the field of the TA effect as well. With respect to the latter, in more than one case the CMEA countries today are better able to establish fruitful East-West relations despite the fact that it is perfectly clear than in the long term, without the development of division of labour built on the MS effect among one another, they will not be able to exploit the TA effects of East-West relations either. In other words, *development of co-operation within the CMEA is the sole realistic possibility for a broad-scale fruitful use of the import of technology from the developed capitalist countries.* This is the interrelation which objectively determines the development path for the integration of the CMEA countries. For this reason the integration efforts of the CMEA countries give an outstandingly important role to the co-ordination of the development programs, which requires a great concentration of forces. At the same time, they endeavour to maximally eliminate the operation of the negative RE and DD effects towards the countries which industrialized later.

ВОЗДЕЙСТВИЕ МЕЖДУНАРОДНОГО РАЗДЕЛЕНИЯ ТРУДА НА НАРОДНЫЕ ХОЗЯЙСТВА

Ф. КОЗМА

Автор анализирует составные элементы сложных взаимосвязей между международным разделением труда и народнохозяйственной эффективностью. Эффект «RE» возникает на почве соотношения между условиями обмена на мировом рынке и признаваемыми в мировой цене отечественными затратами. Эффект «DD» складывается на базе создания экспортной структуры, быстро приспосабливающейся к растущему в мировых масштабах спросу, и образования импортной структуры, обеспечивающей должное развитие динамичных отраслей отечественной экономики. Эффект «TA» отражает улучшение эффективности, возникающее в результате использования импортной продукции. Эффект «MS» проявляется в приросте эффективности за счет специализации и кооперации и в повышении конкурентоспособности.

В дальнейшем автор констатирует, что обособленные логическим путем эффекты на практике сказываются совместно, причем вопрос их раздельного числового выражения не получил своего разрешения. Сопоставляя упомянутые выше четыре эффекта, действующие в $\pm$ направлениях, автор приходит к выводу, что с точки зрения венгерской стороны в отношениях со странами СЭВ доминируют положительные эффекты; в западноевропейском направлении эффекты «TA» и «MS» являются более положительными и пока преобладают над отрицательными тенденциями, возникающими на почве эффектов «RE» и «DD».

Acta Oeconomica Vol. 9 (3—4), pp. 359—364 (1972)

NOTES

I. Friss

UNDERDEVELOPMENT AND EXPERIENCES OF EAST-EUROPEAN SOCIALIST COUNTRIES*

The principal position of my country regarding the problems on the agenda of the Third Session of UNCTAD was outlined by the head of our Delegation, Dr. Biró, Minister for Foreign Trade of Hungary. There is no need to repeat it.

Let me recall only two statements of basic importance: First, that the Hungarian Government supports UNCTAD, because it hopes that the activity of this organization will help to implement the principles and the practice of peaceful coexistence in all fields of economic and trade relations. Second, that we are for the enforcement of the universal responsibility of UNCTAD in all areas of world trade.

Let me recall also a few facts, illustrating Hungary's practical attitude, focussing on the developing countries.

In the past years, trade credits offered by Hungary to the Third World were about or exceeded 1 per cent of Hungary's GNP. It is the ambition of our country to afford assistance to developing countries in forms that effectively contribute to strengthening their economic independence, promote their industrialization, raise the material well-being of their peoples. Since 1968 we greatly increased our imports from the Third World, and within imports also the proportion of manufactures. On February 1, 1972, we introduced a preferential tariff system, to enhance our trade with the developing countries. Ours is a small country and we certainly do not belong to the rich ones. But, up to the limits of our possibilities, we consider it our duty to render assistance in a complex form, including material, technical, financial and human factors to the countries oppressed and exploited, often in sophistical economic forms, by the imperialist powers. In the last 5 years the number of Hungarian experts working in the developing countries has increased four times and the number of scholarship-holders from there has trebled.

* A paper prepared for, but not read at the 3rd UNCTAD Conference and published in the Chilean daily "Nacional" in Spanish 19 May, 1972.

Let me turn now to the vicissitudinous economic history of the Third World since the Second Session of UNCTAD. Permit me to summarize in a few words this history as it arises before us out of the documents received and from the discussion of our plenary meetings. Then, I shall try to show what main economic and perhaps economic-political conclusions can be drawn in my view from this history.

The facts show unmistakably that during the past years, as the General Secretary of UNCTAD put it in his report: "The developing countries continued to lose grounds in world trade, and the gap between their *per capita* incomes and those of the developed countries widened... The net transfer of resources through official grants, together with public and publicly-guaranteed loans, showed a substantial decline in real terms from 1965 to 1969... The total external public indebtedness of the developing countries grew at an average annual rate of 14% in the 1960's, reaching $ 59 billions by 1969... payments on account of interest and amortization increased at an average rate of 9%... well in excess of the average growth of 6.6 per cent for exports and of 5 per cent for incomes... amortization and interest payments of 80 developing countries rose from 39 per cent of the gross inflow in 1965 to 49 per cent in 1969". This picture is dark enough, but compared with reality, it is probably too rosy. That conclusion can be drawn from some interventions in the general debate.

Nobody of those present at our first meeting will soon forget the inaugural address of President Salvador Allende, characterized by force, sincerity and truth. He found simple but convincing words to bring home the exploitation of the Chilean people. "The copper-mining corporation, so he said, made a net initial investment of 30 million US dollars in Chile 42 years ago, and without having brought in any fresh capital, have withdrawn 4,500 million dollars. They also bequeathed us credit commitments totalling over 700 million dollars. And about debt-service: "Our total annual income is 1200 million dollars. This year we are due to pay 408 millions." About all Latin America: "Our region paid out 4 dollars for every dollar it received". Robert S. McNamara, the President of the World Bank Group, spoke not only of the past and present, but also of the future. "The state of development in most of the developing world today, is unacceptable — and growing more so." "The trade deficit would grow by approximately 7.5 per cent a year at current prices. The developing countries would either have to reduce their rates of growth, or increase their debts above reasonable levels. Both are likely."

We learned from Ghana's representative, that nearly 80% of their foreign exchange earnings result from cocoa exports. Now how could they carry on a reasonable economic policy, with cocoa prices culminating at £235 per ton in the past few months.

President Allende spoke with vehemence of the great transnational corporations. "The financial, commercial and technological potential concentrated in these is steadily increasing, and they are rapidly becoming the real power factors behind the current features of the world economy." Philipp de Seynes, Under Secretary General for Economic and Social Affairs, called attention to the fact that the turnover of at least 7 of the great multinational corporations is larger than the national product of Egypt, Chile, New Zealand or Nigeria. How could the poor developing countries effectively oppose these giants?

More and more, people all over the world recognize these facts. The task, however, is not to realize the facts, but to change them. In order to change them, one has to understand them. How is it to explain that in spite of all the good resolutions of UNCTAD I and UNCTAD II, in spite of so many benevolent declarations in the past, by so many leading statesmen and economists of highly developed countries, events in practice have taken a turn opposite to the resolutions and declarations?

According to World Bank President McNamara, it can be explained through ignorance: A failure to comprehend the inhuman conditions which characterize the lives of hundreds of millions of people in the developing countries. McNamara said a lot of true and wise things, but here, I think, he is profoundly mistaken. Ignorance, of course, can play a certain part in the historic unfolding of a world-wide process, but — such a process cannot be understood but within its economic-political contexts and relations. What, then, are these contexts and relations?

They are, in principle at least, simple enough. The world, in which the developing countries live and act, is mainly the capitalist world, in the sense that they are economically — though different countries in varying degrees — dependent on and bound to developed capitalist countries. Their tradie relations, taking trade in all its manifold forms, their financial and credt relations, shipping, insurance, all their important economic relations are to 90% on an average, though individually with great deviations, relations with developed capitalist countries. But trade and credit and finance anp insurance and shipping of the developed countries are all parts just of the capitalist system, they are based on very refined, sophisticated mechanisms, built up in centuries in the service, for the use and benefit of capitalists. All the advantages, preferences granted to countries of the Third World by the developed countries are but corrections of the system. Some of them might be very significant and of great value to the recipients, representing real help to them. All possibilities of this kind should be used to the utmost. But they cannot be more than corrections and cannot fundamentally alter the underlying basic mechanism. They represent a certain progress, but have, like progress generally has in this capitalist world, a twofold character, cutting both ways.

They afford real help, but under conditions that may prove fatal in the end. The more a country that not long ago stood more or less outside the modern capitalist world tries to make use of the advantages offered to it, the more it is led and dragged and pushed on the capitalist way of development, the more it gets entangled in a system, which automatically ensures that the main beneficiaries of the efforts made by the country will be the big monopolies, the multinational corporations, the giant conglomerates, like e.g. ITT, the financial oligarchy, the industrial military complex. What changes are there for a developing country successfully to compete with such mighty rivals? Indeed, very little, if any.

What, then, can be done to change this situation? Of course, the developing countries must do all in their power to profit from the help, the preferences, the advantages they can arrive at by common efforts, through organizations and agencies of the UN, or through direct negotiations with governments, banks, agencies of the developed countries, striving at the same time to avoid all the drawbacks connected with this sort of help.

But this is a difficult task, hardly to be carried out perfectly. Only a growing, strengthening economic independence — which does not mean isolation from the developed capitalist countries — can gradually provide them with the economic power necessary to resist the economic pressure of imperialist governments, transnational corporations, big financial organizations, and their allies. But how is growing economic independence to be achieved? No general prescriptions can be given. So many countries, so many different conditions, traditions, customs, constraints and possibilities. No country can strictly follow the pattern set by another. But a country can learn from the experience of another country. That is why I shall briefly sketch a few outstanding features of the Hungarian experience.

Hungary is a small country, with about the same population as Chile, but only one eighth of Chile's area. It is not endowed with natural riches, has no outlet to the sea. Its soil is fertile, but it has hardly any mineral resources, the only non-ferrous metal of the country is aluminium, its coal and iron mines are mostly poor and costly to exploit, its climate is a mixture of continental and mediterranean, therefore no cotton, no rubber, no coffee, no cocoa, no tropical fruits can be grown in the country. The Hungarian economy is necessarily an open one, Hungarian industry being dependent on foreign raw material, the whole country being dependent on foreign trade — amounting to some 40% of the national income, and transacted to two thirds with socialist and to one third with non-socialist countries. That means a strong dependence on socialist and world market relations.

Not long ago our country was an underdeveloped country. In 1950, one half of the economically active population was engaged in agriculture. Industry was one-sided and to a big part handicraft industry. Before 1945

the distribution of income and wealth was extremely unjust and uneven. Hungary was a country of big latifundia, landed, industrial and financial oligarchy, of landless peasants and workers living in misery. A great part of the urban population lived in slums. The majority of the villages had neither gas, nor electricity, water conduit or sewage.

Even today we cannot boast of being rich. But between 1950 and 1970 we have trebled our national income. Taking the figures of 1950 for 100, the consumption of the population rose to 263, gross investment to 547, labour productivity to 248. The volume of industrial production increased by 422, agricultural production by 46%. Real wages in 1970 were by 98%, real individual incomes by 160% above their 1950 level. In 1970 over 80,000 new dwellings were built. The distribution of wealth and income has become more or less even.

This progress has taken place in twenty years during which we never, in no form whatsoever, enjoyed any privileges. It is true that during the whole period we enjoyed the friendly and unselfish economic and political assistance, support and solidarity of the Soviet Union and other socialist countries. This, naturally, meant a sort of a privilege: it assured the peaceful environment in which constructive work in founding and erecting a socialist society could be carried on. Needless to say that this work required not only a peaceful environment but also suitable political and economic domestic conditions. Paying due regard to our time limits I can speak of both only very briefly, stressing just the main points. Politically the most important moment is the unity of the people in building up and perfecting a democratic socialist society, the gradual liquidation of class differences, the assurance of equal rights for education and work for everybody. It is the steady endeavour of the governing party and the workers' and peasants' revolutionary government, by perfecting the democracy of our system, to draw an ever growing part of the total population into the rows of the conscious builders of socialism. Without the support of the masses such work cannot be carried out effectively. So much about the main political preliminary conditions. The two main economic conditions were nationalization and planning. Amongst the preliminaries must be mentioned the stabilization of our currency, putting an end to the worst and most devastating inflation history has ever witnessed. This was in 1946. The first national 3-year plan was put into operation in August 1947, nationalization of some of the key positions of the economy was effected in 1946, 1947; of the undertakings, enterprises with more than 100 employees — except those in foreign hands — in 1948; of those in foreign hands and those with more than ten employees in 1949. Collectivization was a comparatively long process, ending in 1961—1962. Nationalization and planning are closely connected with each other. You cannot effectively plan, at least you have no guarantee of the success of your plan, unless at least the

key positions of the economy have been taken under public control or into public ownership. Once this has been done, you cannot dispense with a national plan. Attention should be called to the fact that in possession of the key positions — including banking and finance — effective planning is already possible. Our first national three-year plan, starting in August 1947, proved a great success, although the enterprises with more than 100 employees were nationalized only at the end of March 1948, those with more than 10 employees only at the end of 1949. It deserves being mentioned that nationalization and collectivization have not meant a total liquidation of the private ownership of means of production. At the end of 1970 there were over 45 thousand private tradesmen working in different branches of industry, giving employment to more than 60 thousand people, thousands of private craftsmen were active in the building trades, there were more than ten thousand private shopkeepers, most of them trading in victuals and the number of small landholdings in private hands exceeded 110,000. In some branches of the service-industries private craftsmen have a big part.

Hand in hand with economic development and progress in building up a socialist society the significance of planning is growing. The need for greater perspective arises and we are now occupied in making a fifteen-year national plan.

These are some of the characteristics of the road, marching on which Hungary attained economic independence and the economic achievements mentioned above. We do not claim infallibility, we openly criticized many mistakes we committed and without which our development would have been, no doubt, more rapid, our successes more impressive. But we think that, on the whole, some useful lessons can be drawn from our economic history.

In conclusion a few words on Hungary's relations with other countries. The dependence of our and other socialist countries on foreign trade, as well as the need to defend ourselves against imperialist discrimination led to the creation of an organ of economic co-operation amongst the socialist countries, the formation of the Council for Mutual Economic Assistance, in 1949. The programme of the CMEA for the next 15—20 years is laid down in the Complex Programme, adopted in Bucharest in June 1971.

But we have always to bear in mind that neither the CMEA, nor its member-countries are isolated from the rest of the world. Suitable political and economic internal conditions like those I tried to sketch above, are not possible without suitable international political and economic conditions. These conditions can be summed up in two words: peaceful co-existence.

Acta Oeconomica Vol. 9 (3—4), pp. 365—370 (1972)

B. Csikós-Nagy

THE EXPORT CAPACITY OF THE HUNGARIAN ECONOMY

Our trade balance showed a considerable import surplus in 1971 and the plan for 1972 reckons with the same tendency. There are some people who do not find anything extraordinary in it, especially since this trade deficit has developed on the basis of importing new techniques and the spreading of a more developed production culture. Some others, however, are urging administrative measures in order to restrict imports. The topical questions of an internationally balanced economic development have to be reviewed by taking these extreme views into consideration.

First of all we have to point out: our indebtedness abroad moves within relatively moderate limits. Our international liquidity is satisfactory. The Fourth Five-Year Plan is well-founded in this respect, too. Therefore, the disturbances in the balance of foreign trade are not serious, but they may become so, if we are not careful. What is it we have to watch? That we should not rely on excessive imports in the naive belief that it prepares the balance of the future on a higher level. There is no greater danger than the fancy that if we import new techniques without export compensation at present, this will be covered by the additional exports in the future. Production forces are permanently developing. We cannot rely on such a "bluebird" chase.

A policy normalizing import can be interpreted in different ways. One is administrative restriction prohibiting imports or a quota system. If possible, we have to avoid this and apply it only as a worst solution and last resort in the future. The other one is to fit too ambitious development targets into a realistic framework and to make monetary and other financial regulations based on the Fourth Five-Year Plan more efficient. The actual problems are connected with these ideas. The main directives were determined by the economic conference of executives held by the Prime Minister in 1971.

In connection with the economic reform of 1968 we said: the enterprise disposing of forints may choose between home purchase and imports. Investment decisions, however, have not been regulated consistently by the planned solvency up to now. This is why the import of investment goods could exceed the planned volume. Many cases could be referred to, where,

instead of control by monetary policies, individual decisions have to be backed, by big money "created" after the event. The slogan "it is only a matter of money" expressed precisely this approach and shows best on what low level the understanding of economic problems has been until quite recently.

We should add: the problem is not that of oversized new projects alone, but of investment in general; thus the requirement of the expanding economy in liquid assets, also belongs here. Strangely, many people identify investments with the purchase of buildings, machines and vehicles. The increase of production implies the increase in stocks as well, in the field of both production and trade. This is capital investment as is the investment into fixed assets; it has to be carved out of the national income in the same way. Inadequate assessment of the requirement in liquid assets, or spending amounts originally designed for this purpose on fixed assets will unavoidably require unplanned amounts to be made available for additional material imports.

This recognition has led us to change over now to regulating investments by monetary measures. This means that development targets fixed in the plans are interpreted in terms of the financial limits assigned and not in the system of those technical and material indices, in which these targets will materialize. Perhaps there would have been no need for such a new interpretation had the financial "underplanning" of investments not become general, and the opinion regarding a more expensive solution, different from the original and, almost as a virtue, widespread. This attitude weakens our stability and withholds financial funds from other targets fixed in the plan.

With efficient financial regulation, if the agricultural output is a little better than the average, our national economy is already in a position to ensure an annual increase of five per cent under balanced international conditions. This is a great thing that few countries can achieve. Under such conditions the importance of increasing export capacity lies mostly in opening the way for faster development. It would be good if the long-term yearly increase of the economy could be raised to 6—8 per cent instead of five. For this, however, an export-oriented development policy alone provides a possibility.

As concerns the export capacity of the Hungarian economy it is worthwhile to clarify some questions. There is an opinion, according to which the low level of the average labour productivity unsurmountably hampers the development of our export capacity. According to this opinion the problem would arise from the fact that the level of average labour productivity is lower with us than in the developed industrial countries. This is not true. Let us consider Japan and the German Federal Republic. In the GFR and Japan the average level of labour productivity is much lower than in the USA. Yet both countries put up a dangerous competition on the American market. Precisely this competition was one of the causes of the Western

monetary crisis. Why does the difference in the average level of labour productivity not mean any problem from the point of view of competitiveness or, more precisely, of international balance? Because this difference is bridged over, neutralized, by the rate of exchange. It is of extraordinary importance to understand this perfectly, because if we approach the question of international balance on such a basis (i.e. starting from the difference in the level of labour productivity), then the foreign trade problem could not be solved even over a period of 10—15 years.

From the point of view of export capacity not the average level of labour productivity is really important but the pattern of production and exports and the relationship between them. The term 'production pattern' is used here in the context of output volumes, production conditions and the technical parameters of products. The average productivity of labour might be low in a country; yet if this average is reflected by the rate of exchange, if the major part of exports is supplied by production branches in a better position than the average and if the products are of excellent quality — that country may take part in the international division of labour in a profitable way.

There is an opinion according to which our currency should be even more devalued and our export capacity would increase as a function of this. For the settlement of foreign trade transactions a coefficient of 60 forints per dollar and 40 forints per rouble, respectively, have been introduced in 1968. This amounted to a considerable devaluation of our currency. The average efficiency, as measured by the national product, gives a more advantageous valuation of the forint. We have, however, consciously accepted the average efficiency, as measured by the pattern of export goods. And what is more: an export price subsidy of 10—35 per cent and sometimes even more has been established on 60 per cent of the export volume to socialist countries and on 70 per cent of that to capitalist ones. Apart from some flagrant cases, the profitability of exports was ensured in the export structure developed in the 1960's. Although — fortunately — the supported quota of exports has decreased since then, as well as the per unit amount of the support, yet exports are transacted under the powerful protection by the state.

We have to think of an eventual later currency reform, too, when it will be expedient to value the forint uniformly both in trade and outside it. Calculated, however, at consumer's prices and measured according to the consumption pattern the purchasing power parity of dollar is about 30 forints. Consequently, the realistic rate of exchange would be around 50 forints. But this assumes good foreign trade activity and a more advantageous pattern of exports than at present. In this field the reserves are still considerable — and so are our tasks, too.

