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THE REFORM POLICY IN THE COMPLEXITY OF THE ECONOMIC POLICY

From the point of view of the Hungarian economic policy, now trying to find a way out from the state of crisis which precipitated in the early eighties and which has not been overcome yet, the focal problem is the mode of carrying on the reform. This is because of the simple reason that the economy cannot reckon with any other additional resource but the reduction of losses accruing in the course of functioning of the economy. The existing of such avoidable losses is clear even to the casual observer.

Therefore the carrying on of the reform is generally acknowledged to be the main task. As domestic and foreign experiences of the 1970s proved that recentralization does not amount to solution, apparently there is agreement also about that the reform ought to be carried on in the 1968 line.

1. Two concepts of the 1968 reform

In this context there are actually two approaches concerning the mode of carrying on the reform. According to the first approach the 1968 reform essentially means the replacement of the direct methods of central economic control by indirect means, i.e., control via financial regulations, without narrowing the range of economic processes covered by central control. On the other hand the second approach considers it to be the essential and still observable feature of the reform to replace central economic control via direct and indirect means with the objective of embracing the whole of the economic processes by an economic mechanism where a self-regulatory market functions along with the national economic planning and regulation of the major processes.

Arguments brought up against this latter concept are basically of two kinds.

According to the first argument, it is ab ovo not right to aim at developing such an economic mechanism as it is inconsistent with the principles of socialism, resp., the economic conditions that have become typical in West and East alike by the last decades of the 20th century. The second argument, while acknowledging that the endeavour to carry on the 1968 reform in this line is justified, claims that the conditions of running such a mechanism are durably missing in Hungary. On other occasions I debated the approach mentioned first and so I am not going to make a digression on it now. In this paper I will deal with the second argument.

The advocates of this point of view find the four major hindering factors to be the following:

- The high degree of monopolization of this economy and the enterprise structure inherited from the centralized system make a real competitive market improbable.
- The character and mechanism of our external economic relations stand against the development of market automatisms based on competition. In our relations with CMEA countries we cannot expect the naturalistic-minded bilateral commerce to be transformed into a mechanism accentuating value categories and inter-enterprise relations in a foreseeable time.

In the extra-CMEA turnover, the lifting of the prevailing mutual protectionism and consequently the developing of import competition are improbable because of the apparently lasting balance-of-payments problems as well as our being barred out of the West European integration.

- Up till now our economy has continued to be a shortage economy, and this quality has become still more pronounced in the past one year or two in connection with external economic problems. And it is useless to reduce the degree of monopolization of the economy and it is similarly useless to try to relieve the rigidity of external economic relations for the mechanism of competition cannot function as long as the shortage economy quality is not eliminated and as long as the sellers' market persists in a broad sphere.

- A political system whose nucleus is the one-party system and democratic centralism, i.e., where each element of the political institution is arranged in an united hierarchy and where the action of autonomous elements outsider to this hierarchy is precluded, is incompatible with the elimination of hierarchic subordination from the economy and with the mutual autonomy of enterprises and state administration.

The above objections seem to be undefendable. If it is seriously meant that a big number of actors is required in each market segment for the development of the mechanism of competition and if the inherited enterprise structure of the economy is at the same time taken to be given, we have to waive real market competition. If it is seriously meant that the provision of "slightly excessive supply" in the economy is a precondition to the mechanism of competition and at the same time we see no opportunity for providing it under the given economic situation nor in the one predictable by planning, we must again loose confidence. Last but not least, if it is seriously meant that economic pluralism cannot exist without political pluralism and at the same time the forms of exercising political power as established in East European countries adopting the one-party system /which was created at the time of consolidating power and which has been inherited from that period/ are considered to be unchangeable then, again, we must give up with the necessary changing of the economic mechanism.

Hereinafter I shall treat in different ways the first three objections relating to economic conditions and the fourth one which is referred to the superposition of the economic mechanism and the political establishment. In connection with the three first objections I should like to show that simultaneously with the reform programme but independently of it, the demand for such changes has already been formulated in the Hungarian economic policy as are suitable for relieving the said barriers. In case these changes assert themselves it can be expected that the economic conditions of the functioning of a self-regulatory market emerge, even if not smoothly. As far as the fourth objection is concerned, I should like to note

an opportune but so far undecided way of the development of the political system which, in combination with the version I find recommendable for carrying on the economic reform, could be compatible also when the basic frameworks are maintained.

