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Országos Széchényi Könyvtár









# AFTER THE BARGAIN

The Hungarian Reform

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# AFTER THE BARGAIN THE HUNGARIAN REFORM

But Hungarian policy cannot be considered as revolutionary. The 11 billion dollars foreign debt is scarcely developing to money, and the inflation rate, notwithstanding the government's tight monetary structure of currency, is stilling 100 percent a month. Hungary's economic situation is still far from good, and the changes are breaking out of the old mold, because Hungary is deeply and fully internationalized, and integrated into European culture, revolution humanitarian values to the extent that it can undoubtedly count on the advantages of international cooperation to help it out of its critical condition, having also, mainly because of its own mistakes

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1989

# Foreword and Echo



BY LAJOS GUBCSI

In 1988 a change took place in Hungary. There were personal changes at the highest levels of the party, state and central leadership through which power came into the hands of more competent, politically more able new leaders who are carrying out the new wave of reform. Parallel to this public discussion is growing rapidly, democracy is taking root in a wide strata of the people, and market competition among entrepreneurs is becoming stronger.

Hungary is again showing the way of progress in Central and Eastern Europe. The father of glasnost and perestroika, Mr Gorbachev, has stated several times how the often radical social and political changes in the Soviet Union are drawing from the Hungarian experience.

Hungarian diplomacy has never been as active as in 1988. The new leader Mr Károly Grósz has visited not only the two major powers but important countries in key positions such as Great Britain and Poland. Foreign Prime Ministers and leading political figures are arriving almost daily in Hungary.

But Hungarian policy cannot be considered as complacent. The 11 billion dollars foreign debt, a scarcely developing economy, a 17% inflation rate, unemployment at our doorstep, the obsolete structure of industry, stalling CMEA-cooperation, dependence on western technology are all heavy burdens on Hungarian society. Nevertheless, the chances for breaking out of this are good, because Hungary is so deeply set in international cooperation, so integrated into European culture, respecting humanitarian causes to the extent that it can undoubtedly count on the advantages of international cooperation to help it out of the critical condition it has got into, mainly because of its own mistakes



and because of unfavourable factors in international economic development.

In 1988 the people and the leadership entered into a new consent. The political and economic leadership claimed that it would stabilize the situation and would, at the earliest possible time, perhaps in the early 90s, establish the basis of a future prosperity. The people, though under constraint, accepted reasonably and realistically the worsening situation, took up the task of creating firm political cooperation with the Party and the Government, and as a material condition for fulfilling these tasks will not withhold its sanction.

The title of this book calls this consent a bargain. And now we are in a situation after the bargain.

We have also collected various, often contrasting, international opinions on Hungary as they have appeared in the world press:

**International Herald Tribune,  
July 11, 1988**

**BUDAPEST**—Hungary's new leader says Mikhail S. Gorbachev has told him that the Soviet Union aims to emulate the small East European nation's highly innovative political and economic course.

In an interview, Károly Grósz, the new Hungarian Communist Party chief, disclosed that Mr Gorbachev, the Soviet leader, had informed him a few days ago in Moscow that "it is probably the Hungarian endeavours and the Hungarian perceptions that are the closest now to those of the Soviet Union".

Mr Grósz, 57, supplanted János Kádár as general secretary of the Hungarian Communist Party at a water-shed party conference in late May. Mr Kádár had led the country since the Soviet Union crushed a popular uprising in 1956.

Mr Grósz, a short, trim figure with an intense gaze, has a reputation as a no-nonsense pragmatist and something of a hard-liner. But in the interview in Budapest's ornate parliament building on

the banks of the Danube, he called for "radical reform in the economy and in politics" and explicitly endorsed two prominent innovators elevated to the Politburo in May.

**International Herald Tribune,  
July 26, 1988**

**NEW YORK**—The new Hungarian Communist Party leader, Károly Grósz, faced tough questions at a meeting with Hungarian-Americans and offended many with remarks about a former prime minister who was executed, Imre Nagy.

Several participants said they were offended by Mr Grósz's expressed attitude toward Mr Nagy, who is still for many a popular hero in Hungary.

Midway through his U.S. trip, Mr Grósz welcomed more than 100 first- and second-generation U.S. Hungarians on Sunday at his hotel in Manhattan for an address and discussion that went nearly an hour overtime.



**International Herald Tribune,**  
**July 15, 1988**

**BUDAPEST**—The Hungarian Central Committee, the policy-setting body of the ruling Communist Party, voted overwhelmingly Thursday in favor of radical plans to change the ailing economy but postponed a final decision until October, the state press reported.

The delay indicated that the party was reluctant to push a program that would increase social tensions by driving inflation above a target of 15 percent this year and putting 80,000 to 100,000 people out of work by the early 1990s.

On the second day of a meeting that is receiving rare widespread coverage in the state-run press, the Central Committee also heard a report recommending creation of "a clear and consistent legal framework" allowing citizens to form groups and hold meetings.

Those who criticize "the malfunctioning of socialism" should not be regarded as dissidents but as alternative thinkers so long as they do not challenge one-party Communist rule or Hungary's alliance with the Soviet Union, György Fejtő, the secretary of the Central Committee, said at the meeting.

**The Economist,**  
**May 28, 1988**

By promoting Mr Pozsgay and Mr Nyers, Mr Grósz presumably intends to strengthen his own power base. He can use the two men as a bridge to reform-minded groups outside the party. He may also reckon that they will be less bothersome now they are subject to the discipline of Politburo membership than they would be if they were free to criticise loudly from the wings. Still, it will be hard for Mr Grósz to silence the calls for far-reaching reform.