There is an opinion, according to which the significant budgetary support of exports is a consequence of the system of producers' prices, more pre-

cisely of the fact, that industrial production costs contain considerable taxes. This does not hold. If industrial production costs did not contain taxes, the dollar coefficient would not be 60 but, say, 50 forints. Therefore, industry is refunded the tax calculated in the production costs through this coefficient. This partly explains even why agricultural exports seem to be more advantageous. Namely, the tax burden of agriculture is less than that of the industry.

The question raised still makes sense from another aspect. International value can be approached only through the world market (foreign trade) price. Thus, it can be very interesting and important for us to know and to consider the system of export calculation by which the world market (foreign trade) price is formed — taking the demand and supply relations into consideration. In the majority of the industrially developed Western countries a general characteristic of export calculation is that it does not contain any direct taxes (i.e., these are not taken into consideration as price factor). In this way, the level of export prices is — as a rule — lower than the price level of products sold at home.

The tax renounced by the state in the export will be compensated by the duties, taxes, etc. levied on imported products. The rate of exchange itself, however, will be established as if the tax paid in the home trade were realized in exports, too. This means that the national currency is implicitely devalued: protectionism assumes a hidden form. Seemingly the state leaves foreign trade exclusively to the operation of the market. The same condition can only be ensured in our case by open state protectionism, because of our calculation system. Therefore we are considering a modification of the calculation system.

Modification of the calculation system seems to be important not only for formal reasons. If the state supports exports by premia, because otherwise they would not ensure any profit for the enterprises, there is no objective criterion for judging the extent to which something showing a deficit for the enterprise still is profitable for the national economy. If, however, this support is given by the state in the form of tax exemption, it may start in every case from the fact, that export is profitable, only it does not provide as much net income as home sales. This, however, must be reckoned with — even if as a consequence of the special calculation conditions of world market prices.

Summarizing, we can say: practice has not proved those abstract hypotheses on which the concept of a uniform (single level) price system was based. Both I and others have accepted that one forint should be of the same value in all relations. But if we realized this principle even more consistently than before, the profit or deficit of an enterprise would be even less appropriate for expressing international competitiveness. Rather we have to strengthen the indicator of profit or deficit precisely in this quality.

A basic question of the export capacity of the Hungarian economy is the development policy. It follows from the foreign trade sensitivity of our national economy that most productive investments serve import saving or the promotion of exports. Many of us are of the opinion that our development policy is almost exclusively of an import-saving character and, on this account, the export capacity of our economy does not develop satisfactorily. What is this all about actually? With considerable capital investment — partly leaning on capitalist imports — we create production units, which start to operate with a delay of several years and we have not enough resources left to develop export capacities at an adequate rate. There have been many debates about this problem, but apparently we have not succeeded in clarifying properly the background of these differences in views. Now I will try again.

In our national economy, sensitive to foreign trade, a development policy of the kind seems to be advantageous, which ensures technological development and intensive growth on a wide front of production. The fast development of production forces ought to be realized in a way that the number of convertible products should permanently increase and thus a free choice between home and export sales and, in the case of exports, between socialist and capitalist sales should be possible. As a consequence of the increasing integration of production branches this aim can be achieved only if the proportion between social capital centralized with the purpose of developing progressive industries and that being at the disposal of the enterprise is adequate. It seems that at present a somewhat greater part of the net income of the enterprises is drawn away than would be desirable. The following factors point in this direction:

1. The yearly depreciation allowance of fixed capital shows an average of 4.6 per cent in Hungary, which is rather low in view of the life-time of our producing equipment and the international rate of technical progress. The depreciation allowance is linear, apart from some kinds of fixed assets which can be written off proportionally to output. Only few depreciation norms take into consideration the obsolescence of machines. All these result in that a Hungarian industrial enterprise — otherwise under the same conditions — can sell new technology at a lower starting price, but its ability to follow an elastic price policy adjusted to the life-cycles of the products is very limited.

2. A Hungarian enterprise has to pay 40 per cent of the depreciation allowance and on the average 30 per cent of its technical development funds into the budget and central funds respectively. The development funds of the enterprise resulting from the profit are at the disposal of the industrial enterprise after the payment of a tax of about 60 per cent.

Competitive prices postulate a relatively high self-financing ability of the enterprises. The Hungarian economic reform has started this process in

1968, but the centralization of a relatively great part of the depreciation allowance and technical development funds indicates that this process is still far from the end. Nowadays it is still an exception if an industry (or enterprise) is allowed to retain the total amount of the depreciation and of the technical development funds. By the further development of the new economic mechanism presumably a situation should be achieved where the centralization of these funds will be regarded rather as an exception.

During the planning of the period 1976—80 (Fifth Five-Year Plan) we shall see how far we can go in this field. It seems, however, that the central problem of improving the economic mechanism is the investment policy and, eventually, to decide what part of the social accumulation should be allocated to the financing of new big projects; an alien problem is furthermore, to what extent it is possible to base the development of productive forces on the existing organizational structure, which again requires a special decentralized system of investment decisions. It is special because on the one hand, the decisions of the enterprises have to fit into the framework of the plan, and on the other, the control activity and responsibility of ministries cannot be diminished with respect to the development programmes of the various industries.

To make it absolutely clear: the export capacity is not a question of special big capacities established with the purpose of exporting, but first of all that of production structure, a process of permanent and widely basic modernization, by which convertibility can be realized in a wide range of products. If the economy is in such a situation then, but only then, the rate of exchange can function as an equilibrium rate of exchange and can be regarded as such a tool. After all, the essence of the debate on development policy is not to replace by the planning of export capacities those big capacities which, until now, have been centrally planned, mostly with the purpose of import substitution, but that a smaller part of the social accumulation should be set apart for major centrally planned projects. We should better rely on the self-financing of the enterprises, and our controlling policy should be developed rather in a system of enterprise self-financing.

Acta Oeconomica Vol. 9 (3—4), pp. 371—390 (1972)

COMMENTS AND CRITICISMS

COMMENTS ON G. ÁDÁM: "NEW TRENDS IN INTERNATIONAL BUSSINESS: WORLDWIDE SOURCING AND DEDOMICILING" AND "SOME IMPLICATIONS AND CONCOMITANTS OF WORLDWIDE SOURCING"*

A. SEIDMAN

First of all, the information contained in the papers of György Adam is very interesting, and I certainly agree that it suggests that new trends are emerging. It seems to me it would be worthwhile to break down the data on the kinds of industries the multinationals are investing in, and which countries in particular. For example, in Africa, US data show that most US investment is in South Africa. I suspect this will be found to be not atypical: i.e. US firms do not invest in countries except those they consider "stable", like South Korea and Taiwan, backed by US guns, or Japan (but that is hardly an LDC**).

Also, if you break the industry down, it turns out often to be last-stage assembly and processing, in part to break into local markets (in fact to monopolize them) behind tariff barriers, rather than produce for shipment out of the countries. Most exports to the US from US-controlled overseas plants come from the more developed countries (Japan, Europe etc.).

Second, I wonder if it is not important to stress that the multinationals seek to escape the contradictions of capitalism which have dogged their own countries, by economic, political and even military means. In other words, here in the US there is evidence that the efforts to stave off "recessions" by Keynesian techniques have been accompanied by major investments in capital-intensive, profitable military output — contributing to rising prices, but also to other kinds of distortions in the national economy, including increased automation as high profits permit reinvestment to replace labour; unemployment for the less skilled (blacks, women, youth); a narrowing market for consumer goods, hence real problems for textiles, autos etc., requiring to seek solutions like overseas investment — which can only aggravate the contradictions that led to seek such solutions.

* Some of the comments make also references to G. Adam's preprint: "Implications for the economic structure and economic growth of developing countries". The first critical comment by J. L. Malaussena de Perno (University of Lille, France) has been published in Acta Oeconomica Vol. 9. No. 1. pp. 95—104.

** Less developed countries. *Editor's note.*

Third, it is suggested that worldwide planification might provide the necessary solution; but I wonder whether the necessity of certain political preconditions for such planning to take place has been emphasized strongly enough. It would appear that, given the uneven development of capitalism, and the role of the multinationals in extracting surpluses from the developing countries through the export of profits as well as worsening terms of trade (which is a critical means of indirectly extracting surplus value, and which has become in Africa today a major method, if not *the* major method of extracting it), the preconditions include ending the private ownership of the internationally based means of production.

In a country like Tanzania, for example, it has been found essential to take over the "commanding heights", including control of the big international firms; and even then, 51% ownership with the foreign firms providing management permits continued direct and indirect extraction of surplus value. That being so, it would seem essential to argue that workers of the developing countries would need to control their states, and through them control their basic industries, in order to carry on any meaningful international allocation of resources. The existence of socialism in a third of the world might facilitate that by providing alternative sources of industrialization (assuming LDCs have worked out an industrial strategy into which it can be integrated) as well as new markets for manufactured goods abroad (which, precisely because of pressure by Labour in the US, UK and other developed capitalist countries) are unlikely to be made available in the latter.

In other words, it seems to me important to emphasize the necessity for fundamental political-economic restructuring in the LDCs so that they can benefit from a planned international specialization and exchange, directed to advancing the levels of living in all countries involved. And this requires an end to domination by multinationals.

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N. GIRVAN

G. Adam's papers identify two important trends in the strategy of multinational or international firms. The first is the trend to transfer significant parts of their production operations — specifically the manufacture of components and even finished goods — to certain areas of the Third World which are under the hegemony of the North Atlantic powers, for export back to the industrial countries in which the firms are based. The second trend is for some firms to abandon their traditional loci of corporate domicile and planning and to relocate them in places more appropriate in the light of

their production operations, thus becoming what may be genuinely regarded as *inter*-national firms.

The trends are concisely identified and the identification is accompanied by rich documentation drawn principally from business literature. To my knowledge this is the first paper in which these two trends, which have important economic and geo-political implications, have been outlined in this way.

I would like to make some comments on some of the implications of these trends.

First, although the trend towards worldwide sourcing is viewed by the metropolitan trade union movement as transferring jobs to the Third World, this should not be taken to mean that the trend is necessarily beneficial to the Third World economies in any but the most superficial way. The pattern of development implied by this trend is one characterised by dependence on foreign capital, organisation, technology, and materials transferred by the multinational firms, and a new form of dependence on the markets of the industrial countries. While some employment is created this is by no means sufficient to fully employ the local labour force, and the price is not only growing dependence but also a substantial ceding of government control over the national economy.

Secondly, the trend towards worldwide sourcing seems to be the main reason for the emergence of a new protectionism in the United States.

Thirdly, the fact that the bulk of location of worldwide sourcing is in Asia, makes much more understandable the US tenacity in holding Vietnam, in spite of its obviously enormous economic, military and political costs.

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J. C. LEONTIADES

György Adam's analytically perceptive and illuminative study of the latest trend in multinational business underlines the inadequacies of traditional trade theory.

Mr. Adam correctly points out that the nature of international direct investment has changed fundamentally over the years passing through three distinct phases.

The first phase might be termed the resource gathering phase. We have just passed through the second phase which Mr. Adam sees as "the import substitution phase" but which I would term "the market-seeking phase". This is not a matter of disagreement on the phenomenon in question so much as a difference in perspective. From the corporate point of view the search for foreign markets was the incentive behind this second phase of inter-

national expansion. From the national point of view, particularly that of the LDCs, foreign corporations were encouraged to establish themselves in their markets as part of the country's import substitution program.

While many firms are still engaged in activities falling within both of the above categories, Mr. Adam addresses himself to a new phase which is only now emerging. This third stage refers to the increasing use of international sourcing by multinational firms, the increasing use of foreign labour to staff company manufacturing facilities based in other countries. The products from these facilities are not sold primarily in the country of manufacture but destined for export to the company's facilities and markets in other countries. This growing migration of companies abroad in search of low labour cost and lower manufacturing costs is clearly one which will have a major impact on worldwide patterns of trade, employment, wages, research and industrial development.

Many of the repercussions here will be far from favourable on the workers and countries whose jobs have been transferred to other parts of the world. Even countries receiving new jobs as a result of multinational facilities established within their borders may have certain reservations, as Mr. Adam brings out, over this latest trend.

Its net effect, whether favourable or unfavourable, is not easily discernible. It is true, as Mr. Adam points out, that many jobs are at stake and that the unions are rightly concerned over the prospect of international job migration. But it may help us both analytically and to retain perspective if we ask ourselves just what is there about this movement that is new and what is anticipated by the traditional analysis. In other words, what does international sourcing do that traditional trade does not.

Looking at it from this perspective one must admit at the outset that the international transfer of employment is not peculiar to this activity of multinational firms but is very much a part of international trade. The first bale of jute imported from India transferred employment to that country from the importing country. Furthermore the importation of raw materials and other traditional products from any of the LDCs takes advantage of the lower wages every bit as much as the multinational company which builds electronic components in Hong Kong for export. Nor does it stop there; any country which exports and imports is to some extent (often to a significant degree) dependent on foreign organisations and foreign governments. In these areas of job transfer, wage differentials and external dependence, international sourcing is analytically at one with international trade.

However, there are also some major differences. The comfortable assumption of the industrial countries that they would still retain the more capital-intensive and technical manufacturing functions within their own borders has been swept away. It is here that the multinational firm comes into

its own. The superior ability which this form of organisation presents for shifting resources on a global scale is changing trade patterns in a way not anticipated by traditional theory. For the multinational firm factor mobility, rather than a country's own native endowment of the means of production, is more relevant to the decision of which countries should produce and export what products. This is the new aspect of the movement toward international sourcing — a change in the degree of factor mobility as implemented by multinational firms which undermines the dictates of traditional theory on trade patterns and industrial location.

The more mobile factors of production tend to be moved toward the less mobile. Hence, technology and management migrate toward low cost labour with the complications and consequences so ably portrayed by Mr. Adam's paper. To my knowledge, this study (Parts I. and II. inclusive*) represents the best compendium of data available on this rapidly developing new area.

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I. SACHS

György Adam is working on one of the most important and difficult subjects in contemporary international economics. His documentation is very impressive indeed and many of his arguments carry conviction. I shall concentrate below on some differences of emphasis between his interpretation and my views on the subject.

1. Multinational enterprises are rapidly spreading around the world and we soon witness an attempt on their part to create an informal international decision-making system — a sort of "Big Business UN". These developments are due to a lot of reasons, as Dr. Adam rightly points out, of which the most important perhaps are the new business strategies aimed at risk reduction. In this worldwide drive of the MNE's,** developing countries play up to now a marginal role, except when control of natural resources is involved. (E.g. oil.) What must be explained first of all, is the expansion of the MNE in Western Europe, on the one hand, and the mobility of labour as against the mobility of capital, on the other. Millions of workers from poor countries are being brought to Western Europe to perform the unqualified and least paid jobs. This contradicts the theoretical expectation that capital would rather move to places where cheap labour is abundant.

2. The excellent description by Adam of MNE-investments in labour-intensive industries located in a few developing countries would thus gain in being replaced in the global context of MNE's worldwide operations as a

* Reference is made to the preprints. *Editor's note.*
** Multinational enterprises. *Editor's note.*

doubly marginal phenomenon both with respect to the type of outputs and the countries chosen, often as an outcome of exceptional incentives provided for political reasons (South Korea, Taiwan).

3. What is marginal from the point of view of the MNE's global volume of operations may be, nevertheless, very significant (and dangerous) for the recipient countries and such authors like Furtado and Sunkel, quoted by Adam, are quite outspoken about this. Even so, I would not be inclined to believe that a big rise of exports of manufactured goods from developing countries will follow. Adam rightly insists on the highly exceptional character of Hong Kong, Singapore, Taiwan, South Korea. He quotes figures about the limited size of Mexican exports and rightly emphasizes that final effects on the balance of payments must be corrected for induced imports, often very large, to which should be added remittances of profits abroad, payments of royalties etc. But at the same time, he seems quite impressed (perhaps too much) by the high relative figures of the increase in manufacturing exports by developing countries, motivated by low absolute levels of the starting point and a very liberal classification of manufactured goods that includes all semi-processed raw materials.

4. I take probably a much grimmer view than Dr. Adam of the contradictions between the interests of workers in developed and developing countries (as well as between the labour aristocracy in the developing countries and the rest of the proletariat). At the same time, I would be tempted to believe that the spokesmen of labour unions quoted in his paper exaggerate on purpose the negative impact of overseas investment on the level of employment in the US, although they show that a return to protectionism is likely to occur whenever an industrial economy runs into difficulty. Hence the limited character of access to markets of developed countries, in spite of the pressure of the MNE's interested in exporting manufactured goods from there. Hence, I remain deeply convinced that import substitution remains the only viable strategy for accelerated industrialisation in most developing countries, in spite of all the bad things that have been written about it. What should be criticized is not import substitution as such, but *bad*, indiscriminating, superficial and extensive import substitution put into practice in developing countries by lack of identification of proper development priorities.

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R. Hellmann

The study gives a brilliant survey of the prevailing dedomiciling of production plants by multinational companies. The amount of data collected

by the author is enormous and of great value. The problems created by plants in low-wage countries are numerous and it is not easy to pass a definitive judgment on whether the movement is positive or negative. The negative effect is certainly the loss of jobs in developed countries. On the other hand the effect may be positive as regards the development of the LDCs.

One may wonder, however, whether the investments of West German firms in Italy, or Swedish investments in Finland should be englobed under the heading of worldwide sourcing as they appear to be due mainly to the labour shortage in the FRG and Sweden, and only in a secondary way to differences in wage rates. The wider markets created by the EEC and EFTA are to render easier investments in LDCs in order to create more employment there instead of the migration of workers. Therefore I feel that only the investments of European companies in Asia and other overseas areas may be compared with similar investments of US-based MNE's. But even so there is a very important difference regarding the social and economic implications of these investments: while those of the US-based corporations are — in view of the prevailing job situation — actually threatening to jeopardize employment in the US, this is not the case in Western Europe. As there is a shortage of labour, European overseas investments — for the time being — do not affect the jobs of European workers.

Now I consider that it is necessary to shift certain non-sophisticated industries with high labour-intensity to LDCs. This lies in the interest of both the developed and developing countries, because it favours a rational division of labour and productivity. Yet the argument that in industrialized countries lower paid jobs should not be kept at home because these countries have the ability to create more skilled and higher paid jobs is only acceptable in a situation of nearly full employment. If there is no full employment during long periods as in the US in the last years, the argument cannot be convincing for labour unions. There is a danger that labour be driven into a protectionist attitude in order to preserve jobs threatened by low-cost imports. When industries are transferred to LDCs it is necessary to provide adequate retraining for workers or funds for early pensioning.

On the other hand LDCs which have attained a certain level of development can hardly be denied industries for which they have their own markets. In order to have plants with sufficient economies of scale they also have to export part of their products. Investments of this kind may be very useful for LDCs and DCs. On the other hand, investments based exclusively on wage differentials and re-export to the home market of the MNE's may be dangerous for both. The Nixon-program has proved that such regulations can easily be "sandwiched" between measures of the industrialized countries aiming at favouring their own exports and at restricting imports based on low wage levels.

In the last years trade unions became aware that they have to build up organizations on a multinational basis, just as the MNE's do, in order to meet the challenge represented by wage differentials. It is not realistic to demand wage parity everywhere in the world within the subsidiaries and affiliates of one and the same MNE. But trade unions may obtain some levelling of the wage rates when they are transnationally organized. Complaints about the transnational operations of manufacturing MNE's do not lead anywhere, as the internationalization of production is an indispensable requirement of progress. Yet industrial development based exclusively on wage differentials is pregnant with dangers. Producing semi-finished products to be assembled in foreign countries is no solid base for the development of the LDCs.

Some special remarks referring to Part II "Implications of Worldwide Sourcing":

— The Bradshaw-study on US Exports to Foreign Affiliates of US Firms (Survey of Current Business, May 1969) is contested by other studies, just as similar British studies were contested. It is difficult to know the real contribution of foreign investments to exports. Anyway the US has reached the stage at which more foreign investment may mean less exports.