## 2. Enterprise organization and market competition

Do we have to consider the inherited enterprise structure of the economy as given? The developments of the last half of a decade show that we do not, since the creation of the forms of small entrepreneurship and the entering of hundreds of new enterprises into the scene are the most noteworthy developments in the Hungarian economy since the new mechanism was introduced in 1968.

On the other hand: How far is it right to go in this direction? Can these changes attain a degree to relieve the first one of the four inconsistencies?

According to a prevailing "sober-minded" point of view the role of small enterprises including the new forms of enterprising is not denied, however, the role cast for the long run to such enterprises and enterprising is although important but only secondary and peripheric as against the role of big state enterprises. Is this justified?

Let us set out from the following correct concept: certain kinds of activities can be done efficiently in big enterprises while other ones in small enterprises. At first consideration this opinion must be agreed with, i.e., that it is not the small enterprise as such nor the large-enterprise activity as such that needs to be given priority but it is internationally competitive activity, be it small-enterprise activity or big-enterprise activity. However, at this point some consequences of the external economic position of the Hungarian economy must be taken into account.

It seems that a country in a position like Hungary can, or could, gain comparative advantages in its export markets through cheaper skilled work, the simultaneous existence and drill of eastern and western relations, geographic proximity to West and East Europe, as well as a more flexible system of control than what is adopted by rivalling countries of similar posi-

tions /small CMEA countries/. It is quite probable that these advantages are more likely to be realized better through activities that can be pursued typically in small enterprises.

Nowadays in the advanced countries progressive enterprises include giant enterprises as well as ones employing ten or a hundred hands. However, while the big enterprises are by necessity international ones, the progressive small enterprises can be national ones. The competitive big enterprises of small countries are either the local plants of multinational companies or are themselves international enterprises with affiliates all over the world. The Hungarian system of external economic relations, however, does not allow that at present. The creation of multinational enterprises is ab ovo ruled out by the CMEA mechanism and in the Western relation it is hindered by the lack of convertibility, by the monopoly of the currency of exchange, as well as a number of other factors.

Therefore there is nothing to be done under the present circumstances about the shortcoming of the enterprise structure, i.e., the missing of "really big enterprises". A big enterprise of up-to-date organization simply "does not fit in" the Hungarian economy which is not integrated into the world economy!

The small enterprises are another case. In principle there is no obstacle to the forming and widespreading of up-to-date and internationally competitive small and medium enterprises in Hungary.

I therefore assume that the economic policy must assign a basic /but of course not predominant/ and not a peripheric role to small enterprises in the long-range development of the enterprise structure. It is not reasonable to limit the activities of small enterprises including industrial cooperatives and auxiliary plants of cooperative farms to supplying big companies with subdeliveries and supplying the consumer market because they could work successfully in the most advanced branches of top technology and in the export of the latters, especially as export efficiency is again becoming the number one criterion as against the volume of export. Therefore the small enterprises, like the big ones, ought to be granted eg. the right of direct export. /They must not be obliged to avail

themselves of that right, they, should be allowed to charge foreign trading companies if they so prefer, but they, too, should be responsible for realizing their products just as the big enterprises are/.

Am I changing from one end of the pole to the other, from one extremity to the other? It may be so but this is not an argument. Preferences of big enterprises are a kind of extremity itself, did have its justification on the soil of a given industrial development policy and a system of control. /Whether this industrial development policy and this system of control were adequate at the time and to what is another question. At any rate, that extremity was not an outcome of going astray merely theoretically either/. On the other hand it is backed up by arguments that the current economic situation, the deriving economic political tasks and the line found to be the most rational for the development of the economic mechanism stand today for an orientation, which could be once again called one-sided, towards small enterprises.

Political arguments are usually also quoted to support the stress on big enterprises, alluding to the political significance of large-scale industrial workers. In the given case, however, I am simply unable to understand why this argument is deployed. It is true that the labour movement always sought and found its mass basis among the workers of large-scale plants as it is the big organization that alienates worker and employer the most badly and that develops workers solidarity the strongest. It was not incidental that the East-European labour movements of past decades also germinated from the masses working at big plants - it is the big plants where the strata of workers more ready to stand up and rebel are found. Workers of small plants live in a more patriarchic workshop climate and are more apt to identify with enterprise goals.

