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THE IMPORTANCE AND ROLE OF EFFICIENCY IN PLANNED DIRECTION OF THE PEOPLE'S ECONOMY

György Péter

It became clear as the planned economy developed in Hungary in the first half of the 1950s that qualitative indices of enterprise activity cannot be improved by central command. Too many detailed regulations precludes the accomplishment of all. Nor is there time to verify their results. Excessive regulation casts doubt on the personal responsibility of heads of state-owned enterprises, leaving a mere appearance of it. Any radical change requires a new approach in many fields: directives must be issued only on important matters (for instance, apply to specific goals), financial incentives be linked to efficiency indices, not quantitative ones, buyers be so placed that their evaluations reverberate onto the financial situation of seller enterprises, prices reflect the quality of products, the directors and entire collectives of enterprises share to an appropriate extent in the profits obtained. In essence these tasks require efficiency, instead of quantitative indices, to be at the centre of economic activity.

END-OF-MONTH RUSH AND THE MECHANISM OF OUR ECONOMY

András Bródy

The study reviews some findings of research done at the Institute of Economics on evening the pace of industrial production. The main conclusions are these: 1. End-of-month rush is marked less by an uneven pace in the production process as by an irregular pace of turning out finished goods. 2. The reasons for this are compulsory periodical reporting and material interests linked with fulfilment of the monthly production plan. 3. The basis for the phenomenon is lack of reserves. Diminishing reserves accentuate an irregular pace and help to make it general. On the other hand, rushed work itself and its concomitant symptoms absorb the very stocks and reserves that could attenuate the rush. The study rests on historical experience and logical analysis: it argues against views that seek the real reasons for irregular production in enterprise errors by and badly organized production, and interpret irregularity in the production pace as an index of latent reserves and unused capacity.

ON THE THRESHOLD OF REFORM OF ECONOMIC DIRECTION

Béla Csikós-Nagy

The author sums up the lessons learnt in preparing the new system of economic management and deals with key problems to be met in 1968 when implementing the reform. He states that the measures taking effect in 1968 conform to the directives, but the guiding principles of the economic reform will take effect in a clearer form only after a longer period of transition. This requires a new, second phase of developing the economic management system. The annual plan for 1968 had to aim at balanced market relations, as activation of the market mechanism leaves the economy more sensitive to inflation. A similar limit appears because approximation of expectable value and price relations in the economy can only be a rough estimate. These two factors prompt caution dictated by responsibility to society. So it may be assumed that some elements in the regulation system will need modifying by 1 January 1969. Caution becomes manifest, for example, in a tendency to equalize somewhat the initial operating conditions for industries and enterprises. The state cannot suddenly withdraw support from all production branches that in terms of an abstract system of the international market would be non-viable. Economic reform is not a matter of pure economics but a cause for society. In the author's view the real problem in coming years will not be whether the state over-protects enterprises from market effects, but rather of enterprises demanding yet greater protection from the state. With enterprise behaviour the main thing is to avoid boosting production as an end in itself and consider saleability during production. As for government agency behaviour, harm may come from a routine urge to interfere. The author identifies a double task: securing general equilibrium, so that material "levers" of faster social progress come into operation; and creating conditions for a rate of increase in living standards characteristic of the 1957–61 period.

PROBLEMS OF ECONOMIC COMPETITION IN HUNGARY

Márton Tardos

In seeking how achievements hitherto can be further advanced, the study sets out to clarify two groups of questions. First it asks whether competition, as a self-regulating system, can operate in the whole economy, or only in part of it. Secondly, it asks what problems should be purposefully influenced by special regulations in the part of the economy the author calls the competitive sphere. The study states it is desirable in that sphere to realize development harmonized with demand, which is partly set but partly only influenced by socialist economic policy. In this sense it is expedient to orientate enterprises with basically uniform indicators in line with the known interests of society. Since competition has self-regulating effects, other tools of purposive socialist economic policy must be developed. To achieve favourable external effects the state must implement action programs. But it will not be expedient automatically to finance actions defined in material terms (volume data) or via technical parameters. To hinder proliferation of preferences, ease the burden on the state budget, and maintain the competitive position of enterprises obtaining preferences, it will be

advisable to grant only fixed-sum subsidies in chosen fields based on proposals from the specialists in central bodies. The second problem discussed concerns the conditions in which a well-functioning, self-regulating system can emerge in an economy where the bulk of means of production is publicly owned. By 1968 it was clear that creating autonomous enterprises with a profit motive was a precondition for competition. Experience in the last four years shows that enterprises have not become autonomous, though their independence has much increased. The author sees competition being hindered by the position of enterprises as parts of a uniform, hierarchical system subordinate to branch ministries, to which the accepted prime indicator of enterprise success is only secondary. The author proposes transforming the organizational and institutional order of the economy, increasing the possibility of distinguishing the central interests of the state from those of profit-motivated enterprises. Supervision of enterprises and flows of assets among them could be achieved by creating a system of production and commercial banks.