— I am in full agreement with the contention argued in Part II that neither Taiwan nor South Korea or Hong Kong are models for other developing countries and that the industrialization of the LDCs should be promoted in a more organic way.

It appears indeed to be possible that the general preferences granted on some manufactured products of the LDCs by most of the industrial countries (including the EEC, Japan, the Scandinavian countries etc.) will favour production in the LDCs based on wage differentials and may have undesirable effects. Yet the quotas built into the EEC preference scheme are inhibiting the establishment of industries based exclusively on exports to foreign markets. The real danger consists today mainly in the relationship set up between US-based multinationals and some Far Eastern LDCs which grant specific incentives to runaway industries.

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I. Turner

...Industry* is only just starting to be affected globally by the law of comparative advantage which would suggest that labour-intensive work, other things being equal, should locate where labour is cheapest.

* This is an abstract from Chapter 7 (Runaway industries: cheap labour uncaged) of Louis Turner's book: Multinationals and the Developing World, to be published in Spring 1973 by the Allen Lane Press, London. The above abstract is printed here in lieu of comment and criticism with the kind permission of the author.

...By 1950 over half of America's imports were still crude materials supplementary to the US output, but by 1965 nearly three quarters of them were manufactured goods competing with American jobs.

The chief countries we are concerned with are Mexico, Hong Kong, Taiwan and, to a lesser extent, India, South Korea, Singapore and the Philippines. We also have to mention Japan... From 1967—1969... four countries (Japan, India, Hong Kong, Taiwan) ran up 90% of the total deterioration of the US position in manufactured goods ($ 1.9 billion)...

The classical economists say: "Yes, some labour-intensive operations may be exported, but by the law of comparative advantage, the U.S. economy will not suffer as a whole, because it will expand into those research-intensive industries in which it can keep a research lead." The electronics industry ought to be such a research-intensive industry in which the US ought to be able to keep a comparative advantage. Even people within the industry now doubt this. According to an executive of the Dutch firm Phillips, the electron, on whose behaviour most of the communications revolution has been based, is an aging particle, no longer producing major surprises. As a result, many jobs could now be routinized and subcontracted out to cheap-labour areas... The reduction in the cost of components means that a gradually higher proportion of the final product comes from labour charges, playing into the hands of those whose labour might be under a fifth of the cost of equivalent American labour...

The components of many television sets assembled in the US are imported... Even the softer parts of the computer industry are under attack. Already the crucial micro-electronics come largely from South East Asia... countries like Hong Kong are starting to move in on the manufacture of memories, sub-assemblies and subsystems for computers. In fact, as the emphasis among Western computer consumers switches from the hardware to the software... there seems little reason why much of the hardware side of the computer business should not go the same way as the rest of the electronics industry.

It becomes ever harder to find an industry in which firms are not either actually involved with a runaway investment already, or in the active process of thinking about one... There is evidence that really major industries like cars, aerospace and machine tools are starting to give... Chrysler has been importing whole cars from Japan suggesting that the conventional wisdom about what a labour-intensive industry is needs rethinking... In the past, only the extremely labour-intensive industries went abroad, while today the industry which can be exported is somewhere much closer to the "capital-intensive" end.

What steam and refrigerated ships were to the previous unlocking of the tropics, airfreight and containerization are to the 'runaway industries'

. . . which in many cases could not exist without a booming airfreight business. . . For an economy like Hong Kong's 21% of all domestic exports were airfreighted in 1970 and 24% of all re-exports, including 83% of electrical components. . . . . The development of containerization should help spread trade in more bulky, lower-value products and components, thus exposing a new range of industries to the runaway threat.

Hong Kong, Singapore, Taiwan, South Korea and the Philippines. . . are. . . however. . . insignificant compared with the real Third World giants like China, Indonesia and India. Until the runaway phenomenon takes root in economies of this size, it will remain marginal to the development of the Third World as a whole, but extremely valuable to those countries currently most attractive to runaway investment.

The major criticism of the economic impact of the runaways is that they call upon the simplest of skills and that, apart from wages, some local purchasing (possibly) and a bit of local taxation; but as the tax holidays run out, the economy as a whole fails to benefit, remaining dependent on "screwdriver" industries where the only skill lies in assembling the imported components. This is obviously true in the early days of such investment but there is clear evidence that economies learn how to trade themselves up to higher skills. Japan has certainly managed this feat. Other economies like Hong Kong, India, Pakistan, Taiwan and South Korea are busily moving up in textiles toward synthetics, while Singapore is using its incentive scheme to attract a more and more skilled kind of investment.

As to the workers, the interests of those in the Third World and in the developed economies are different; the greater the difference in wages and working conditions between the two kinds of economies, the more likely the Third World is to get jobs, and in a world where unemployment can mean starvation, this is important, however much exploitation is involved. The Western unions therefore have a problem: unless they narrow the wage differential between the Developed and the Third World, they will steadily lose jobs.

Demands are made that Third World countries. . . should recognize the right of workers to associate and there is a current feeling that runaway multinationals should contribute to the Third World economies the equivalent of the US minimum wage, or some such arbitrary sum for each job they employ. . . This is a nice, well-meaning concept and there could be ways of enforcing it. . . But there are also holes in it. . . Even if all countries agreed, and the agreement could be policed, one would then have to ask if any firms would find in worth their while to invest in the Third World at all.

Looking at it from the viewpoint of the Third World: However badly the workers are being exploited by Western standards, they are advancing by their own standards with jobs which many of them would not otherwise

have, and if unemployment pay is bad in Europe and in the US, it is totally non-existent in the Third World.

American union leaders can certainly argue that the development of the Third World is taking place at the expense of the American or European working man, and I agree. It is unfair that the rich in America should sit back and let the poor whites or the blacks suffer for the Third World. But this is a problem of American domestic politics, not one of the Third World's creation. America is a country so rich that, in the eyes of most of the Third World, crying for the American unemployed is, I am sorry to say, almost obscene. America and Europe are rich enough to provide decent unemployment pay, retrain workers, force industry to locate where it is needed etc., while the Third World is not. Looking at this problem through Third World eyes, the internal political problems of the US and Europe are not a good enough excuse for sabotaging one of the few hopeful developments in the Third World.

. . .For the first time since the turn of the century, economic forces are starting to work in favour of the Third World. In the past, they served only to harm it by, f.i., leading to the collapse of prices in commodities like cocoa, coffee, etc., and any intervention in such forces has been an act of magnanimity on the part of the DCs.

The forces behind the runaway phenomenon are working directly in the immediate interests of the Third World, so any interference this time will be an act positively hostile to the poor of the world.

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AUTHOR'S REPLY

The comments raise a number of important questions concerning world-wide sourcing (WWS) and put forth some critical remarks.

First of all, responding to Professor *Malaussena de Perno* (Lille University), I would like to emphasize the relevance of the advent and multiplication of "business empires" with a global outlook and the actual practice of globalism, i.e. substituting the comparative advantage of the country they used to call their home by the corporations' comparative advantage, at least to the extent they can afford it, exposed as they are to varying degrees of multiple pressures by labour, business interests oriented to the domestic market and (every now and then) by governments.

Robin Murray (Institute of Development Studies, University of Sussex) assesses the significance of this new development in a recent paper of his in the following terms [1]:

"Rather than treating the international economy as a summation of national units, it is more helpful... to see it as a single, predominantly capitalist system, in which the geographical distribution of particular structural features of a capitalist system will be governed by market determined laws of location and only secondarily by the action of nation states. *Competitive firms, particularly international firms, become the dominant units of the system. States, which in part reflect the interests of these firms, are subordinate, modifying elements.*" (My emphasis.)

Professor Raymond Vernon, referring to the 187 enterprises of the *Fortune*'s group of 500 which — in view of their overseas interests, the number and geographical spread of their subsidiaries — are considered to be entitled to the 'multinational' label, underlines that they are "an extraordinary group, quite distinct in many respects from the rest of U.S. corporate economy", that "measured by sales or employees per firm, these enterprises are a class by themselves". [2]

At a recent symposium on East-West economic co-operation in Budapest [3] one of the (Western) participants called attention to the attitude of some international firms which urge that the governments of the socialist countries, instead of interstate negotiations, should rather deal with them directly about the intensification of East-West economic relations, as without their active involvement Western governments are hardly able to achieve meaningful progress in this area.

The acknowledgement of the fact that international firms are the main actors of the system, — about to create — as Professor Sachs sees it — "an informal international decision-making system, a sort of Big Business-UN", shifts the argument about the comparative advantage of nations unto another plane: the theory of the comparative advantage of global corporations and its application to the management of their internationally integrated industries.

This helps to explain why the Heckscher-Ohlin theory of relative factor endowments — despite its static character and other shortcomings — continues to play a role in vertically integrated international industries: the assumption of the equal accessibility to the available technology, if not of all nations, at least of all subsidiaries of a given international firm, may be vindicated: the latter is in comand of the technological, marketing, managerial etc. skills required for its worldwide implementation [4]. Thus labour-intensive processes and products — after the determination of the least-cost location — may be and are shifted to low-wage areas, such moves being — of course — subject *inter alia* to considerations of distance costs (more and more neutralised by the lowering of airfreight rates and also by containerization), economies of scale, risk factors relating to transport disruption, political instability etc.

The comparative advantage of the firm — as opposed to that of the home country — also explains why processes and products not only of declining industries, but of growth industries too, are transferred, once they are labour-intensive. Professor Vernon himself admits that the product cycle model was beginning in some respects to be inadequate as a way of looking at the U.S.-controlled multinational enterprise with a global scanning capacity and a global habit of mind: "The assumption that innovations were generaly transmitted from the U.S. market for production and marketing in overseas areas was beginning to be challenged by illustrations that did not fit the pattern" [5].

Thus the "dynamization" of the principle of comparative advantage, as suggested by Malaussena de Perno, is "betrayed" in the U.S. Not only is the production of labour-intensive goods, whose possibilities for growth are exhausted, being shifted to developing countries at a time when full employment is far from being achieved, but so are the labour intensive processes and products of expanding industries. More than that, as the political leverage of some incompetitive, labour intensive traditional industries continues to be significant, the U.S. government, in order to lessen the vehemence of their reaction and give them a respite, adopts hardly veiled protectionist measures by the imposition of "voluntary export restrictions" etc. on foreign competitors, while simultaneously direct investment abroad by U.S. internationals (including the transfer of production plants to LDCs) is tolerated if not encouraged. (Further easing of some restrictions on capital outflow, active defense of the internationals, particularly against the charge of exporting jobs, in official and semi-official publications etc.) [6]

The question: what should be produced by whom and where, is being then answered by the international firms in the way as interpreted by Professor Leontiades: it is factor mobility rather than a country's own native endowment of the means of production which is becoming more and more relevant to the decision of which countries should produce and export what products. The more mobile factors of production tend to be moved toward the less mobile, hence, technology and management migrate toward low-cost labour.

This is, of course, the strategy and practice of the international firm. The interests of the developing countries were best served if the markets of the developed countries would be opened to their labour-intensive products without the insertion of international corporations, rendering possible for them to earn sufficient foreign exchange for self-sustained growth, the establishment of a consumption- and production pattern suited to their specific requirements as well as the assertion of their own development priorities. This implies among other things not to be condemned permanently to a "screwdriver" economy, to produce forever goods of a low technology content,

but to be able and enabled to change over gradually to the manufacture of capital goods and products requiring higher engineering and other skills, both for their domestic market *and* exports. It is on this basis that a new specialisation should be elaborated.*

As to the role of the labour force of developing countries: the international firms, by integrating it into their worldwide network of subsidiaries, create — as I see it — a new sort of labour reserve, which may be called a "spatial reserve army" (Hymer). Its existence at the present — and future — sites of runaway industries may be and is availed of for the same purpose as the "classical" reserve army in the developed countries, i.e. to curb the wage demands of unions, threatening with migrating abroad etc.

As regards the neglect of fundamental research considered by Malaussena de Perno as being "the most frequent" motive of international direct investment, I feel that the relevance of this factor is somewhat overemphasized. Capital surplus, world market shares, technological superiority, the wish to get behind tariff barriers, to preem/st the capture of lucrative foreign markets by local and other competitors, price leadership particularly in the case of worldwide sourcing etc. may be listed as alternative stimuli.

One of the crucial issues concerning worldwide sourcing is whether it will continue to be a marginal phenomenon "both with respect to the type of output and the countries chosen" (Sachs). It depends on the reply we are able to give to this question whether "this growing migration of companies abroad in search of low labour cost and lower manufacturing costs... will have a major impact on worldwide patterns of trade, employment, wages, research and industrial development" (Leontiades).

My view that worldwide sourcing is becoming less and less marginal is based on the following facts:

— West European corporations are increasingly closing up to their US-based counterparts.

The leaders of West German industry are going one after another on record stressing the necessity and inevitability of international sourcing. (Statements of the general managers of AEG-Telefunken, Bayer, some top executives of West German engineering industry, the spokesman of Deutsche Bank) [8].

In Britain the Trades Union Congress at its Conference on International Companies in October 1970 contended that, as opposed to the practice of US-based multinationals, the goods manufactured in British subsidiaries abroad have tended not to find their way to the U.K., inter alia because British-owned multinationals have appeared to be rather more home-oriented than

* For a description of the role played by some international institutions and agencies in opposing any such autonomous development in LDCs see [7]

their American counterparts. In March 1972 the TUC stated that a number of major companies have run down or closed investments, while simultaneously expanding production in Portugal, Spain, Barbados, South Korea, Hong Kong. Following into the footsteps of the AFL/CIO, the General Council of the TUC proposes to consider shortly in detail the important issues raised by the growing investment of British multinationals in low-cost countries [9].

— The Japanese are moving not only into Southeast-Asia, but also into Latin America. (Omron is already shipping its desktop calculators from its new plant in Tijuana, Toyota and Sony have scouted several Mexican sites as an adjunct to a possible US-operation) [10].

— Worldwide sourcing is no more restricted to more or less specific cases like Taiwan, Hong Kong, South Korea, Singapore, Malaysia, Macao, Mauritius, Mexico etc. Big countries with immense reserves of cheap labour, as Indonesia and India, are also getting involved [11].

— Capital intensive industries as the automotive industry have started to move to developing countries (the Asian car program of GM and Ford, the Brazilian car program of Ford). [12] The imperative of environment control in advanced countries may start the migration of a number of other capital-intensive industries (chemical industry, metallurgy, oil industry, paper industry etc.). Japan started already the implementation of such projects.

— Worldwide sourcing implies not only "runaway plants" set up with the purpose to supply the home market and to export, whenever possible, also to third markets. It signifies also that the means of preserving important foreign markets or penetrating them becomes with increasing frequency the establishment of plants in the closest low-wage areas. The rush to Mexico, e.g., is stimulated *inter alia* by the currency alignments and by fear of U.S. protectionism. A plant located in Mexico has, because of the geographic proximity, a better chance to export to the U.S. than one located in Western Europe or in Asia.

— A trend is also evolving to supply regional areas from export bases. Thus Spain is considered a suitable export base toward Africa, the Middle East and even Latin America, Israel — which is a beneficiary of the EEC-preference scheme — toward the Common Market, Australia toward certain areas in the Pacific.

— While the import of final products from "runaway plants" meets indeed increased resistance both in the U.S. and in Western Europe (e.g. in Britain), the phasing out of the manufacture of labour-intensive parts and components of final products in otherwise research and capital-intensive industries appears to continue unabated. Process and component specialization, international subcontracting is even considered by some economists as becoming the main avenue of worldwide sourcing [12].

While it is still difficult to make any reliable quantitative assessments of specific WWS-investments and employment, all available evidence seems to point to its growing significance and its increasing contribution to the rise of a global economy.

When attempting to forecast the future of worldwide sourcing, the high productivity of workers in the developing countries — on condition they are properly trained and supplied with modern equipment — cannot be sufficiently stressed. It may be considered in itself such a tremendous asset which is inducing new and new firms in the industrialized countries to avail themselves of it [13].

And finally, the more worldwide sourcing expands the more difficult for international firms based in any country not to climb on the bandwagon or to stay out. However forceful the attacks directed against US-based global corporations in their home country, they can stop foreign sourcing only on penalty of taking into their stride a serious handicap in their efforts to stave off the onslaughts of their West-European and Japanese competitors.

My belief in the expansionist potential of worldwide sourcing should, however, by no means be interpreted to the effect that I ignore or disregard its actual and longer-term negative implications both in developed and developing countries. Particularly the claim that worldwide sourcing offers a possibility to combine profit with a solution of the development problems of the Third World [14] has to be rejected in view of the conditions of its present implementation, the "footloose" and inherently instable character of WWS-operations, the preclusion of backward and forward linkages, whatever the temporary, apparent and short term results of this very much "sui generis" industrialization. Among most of the — still relatively few — economists who give specific attention to this trend, there is a broad consensus about the doubtful nature of its ultimate net effects, particularly as regards — at least for the time being — "major changes in the geographical ranking of industrial centers" (Robin Murray) [15].

Professor *Seidman*, while admitting the emergence of new trends and — implicitly perhaps — the need for the international co-ordination and planning of worldwide sourcing, expresses the belief that the precondition of its attainment is a fundamental political restructuring in the developing countries, i.e. ending the private ownership of the internationally based means of production.

It is perhaps pertinent to quote here Meir Merhav who spells out the same belief in forceful terms [16]:

"In the concrete circumstances of our age, *development cannot be left to the vagaries of the blind forces of the private enterprise system*, even when they are buttressed by a good deal of public intervention. Nor do I believe much in 'capitalist planning' which, to be effective within its own limitations,

depends largely on the predominance of private monopolies — and *least of all in the underdeveloped countries where I consider the private monopolistic structure to be one of the main roots of trouble... I believe that a system of public ownership is the more rational order and has the greater growth potential.*" (My emphasis)

While in full agreement with Professor Seidman (and, of course, with Meir Merhav) on this point, may I remark that this insight should not prevent us to analyse the expedients by which the difficult situation of the developing countries could be eased in the meantime, by second or third best solutions, a task which she is far from neglecting herself.

I would like now to take up some points raised by Professor *Sachs*.

The reference to the very liberal classification of manufactured goods in the export statistics of developing countries that include all semi-processed raw materials is very important: the corresponding adjustments will certainly contribute to make the picture more realistic. He is also rather skeptical about the possibility of a big rise of exports of manufactures from developing countries.

I presume his skepticism relates also to WWS-exports. Owing to the lack of reliable and *comprehensive* statistics for 1970 and 1971, the clarification of this issue must be postponed until concrete figures are accessible. Some data on Mexico are, however, available: the total value of U.S. imports from this country under sections 806.30 and 807.00 of the U.S. Tariff Schedule increased between 1969 and 1971 from US $ 150 million to US $ 350 million, their dutiable value (added value) from US $ 53.1 million to US $ 125 million, the percent of U.S. components having remained constant (65%, 63%, 64% respectively) [17]. These are admittedly partial results, and cannot be extrapolated to the whole area of worldwide sourcing, but seem to be quite impressive. One may also wonder whether an overall drop in manufactured exports excludes a growth of WWS-exports, which was the main concern of our papers.

Do labour unions exaggerate the negative impact of overseas investments on the level of employment in the U.S.? They overstate perhaps the *overall* impact, but not — or not too strongly — that on blue collar workers. There is some evidence [18] — stemming *not* from labour sources — that the displacement effect falls predominantly on production workers, heavily weighed in the semi-skilled and skilled categories. The role of the international corporation as a vehicle for structural change in U.S. production and employment is reflected in the fact that the new jobs associated with their foreign expansion are created primarily in the managerial, clerical and professional occupations. The bulk of the membership of the unions is recruited from blue collar workers; some swelling of the ranks of the white collar work force does not compensate them for the loss of their jobs.