So it is clear that those aiming at overthrowing a regime send their agents to big plants. I also understand that where the owners of power worry for the stability of the regime they must please the workers of big plants in the first place. But when a regime wishes to build "consensus" and constructive cooperative and wishes to develop "social partnership" with the people then it should be appealed by small and medium

plants already for social and political considerations! Whenever large-scale plants are necessary those must be naturally maintained but there are no political arguments whatsoever for insisting on the big-enterprise form and the implied activities that require big enterprises.

It stands to reason that the proportions of big and small organizations cannot be changed from one day to another. I consider this change of proportions a task to be accomplished in a longer span of time. Significant steps have already been made in this direction in the past years. I nevertheless deem it necessary to state that we are far from having reached the desirable state of affairs and we must consistently carry on, step by step, towards the targeted direction.

And when this is done the internal conditions of forming the competitive economy will be also gradually improved.

### 3. Reform and foreign economic policy

There was strong apprehension because of the statements made about the external economic policy in my article published in journal *Mozgó Világ*. /In English: *Eastern European Economics*, Vol. XXII No. 3-4 Spring-Summer 1984/.

One must certainly not be as naive as to hope that economic relations with WESTERN countries alone could be a salvation, as it was hoped in Romania at a time and then in Poland in the seventies. However, in the set of requirements of the 1980s, the roles of the two main relations in our external economic relations must be estimated in another way than it was considered by the economic policy of the 1950s or 1960s.

The maintaining of the exchange of raw material vs. finished products with the Soviet Union is unvariedly to our advantage where, and up till when, it is possible. Nor is there any change in that we can successfully pursue the exchange of industrial commodities with small CMEA countries which are geographically near and in degrees of development, technical civilization and quality standards of consumer demand close to us. The opportunities of developing the turnover in the CMEA relations has been even expanded by Hungary's becoming durably capable of agrarian export while the Soviet Union and

some other CMEA countries are in lasting need of food import.

At the same time the expansion of turnover in the CMEA relation is limited, moreover, narrowed by a number of factors. Only two important ones are noted here. The first factor is from our point of view an external condition: the Soviet Union does not wish to expand the exchange of material for machinery because it is not in the position to do so, on the contrary, it intends to cut this exchange back. Thus fewer products are available to compensate, to Hungary's benefit, for the export of industrial commodities that has been advantageous for decades because of the large and safe absorbing market and consequently the reasonability of such export is becoming ab ovo doubtful.

The second factor is related to the CMEA mechanism. At present the development of manufacturing industrial production adjusted to the international division of labour according to the notion of comparative advantages is a key problem of our economic development. Such manufacturing industrial production uses a broad range of imported goods and, on the other hand, it is itself export-oriented and it gains high export receipts through the flexible satisfaction of market demands. However, the mechanism of CMEA cooperation does not permit this type of manufacturing industrial relations either from the aspect of export or of import. There is no realistic chance for any change in this respect in the coming five to ten years. Under such circumstances, if we keep insisting in the development of the manufacturing industry on directing the major projects basically and primarily towards CMEA export /import substitution on the CMEA level/; and on trying to satisfy as much of our demand as possible for semi-products of the manufacturing industry and for parts for production /and not only for raw materials where this problem is not so bad/ from CMEA countries then we face the risk of having to relinquish the additional resources of growth offered in the technical and market development of the manufacturing industry by integration in the international division of labour on basis of comparative advantages.

It is therefore quite inevitable that in our external economic relations the role of quota turnover based on interstate agreements and transacted in transferrable rouble must diminish and the importance of turnover transacted according to the principles of commerce and in some convertible or de facto convertible currency must grow. One of the possible ways would be to transfer the economic relations with CMEA countries on to commercial grounds in general or with the countries ready to do so, for the whole or part of turnover. This would be extremely desirable because in this way our economic relations could be promoted in an efficient form with partners with whom such relations are the most obvious for geographic and historical reasons. However, in case this desirable alternative will be missed and the mechanism of CMEA relations will not be transformed - a contingency we must not fail to take into account - then we cannot seek but outside the CMEA relations the opportunities for participating in the international division of labour in an up-to-date way as to content and form. This implies that we must find the opportunities enabling us to associate ourselves, if not de jure then de facto, to the West European integration which by now embraces the whole of Europe outside the CMEA. Then we can have the chance to avoid to be dropped out of technical and market development. "De facto association" means a host of measures like eg. reaching a comprehensive trade agreement with the Common Market, further advancement towards the convertibility of forint, and provisions for majority or full foreign ownership of enterprises.