THE REPRODUCTION OF SHORTAGE

János Kornai

Sporadic lack of consumer articles, the housing shortage, disturbances of material supply, and shortages of investment goods and of labour may be traced back to a common main cause. Shortage is constantly reproduced by specific features of the economic mechanism. The first part of the article consists of micro-analysis, mainly of the productive enterprise. Efforts to increase production may run up against ceilings of three kinds: constraints on physical resources, constraints on demand, and the budget constraint on enterprises. It is an important feature of a system which of these constraints takes effect. Resource-constrained systems can be distinguished from demand-constrained ones here. In the former, production is limited by production bottlenecks, in the latter by buyer demand. The socialist economy in its "classical" form belongs to the former type. It is related to whether the budget constraint on the enterprise is "hard" or "soft". If hard, enterprise spending is limited by its financial scope, if soft (its losses offset almost automatically) its demand becomes almost insatiable. The second part performs a macro-analysis, showing the mechanism of "suction" with the aid of a hydraulic analogy. The enterprise sector "pumps away" reserves and surpluses of the system, mainly due to the "investment hunger" that appears in the wake of expansionist efforts. Finally the article discusses briefly the interrelations between shortage and inflation.

THE SOCIO-ECONOMIC COMPONENTS AND CONTRADICTIONS OF STRUCTURAL CHANGE IN HUNGARY

József Bognár

The study sets out from examination of the factors that necessitated formulating the economic policy concept approved at the 12th Congress of the Hungarian Socialist Workers' Party: economic development has become intensive instead of extensive, a

change of era is underway in the world economy, and the Hungarian economy struggles with disturbances of equilibrium. The present economic policy concept has greater coverage than that of the 1968 reform. It goes beyond methods of economic control and management to economic policy and the institutional system of control. Yet it now faces many more constraints than it did in 1968. Transforming the concept into social action makes big demands also on science, e. g. it has to disclose and help solve the conflicts necessarily developing in the course of transformation: ideology may lag behind economic policy efforts and impede necessary economic measures. Difficulties must also be faced in fitting into the export side of the world economy. Hungary can withstand world market competition only with dynamic properties, especially as its enterprises operate in a small country at a mid-level of technological development. Flexibility, high labour-force qualifications, effective innovation and adequate information are very important. It is vital to competitiveness to develop modern forms of organization, a production background susceptible to change in world market demand, a quick, efficient system of decision-making, and a political and ideological environment supportive of needful economic actions. The study advocates overall revision of the education and training system, where the prime task is to develop abilities for rational action and adaptation to changing conditions. Care must be taken that talents can freely unfold. The social sciences have a prime task of preparing systems of action that serve society's interests. Conditions for withstanding world market competition must be created by science fulfilling its informative, innovative and creative tasks to a high level.

TURN AND REFORM

László Antal, Lajos Bokros, István Csillag, László Lengyel and György Matolcsy

The Hungarian economy is heading towards a crisis in the late 1980s. Despite all changes, wastage of resources remains and adjustment to the market fails to emerge. The unchanged structure and errors of economic policy have led in the short term to disequilibria. Only comprehensive, radical socio-economic reform can lead the way out of the crisis, its direction being from an indirect mechanism toward decentralized market socialism. In economic policy, a turn has to be achieved, to break with earlier multiple priorities. Illusions of faster growth, maintained living standards and curbed inflation must give way to immediate structural transformation. Monetary restriction has to be applied (strict regulation of the money supply, limited availability of credit raised by the budget, autonomous central banking policy, reduction of budget subsidies, more efficient management of budget-financed institutions, etc.) A consistent programme must be drawn up to eliminate crisis industries. Large, uneconomical CMEA investment projects must be re-examined. A turn in economic policy can only be achieved by reform of the mechanism. Part of this is to diversify ownership and render it competitive (equal rank for ownership forms, transition into each other, specific harmony between self-government and share property, new regulations for foreign capital participation), and creation of a long-term interest in capital assets. Anti-monopoly measures and consistent bankruptcy

procedures are needed to increase the number and autonomy of actors in the market. Tax reform must be implemented even in the short run, to eliminate ad hoc interference and secure neutrality in competition. Social reform must affect the party's role in the economy. It should be made possible for various economic policy platforms and groups to form within the party. The maker of autonomous economic policy should be a responsible, effective government. It is expedient to increase Parliament's role in creating and preserving economic constitutionalism and checking on government. Founding free representatives of interests, with truly voluntary membership, should be enabled, so that various economic interests can appear openly and conflicts be handled. Arbitration forums between interest representers and the government need to be set up. Finally, reform that points the way out of the troubles can be applied only with active social participation. It is vital for the country's grave economic situation to be made clear to the public, and to have alternative programmes openly compete with each other.

ON STABILIZATION OF THE HUNGARIAN ECONOMY

Tibor Erdős

The author analyses two important questions: a) What should be done to prevent further deepening of the recession, which has lasted three years? b) Once the economy has passed the trough of the recession, how lasting and how dynamic can the economic growth be expected to be? He also emphasizes that deepening recession endangers the restoration of budget equilibrium, and that several factors are working against dynamic growth, e. g. a distorted structure of production, the inclination of the trade balance to deficit, inflationary pressures, and the uncertain situation in the enterprise sector.

OUTLINES OF A REASONABLE PENSION SYSTEM

Mária Augusztinovics

Pay-as-you-go systems provide acceptable services if and only if the population and the economy are growing. At present these systems are in poor shape and can be expected to collapse after 2010, as the baby boomers reach retirement. One solution is immediate transfer of baby-boom and younger generations into funded systems. But the feasibility and conditions of such a transition should be studied from a quite new aspect: its interdependence with the financing of human gestation (upbringing and education). Institutionalized investment of the pension fund into the costs of gestation, particularly those of education, could be mutually advantageous to the system and economy, and to institutions that now carry the gestation load: the family and the government budget. Such interaction-funded systems would be economically viable. The paper outlines a feasible transition process over 15–20 years.