I would strongly contest, however, the thesis that "import substitution remains the only viable strategy for accelerated industrialization in most developed countries". The argument appears to rest mainly on the assumption of a return to protectionism whenever an industrial economy runs into trouble. The EEC-preference scheme as well as the preferences granted by other industrial countries (although they are rather limited and their main beneficiaries up to now appear to be the international corporations practicing foreign sourcing) seem to militate against *too extreme* protectionist measures, not to speak of political considerations (a certain awareness of the expediency not to increase tension to the breaking point). A purely inward looking trade strategy (particularly in the case of smaller developing countries), given the prevailing relationship of forces both in the world economy and within the LDCs is bound to prove in my opinion rather counterproductive. I consider a balanced complementarity of inward *and* outward looking strategy — may I add: in certain conditions — more promising for the welfare of developing countries. Unfortunately limitations of space do not make it possible for me to go into a more detailed discussion which the subject undoubtedly merits.

Louis *Turner* sees a sharp conflict of interest between workers of developed and developing countries: a race is on for jobs, and the lower the wages in the LDCs, the bigger the chance of the Third World that new employment will be created. True, the workers of the Third World are badly exploited by Western standards, but "they are advancing by their own standards with jobs which many of them would not otherwise have". The implications appear to be that if LDC-workers succeed to raise their wages, the runaway sites cease to be attractive to international firms.

First of all, it is not simply "wage differentials" as between developed and developing countries we have to consider. According to the data of the U.S. Tariff Commission, the ratio of average hourly earnings in the U.S. to earnings of foreign workers processing or assembling materials in plants established at the runaway sites in 1969 was 2.8 to 6.2 in Mexico, 4.6 to 13.8 (!) in the Caribbean, 9.7 to 21.6 (!!) in the Far East [19]. This leaves plenty of scope for the increase of wages without endangering the competitiveness of the products of runaway plants... The same holds true about the possibility of raising wages simultaneously with the rise in productivity. There is no economic justification for condemning LDC workers forever to starvation wages as a *sine qua non* of the industrialization of the Third World.

The real conflict is not that between DC and LDC workers but between workers of both groups of countries on the one hand, and the international firms on the other. The higher the wages in the LDCs, the less are international firms able to level wage rates downwards in a worldwide context, including the developed countries. Were it not so, every help extended by labour unions of developed countries to Third World workers in their fight against inter-

national corporations ought to be considered a perfidious act aiming at depriving them surreptitiously from their jobs — evidently an absurd assumption.

It is, of course, quite possible to argue with U.S. unions whether the measures envisaged by them (and embodied in the Burke-Hartke Bill) are appropriate to defend the jobs of American workers. In mid-1972 there were already some indications that organized labour is about to shift the main thrust of its campaign against US-based global corporations from restricting imports of foreign goods to curbing their multinational investments [20].

Nor can the assertion that the workers of the runaway plants would find no alternative jobs be accepted without some caveats. In Hong Kong, f.i., most industrial jobs depend on the American market, but they do not depend on U.S. direct investments and ownership. Merely in electronics (which employs only about 40,000 people out of a labour force of some 600,000) is most of the ownership U.S. Textiles and garments — the biggest employers — are almost entirely Chinese owned, but indirectly controlled by U.S. contractors.*

The situation might be somewhat different in other countries with less investment capital, but even so the case of Hong Kong would warrant some circumspection as regards the attribution of no opportunity cost to the employment of DC-labour in runaway plants.

Can any interference with the runaway phenomenon then be qualified "an act positively hostile to the poor of the world"? It all depends on the sort of interference which may be implemented.

The belief has been voiced in the West that there is a need for all governments, whatever their political coloration, to co-operate "in setting ground rules for the orderly advance of multinationalism". It is held that as the challenge is global, it cannot be met without participation of both "state-controlled" and "free-enterprise" economies [21].

The U.N. Economic and Social Council too elaborated recently a draft resolution calling for a study of the role of multinational corporations and their impact on the development process in developing countries, as well as for recommendations for appropriate national, regional and international action. The draft was supported by the speakers of many developing countries and by those of all socialist countries participating in the discussion (i.e. by Poland, Bulgaria and Hungary [22]. It may foreshadow the shape of things to come.

* Based upon a private communication by Mr. Robert Snow who has been working in Hong Kong for several years for an ecumenical church study on industrial conditions and problems.

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REVIEWS

E. Kemenes

SYMPOSIUM IN BUDAPEST ON THE ECONOMIC POSSIBILITIES INHERENT IN EUROPEAN SECURITY

The economic aspects of European security was the central theme of the symposium held in Budapest between June 15th and 17th, 1972 by the Hungarian Council on World Economy in collaboration with the International Peace Institute of Vienna. The symposium was attended by 50 participants from 11 Western and 8 Eastern countries.

The central theme of the symposium was discussed from three aspects starting from different points. The first of these was *political* in nature and examined the possibilities for expanding economic relations between the two parts of Europe, considering the military-political and economic power relations which certain experts qualified as asymmetric. The introductory papers on this theme were held, on behalf of the socialist countries by Professor József Bognár, chairman of the Hungarian Council of World Economy, and by Professor Jean Siotis of the Dotation Carnegie pour la Paix Internationale, Centre Européen* for the Western side.

The symposium also examined those *economic circumstances* under which an all-European economic co-operation could be realized. These circumstances include improvement in the methods of economic management and increasing integration among the socialist countries just as the latest phenomena in the Western European economy: the expansion of the European Economic Community, the inflationary phenomena of the Western world and the uncertainties in the international monetary system. Discussion of these problems concentrated on the second day of the symposium, and the papers raising the subject were presented by Józef Pajestka, vice-president of the Polish Planning Office, and Ödön Kallós, Chairman of the Hungarian Chamber of Commerce.

Finally the debate went on to the legal and *institutional* forms of economic policy, trade policy, joint investment and production co-operation which determine the further development of East-West economic relations on the levels of government, industrial branches and enterprises. This subject was

* European Centre of the Carnegie Foundation for International Peace.

explained in the two introductory papers presented on the third day of the session, by Gunnar Adler-Karlsson, the well-known expert on East-West economic relations for the Western side, and by A. Butov, member of the Institute for Socialist World Economy of the Soviet Academy of Sciences, for the Eastern side.*

The symposium was held at a time when even the date of the Conference on European Security was included in the agenda of international talks. Thus, the convening of the symposium was prompted by the sense of responsibility on the part of scholars of applied economics, analysts and practitioners of economic policy. As Professor Bognár pointed out: today the changes in European and world politics have accelerated and are ahead of the development of economic co-operation made possible by political factors. In his introductory paper, Professor Bognár — referring to the international political events of the recent past — outlined the international political background to the world's present economic development, giving a separate analysis of the movements of the two leading great powers, the Soviet Union and the United States as well as of the other great powers (China, Japan, Western Europe) related to one another in the international political arena, together with the expected developments of these movements. The reason why the international political background is of outstanding importance is because the effects of international politics on the international economy, and the reaction of the latter on the former has always been significantly greater than assumed by classical theory. Even following World War II, all phases of economic relations — from embargo to normalizing relations — were related to international political events. However, at the same time, the economy has a strong counter-effect on politics. The economy is the centre of the system of interests in all modern societies, and it is the interests of certain groups in a national society that are standing behind economic endeavours at all times. For this reason, in the longer term, government decisions related to the international situation are strongly influenced by the economy, and coloured with the components of economic interest. Without significant economic co-operation all military-political systems of security become unstable and "sterile", for they lack the factor which is capable of moderating the effects of shifts in power or of tensions emerging in other continents, or of containing these within a certain framework.

Therefore, in the interests of establishing a political system of security and of its correct functioning it is necessary to expand, multiply, and if needed, to create those common economic interests in lack of which political security could not be created, or would amount to no more than a non-aggression pact.

* See both in this issue. *Ed. note.*

Following a review of the present integrations: the Common Market and the CMEA, including their development, relationships to one another and to outside countries, Professor Bognár went on to discuss intra-European equilibrium problems and their economic aspects. A European balance built on co-operation and collaboration is one of the most decisive elements of a world balance, for it also influences the positions of other continents. As a result, a possible upsetting of the balance would cause an objective reaction on the part of the global great powers.

All balances consist of various components. Practically situation is inconceivable in which the global balance within Europe would be derived from the equality of each of the different components separately. It must be reckoned with that certain components are stronger on the one side while others are stronger on the other, but these partial inequalities balance out one another on a *global scale.*

At present one side is stronger from the political and military aspect while the other is stronger economically. If we examine these two inequalities from the side of the effects on the global balance then we must take into consideration, on the one hand, the nature of the political and strategic components, and on the other, of the economic ones. The strategic components which, according to the old definition, are the extension of politics, also have a passive effect, in the form of differences in possibilities, abilities and power. In contrast with this, economic factors only have an effect if applied actively, and in the case of developing relations; they have no effect whatsoever in a passive from. The major driving force of economic relations is current demand which can be satisfied in a wide variety of forms. If we do not make use of an economic possibility at the suitable time in order to meet some demand, then the demand in question will be satisfied in some other form. The economic activity created as a substitute in "forced situations" like these becomes a part of the developing economic circulation, it induces interests in the process (sometimes on a surprisingly broad scale) and endeavours to become stabilized and to develop on the basis of the changed structure of interest.

However, if actively used, the economic factors can balance disadvantages in other components and through interrelations they may create a quantity and quality of common interests which significantly influence the political situation too: they reduce tension and uncertainty.

At any rate, in the present situation characterized by rapid political development the role of those engaged in applied economics and of scholars of political sciences is to formulate concrete proposals as quickly as possible for the governments and international institutions interested in European security.

In the course of the debate, the question of the *adjustment of the systems* was, of course, also raised. From certain contributions one could draw the

conclusion that not everyone on the Western side realizes clearly the development taken place in the socialist system of economic management in recent years. For instance, in the opinions of certain Western economists autarky, monopolistic foreign trade companies, rigid bilateralism and the priority of manufacturing means of production are now and will be in the future inseparable features of socialist economy, equally in all socialist countries. This way of thinking logically leads to raising the nonsensical question of the "conditions" which the socialist countries must fulfill in order for the West to be willing to trade with them. This one-sided way of thinking, which neglects the facts cannot be, of course, the basis for a fruitful dialogue. If, for example, someone were to base himself on the assumption that East-West trade cannot develop as long as the enterprises in the socialist countries dealing with foreign trade are state-owned, he would not only be denying the possibilities of the future. He would, at the same time, neglect the actual (and diversified) development which has nevertheless characterized East-West trade in the last ten years.

The formulation of common concepts was given far greater aid by the conclusions of those Western experts, according to whom the principles of economic rationality were equally valid in the Western and Eastern economic systems (irrespectively of the differing nature of ownership relations), and, in searching for the road to co-operation, it was not the abstract ideal types of the systems which should be contrasted theoretically, but the existing common interests in the two systems must be sought. At the same time measures adjusted to one another, facilitating the assertion of the common interests must be taken. This could not be very difficult for on both sides there were human societies in which not only were production techniques similar, but so were the forms of production and realization.

Businessmen have already discovered these common elements, for in the course of the 1960's East-West trade nearly tripled and this seems to indicate that the limits to relations between the countries with planned economies and those with market-based economies are by no means as narrow as some would think — for theoretical reasons.

There is no doubt that at present the trade between the two parts of Europe carries *different weight* in the foreign economies of the two groups of countries. Different participants in the symposium perceived different reasons for the fact that the weight of East-West trade was smaller in the foreign economies of the Western countries than in that of the Eastern ones. Certain speakers from the West referred to the technological gap between the Western and Eastern halves of Europe, at the expense of the latter; and here others pointed out a similar gap existing between the United States and Western Europe. Again others were of the opinion that the gap did not appear as strongly in the technical field as in the fact that in the socialist countries the

levels of management and marketing were lower than in the Western half of Europe. Otherwise, the socialist countries are alive to the recognition that exports to the West must be diversified, with a reduction in the role of raw materials and an increase in the supply of competitive manufactured goods and production equipment.

Time also plays a role in this, of course. The pattern of trade in the near future is determined by present conditions, but on the long term the effects of a conscious restructuring of economic policy asserting rationality on an all-European scale must be taken into account. Provided, of course, that a common or co-ordinated economic policy is formulated by the governments in the two halves of Europe.

The possibilities and problems of economic co-operation between the Eastern and Western halves of Europe can be approached with both a short and a long-term outlook. In his paper, Józef Pajestka presented a long-term outlook. As he emphasized in the beginning of his paper, despite all uncertainties, several statements can be made to be considered as valid until at least the end of the century:

— East-West economic and other co-operations serve world peace;
— this is in the interest of the Eastern and Western countries and nations from both the economic and the social points of view;
— economic, scientific and other co-operations between the Eastern and Western halves of Europe can be increased so as to contribute at the same time to the development of other parts of the world, in particular to that of the developing countries.

He concluded his analysis on this subject with the statement that one of the decisive features in trends in East-West relations was to clearly evaluate the long-term interests of both sides in deepening economic co-operation.

From the historical point of view European economic development took place in a manner under which the Eastern and Southern parts of the continent remained on the periphery of the process of industrialization. This situation has changed, however, and we have sufficient reason to believe that it will completely cease in the coming few decades. One of the reasons for this is that the growth rate of the East European socialist countries is faster than that of the Western ones. On the long term this leads to the following conclusions regarding East-West co-operation:

— from the economic and technological points of view this co-operation is being realized by nearly equal partners, and this includes all consequences with respect to economic efficiency, technological level, etc.;
— countries on high levels of industrialization with comparatively dense populations are involved and this affects the environment, raw material requirements, and demands for an infrastructural network covering all of Europe.

The future demands of life and progress unavoidably lead to an intra-European and a global East-West economic co-operation. Professor Pajestka centred his paper on his conclusion that East-West economic co-operation must principally be considered as one to serve the future, and it must be realized in manner adjusted to the future demands and needs of Europe and the world.

Of course, alongside the long-term objectives, the immediate steps in the process leading to them, and the short-term reciprocal advantages must not be forgotten. The interest of the socialist countries in the successful import of new techniques seems obvious. At the same time, it is to the interest of the Western countries to expand the market for their capital goods and to share in the advantages of trade. It should be taken into account that shipments of raw materials from East to West will grow to a certain extent. The advantage of the Western countries stemming from this is that they will be able to ensure the cover for their raw material needs for the long-term.

Professor Pajestka sees great possibilities for the further development of industrial co-operation. Industrial co-operation not only offers economic advantages to the enterprises but, on macroeconomic level, it can also help to solve social problems insofar as it offers an alternative to the migration of labour. The use of the more extensive manpower reserves in certain Eastern countries through co-operation with Western firms is advantageous for both parties.

Regarding the economic policy measures and programmes aimed at East-West economic co-operation, the tasks of elaboration and implementation might primarily be given to existing institutions, including the UN Economic Committee for Europe. In the interest of the possible fastest realization it would be wise to first examine the following problems:

- there is the problem of developing the European technical infrastructure in all its sectors: transport and communications, power, water;
- there is the problem of long-term raw material requirements for European development which should be carefully studied;
- there is the problem of the transfer of technology which needs study and appropriate regulation;
- it would seem very useful to elaborate the European manpower balance for the long term, and to draw conclusions on this basis for migration policies, industrial co-operation, etc.;
- there is the well-known problem of environmental protection which needs joint study and programming within a European framework;
- there is the high priority problem of which patterns of European development are the most favourable for the progress of the poor developing countries.

* * *

Today there is hardly an international meeting of economists which would not mention the MIT report on The Limits of Growth initiated by the Club of Rome. It was thus not surprising that this thought-provoking, and disquieting report urging action was quoted on a number of occasions by Eastern and Western participants alike. The purpose of the references was identical on both sides: to urge the common planning of future development, using the example of at least Europe to show that the problems indicated by the extrapolations of the MIT report can be solved by humanity.

At the symposium both the Eastern and Western parties quoted many examples to show that *mixed undertakings* enabling both partners to increase profits on the short term are possible between Western and Eastern firms. In East and West alike enterprise interest urges the firms to accelerate technological development, to expand capacities, to alleviate manpower problems and to expand markets in co-operation with one another. This is indicated by the fact that at present 270 Hungarian enterprises have production co-operation agreements with Western European firms and these agreements have been advantageous to both sides already on the short term, while on the long term they promise the stabilization and further increase of additional profits.

Three fourths of this co-operation has been established between Hungarian and Western European *metal-working industry* firms. The reason for this is the desire of the socialist enterprises to make technological progress, but at the same time this ratio also indicates that already today the technological level of the socialist industrial enterprises is such that they can offer Western firms advantageous relationships as partners. The remaining one fourth of the production co-operation agreements was concluded in the fields of the chemical industry, light industry and agriculture.

Regarding the distribution by countries of co-operation agreements between Hungarian and Western European firms: three fourths of the agreements are with Austrian and West-German firms. Considering the fact that these countries are closest to Hungary geographically, the travel and transport involved by the production co-operation is simplest and fastest. But many co-operation agreements have also been reached with Italian, French, British, Swedish, Dutch and Swiss firms.

The majority of the co-operation agreements have been established in the last two or three years when the effects of the Hungarian economic reform evolved and the development ambitions and autonomy of the enterprises (as well as their freedom of action towards foreign countries) increased.

Further development in co-operation can be expected from the fact that alongside the long-term trade agreements between Hungarian and Western governments, technical-scientific agreements have also been signed, and these offer preferences to the firms co-operating on both sides and to the movement of commodities stemming from the co-operation.

Inter-governmental agreements can of course only provide a framework for the further development of production co-operation. One of the conditions for truly taking advantage of this possibility is that the socialist and the Western firms obtain information about the concrete co-operation possibilities. On the Western side there is a special aspect to this question: the large firms have their own information services which collect detailed data on possibilities for co-operation with the socialist countries too. However, the *small* and *medium-sized firms* in the West do not have such internal information systems. And often co-operation with the enterprises of the socialist countries offers enormous opportunities for growth and market expansion precisely to these small and medium-sized enterprises. The small Western firms play a noteworthy role in the production connections of the Hungarian enterprises.

Therefore, both Eastern and Western participants paid great attention to and approved the proposal by Professor Peter Knirsch that a special information centre should be established in Western Europe which would bring together the small and medium-sized firms with the enterprises of the socialist countries, and would serve as an adviser with respect to the legal and financial aspects of the co-operation.

All-European large-scale industrial and infrastructural establishments assume of course joint concepts established on government level, e.g. the construction of the joint powe rsystem and a co-ordinated transport network, already mentioned. The problem of *financing* arises equally with regard to these all-European large-scale undertakings and in enterprise co-operation. Transcontinental economic relations are inconceivable without a transcontinental flow of capital, and examples of this can be quoted from earlier European history. At present, however, these transcontinental flows of capital have neither collecting reservoirs nor channels. Both the Eastern and the Western participants in the symposium pointed out the need for an all-European investment bank, which would participate both in financing the large joint undertakings and in making inter-enterprise co-operation multilateral. The loans and bond issues which have taken place in East-West financial relations in recent years can be considered as a beginning of this flow of capital. However, this flow of capital requires a framework which makes it possible to build up larger development funds and the continuity of financial relations. This is all the more possible since, as pointed out by the Western participants, the reliability and payment morals of the financial institutes in the socialist countries are on the highest level.

The relation between the European monetary problem to the international monetary system is even more evident than the relationship between its trade and production with the world economy. Therefore the requirements of an improvement of the international monetary system was of course, raised in the debate. Both sides expressed the opinion that a uni-

versal international monetary system is needed in which the socialist countries would be also members. It has already been proven (and precisely *within* the Western monetary system), that the United States cannot be the world banker any longer. At the same time, the creation of a universal monetary system could be speeded up by a greater flexibility in the monetary system used by the socialist countries among one another and with other countries, as well as by the reinforcement of the multilateral elements.

European East-West relations appear in part as *the relationship between the Common Market and the CMEA*, and this is perhaps even more valid for the future than the past. The organizational principle of the two groupings deviate and the possibility of a relationship between the two requires mutual understanding and rational organizational measures on both sides, and even within the groups. However, these questions are not unsolvable and until their final arrangement there are many possibilities within bilateral frameworks as well. This is all the more true since Hungary has five-year trade agreements with several Common Market members, valid until 1975.