The aforesaid does not mean that we must quit the CMEA even de facto, since the CMEA is not a multinational integration here and now but it is bilateral economic relations gathered in a bunch of the set of multilateral political relations. /And this is what it will remain to be as long as the old concept of a supranational planning office or the old Hungarian CMEA concept in which relations are based on commodity-and-money relations are not implemented/. Participation in it, moreover, the enhanced utilization of opportunities offered by it, are not hindered by the intensification of our western economic relation. On the contrary! If the western re-

lations of the manufacturing industry are deepened which would have beneficial implications from the point of view of the technical standard and competitiveness of our manufacturing industry, then we could become, among others, a welcome partner in the CMEA turnover whose updated offer of industrial products would be worth of paying "hard" goods in exchange - and eventually even the exchange of material vs. machinery could be revived. So I do not mean a one-sided western orientation but I should like to suggest that in the future we could make better use of the potential advantage of the Hungarian economy, i.e., the conditions given to it to mediate the transfer of technology from west to east /which conditions are here better than in the CSSR because of the reformed mechanism and better than in Poland because of stability/ only provided that the indicated improvement of the external economic policy and mechanism can compensate for example for the disadvantage we suffer against the GDR in lack of the intra-German status.

Again, it also follows from all the above that this line of the external economic policy brings us closer to the desirable situation when the antagonism between the mechanism of our external economic relations and the internal mechanism is relieved.

#### 4. Equilibrium and Reform

A couple of years ago it was nearly trite and needed no further reasoning that the carrying on of the reform and the elimination of the remains of the shortage economy, i.e., creating the buyers' market, are mutually conditional. It could be even assumed that there was nobody to argue with as no one in Hungary asked for the sellers' market.

This situation changed in the past years. Considering the socialist economy to be a shortage economy by necessity was formulated for the first time in decades and with the postulation of theoretical generalization in the paper by A. Szego /Valóság 1983. No. 5./. This train of thoughts apparently fails to take into account the finding that shortage economy, emergency substitution becoming typical of production processes, queuing, long terms of delivery, etc. do such a big harm to

the efficiency of production and to the competitiveness of export that questions the competitiveness of the whole of this system in the broad sense. Actually this is the reason why adequate supply of material and goods must not be regarded as something we can afford in good times but we must forget in bad times. Depending on what a number of East-European economists have discovered in the last decades and which Janos Kornai generalized also theoretically we can safely state that adequate supply is also a precondition to the successful functioning of the economy.

This is far from being a banal statement as yet and there are some economic policy-makers believing that one could overcome "unpunished" and without economic or social disadvantages the import restrictions and the disturbances of supply caused by necessarily rough central assessment. What is more, the fact that the devastating impacts of such inadequacies do not assert themselves but with some delay only and are not apparent in aggregate figures suitable for central estimation, worsens a certain false impression, namely, that although the unavoidable constraints caused some temporary problems, but imported items were substituted with domestic ones where demand was real and production was carried on. This deception helps making virtue of necessity. In this way the mechanism of restrictive measures is brought to a life of its own and, in addition to production and marketing decisions, also in decisions about investments the substitution of import becomes a guiding criterion. If this happens it will be hardly possible to halt the process of declining efficiency.

It is still not too late to realize where we are. It is much rather the restoring of the internal equilibrium than avoiding the decline of standard-of-living indicators expressed in real wages and consumption that we ought to consider our adequate economic political objective! Several statements made by leading statesmen show that this is appreciated, however, at the same time it seems that daily decision-making is increasingly apt to make concessions at its detriment.

Thus, over and above the need for harmony with the development of the economic mechanism, there are strong arguments

in favour of carrying on on the road taking from shortage economy to the buyers' market.

#### 5. About the interdependence of Economic and Political Reform

If we are serious about our ideas concerning the reform, even about propositions for modest changes as are laid down in documents of the organizations of state administration, we cannot escape the following antagonism: We should like to have autonomous and responsible enterprise management on the one hand - while, on the other hand, we wish to maintain the right of regional party organizations to ask enterprise leaders to report on the whole of their economic work as well as to form varying opinion about any issues of business management and, on that basis, to "withdraw confidence" from the said leaders. In such state of affairs the responsibility and independence of enterprise leaders rest on shaky grounds.

It is therefore assumed that any degree of consistent implementation of the economic reform, i.e., the 1966 concept, requires to guarantee the independence and responsibility of enterprise leaders against interventions by party organizations. It would be important here to make it clearly understood that the party organizations must not restrict economic leaders in their spheres of authority, not even in cases when they would find this justified. It should be acknowledged that the supervisory authority over economic leaders is vested in the party organizations with respect to political and not to economic political and economic-management aspects. Now that we no longer suppose that the central state authorities are ex officio right in every matter we should be over this also in the case of the party organizations, namely, the central, regional and enterprise party organizations. Namely, if this cannot be achieved then all the aspirations aimed at eliminating operative sponsorship by the administration could be downright reversed because a control still having some professional competence would be ruled out while the control of professional noncompetence would be left untouched.

There are various ways towards the desirable change. Unambiguous declarations by leading political bodies and clear

statements by the party media would be a great help - it is a pity that nothing of that kind has been made as yet. It would be another contribution to rearrange spheres of party authority in a manner where party rights would be exercised over economic leaders by party organizations of the same, and noth higher, level /by the party committee or party leadership of the given institute, the given enterprise and the given workshop/.

As it can be seen from the aforesaid, it is nor a spectacular reform of the political system that I consider to be the precondition to carrying on the economic reform. I believe that slow, step-by-step advancement is possible in the political sphere. However, this change must not remain a pseudo-change - actual and palpable change is required also in the political sphere.

Strengthening the democratism and public control of state supervision over economy is obviously an important area of this change. It is possible and necessary to guarantee the independence of enterprises against the state administration also by enhancing the legality of economic control.

I mean that no matter how perfectly the new system of economic regulations will be adjusted and how successfully the new forms of enterprise management will be established, the state authorities and the enterprises cannot be expected in the future either to observe the rules of their new relations out of sheer self-control. It will be indispensable to develop two kinds of guarantee systems.

From one aspect, as it was repeatedly noted eg. by Tomáš Šarközy, the statutory protection of enterprises against the state must be created. Like the court of administration should be set up for citizens, also the enterprises must be granted judicial protection against decisions of the state administration at the same court or at economic courts. The provision of real legal security to small enterprises by the already existing protection by law in turn requires perfect independence of courts, once again against the state administration and the party apparatus.

As it is raised, even if somewhat too generally, by several new documents from the other aspect the publicity of and democratic control over the state's economic controlling activity promises guarantees against the intertwining of interests between the state administration and enterprises. Furthermore it must be noted that the democratization of economic control by the state and the enhancing of the role of Parliament will remain to be illusory as long as the autonomy and own responsibility of economic administration as against the central authorities of the party. I trust that all the above can fit in what has been alluded to about the desirable development of the establishment of political institutions in recent speeches and documents.

Summing up the aforesaid: in economic respects it is apparently unavoidable irrespectively of decisions about the mode of carrying on the reform, and possible and desirable for the political mechanism, to carry out changes whereby those constraints could be relieved in whose relation the practicability of the market-minded promotion of the reform is nowadays questioned.

Tamás Bauer

### Polityka reformy w kompleksie polityki ekonomicznej

T. Bauer przyjmując założenie, że podstawowym zadaniem na Węgrzech jest kontynuowanie reformy gospodarczej, rozróżnia dwa podejścia do tego zagadnienia. Pierwsze polega na zastąpieniu bezpośrednich metod centralnego kierowania przez metody pośrednie, bez zawężenia zakresu procesów ekonomicznych podanych centralnemu bezpośredniemu kierowaniu. Drugie - wyraża się w zastąpieniu centralnego bezpośredniego kierowania gospodarką metodami pośrednimi, obejmującymi całość procesów ekonomicznych. Opowiadając się za drugim podejściem Autor rozpatruje główne kontrargumenty formułowane przez oponentów drugiej koncepcji. Wykazując ich merytoryczną słabość konkluduje, że nie są one przeszkodą w kontynuowaniu reformy według drugiego podejścia.