During the debate, precisely from the Western side, many pointed out the realistic standpoint of the socialist countries towards the Common Market, as well as the internal shortcomings of the Common Market which, within the Common Market itself, hinder the development of actual economic integration. These include, e.g. the fact that the Common Market has been most successful in the field which today is the least important, and that is tariff policy. Co-ordinated technological development, a common monetary policy (in fact even a common currency) and a common business policy would be much more urgent. Therefore, the supra-national negotiating power which the Common Market would like to assume towards outsiders as a political unity, rests on economically rather uncertain foundations. It is another matter that the CMEA does not represent such a supra-national power; it has no organization which could negotiate with the Common Market in the name of its member countries. It was proposed precisely from the Western side that the CMEA countries should develop a joint policy for negotiations which could fit into the framework of a unified concept even the separate discussions.

Here too, as on other issues of the relations, the question of *institutions* must be raised. Alongside the existing institutions of the two parties co-operating in the future, what is the common framework for the formation of the legal, financial and organizational forms of co-operation? Both the Eastern and the Western participants in the symposium pointed out the role to be played by the UN Economic Committee for Europe. As it appeared in the symposium the UNO ECE has already done more than is generally known, and not only in the field of analysis, but with regard to concrete proposals as well. If only these proposals were realized, the UNO ECE would already become an important institutional centre for European co-operation. Whether or not the greater

and multilateral relations between the two halves of Europe would vest the UNO ECE with new functions, for which new organizational units might also be necessary, is another question.

The symposium itself showed precisely that it is possible to analyze Europe's economic problems by an all-European way of approach urged by common interest. At the scene of the symposium, the Hotel Gellért in Budapest, it was not blocs and representatives of countries who faced one another, but European experts thinking of a common future, who discussed the problems of their own countries and camps as openly as those of the others. The participants did not want to convince one another but to jointly search for the road to all-European economic development, and it was in this spirit that they exposed the barriers to this development existing today, whichever side they found them to be on.

At the end of the symposium the participants agreed with the proposal by Professor Bognár that, in the interests of concrete action it was necessary to further develop the standpoints crystallized and the joint stands taken at the session, as soon as possible. Both sides of Europe and, together with them many countries of the world today still struggling with serious economic problems would find new power for growth in the economic co-operation which would immediately follow the formation of a European security system.

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P. A. Iván

THE 5TH GENERAL ASSEMBLY OF THE HUNGARIAN ECONOMIC ASSOCIATION

The Hungarian Economic Association (H.E.A.) reorganized in 1959, held its 5th general assembly on March 10th, 1972. After the opening of the general assembly by the Vice Chairman of the Association, *József Bognár*, the participants in the session were greeted by Prime Minister *Jenő Fock*. In his speech he explained that the preparations for the introduction and the practical application of the reform in the system of economic control and management had been made possible by the broad participation of the economists. They have done much to co-ordinate national economic, enterprise and individual interests, to promote production to satisfy demand, to increase management autonomy, and to gain moral and material recognition for successfully completed work.

The prime minister went on to state that the hopes which had been placed in the new system of economic management are being fulfilled in accordance with expectations. The introduction of ever newer methods, the elimination of the outdated ones, the continuous search for ways, and the further development of the economic regulators are topical tasks. The exchange of obsolete regulators for new ones which better ensure efficiency is a continuous task, alongside unrelenting strengthening of the basic principles. In searching for the possibilities for the further advance of the Hungarian economy, we are making efforts at a gradual expansion of enternational cooperation, and to make use of all possibilities inherent in socialist economic integration. With respect to the tasks he emphasized, among others, the importance of modernizing plant and work organization in enterprises. He stressed that in attaining our economic policy objectives a decisive role is played by the manner in which the enterprises organize their production and servicing activities, how they economize on labour, materials, machines and fixed assets. Finally, he pointed out that 1972 is a memorable year for those engaged in economics, for it was 25 years ago when we began to lay the foundations for socialism by conforming to pre-determined plans. Summarizing the rich experience of a quarter of a century gives an opportunity to provide a more scientific foundation for planning and to developing the planned economy.

The report of the presidium of the H.E.A. was presented by *Dr. Károly Garamvölgyi*, First Deputy of the Minister for Finance, General Secretary of the Association. In his introduction he stressed that the objective of the general assembly was a comprehensive review of the tasks completed between 1968 and 1972 and an evaluation of the results and shortcomings in the work of the Association. The task of the general assembly is to stipulate the fundamental tasks of the H.E.A., which can most effectively serve the realization of the general political, social-political and economic-political objectives.

The previous, 1968 general assembly of the H.E.A. concluded that the members of the Association had actively and creatively participated in the elaboration of the hitherto largest socio-economic programme of previous years, and in clearing up and popularizing the principles and certain practical aspects of the new system of economic control and management.

In the years gone by since 1968 the programme for the new system of economic control and management has become every-day practice, although it continues to be a reality heavy with many unsolved problems. It is already clear that it is not sufficient to find the production, management and economic framework best suited to the development level of the forces of production and the socialist order, nor is it enough to convince public opinion of the need for a new behaviour. Also the problems deriving from a more differentiated management, greater enterprise autonomy, stronger foreign economic orientation and the use of the achievements of the technological-scientific revolution must also be faced.

Economic interrelations and efficiency must become more organic parts of social public thinking than they are at present.

The report dealt with the fact that in recent years the role of the economic profession has increased significantly. This can also be seen from the fact that in the period between 1960 and 1970 the number of economists with diplomas from institutes of higher education nearly doubled, reaching 20,000, of whom 12,000 have university diplomas. The increased weight of economists among the intelligentsia is indicated by the fact that while in 1960 only 5.8 per cent of all intellectuals with diplomas from institutions of higher education were economists, in 1970 already 9.5 per cent of all graduates came from some institution of higher economic education. In 1970 53 per cent of economists held leading positions.

Society activities must help the members of the H.E.A. in that their professional knowledge should continually keep in step with the special and new requirements of the individual fields. This becomes possible by scientifically discussing the problems of the different economic fields, by becoming acquainted with them in practice and by exposing them. This activity also reacts on the development of scientific research. Simultaneously, a regular

and institutional framework must be created for an exchange of information among experts in the various fields. In the course of this activity we must comply with requirements related to the integration of economics and should endeavour to maintain the unified outlook of the economic profession.

The general assembly dealt with questions regarding the direction of the Association's organizational development, and marked them as follows: widening the formerly narrow framework of the Association, improving the quality of activities, expanding the organizational network, increasing international relations, and expanding co-operation with similar organizations.

Recently a significant number of practical experts from the enterprise management bodies have joined the various organizations of the Association alongside the economists with scientific interests. In the interests of ensuring reserves and continuity to the profession the presidium dealt separately with organizing the young, and ensured for them a forum of their own. The new generation of economists is becoming increasingly active in theoretical and practical economics. 22 per cent of the economists are under the age of 29. The Association considers it a political issue and a responsible task to provide an organizational framework for their activities, to help their earliest adjustment to economic and social life.

In 1968 the Association had 1600 members, while in 1972 their number reached 4,200. The number of participants in the various programmes rose significantly. With the rapid increase in membership the number of organizational units also nearly doubled. In 1968 there were organizations in seven counties, while today there are seventeen county organizations. In 1968 there were nine special sections operating in Budapest, while in 1972 there have been eleven. As a further division of the organization, within the county organizations there are sixty local sections and within the special sections in Budapest there are many sub-sections. Aside from this, work groups are organized from time to time to examine certain concrete problems. With the expansion of the organization, the number of organized programmes, meetings has also increased. In 1968 there were 112 such programmes while in the first half of 1971 189 professional meetings, debates, discussions, conferences, etc. were organized. In selecting themes, alongside the questions of the macrosphere, the problems of enterprise economy have also come into the forefront.

The active participation of leading enterprise economists in the debates of the various special sections of the Association contributed to establishing a democratic way of formulating economic strategy and tactics as well as to developing the economic regulators. In order that the economists invited to the sessions should become more directly and more concretely acquainted with one another's work and problems, certain of the meetings organized were held in the enterprises themselves.

The fundamental issues of the most recent period, equally from the point of view of the national economy as a whole and from that of the individual fields and the enterprises operating there, were the theoretical and practical questions of economic policy and the continuous analysis of the economic mechanism. The detailed, many-sided debate of these themes, and their exposure appeared most often on the agenda of Association work. Instead of (or alongside) the general, comprehensive, economy-wide strategic and regulation problems, enterprise questions, principally the organizational problems of enterprise economy have come to the forefront. The examination and analysis of the micro-economic problems received greater weight than in the past. This process must be reinforced. A particularly important task is to examine the enterprises' short and medium-term reactions, their business policies, to study in a synthetic way the influencing factors, and to ensure the exchange of opinions among economists working on different levels.

However, the general report to the assembly emphasized that this does not mean that macro-economic problems can be pushed to the background in the future. Accordingly, the long-term development of the national economy has received greater emphasis in recent years. Naturally, thinking in perspective terms has increasingly come to the fore also in society work. Many lectures, reviews and debates were held with regard to identifying the major directions for national economic development between 1970 and 1985, as early as the analytical and hypothesis-drafting stage, and then in the concrete planning phase, involving subjects as living standards and labour policy, as well as branch development concepts and ideas.

In connection with long-term development, several meetings dealt with the major proportions of the national economy, with structural policy, with the internal composition of gross investment and its effects on development, and with the exaggerated rise in circulating assets (inventories). In the debates of the various sections it was repeatedly concluded that with respect to the sources of economic growth the major problem is not that too little part of the national income is used for investment but that the efficiency of investments is unsatisfactory, and there is no harmony between investment purchasing power and the execution capacities. Also the stock of incomplete investments is growing at an unhealthy rate, and investment (mainly building) costs are rising. On several occasions the meetings dealt with the oft debated issue of how to distribute available funds among the various national economic branches, sub-branches and enterprises.

At several sessions, in connection with structural policy, the possibilities and need for an economy better oriented to a correctly interpreted consumption was emphasized, together with the need for differentiated wages providing greater incentive, in connection with distribution policy. Regarding the question of consumer price policy — alongside the various issues of a

theoretical nature (the principles of value-proportionate prices and those of yield-oriented prices, etc.) — the need to take social factors with greater weight into consideration were discussed. With regard to labour and social policies, the need for a healthier separation of and distinction between state and enterprise tasks was emphasized. As regards foreign economic policy, the need for taking more into consideration the influence of the external market on internal development, as well as the issues of socialist economic integration, etc. were stressed.

The questions of economic policy of the management and the control mechanism were moulded into a special unity with questions of territorial development policy, with the ever renewing structural problems of economic, labour and territorial nature objectively accompanying it. These issues were the subjects of the county and territorial sectional activities. This activity was fundamentally a two-sided one. On the one hand, it kept the topical economy-wide issues on the agenda together with reviewing the latest achievements of economics as a science, while on the other, it exposed local economic problems and searches for their solution in a framework of successful debates and discussions.

The Hungarian Economic Association also organized several conferences of national importance. The task of these was scientifically to expose and discuss the most topical problems of economic theory and economic policy. If necessary, these meetings were organized in collaboration with various related bodies.

The Association views as one of its important tasks to aid economic research, and as a means it proclaimed from time to time economic competitions. In the opinion of the presidium greater efforts must be devoted to developing and improving this activity. In recent years the H.E.A. has devoted much attention to building up and strengthening international relations. The international connections of the Association have significantly expanded. This reflects partly the international recognition of Hungarian economics. However, a role in the development of these relations is also played by the increased activity of the presidium and the various special sections.

Of course, the foreign relations of Hungarian economics, particularly with the economists of the socialist countries, are far broader than the relations of the Association. The Hungarian scientific institutes are in close and organic contact with similar institutions of other socialist countries, and also regular consultations are held on the topical theoretical and practical issues of economic development. Using its own means the H.E.A. aids and provides incentives for such relations and is endeavouring to make the experiences gained through them the public property of the whole scientific life.

The Association has advanced its relationship also with the economist organizations of certain industrially developed western countries, for instance,

by holding regular colloquiums. It also considers important to advance its ties with the economists of the developing countries. The themes of the international conferences and colloquiums help the mutual information exchange on the economic management systems of the given country and Hungary and they also serve as forums for debating various scientific issues.

Within the framework of expanding international relations the Association is visited by well-known foreign representatives of modern economics from the socialist and the western countries alike. The direct relations thus established and the exchange of opinion have in more than one case proven useful to the guest too, who gains a picture of Hungary's economic life, problems, debates, its work aimed at building socialism, and of the upswing and steady development of economics. The interest in socialist economics and planned economy is the reason why groups of foreign economists, representatives of organizations, universities, institutions, and enterprises often come to Hungary for study tours.

The activities of the Association were judged by the general assembly as having been useful, and that with its own means the Hungarian Economic Association has contributed and is continuing to contribute to the successes of socialist economy, to the formulation of economic policy, to the perfection of the economic management system, and through this, to realizing the objectives of society as a whole. In the course of further development of society activities, great emphasis must be placed on becoming acquainted with the theoretical and practical questions of economic growth and through this, on solving concrete economic problems. In order to do this, among other things, a further healthy increase of the spirit of debate and activization of the young and talented economists, etc. is needed.

The general assembly has elected the leading bodies of the Association.

The members of the national presidium of the Hungarian Economic Association: *Chairman:* Béla Csikós-Nagy, *Deputy Chairmen:* József Bognár, István Friss, István Huszár, Kálmán Kádas, József Nyilas, Mihály Simai, Kálmán Szabó. *General Secretary:* Károly Garamvölgyi, *National Secretary:* Pál A. Iván, *Scientific Secretary:* László Lengyel.

The Association's sections in Budapest are as follows: Political Economy, National Economic Planning, Statistics, Mathematics, Finance, Labour, Foreign Economics, Industry, Agriculture, Trade, Transport. There are also 17 county sections operating.

Acta Oeconomica Vol. 9 (3—4), pp. 407—428 (1972)

BOOK REVIEWS

Népgazdaságunk fejlődésének időszerű kérdései. (Topical issues of economic development in Hungary). Budapest, 1971. Kossuth Könyvkiadó. 300 p.

The present era of Hungarian economic development and transformation is favourable to the advance of economics as a science. The changes in the economic system, preparations for the change, the analysis of experience and the further advance of the planned economy required and require a scientific foundation. One of the fundamental merits of the studies in this volume is that they survey the important economic trends of past years and summarize the major lessons to be drawn from them. The studies do not stop, however, at the experience of the past. They also examine the conditions for continued progress, and the road to the country's development as prescribed in the Fourth Five-Year Plan which, in certain of its elements, outlines the more distant future too. Reading the studies gives insight into several important requirements of future economic policy in the context of conditions under which we are expected to be working. Although the volume is a series of independent studies, written in a personal manner, with individual concepts, together they nevertheless provide a characteristic review of topical issues regarding the development of the Hungarian national economy, of the road on which we have travelled so far, and on which we are continuing to travel.

The subject of the first study in the volume, which at the same time sums up its major lessons, is an analysis of the development level attained and the major proportions of the economy in international comparison. We would like to emphasize the following summary conclusion drawn by its author, *István Hetényi:* "We have progressed beyond the problem of the developing countries how to attain the accumulation level necessary for starting development. Our output relies equally on industry and agriculture, the level of the services is generally satisfactory, but backward in certain fields. We have still to face the development stage in which, as a result of the efficient operation of industry, comparatively high wages and capital saving industrial development trends provide the possibility for the creation of an agriculture of industrial nature and of a developed infrastructure. The major condition for this is to raise industrial efficiency." These thoughts recur from various aspects in the other materials discussing the different questions of detail.

First of all the study by *József Drecin* dealing with the industrial structure and technical progress is closely connected to the first theme. The author, with his examination of these problems, and his views on several debated issues of technical development, contributes to the lessons of the volume. One of the major issues he examines is: what are the possibilities and conditions for — as well as the limits to — developing industry in a way better oriented to consumption in coming years, and

fulfilling in this way the objective of the Fourth Five-Year Plan to increase consumption at nearly the same rate as accumulation.

"In recent years Hungarian agricultural production has undergone fundamental changes", is the way in which *Vilmos Sághy* begins his study dealing with the development of the food economy. An important concept in his study is that the large-scale agricultural farms are becoming specialized, the animal husbandry is receiving ever increasing weight within total output, together with the output of animal products, and vegetable and fruit cultivation. He also throws light on the fact that "today the population demands products on a higher level of processing, better finished, and more attractively packaged", and points out the nature of the new relations systems developed by these changes within agriculture itself, as well as in the related product allocation, the food industry and trade. This chapter of the book provides a precise picture of the past as well as the future development of branches belonging to the food economy, as prescribed by the Fourth Five-Year Plan for this large and important field of the national economy.

The following three papers guide the reader from the sphere of production to consumption, employment, the manpower situation, science and education and, in a broader sense, through the topics of living standards and the cultural level.

The study by *Ottó Gadó* not only examines the consumption level and changes in its structure — as one of the issues in the focus of interest — but he also characterizes the principles and objectives of consumer price policy. The author takes a stand in favour of consumer price ratios which rationally approach input ratios, but also shows those factors which make it necessary for the formation of correct price ratios to be a long-lasting process, requiring two to three five-year plan periods. The study by *János Timár*, while thoroughly examining population growth, the manpower situation and the employment pattern, gives a review of productivity trends through international comparison. He justly emphasizes that the higher living standards of the developed countries are based not only on wealth accumulated in the past, but on the current productive (and much) work as well. Alongside satisfaction of employment demands, in the future an ever-growing role must be given to efficient, productive employment. Even the title of *János Kovács*'s study, discussing coordination between science, education and production as the condition for economic development, indicates close interactions. In this chapter of the book the reader first of all receives a review of the development of the educational system and the problems of public interest regarding further development, while another interesting part of the chapter is a brief review of the costs of education.

No review of Hungary's major economic issues can dispense with an examination from the point of view of the balance of foreign trade and international payments. This demand of the reader is satisfied by a study of *Iván Wiesel and Mrs. T. Szamosi* which not only shows past development but outlines future requirements, tasks and expected development as well. The paper gives insight into all the major factors affecting the balance of payments and their expected future trends, considering the special features of relations with the socialist countries, the developed capitalist, as well as the developing countries separately. In the author's opinion, one of the major conditions and driving forces of internal development are the rapidly expanding international economic relations, and they judge the perspective possibilities in this field to be favourable too.

The study by *Lajos Faluvégi*, entitled "Economic Policy Objectives and the Development of the System of Regulators" may be recommended to readers principally for its extreme topicality. In this paper we can meet the new system of economic control and management in full operation. Not only can we become acquainted with

its objectives and the economic incentives for improving economic work, but we also obtain a sincere picture of the contradictions and the problems. This includes both the problems which the modifications in the system of regulators introduced in the Fourth Five-Year Plan are expected to favourably influence, as well as those whose solution is a longer-lasting process, requiring further research and examination. Here we would like to call the attention of readers to the concluding thought in the paper, emphasizing the close relationship between economic management and enterprise operation, stresses that in economic operations "future success too can only be attained by a unity of clear economic policy objectives, correct regulation and efficient realization".

The study by *András Bródy*, a review of the Hungarian development of economic-analytical and forecasting methods, is a special colourful piece in the volume. From his own point of view, and within his own system of measures, the author emphasizes from among the ever richer field of economic literature the scientific investigations and research results relying on mathematical and statistical tools. Included in the study are statistical and mathematical analysis, production functions, growth and econometric models, examinations based on input-output tables, programming computations, and finally the examinations of the author using his own dynamic input-output model, in which the author emphasizes the results he considers most important together with certain shortcomings of the research.

We would conclude this brief review, in which we call the volume of studies to the attention of the reader emphasizing the merits of the authors and stressing certain of their achievements, by pointing out that the work is a serious contribution to becoming better acquainted with the development problems of the Hungarian national economy, and to surveying the possibilities for solving them.

P. T.—T. M.

POGÁNY, GY.: *Öregedés és foglalkoztatás*. (Ageing and employment.) Budapest, 1971. Kossuth Könyvkiadó. 161 p.

A more than negligible ratio of the population and of earners in Hungary and throughout the world is ageing. In consideration of this fact professional literature rather neglects the study of this group with its special, but by no means homogeneous problems.

The rise in the ratio of the ageing population becomes in all developed countries a difficult problem of social importance. One of the, perhaps fundamental, reasons for this is the extension of the average life-span. In Hungary the ratio of those above working age is over 20 per cent of the total population and this, intertwined with changes in living conditions, means an increasing number of tasks to be solved. The publication of this work, which, for the most part, endeavours to provide a full-scope picture of the research completed so far together with the information he has collected, is highly topical for precisely this reason.

For a long time the problem of the aged was identical in Hungary with the problem of pensions. This, for the most part is natural since one of the keenest problems of this group continues to be its livelihood after leaving work. However, ageing does not mean reaching the retirement age, for working ability begins to decline earlier. Human working ability, states the author quite correctly, is a strongly varying and continually changing concept: it is varying in accordance with historical eras, in the different areas of the globe, and as a result of the differences between and modifications in the socio-economic systems. For this reason an interrelation between working ability and age exists only approximately, in social dimensions. A person's working ability can only be determined in full knowledge of the work to be performed and of the individual, states the author.

This conclusion includes one of the important sources of conflicts between individual and social circumstances and interests, points out György Pogány. As regards society as a whole, the uppermost limit of working ability is tied to a definite age, but this is not true for the individual. It can be higher, but it also can be lower. What is more, the requirements of work performed in a modern work organization, generally call for identical performance in identical jobs irrespectively of age. Pensioning, however, which recognizes work completed until then, provides the right to a livelihood "without work", and suddenly causes too sharp a change in the way of life of the formerly working man. Often those retired on pension are unprepared. Many do not find activities still corresponding to their abilites. Precisely for this reason it is essential that in the same way as young people are prepared for work, the elderly be prepared for pension, and that society and the family help to provide them the possibility for useful activities.

The major basis for the further analyses of the small volume is a survey completed by the author in 1965 *among building industry workers*. The representation in the survey made it possible for the author to draw conclusions on the performance, income and behaviour of ageing workers. His most essential conclusions on the positions of the elderly workers in this branch are briefly as follows: the incomes of the older skilled workers are higher than those of the young people, but after the age of 60 they are already lagging behind those of the younger age groups. Despite this, a significantly higher ratio of them are satisfied with their incomes than of the young people. Among semi-skilled workers, with rising age time wages are more suitable than piece wages.

An interesting conclusion of the survey is that with the rise in age, there is an increase in the ratio of those who consider work discipline lax in their enterprises, and the number of those who would change their jobs and are dissatisfied with management declines. On the basis of the survey the author concludes that the performance of the manual workers is slightly lower than of their younger co-workers, but they attain reliable, "stable" average outputs, and that they are more satisfied and disciplined workers than the young.

In the chapter entitled "Changes in the working abilities of the elderly worker" he examines the interrelations of earnings and age in certain industrial occupations. He reviews the experience of several foreign surveys, and then provides data on the deviation between the retirement age and actual retirement.

The other major sphere of problems is contained in chapter five, entitled "*The effects of employment policy on pension policy*". In this chapter the reader receives a brief survey of the background to the development and characteristic features of the pre-liberation and present pension systems. In analyzing the problems of the pensions the author reaches the highly debatable conclusion that progress in the direction of communist distribution principles should be made first of all among the elderly people. The essence of this is as follows: "work according to ability, income according to need" (p. 112). In this way society would completely counterbalance the reduction in working ability. On second thought, however, we must draw the conclusion that an income policy corresponding to this concept would lead to serious contradictions in other directions. A significant part of needs, — and as regards their material weight a very high ratio of them — is singular in nature (housing, furniture, etc.) and these face principally the young, when beginning their careers and founding their families. Later, in ratio with their solution, the "accumulation requirements" of people decline. This, therefore, would mean that first of all the incomes of the young would have to be sharply increased, and they would then gradually decline throughout life.

The author, who also deals with the need for the employment of those above

working age, and with its enterprise motives, gives at this point, among other things, a detailed review of the occupational and branch distribution of workers above working age.

The title of the final chapter is "*Reduction of the contradictions between employment policy objectives and the pension system*". The author establishes the following basic principles: 1. Further material incentives must be established for those still able to work. 2. It must be a goal that the welfare of the pensioners should not lag behind the whole of the population. 3. The pension burden of the national economy must be reduced, despite the rising incomes of the pensioners. And finally, 4. it must be attained that the population above working age becomes a flexible manpower reserve. This latter sphere of problems is one in which I would debate with the author. György Pogány makes a series of noteworthy proposals, and each would increase the economic activity of the elderly people. For example, he first proposes that the pensions of those who continue working after reaching retirement age, should be significantly increased. Knowing the expectable manpower situation, we would truly like to provide incentives for prolonged activity. Presumably, however, under the effects of introducing the proposed measures, the elderly workers would put pressure on the enterprises so that they might even be employed in excess of true manpower needs. The dangers of this are obvious. The problems would not arise primarily in the manual occupations, but in intellectual, administrative ones. In my view this group is not a flexible manpower reserve, for it can also be taken for certain that a withdrawal of such in case of a change in the manpower situation measures would cause serious social tension.

The author proposes to raise the retirement age for women (to 60 years) and making it dependent on the number of her children. In his opinion it would increase the birth rate if women were given a certain reduction on the 60 years depending on the number of their children. In my view, an increase in the birth rate can only be hoped from other measures. At the age of 20 or 30 preferences to be provided at the age of 55 or 60 have no affect whatsoever.

The author, as can be seen, not only presents and analyzes important questions, but he also raises many problems to be solved and makes proposals. He also marks directions for further research. One such task is e.g., to create expedient forms of social care for the aged, as well as, in certain occupations, (e.g., intellectual ones) the examination of ageing and working ability. The style of the book is also most enjoyable. The subject of the volume is of concern to all, since, as György Pogány writes in the first lines of the volume, "Aging is the state which everyone would like to attain, and the one which is nevertheless dreaded by all . . ."

Zs. Mausecz

Hegedűs, M.: *Az ipar és a mezőgazdaság kapcsolatainak néhány kérdése.* (Problems of the relationship between industry and agriculture.) Budapest, 1972. Akadémiai Kiadó. 216 p.

The considerable changes taken place nowadays in every branch of the economy are due to the ever increasing development and its results in the field of technology and science. One of the most striking features of these changes is that the relationship between the various branches of the economy has increasingly intensified and deepened not only in the sphere of production but in the complex process of distribution, exchange of goods and consumption as well. Hence, the links of social production can only be developed in accordance with the others or, to be more precise, optimum development can only be realized if the requirements of the aggregate social process are taken into account to a greater degree than they were up to now. This, of course, does not necessarily mean that all branches

have to be developed simultaneously and to the same extent.

Thus, not only the rational and economical realization of the aims is demanded in the process of social production but the maximum utilization of the product of the previous phases is equally important. This ensures the successful fulfilment of the objectives, i.e. the satisfaction of social demands.

Starting from this assumption, the study deals with the relationship between industry and agriculture and, accordingly, it examines the changes that have taken and still take place in this relationship as well as the most important tendencies which determine, or at least characterize, these processes. The ever deepening and intensifying effect of science and technique makes itsef felt in this relationship partly as a qualitative transformation of production and its elements, and partly as a dynamic change of the pattern of consumption. The former means the development of the scientific instruments of agricultural production, though it also contains new elements, viz. the large-scale use of industrial products in agriculture. This shows a new aspect of the relationship between industry and agriculture, namely that industrial products are used *en masse* in agriculture.

The changes indicated above have modified to a certain extent the meaning of some traditional notions like sectors of the national economy, industrial branches, etc. There is a need, due to the deepening interrelations of the various fields, for a vertical classification of activities besides the horizontal one, thus enabling us to examine the elements of the process not side by side but in a chronological succession with special regard to their technical relationships. In such a system of activities, the contact surfaces and nodal points of the various areas obtain an increased importance and they influence the development of both the whole process and its ancillary parts.

Up to now research has examined either industry or agriculture as such. The characteristic feature of the method of this study — and also the novelty of its message — consists in that it does not treat industry and agriculture separately, but investigates their contact points, the main interconnections and tendencies, as well as the effects deriving thereof in terms of the economy as a whole on the one hand, and in that of the specific development of the two sectors on the other.

Therefore, the study investigates only those aspects of agriculture and/or industry which affect and develop their interconnections. General laws are only examined in so far as they can be correlated with these interconnections, which, of course, are not restricted to the sphere of production but comprise also other domains that are connected with production. Hence, the relationship between agriculture and industry does not affect the two sectors only, but in the majority of cases it materializes through other sectors of the economy such as transport, home trade, foreign trade, etc. Thus, the nature of this relationship is influenced — besides the specific features of agriculture and industry — by the characteristics of these other branches too. (The study is not concerned with details of the latter.)

It also suggests novelty that the study treats the relationship of agriculture and industry, as an "integral whole". It means that connections and effects deriving from both industry and agriculture are analysed with special regard to production relations (and mainly there) as well as to the peculiar modifying role of trade and consumption.

It is another interesting and noteworthy feature of the method applied that the study approaches the relationship of industry and agriculture from several aspects.

It appears from what has been said so far that the questions are dealt with on the level of the national economy and not on that of enterprises; the problems are examined from the point of view of medium and long-term periods and not of short ones.

The study is divided into five chapters dealing with the following main questions:

The first chapter sums up those important aspects of industry and agriculture which are generally observable in long-term economic growth, and it also treats certain new phenomena ensued after the Second World War.

The second chapter discusses in detail the changes of the proportion of agriculture to industry in the production of national income and also within the single factors of production. Economic policy in the past twenty years, the price ratios of industry and agriculture, agriculture's equipment demand as well as the actual size of the Hungarian agrarian sector are also dealt with in detail.

In the third chapter, the development of the material interrelationships of industry and agriculture is examined. A detailed investigation covers the quantitative and qualitative changes of trade between agriculture and food industry, foodstuff consumption and the concentration process in food industry.

Chapter Four is concerned with the main fields of technical development and with its effect on agriculture as well as on agricultural price and cost relations. The efficiency and remunerativeness of chemicals, the role of the engineering, foodstuff and building industries and that of energy supply in agricultural production are also discussed.

Chapter Five deals with the factors influencing international division of labour, the changed character of foreign trade, the foreign trade relations of the domestic agrarian sector, the role and weight of international division of labour in the Hungarian economy, the factors influencing export and import, as well as the relationship between foodstuff export and import and those of industrial products promoting agricultural production.

Zs. JOZSITS

DEÁK, A.: *Vállalati pénzgazdálkodás és pénzügyi tervezés.* (Enterprise monetary economy and financial planning.) Budapest, 1972. Akadémiai Kiadó. (Ipargazdasági értekezések). 65 p.

The study by Dr. Anna Deák, for which Dr. Jenő Wilcsek wrote a high standard introduction, contains noteworthy data on the role of enterprise financial organs in planning and preparing decisions. Her study based on interviews and surveys, covers 38 small, medium-sized and large enterprises.

The study maps out the financial operations of the enterprises included in the examination and draws the conclusion that in most cases the greater financial responsibility running concomitant with greater autonomy seems to have become stuck on the surface. While monetary analytical and planning work is performed in enterprises, and in fact, it is definitely better and of a higher level than prior to the reform, it only extends beyond the short term on comparatively rare occasions, resting satisfied with the application of simpler, traditional methods.

The five to ten-day liquidity plans are, of course, necessary, but plans for managing *liquid assets and for financing* are also needed for longer periods than this within the year. The trouble is that the majority of the enterprises do not view these plans as organic parts of their 3—5 year programmes and do not examine the long-term effects of these short-term plans (and decisions).

The author calls attention to the fact that monetary management is not capable of holding together the separate activities performed in the different enterprise fields of detail. The effect of this is that, within annual profitability planning, the decisive majority of the enterprises draw up separate *sales return plans* and separate *production cost estimates;* in all enterprises examined there were *profit plans* and *profit distribution* plans, but in only 13 out of the 38 enterprises studied was *complex prime*

cost and price planning to be found and only 7 drew up *planned balance sheets*. This happened despite the clear fact that it is hardly possible for an enterprise to operate well and flexibly under economic conditions which change in time, if it plans its costs, sales returns and profits separately from one another. Although enterprise managers frequently raise the issue that *changes in regulators* make planning more difficult, and justly add *that changes* in other factors (e.g. the market) also make foresight more difficult, if an enterprise has no plan for analyzing trends in production cost-prices-profits in a synthesis even on annual level, then the changes in the system of conditions do not make planning and foresight more difficult (for none such exist), but cause a spontaneous *defensive reaction* on the part of management. And this is only rarely successful. Therefore, in the majority of cases criticism levelled at the changes in regulators (or other factors) is not justified. It is the enterprises that may be justly criticized for not preparing plan variants as this is the reason why they are not capable of adjusting to changes flexibly.

Dr. Anna Deák concludes that *monetary planning is unsatisfactory not only in current economy but also in development planning.* Although generally speaking the enterprises have development concepts, in many cases they do not have the fundamental calculations needed for this. The lack of well-founded calculations and the preponderance of subjective motivation is the explanation for the fact that in our experience *enterprise managers have become exaggeratedly polarized from the point of view of risk-taking.* One of the two major types does not take risks on principle while the other carelessly takes any risk.

In possession of its data the study exposes errors, criticizes them, while at the same time it points out that such developments have taken place not merely because of the intentions of enterprise executives. *It is obvious that the reform cannot achieve its objectives regarding a "change in the standards" of enterprise monetary work in one or two years either.* The conclusion that modern, well-founded monetary plans can only be drawn up by a competent staff, and that creating this staff is not a simple task, shows the author's objectivity. The study provides convincing arguments that, among other things, the development of a comprehensive socialist enterprise (business) economics is necessary, while also a greater coordination of the work of the controlling bodies is needed.

M. BAGÁR

KÉRI, T.: *Az iparvállalat rugalmassága.* (The flexibility of the industrial enterprise.) Budapest, 1972. Akadémiai Kiadó. (Ipargazdasági értekezések). 56 p.

The work of Dr. Tamás Kéri is of *pioneering nature* in Hungarian economic literature. In accordance with this, *he places the emphasis on asking the questions and describing the phenomena, and solves the problems in first approximation only.* He calls attention to one of the fields of economic analysis which has been rather neglected in Hungary, and to practical methods which do not yet play their due role in the actual decision preparation practice of the industrial enterprises. This happens despite the fact that flexibility investigations, both theoretical and applied, have a noteworthy international literature and many practical achievements.

The study, before going into a detailed analysis of enterprise flexibility, gives a brief review of the results achieved so far through flexibility research, and outlines the role of this research in the socialist economy. *The problem of flexibility both as a theoretical and a practical issue, was raised on the soil of the capitalist economy* and, therefore, flexibility research developed mostly there. However, the author is right in that the socialist economy also needs research of this nature. The development of economic relations between the producer and the consumer, the formation of correct

proportion between economic compulsion and economic interest make it necessary.

The greater autonomy ensured by the reform raises the issues of ability to compete and enterprise ability to adjust more compelling than before. There are fewer external factors to automatically guarantee enterprise development, while more external forces disturb it. Therefore, the desired development in a dynamically developing economic environment can only be attained through more flexible adjustment, and a strategy which reacts more sensitively to external effects.

The author first of all reviews *the major features of the flexibility of decisions, objectives, activities and people* on the basis of the results of bourgeois operation economy. It is unfortunate that he is very brief in his discussion of the various themes and the reader, even knowing the outline character of the review, feels these parts of the study to be rather sketchy. For instance, if he mentions that "the enterprise must ceaselessly reinforce its relations with the external world because this is the prerequisite for correct reaction" it would have been wise to support this statement with practical examples, for in itself *this leaves more to guessing than it actually says.*

The enterprise's flexible adjustment takes place through the interactions of *external and internal factors*, with the aid of some and despite others. In this dialectic interaction Dr. Tamás Kéri *pays greater attention to the internal factors.* Maybe this approach is correct from the point of view of flexibility (although even this can be challenged). However, it is impossible to agree with the approach which *discusses among the external conditions* of the socialist enterprises only the regulators and does not, for instance, even mention the domestic and *world markets.* In the same manner, it does not list among the external conditions the endeavours of other enterprises which might be favourable or unfavourable from the point of view of the examination. The reader will feel the lack of this all the more since the study provides a good insight into the thought provoking conclusions on the internal factors, such as the effects of the flexibility of enterprise size, organization level and inventory stock on flexible adjustment and, among other things, he places enterprise inventory management in a new perspective. It may be assumed that the author could say something new about more than the regulators and the relationship with the socialist enterprise, but he unfortunately does not discuss other external conditions.

He distinguishes between two major forms of enterprise adjustment. The simpler form is *quantitative adjustment* (elastic flexibility), while the more complex form is *adjustment with respect to the range of assortment* (plastic flexibility). These parts of the study treat the questions of enterprise economy which are anyway on the agenda — in the case of work organization they are in the spotlight — from a new aspect and in a new approach. In the final analysis this provides the topicality of the entire work and explains the interest raised by it among enterprise (business) economists.

In connection with *elastic* flexibility the author correctly points out that it is wiser to ensure this flexibility with external cover, with greater co-operation than with stocks, machine and manpower reserves. This is the more difficult road, but it is more economic for both the national economy and the enterprise. Its difficulty is in that it depends not only on the intentions of a single enterprise, but on co-operating firms as well, and co-operation must take place under competitive conditions.

The essence of *plastic* flexibility is a modern assortment of products, and the many-sided use of labour and means of production. We have reached the requirement for modern plant organization with the following train of thought: *a)* Demand, i.e. consumer needs change; *b)* This can only be satisfied with a broader range of assortment; *c)* Production must be organized in such a way that the wider range

of assortment should not be realized at the expense of efficiency.

A higher and, of course, more efficient degree of plastic flexibility is *demand-creating* flexibility. While elastic and plastic flexibility are the defensive adjustment of the enterprise, demand-creating flexibility is *offensive* adjustment in the good sense of the term. By interpretation it is more risky than the other two, and requires greater sacrifice (cost) but its results are also greater. The elements covering it unite the forces of reserves, co-operation and operation management, affecting more efficient production, on a higher level.

The volume contains the summary, tables and results of a flexibility study covering 40 enterprises. In our view the work of Dr. Tamás Kéri is topical, his logical train of thoughts is correct. Unfortunately at times he only outlines certain issues which would deserve greater attention.

M. BAGÁR

CSIZMADIA, E.: *Élelmiszergazdaságunk a hatékonyabb gazdálkodás útján.* (The Hungarian food economy on the road to more efficient economy). Budapest, 1972. Kossuth Könyvkiadó. 257 p.

This new book written by Ernő Csizmadia is a comprehensive analysis of the changes which have taken place in socialist agriculture and the food industry as well as in the village way of life in the past 10 years, together with the outlines of the most important objectives and methods for further development.

His theses are simple and true: "The organization of the co-operatives in Hungary was completed ten years ago. In ten years farming has changed fundamentally, and the village way of life is in the process of transformation." (p. 5.) Then: "With our own eyes we can see the moulding of agriculture, the processing industry and the food trades into a food economy. This, together with the industry related to it fits into the country's economic life as an agricultural-industry complex continuously increasing in importance." (p. 6.) And finally, "Where to go from here? What are the perspectives which coming years can open to us?" (p. 6.)

First the author endeavours to examine and expose the basic concepts of the macroeconomic sphere and national economic interrelations. He devotes three chapters to the output, processing and turnover problems of the branches causing greatest difficulties (animal, garden, baking industry products). He examines most questions, and particularly the system of regulators from the point of view of the enterprises. But his way of discussion is also characterized by the complex outlook, and his analyses are based on the examination of social and economic circumstances, and the major trends in the position and development of the national economy.

The most important condition and method for the continued rapid improvement of the national economy is the efficient and intensive development. In giving a detailed analysis of the conditions for more rapid or slower growth, and the interactions of investments and national economic equilibrium, he draws the conclusion that "in the Fourth Five-Year Plan one of the major tasks to increase efficiency is maintenance of the correct ratio between accumulation and consumption, better use of circulating assets, reduction of inventories and preventing their unjustified increase." (p. 18.)

In connection with the intensive development of the food economy the author clears up concepts which, though frequently used are not always interpreted correctly. "Today one of the most obvious features of the industrially developed countries is the close connection of raw material producing agriculture with food processing and even turnover. This process is termed by literature as the formation of a *modern food economy*. It can also be observed that the food economy is working in ever closer co-operation with the industry producing

its means of production and various services. The food economy together with the connected branches of industry are strikingly termed the *agrarian-industrial complex* or the *agrobusiness* for short. The agrobusiness is a macroeconomic category and clearly expresses the trend which appears in specialization together with the reinforcement of co-operation and integration within economic life.

In economic analyses these factors result in the reinforcement of an outlook which views the concrete enterprise activities and the operation of the different branches *in its interrelationships, in a complex manner, and not in isolated form, removed from the whole.*" (italics J. S.) (pp. 38—39.) This is the part of the work in which the author composes the major natural laws of the food economy. Among these natural laws he classifies the circumstance that in the food economy, while agricultural raw material production is increasing, its ratio compared with processing is declining, for processing is increasing significantly more rapidly.

Another regularity is that the weight of the agrobusiness in economic life (that is the food economy + its sphere of attraction) is only declining to a slight extent in economic life. While the ratio of raw material production and the numbers employed here are declining rapidly with the advance of industrialization, the sphere of attraction of the food economy is expanding to such an extent that the agrobusiness becomes a significant basis, and supporting-pillar of the economies of even the most developed industrial countries.

I consider the clear and precise expression of the sphere of concepts, position and importance of the food economy to be highly important for even in economist circles one can hear the opinion that with economic growth there is an objective reduction in the share of agriculture in the national income, as well as in the ratio of agriculturally employed within total employed, which also postulates a decline in the importance of agriculture.

The development of agriculture — alongside the improvement in domestic supply — is more than simply of peasant interest from the foreign trade point of view too, for it is a prime interest for the entire working people. Without the agricultural export which today is significant it would be impossible to develop the national economy to the extent planned and to employ a part of the wage and salary earners.

This is closely related to the fact that the agriculture of an industrial country on a medium level of development plays a significantly bigger role in economic life and development than in the developed industrial countries. Under our conditions this is reinforced by the special features of economic development.

However, what should the major direction of development be, and what methods should be applied?

The author concludes that all more important branches of agriculture are developing intensively. Within the intensive processes there is no absolute value to determining which is the production factor whose increase, or what ratio of production factors gives the greatest surplus profits and the most favourable efficiency. In all periods this develops under the joint effects of the given level of development, the ratio of the branches, national economic interrelations, expected international trends and other factors.

In the field of structural change the general feature of intensity is a continuous rise in the ratio of animal husbandry.

However, present conditions have not clearly proved by the statement that "the present area devoted to vegetables seems sufficient in magnitude to satisfy demands, and within this a significant specialization is to be expected, while the ratio of sowing area for the more valuable vegetables as well as those in demand on the export markets will rise" (p. 65). In this respect many measures, whose affects cannot even be precisely surveyed have already been necessary simply to maintain the present level.

However, the demand that the modernization of food processing be closely connected with the development of agricultural output is a fully relevant one. This is all the more true for in the recent past the possibilities for the extensive development of the food industry have gradually ceased to exist, and reserves derived from reductions in the seasonal nature, and lengthening the processing period have for the most part already been put to use.

In the author's opinion, the only possibility for Hungary is intensive development which produces more quantity per territorial unit. Increasing the productivity of labour is an organic part of this. But the major task, surplus production, raises the increase in the productivity of labour closely connected with intensity, in a special way. We can find this also as the same major variant in the development of agriculture in most of the densely populated European countries.

Here I would comment that the author has not given a detailed explanation of those requirements and possibilities which within the major direction, that is, within increasing output per territorial unit, would aid in further increasing the productivity of live labour.

However, he is correct in emphasizing the concept according to which intensive agricultural development places a type of productivity into the forefront which will result in the fact that the productivity of live labour will be increasingly capable of compensating the rises in costs running concomitant with the increase in the material ratio, in other words, not only will the live labour requirements of production, but its total labour requirements decline too. Agriculture needs far more efficient materials and tools (better quality and cheaper investments) as well as significantly greater diligency and better skill on the part of the agricultural workers and experts.

Following the examinations on national economic level the author analyzes the positions of several of the most important branches. From the point of view of the final product the author studies the most important economic problems in output of animal, garden, and baking industry products. He emphasizes that the given branches can only be successfully developed in a complex manner, in such a way that material interest operates equally on national economic, branch and enterprise level. However, with the consistent operation of this outlook a more critical tone might have been justified in the cases of branches such as cattle farming, or garden products, in which the lack of complex development methods and monetary interest have created a difficult situation for which solutions require great efforts.

One of the most valuable parts of the book is *the review of the system regulating the food economy*. Since the new system of economic control and management has increased enterprise (co-operative farm) autonomy to a great extent the author examines the elements, effects and interactions of the system of regulators principally from the point of view of the *enterprise*. He concludes that the essence of enterprise autonomy is: "*production and economy at one's own risk*. The enterprise is an organisation carrying out *autonomous commodity economy* which is related to the other participants in economic life through the *mediation of the market*, which compares inputs and outputs in *the form of money* which endeavours to *procure* and increase *incomes* and under takes *risks* in order to do so."

"The co-operative enterprise is such an economic organization too in which the collective of workers — the co-operative members and employees — undertake execution of some economic task. *Therefore, the co-operative is at the same time an undertaking, which in the case of successful activities can provide material advantages, and greater enterprise and personal income, while unsuccessful farming runs concomitant with material disadvantage.*" (p. 193.)

Following this the author discusses the most important tools of state guidance, price, realization, credit, investments, in-

come regulation and the various forms and methods of state subsidying.

Alongside the economic studies the author also deals with the social changes which have taken place in the villages. He outlines the transformation of the village social structure, the process of urbanization, and the no small problems derived from this.

The unity of interesting content, logical structure and reasoning, the high-level but nevertheless popular style has resulted in a comprehensive work, which is not only a tool to the expert but to all readers concerned with the fate of the food economy.

J. SIPOS

VARGA, GY.: *A japán business.* (The Japanese business.) Budapest, 1972. Kossuth Könyvkiadó. 200 p.

The uneven development of the capitalist economy after World War II has brought about several "economic miracles". Among these is the economic development of Japan, which has shown an extremely rapid pace for more than a decade and its admiration has been sometimes associated with almost mystic images — even in the case of experts. György Varga's book reveals the main driving forces, contradictions, personal and organizational conditions of economic development in Japan and investigates the characteristics of its development policy. This helps the reader to get acquainted with the realities of modern Japanese capitalism and to draw lessons from its development.

In the chapter dealing with the rate of economic progress the author calls attention to the fact, that in Japan the rapid growth has not broken even after the end of the so-called reconstruction period. The main correlations among the different great stages of growth are shown on the basis of the development of the capital coefficient. The author discusses here the correlations rather laconically — perhaps because this topic has come up several times in the Hungarian economic literature so far — therefore I have an impression that the chapter is rather sketchy.

In Chapter II the book becomes a polemical essay which dispels the misbelief that main source of the economic growth of Japan was the cheap and disciplined labour force, available nearly unrestrictedly. It is pointed out that this was indeed the source of economic growth in the early period but in recent years it has been almost totally exhausted.

György Varga also dispels another mechanistic idea, i.e., that Japan's economic growth is based on exports. He declares that the fast growth of the economy is mainly the result of the inner prosperity, and the international competitiveness of the Japanese industry is also based partly on the high level of home demand.

The author finally arrives at the conclusion that an explanation of the steady quick economic growth may be found first of all in the highly effective control system, built up and shaped in many respects specifically. This system is at the service of a dynamic structural policy and stimulates a rapid economic growth. Further chapters evaluate certain factors of control, taking into account their effect exerted on economic growth or their role in it.

The book shows in a very interesting way that the capitalist state machinery in Japan takes a considerably greater part in determining the aims of economic development and in their attainment than in other developed capitalist countries. As a consequence, there is a closer connection between state administration and big enterprises, respectively between government policy and the long-term business policy of the enterprises. It is pointed out that the Japanese economic policy "likes" very much the concept of mixed-economy and this is supported by the relative low level of state ownership. In spite of this, in Japan there is a significant governmental economic control and planning machinery. Thereafter the author gives detailed infor-

mation on the organization and methods of the Japanese state planning. The part of the chapter dealing with the results and defects of the Japanese planning system — in my opinion — is rather poor. Information on enterprise planning is also slightly superficial.

Chapters IV and V dealing with financial control and enterprise management systems catch reader's attention.

In Japan the indebtedness of the enterprises is rather high and the rate of profit is relatively low. The question is justly asked how the high growth rate could have been maintained with a relatively low rate of profit, while in most countries the source of financing the high growth rate is acknowledgedly the high profitability.

The answer deserves attention: "the high propensity to save, if accompanied by firm investment intentions and motivation, may be in the long run a stimulus and financial source of the fast economic growth." The sociological and socio-psychological "environment" is also indicated which stimulates the propensity to save: "saving has become a Japan characteristic as cleanliness and the love of work." In my opinion dr Varga's argumentation is thought-provoking and requires further investigation since this statement includes an original formulation of the concept of economic progress which is a more general problem than economic growth in Japan.

We obtain extremely detailed and exact information on Japanese credit policy, the banking system, foreign exchange regulations, and the liberalization process of capital. However, the special problems of international expansion of the Japanese yen, which is a characteristic of the international monetary affairs at present, are only outlined.

György Varga, who is an outstanding representative of the Hungarian management science, gives an extremely high-level and overall analysis of the management system of Japanese enterprises. He investigates the development of Japanese management science on the basis of international comparison and points out that "the rather wide-spread idea of the capitalist management literature, according to which management science is one and indivisible, irrespective of the social system", cannot be substantiated. "In the case of Japan — adds the author — I also see a positive proof that this science, as a discipline of the specific sphere of production conditions, reflects particular class interests." Thereafter he discusses in detail the system of interests, the problems of mobility and selectivity, the way of promotion of managers, the system of manager's training etc. In this chapter the author indicates that Japan's economy has come to a critical point. "This turning-point is due to the following main factors:

1. progressive liberalization of the economy,
2. exhaustion of labour resources, and
3. the ever increasing wage inflation."

The book treats in detail Japan's dual economic structure. "The dual structure marks the coexistence of large-scale production, based on the most up-to-date technology, with less modern small and medium-sized plants. The dual structure is typical of Japan's economy — though it is not the only country of this kind — since here the proportion of small and medium-sized enterprises is much higher than in other developed countries. The dual economic structure constitutes an integral part of the government's structural policy." Thereafter the author investigates why the small and medium-sized enterprises are viable and why the existence of the family "supplier" enterprises is justified in the system of the up-to-date large-scale industry.

The analysis of the model of the Japanese engineering industry is an extremely valuable part of the study. By this model the author shows the development of labour productivity and the criteria of substitution of capital for labour. In this chapter condensed information is given about the centralization and concentration of the Japan industry as well.

György Varga refers to the function of licence policy in the technological development of Japan. He stresses that in Japan the so-called follow-up strategy is applied, accordingly "mainly research results have been bought instead of licences of products or know-hows, namely for two reasons: — originality of the research results ensured greater competitive superiority and fewer competitors than if licences of current products would have been bought; — the research results were put into production according to their own production and market conditions, usually improving the original method". He states correctly that "the resources saved and the surplus resources achieved by the follow-up strategy have made it possible for Japan that, using the technical level provided by the licences and know-hows as a starting-point, it should come to the front and pursue pioneer strategy in several fields".

In the chapter "Party at Sony's" the book presents the mechanism of factory management and organization.

A separate chapter deals with the organization of Japan's trade, though the characteristics of foreign trade are not discussed in detail.

To sum up: György Varga's book makes extremely useful reading, including a number of novel economic statements on the rules of Japan's economic development.

I. WIESEL

REZLER, J.: *Automation and Industrial Labor*. New York, 1969. Random House. 224 p.

In his introductory remarks to Part I of his book, Professor Rezler states first of all his conviction that there is a well-founded need for the clarification and redefinition of the term "automation".

He sees two basic reasons which are responsible for the disagreements among experts concerning the meaning of automation: ideology and semantics.

As regards ideology, two conflicting schools of thought are distinguished. One is made up of the representatives of management and "management-oriented social scientists", as the author puts it. The second includes the spokesmen of organized labour and scholars sympathetic to its cause. Both are reacting to the far-reaching changes caused by automation in the production process according to their interests and value system.

In the majority of cases, however, misunderstandings among automation experts can usually be explained, in the author's view, in terms of semantics. In the various references to automation he notices two types of semantic problems: (a) people mean different things by automation and when they discuss the subject they usually fail to state the kind of automation they have in mind; consequently, while referring to the same term, they actually talk about different matters; (b) experts, failing to recognize that *automation is a collective name for a complex and compound technological phenomenon*, frequently discuss the subject as if it were a single and simple concept with few or no ramifications.

Professor Rezler thereafter sets out to make an attempt to clarify the meaning of automation and dissect its complex content into component elements in order to gain a workable frame of reference for the purpose of his study. He comes up with the following definition: "Automation is a revolutionary phase of the technological development in which human functions of operating and controlling equipment, collecting information and making decisions concerning the production process have been replaced by mechanical and electronic devices; automation represents a complex technology including such systems as automatic transfer mechanism, continuous flow process, and computer techniques."

We wish to withstand the temptation of merely observing that one definition is as good (or bad) as any other; we feel, however, that the author does not do justice to the penetration of the computer into more

and more areas of automation, i.e. the increasingly central role of computerization, nor to the more complex forms as the combination of the different "systems" (although on p. 36 he points out himself that "numerically controlled [N/C] machines have emerged from the fusion of the computer, control, and machinery technologies").

The interrelationship between employment, unemployment and automation — a subject of much controversy in the past decade — is extensively dealt with. In view of the reemergence of a high rate of unemployment in most industrialized countries, we consider this issue of crucial importance which requires a thorough analysis. Focussing therefore on it, let us expose in some detail the position adopted by the author.

Two main currents are seen.

One contends that automation causes little or no unemployment. This is the stance taken by the representatives of management, conservatives, and economists of the neoclassical brand.

The other group — comprised mainly, but not exclusively — by labor leaders, liberals and institutional economists — suggests the existence of a cause-and-effect relationship between automation and unemployment.

Attention is called to the fact that it is the very same statistical data the dichotomy is based upon. How is it then possible that such divergent conclusions are derived from them? Professor Rezler's answer: (a) corporate managers and labor leaders may assign different weights to the same data or disregard some and emphasize others; (b) there are several factors that may contribute to unemployment, such as cyclical or seasonal changes, and as these factors may operate simultaneously, it is sometimes quite difficult to separate the effects of technology on unemployment from other causes; (c) most of the statements fail to specify the type and phase of automation to which they refer, or the economic level and time dimension in which it has occurred, thus encouraging overgeneralization.

Surveying some well documented cases and statistical presentations in which the contribution of automation is identifiable, — the type and phase of automation, economic level and time dimension specified, the following findings are recorded:

As to employment effects on the level of the firm, during the changeover period to automation there was displacement, but the workers thus affected were not disemployed, because they were transferred to other operations of the same company. Technological unemployment was of a negligible amount. As regards the post-automation phase: once the automated equipment has been installed as well as debugged and the production process normalized, employment in the automated unit achieved a relative stability. The main explanation offered is that the size of crew required to operate and service the automated equipment is determined by the technical specifications of the equipment and *not by the rate of capacity utilization*. Thus a basic concept of neoclassical economics: the existence of a direct relationship between the volume of employment and output is challenged; the amount of direct labour tends to become inelastic with respect to production as the amount of indirect labour, and, in effect, all labour becomes an overhead fixed cost. A few case studies are listed which support this contention.

Concerning the employment effects on national level, we are cautioned against converting productivity gains uncritically into unemployment statistics. We are also told, that "the national economy growing at the same rate as productivity increases should offset the unfavourable employment effects of technology".

The other main current consists of the structuralists, according to whom persistent unemployment in the second half of the 1950s coincided with the mass introduction of automated equipment and that automation was primarily responsible for it, chang-

ing the structure of employment and the composition of the demand for labour. This happened because the semiskilled and unskilled jobs have been steadily eliminated by automation, which in turn has created numerous jobs requiring higher skills and more education. In this context the structuralists pointed also to the "hidden unemployment", which is heavily concentrated among the least educated people and which makes the structural imbalance even more serious than indicated by official data.

The controversy — expansionists versus structuralists — may be summed up by the following thesis from the viewpoint of the former: The rise in unemployment over recent years has been caused primarily by inadequate growth of aggregate demand. Even if the unemployment problem were primarily structural, a sufficient autonomous expansion of demand brought about by monetary and fiscal measures should be capable of melting it away.

Professor Rezler admits as a matter of historical fact that coinciding with the mass adoption of automation, the rate of unemployment increased in the late 1950s and early 1960s. But as the overall unemployment rate dropped from 5,7% in 1963 to 3,6% in 1968, that of certain occupational groups (unskilled and skilled workers) declining more than proportionately, the conclusion is reached by the author that the main cause of the unemployment persisting between 1955 and 1964 was not so much automation but an insufficient aggregate demand for goods and services. As the vigorous policies of the 1960s and the demand of the Vietnam War for additional manpower have remedied the situation, the problem of unemployment has diminished though not entirely disappeared. Thus, with some minor qualifications, the expansionist approach is adopted.

The question the reviewer feels bound to raise is: can this position of the author (and of the expansionist school) be vindicated also in mid-1972, i.e. at the time these lines are written?

Let us survey the hard facts.

According to the U. S. Department of Labor, unemployment continued to drop in 1969 to 3,5%, but soared in 1970 to 4,9%, in 1971 to 5,9% (4 993 000!) nor could it be pushed down in the first half of 1972, the May rate still being of 5,9%.

The years since 1968 were characterized by a rapid inflation in the U. S., which is generally associated with low unemployment. What seems to have happened is that for any given rate of inflation, the corresponding rate of unemployment appears to be higher than it was in the boom years before the recession, i.e. structural unemployment, as distinct from cyclical unemployment, has increased sharply. And it does not seem to respond even to the pickup in demand generated by the dollar devaluation! This induces a growing number of economists to think that the cyclical unemployment of the recession has masked a significant rise in structural unemployment, and are starting to talk of 5% as the "full employment unemployment rate". There is a wide agreement that the chronically long or repeated spells of unemployment that are typical for women, youths, low-skilled workers, and minority groups are structural. Moreover, a second group is seen to make up today's structural unemployment in the U. S.: skilled workers and professionals whose talents have been made obsolete by changes in technology, markets, or national priorities. (Business Week, December 28. 1971, pp. 36—38.) And as to the realm of "hidden unemployment", although the ratio of "discouraged" workers to unemployed workers fell from 1 to 5 in 1969 to 1 to 6 in 1970 and 1971, their number averaged 775 000 in 1971, an increase of 140 000 from 1970 and 200 000 from 1969. (Manpower Report of the President, March 1972, p. 38).

We freely admit that immobility is an essential feature of the definition of structural unemployment, and also that the latter is not caused exclusively by automation. Other technological changes and — last but not least — worldwide sourcing,

the speedup of the shifting of plants in labor-intensive industries (more recently also in some capital-intensive ones) to low-wage countries, the spread of international subcontracting (labor-intensive processing, assembly and component manufacturing activities within vertically integrated international industries) played doubtlessly their part. This does not imply, however, that the role of automation could or should be neglected.

But can it be specified? This is, of course, a difficult task. It may be at least attempted by trying to establish the share of automated equipment in capital spending for plant and equipment in the manufacturing industries. For 1971, the editors of *Automation* (Cleveland) pegged that share at close to 48%, for 1972 at better than 49%, which means for both years an automation market at $15,5 billion. The productivity drive initiated in the American industry makes improbable a let-up in this process.

Thus, automation with its undeniable labor-saving effects does contribute under the conditions prevailing currently in the American economy to unemployment, even if attention is centered now mainly upon the implications of worldwide sourcing as attested by the debate on the merits and demerits of the Burke-Hartke Bill.

It is, of course, easy to be wise posteriorly, but we definitely feel, had Professor Rezler's book been written not in 1968, but in 1970 or 1971, he would not have opted to side as categorically as he did with the expansionist school.

Analysing automation's impact on the occupational structure of employment, the author holds that automation has accelerated the long-term movement of employees from the goods-producing sectors to the service sectors of the economy. He also sees clearly that as a result of this movement, blue-collar workers do not only suffer from the economic and psychological pains of dislocation, but they also may lose social status associated with factory employment.

In this context he states lucidly: it is not at all certain that even the low-wage, low-status manual-service jobs will be available for long to workers who are being disemployed in the automated goods-producing sectors of the economy, as many branches of the service industry are accessible to automation. If automation should further penetrate into these industries, their capacity of absorbing workers who were forced to leave the goods-producing sectors, would be seriously limited. In this case — as he sees it — the long-term horizontal movement of the blue-collar workers from the goods-producing industries to the service sector will have to change its direction radically. The only way the blue-collar workers could possibly move would be in the vertical direction: upward on the occupational ladder.

This reasoning seems to us realistic, yet we would have welcome at least some indications as to how will this happen in the short term. . . .

Concerning skill requirements, Professor Rezler finds that in the majority of jobs associated with automation they have been raised, sometimes considerably, in two major ways: vertically, when a higher level of skill is required than on the pre-automation job, and horizontally, when there is no change in skill level but, usually resulting from job enlargement, several skills on the same level as the previous job are required from the operator to perform the automated job. Particularly the service and maintenance of automated equipment has radically raised the skill requirements for such jobs.

As regards definite conclusions about causal relations between the industrial workers' mental health and automation, they ought to be avoided — believes Professor Rezler — until further, more definitive results are available.

The book offers a comprehensive survey of "the state of the art" in the U. S. in the late sixties' and the claim to specifity in all discussions on automation appears to be fully warranted. The revival of

interest in automation and the spread of the use of computers makes us expect the publication of updated versions of this type of book — hopefully also by the author —, extending the analysis beyond the confines of the United States.

GY. ÁDÁM

MAYRZEDT, H. M.—BINSWANGER, H. CH.: *Europapolitik der Rest-EFTA-Staaten.* Wien—Stuttgart, 1972. Schulthess Polygraphischer Verlag AG. 145 S. (Veröffentlichungen des Schweizerischen Instituts für Aussenwirtschafts-, Struktur- und Marktforschung an der Hochschule St. Gallen, Band 28; Schriftenreihe der Akademischen Vereinigung für Aussenpolitik an der Universität Innsbruck, Band 4.).

Kaum hätten sich die Verfasser die Behandlung eines aktuelleren Themas vornehmen können, als das Verhalten der EFTA-Staaten, die sich der EWG nicht beitreten. Das besonders interessante Element des Buches liegt darin, dass es von Staatsbürgern verfasst ist, die beide dieser Staatengruppe (von ihnen selbst die »Six Non-Six« genannt) angehören: Binswanger ist Schweizer, Mayrzedt Österreicher. Man erwartet also eine gründliche, wissenschaftliche Arbeit, die bestimmter emotionsgetönter Elemente eben wegen der Wichtigkeit und unmittelbaren Wirkung des westeuropäischen Integrationsprozesses auf diese Länder nicht entbehrt. Liest man das Buch zu Ende, kommt man doch zur Überzeugung, dass es der ersten (und *nur* der ersten) Erwartung — entspricht. Manchmal scheint es so objektiv zu sein, dass Perspektivenschilderung, Zukunftsalternativen und den über kvantifizierbare Zollsätze, Gewinne und Verluste hinausgehenden kvalitativen Entwicklungsmöglichkeiten kein Platz mehr bleibt. Und man kann kaum daran zweifeln, dass die im Jahre 1971 getroffenen Entscheidungen für Westeuropas Zukunft von ausschlaggebender Bedeutung sind, auch wenn die Folgen in ihrem vollen Umfang erst in einigen Jahren und einer heute noch nicht vorausdenkbaren Form in Erscheinung treten werden.

Das Buch gliedert sich in drei Teile. Die ersten zwei bestehen aus je drei Kapiteln, der dritte Hauptteil bringt eine ausserordentlich nützliche und lehrreiche tabellarische Dokumentation.

Im ersten Teil stellen die Verfasser die neuen Bedingungen der Europapolitik der Rest-EFTA-Staaten dar. Das erste Kapitel befasst sich mit den politischen und wirtschaftlichen Grundlagen der Europapolitik der Rest-EFTA-Staaten und sucht die gemeinsamen Interessenelemente der einzelnen Staaten heraus, die hie und da ein einheitliches Verhalten ermöglichen, bzw. begründen. Einmal wollen sie den in der EFTA bereits erreichten Integrationsgrad aufrechterhalten, andererseits aber streben sie keine unmittelbare Mitwirkung in den EWG-Organen an, damit wirtschaftliche und politische Absichten einander ferngehalten werden (inwieweit dieser Weg gangbar ist, wo seine Grenze liegen, wird sich erst in den nächsten Jahren herausstellen). Nach kurzer Schilderung der 15-jährigen Geschichte der die oben erwähnten Verhaltensgrundlagen umfassenden »besonderen Beziehungen« weist das Buch auf die Faktoren hin, die die Rest-EFTA-Staaten und die erweiterte EWG in einen einzigen wirtschaftlichen Raum verschmelzen: sie sind Bestandteil Westeuropas, ihre Wirtschaftsbeziehungen mit der Gemeinschaft sind vielfältig, ihre Handelsverflechtung mit der EWG war in einigen Fällen bereits während des Bestehens beider westeuropäischen Wirtschaftsvereinigungen recht eng, und wird infolge des Beitritts von 4 ehemaligen EFTA-Mitgliedstaaten (insbesondere von Grossbritannien) noch enger sein. Die Verfasser untersuchen auch die Motive, die die EWG-Staaten zur positiven Beurteilung der »besonderen Beziehungen« der Rest-EFTA-Staaten zur Gemeinschaft bewegen. Sie heben die aussen-, handels- und verkehrspolitische Bedeutung dieser Staaten her-

vor und unterstreichen die Bedeutung, die die Neutralen (Österreich und die Schweiz in Mitteleuropa, Schweden und Finnland in Skandinavien) in der europäischen Entspannung besitzen.

Das zweite Kapitel behandelt die Ausgangspositionen der einzelnen Rest-EFTA-Staaten, die sie bei den Verhandlungen mit der EWG charakterisieren. Daraus ergeben sich zahlreiche unterschiedliche Interessen: auf politischer Ebene sind der Handlungsfähigkeit von Finnland, und teils von Österreich vertraglich gebundene Grenzen gesetzt, Schweden und die Schweiz betonen die Aufrechterhaltung ihrer Neutralität, Portugal weist den Beitritt nicht aus politischen Erwägungen, sondern vorerst aus wirtschaftlichen Gründen noch zurück. Sämtliche Rest-EFTA-Staaten wollen den freien Industriewarenverkehr (so wie er sich innerhalb der EFTA entwickelte) aufrechterhalten, wobei aber sich zweifache Probleme stellen: einerseits gibt es einige Produkte, die nach EFTA-Regeln als Industriewaren, nach EWG-Vorschriften jedoch als Agrarerzeugnisse angesehen werden (z. B. Fisch- und andere Konserven, Kork, usw.), wodurch insbesondere Island und in kleinerem Masse auch Portugal beeinträchtigt werden. Andererseits ergeben sich Schwierigkeiten bei einigen Industrieprodukten, für die sich die Rest-EFTA-Staaten eine besondere Behandlung wünschen, die aber teils aus der bestehenden Wirtschaftsstruktur der EWG, teils wegen ähnlicher Forderungen anderer Rest-EFTA-Staaten nicht ohne weiteres zu lösen sind (österreichische und schwedische Papier- und Stahlwaren, schweizerische Uhren). Der Regelung des Agrarhandels mit der Gemeinschaft messen die einzelnen Staaten unterschiedliche Bedeutung bei; das ergibt sich aus den verschiedentlich hohen Exportanteilen der Agrarprodukte. Es ist interessant, dass Österreich und Schweden ihre landwirtschaftlichen Produktions- und Preisstruktur der EWG anpassen wollen, also die langfristige Verwirklichung des Freihandels von Agrargütern zum Ziele haben. Gleichzeitig verzichtet auf diese Anpassung die Schweiz, überwiegend aus Preisgründen.

Auf dem Gebiet der Kapitalliberalisierung, des Niederlassungsrechts ausländischer Firmen und der Arbeitskräfte verfolgen Österreich, Schweden, und die Schweiz eine ziemlich liberale Politik, ebenso wie aus anderen Motiven Portugal. Finnland hält nur einen begrenzten Vertrag möglich, der auf die Rolle des Staates in der Wirtschaft Rücksicht nimmt.

Die drei entwickelteren Rest-EFTA-Staaten, Schweden, die Schweiz und Österreich haben die Absicht mit der EWG über die handelspolitische Regelung hinaus auch besondere Zusammenarbeit einzugehen, die die allgemeinen wirtschaftlichen Entwicklungschancen dieser Neutrale nicht beeinträchtigt. So spricht sich Österreich dafür aus »eine Form der Teilnahme zu finden, die bei voller Wahrung des besonderen Status Österreichs eine *weitgehende wirtschaftliche Zusammenarbeit* erlaubt« (26), und betont Schweden die Wichtigkeit »umfassender, enger und dauerhafter wirtschaftlicher Beziehungen« mit der Gemeinschaft (35). (Die Schweiz verhält sich ebenso.) Alle drei Staaten bekunden grosses Interesse an Konsultationen über konjunktur- und währungspolitische Fragen: das ist mit Hinsicht auf den beträchtlichen Anteil der erweiterten EWG an ihrem Warenverkehr, aber auch im allgemeinen, an ihren Aussenwirtschaftsbeziehungen völlig verständlich. Der Schweiz, als einem der grossen finanziellen Zentren der Welt kommt noch ein spezifisches Anliegen für währungspolitische Konsultationen hinzu. Gleichwohl treten alle drei Staaten für weitgehende technologische Zusammenarbeit, gemeinsame Forschungs- und Entwicklungsvorhaben ein, wobei Schweden in gewisser Hinsicht eine aktive Beteilung an der Arbeit des Euratoms wünscht.

Das dritte Kapitel berichtet über die Ausgangsposition der EWG gegenüber den sechs verbliebenen EFTA-Ländern. Die Vorschläge der Gemeinschaft beschränken sich auf die Freihandelsregelung, und stim-

men den von den Rest-EFTA-Staaten vorgelegten Vorschlägen über wirtschafts- und währungspolitische Koordinierung nicht zu. Die Standpunkte der beiden Partner weichen auch in institutionellen Fragen voneinander nicht unbedeutend ab.

Der zweite Hauptteil bringt die Vorschläge der Verfasser bezüglich eines Integrationskonzepts der Rest-EFTA-Staaten während der 70er Jahre. Das vierte Kapitel behandelt die Fragen, die bei der Gestaltung der industriellen Freihandelszone aufkommen (Abgrenzung des Güterbereichs, Festlegung der Ursprungsregeln, Wettbewerbsregeln). Die Verfasser treten dafür ein, ungleiche Wettbewerbsbedingungen möglichst durch Änderung dieser Bedingungen und nicht durch Ausnahmengewährung zu korrigieren.

Ausführlich stellen sie die Probleme des kumulativen Ursprungs dar, der bei der Bestimmung der zollfreien Behandlung der Waren von grosser Bedeutung ist. Bei der Durchführung des kumulativen Ursprungs weisen die Verfasser darauf hin, dass sie nicht unbedingt einer multilateralen Verwaltung bedarf, es könnten nötigenfalls und anfangs auch bilaterale Verträge zwischen der erweiterten EWG und den einzelnen Rest-EFTA-Staaten geschlossen werden. Binswanger und Mayrzedt stellen drei Varianten mit Hinsicht auf die wettbewerbpolitische Regelung (Übernahme der Wettbewerbspolitik der EWG, einseitige Schutzklausel der Gemeinschaft, gemeinsame Wettbewerbsgrundsätze mit Schutzklausel der Gemeinschaft verbunden) auf, wobei die dritte Alternative eine Verschmelzung verschiedener Elemente der ersten beiden ist. Auf den letzten Seiten dieses Kapitels beschäftigen sich die Verfasser mit der Regelung des Warenverkehrs, sowie mit institutionellen Problemen, und suchen nach einem Kompromiss zwischen der Gemeinschaft und den einzelnen Rest-EFTA-Staaten. Sie erwarten, dass die EWG ihre teilweise extremen Positionen aufgibt, und bestimmten Vorstellungen der »aussenstehenden« Länder Folge leistet. Dies scheint aber fraglich zu sein, es lässt sich nähmlich trotz aller Mühe und Gründlichkeit schwer beweisen, dass die EWG die Rest-EFTA-Staaten in gleichem Masse braucht, wie die letzteren auf die Gemeinschaft angewiesen sind. Ein Kompromiss kann nicht nur in dieser Hinsicht, sondern in allen strittigen Fragen zwischen der Gemeinschaft und den (einzelnen) Rest-EFTA-Staaten nur zustande kommen, dass dabei die EWG von ihrer Ausgangsposition mehr behält, als die einzelnen »Aussenstehenden«. Eine »gerechte Halbierung« lässt sich kaum vorstellen. Diese Schwierigkeit spüren auch die Verfasser, als sie die Schaffung einer einzigen Freihandelszone durch ein multilaterales Abkommen vorschlagen. So könnte eine einzige gemischte Kommission ins Leben gerufen werden anstelle von sechs (nach jedem einzelnen Rest-EFTA-Staat gegliederten) paritätischen Organen, in der einerseits die EWG, andererseits die Rest-EFTA-Staaten gemeinsam vertreten wären. Es bleibt aber auch so unklar, ob einerseits die unterschiedliche Interessen vertretenen Rest-EFTA-Staaten auf jedem Gebiet gemeinsam auftreten könnten, andererseits ob und inwieweit die einheitliche Vertretung mit den heutzutage wieder stark betonten Neutralitätsideen in Einklang gebracht werden kann.

Die hier formulierten Schwierigkeiten treten insbesondere im Falle der drei entwickelteren Rest-EFTA-Staaten, (Schweden, Österreich, die Schweiz) in Vordergrund. Deshalb widmen die Verfasser ein gesondertes Kapitel den »besonderen Beziehungen« zwischen den erwähnten drei Staaten und der Gemeinschaft. Die wirtschafts- und währungspolitische Zusammenarbeit, sowie eine verstärkte gemeinsame Forschungs- und Industriepolitik bilden den Kern dieses fünften Kapitels. Es ist zwar richtig, dass die Währungsreserven der sechs Rest-EFTA-Staaten fast doppelt so hoch sind wie die der vier Beitrittskandidaten (Stand Ende 1970), und selbst die Schweiz, Schweden und Österreich über 50% mehr Reserven verfügen als die Beitrittskandidaten, doch lässt sich die Not-

wendigkeit der währungspolitischen Zusammenarbeit mit den Aussenstehenden kaum begründen: angesichts ihres Reservenstandes kann nur die Schweiz einen guten Grund für die Beteiligung an solchen Konsultationen liefern.

Nicht ganz überzeugend wirkt auch die Feststellung, nach der die EWG auch wegen Produktivitätsprobleme und weltweiter Konkurrenzverschärfung auf die verstärkte Zusammenarbeit mit aussenstehenden Industrieländern nicht verzichten könne. Man dürfte sich von der Tatsache nicht irreführen lassen, dass es vorwiegend in der Schweiz und in Schweden einige Spitzenindustrien gibt (Luftfahrt, Reaktorbau, Elektrotechnik, Maschinenbau, Chemie, Stahlproduktion). Daraus folgt nähmlich noch keineswegs, dass die erweiterte Gemeinschaft in der Zukunft ihr eigenes Potential auf dem breiteren integrierten Markt nicht ausbauen wird, und noch weniger, dass eine eventuelle Zusammenarbeit in bestimmten Bereichen auch andere industrielle und im allgemeinen wirtschaftliche Sektoren der Rest-EFTA-Staaten im gewünschten Masse beeinflusst.

Das sechste Kapitel untersucht die Frage der Mitgliedschaft neutraler Staaten in der EWG, und schliesst darauf, dass die bisherige Geschichte dieser Integration nicht den Beweis erbracht hat, dass die Gemeinschaftspolitik frei von Tagesinteressen verschiedener Mitgliedstaaten geführt werden könnte.

Verfasser sehen keinen Ansatz zu einem realistischen Europakonzept, zwar wäre »ein Umdenken ein Gebot der Stunde«. Gleichzeitig stellen sie aber fest, dass dieses Umdenken »welches u. a. auch die gleichberechtigte Beteilung der Neutralen in wirtschaftlicher und wirtschaftspolitischer Hinsicht ermöglicht, setzt aber auch voraus, dass die Neutralen die veränderten wirtschaftlichen Bedingungen der Neutralitätspolitik in der heutigen Zeit zur Kenntnis nehmen und dementsprechend eine neue Konzeption der Neutralitätspolitik entwickeln« (98). Mit dieser weniger Schlussfolgerung als Andeutung schliesst sich der zweite Hauptteil und der eigentliche Textteil des Buches, und mit dieser Feststellung gelingt es den Verfassern einige nicht ganz überzeugende Argumente wenigstens zukunftsorientiert auf die richtige Stelle zu setzen.

Der dritte Hauptteil umfasst 36 Tabellen, die teils ausserordentlich interessantes Material wiedergeben, das so systematisch und zielgerichtet vielleicht noch nirgendwo veröffentlicht worden ist.

Die im Anhang enthaltenen Literaturhinweise berichten über die jahrelange gründliche und vertiefte Forschungstätigkeit der beiden Autoren auf dem Gebiet der Integration und bezüglich des Verhaltens der Neutrale zu ihr.

Zusammenfassend lässt sich feststellen, dass der Leser ein ausgezeichnetes Informationsmaterial in der Hand hält, das klares Bild über die wichtigsten Überlegungen der Rest-EFTA-Staaten gegenüber der EWG vermittelt. Vom Standpunkt dieser Staaten aus sind die meisten Vorschläge vertretbar, sie scheinen jedoch fragwürdiger, wenn wir die unterschiedliche Gewichtung der untersuchten Staatengruppen betrachten. Sicherlich zieht sich irgendwo eine Grenze die die Verfasser nicht bestimmen können oder wollen, und nur in den Schlussbemerkungen andeuten (siehe Zitat oben), die den Bereich für wirtschaftliche Beteiligung ohne politische Beteiligung umschliesst. Wo diese Grenze läuft, wird uns die Entwicklung der erweiterten EWG in den nächsten Jahren zeigen.

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* We acknowledge the receipt of the enlisted books. No obligation to review them is involved.

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TO BE PUBLISHED IN THE NEXT ISSUE

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Abonnements et ventes:	Presses Universitaires de France, 12, rue Jean de Beauvais 75005-PARIS — (tel: 033—48—03) (CCP: PARIS n° 1302-69) 1972: France F. 68,00 Etranger: F. 76,00 — 1973: France F. 70,00 Etranger: F. 78,00

REVUE TIERS-MONDE

Tome XIV, n° 53 janvier — mars 1973

Henri LAUGIER: in memoriam, par Georges FISCHER

POLITIQUES ET PLANTIFICATIONS DE LA SANTE DANS LES PAYS EN VOIE DE DEVELOPPEMENT

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Direction-Rédaction: Institut d'Etude du Développement Economique et Social 58, Boulevard Arago — 75013-PARIS — (tel: 331—28—01)

Abonnements et ventes: Presses Universitaires de France, 12, rue Jean de Beauvais, 75005-PARIS — (tel: 033—48—03)
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Anno III N. 3/1972

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Direzione redazione e amministrazione: ISDEE Corso Italia 27 34122 Trieste telefono 69130.

Abbonamento annuo L. 3.000 (per l'estero L. 4.500). Abbonamento sostenitore L. 20. 000. Prezzo di questo fascicolo L. 1. 5000.

L'importo va versato sul C.C.B. N. 4107/3 presso la Cassa di Risparmio di Trieste Agenzia N. 2.

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25. VI. 1973. Index: 26.031