**Time,**  
**May 30, 1988**

On the political front, Grósz's moves will be central to the prospects for democratization in Hungary. Having encouraged calls for greater liberalization, he may find himself grappling with some tough challenges as a result. This spring some 46,000 men and women, or roughly 5% of the membership, turned in their Communist Party cards. "The changes we need, especially economic ones, cannot be accomplished only by economic means," says Imre Pozsgay.

"We are now facing up to a crucial question," says reformer Pozsgay. "Who guards the guardians? The issue is how to control the exercise of power." If Communist systems have never adapted easily—or at all—to constraint, in Hungary at least the issue is squarely on the table.

**The Economist,**  
**May 28, 1988**

Despite all these doubts, Hungary is the right country to start the testing. The demand for change comes from below, not from above, which makes it blessedly different from Russia. Whatever Mr Grósz's own views, he will be under pressure to introduce further reforms. And, once started, where would the move to democracy stop? The apparent elasticity of his beliefs could be his virtue: only commonsense, not ideological iron, will hold him back. Today's Hungary has few true believers in communism, even at the top of its communist party. Raw pragmatism rules. That is why Hungary, with its swivel-door artist out in front, is most likely to define the best New Deal under the Gorbachev gaze.

**The Economist,**  
**July 23, 1988**

When Mr Károly Grósz replaced Mr János Kádár as Hungary's leader in May, it was clear that this was the country most likely to test the limits of change in the Gorbachev empire. The ideological reins from Moscow had been loosened. Two radical reformers, Mr Rezső Nyers and Mr Imre Pozsgay, had entered the Politburo. A debt-ridden economy and an angst-ridden people wanted bold action. Never before in Eastern Europe had there been such an opportunity to leap to a new level of economic and political freedom. Hungary is now preparing to jump.

Barely noticed in the West (because at the time Mr Gorbachev was making his lacklustre visit to Poland), the Hungarian communist party's Central Committee met on July 13th-14th to discuss the sort of ideas which until recently only dissidents had dared to think in public. The meeting—and the Hungarian people, since for the first time some of the speeches were shown on television—heard a frank description of Hungary's economic plight: a sorry tale of over-regulation, declining competitiveness and a burden of debt-servicing which consumes 65-70% of hard-currency exports. The proposed solution, presented by Mr Miklós Németh, a Politburo member, is to make both Hungary's economy and its society "truly open"

**International Herald Tribune,**  
**June 29, 1988**

**BUDAPEST**—At least 50,000 Hungarians, many carrying torches and candles, marched quietly past the Romanian Embassy here to protest plans by the

Communist leadership in Bucharest to demolish thousands of villages, including many inhabited for centuries by Hungarian and German minorities.

The project is depicted by the Romanian leadership as agricultural modernization. . . .

The crowd moved slowly, shouting protests, then marched back to the square, laying flowers at monuments to Hungarian kings.

Banners denounced the resettlement of villagers to consolidated communities. Scores of demonstrators held up signs of old place names, in Hungarian, German and Romanian, that they fear will be bulldozed from history. . . .

The state-controlled press and broadcast outlets of Romania have said the program aims to gain more farmland for use by the country's collectivized farm system, which has been plagued by lack of incentives for farmers and by shortages of livestock fodder.

Some Hungarian intellectuals have denounced the project to destroy centuries-old communities as ethnic genocide.

**International Herald Tribune,**  
**July 2-3, 1988**

**BUDAPEST**—Parliament condemned on Friday a Romanian plan to resettle ethnic Hungarians and called on Bucharest to reconsider the move.

The official news media in Hungary reported that the Romanian authorities also were repatriating Hungarian travelers without giving any reason for the move.

Hungary maintains that the program of moving residents of 7,000 villages to



new agricultural-industrial centers would destroy ethnic Hungarian culture and tradition in Romania. Romania says it would help villagers by providing services now enjoyed only in cities.

Romania's treatment of its 1.7 million ethnic Hungarian citizens has long been an issue between the two Warsaw Pact allies. Hungary contends that the Hungarian minority is discriminated against. Bucharest says that the criticism by the Hungarian government is interference in Romania's internal affairs.

**International Herald Tribune,  
July 5, 1988**

"We feel we already played a role as a mediator in the improvement in Soviet-U.S. relations," said the Foreign Ministry official. "And now that the atmosphere has changed, the room we have to maneuver has been considerably expanded."

Another carefully planned shift toward the geopolitical center has been Hungary's development of warm relations with neighboring, neutral Austria. Following the near total liberalization of travel for Hungarians at the beginning of this year, what had been a busy crossborder movement of Hungarians and Austrians has turned into a flood.

Western diplomats in Budapest believe that Austria may prove a valuable lever for Hungary's eventual integration into Western Europe. Anticipating a move by Austria to join the European Community, Hungarian authorities are studying the possibility of applying for membership in the European Free Trade Association, which groups Austria with Sweden, Switzerland and other neutral West European countries.

**Newsweek,  
July 18, 1988**

Károly Grósz returned from his first summit meeting in Moscow last week with a warm endorsement from Mikhail Gorbachev. He may also soon be able to offer a pleasant surprise for his fellow Hungarians—a Soviet troop withdrawal. Grósz declined to comment on what he heard from Gorbachev about Soviet intentions. In an interview with Newsweek he said only that Gorbachev's feelings are "that Hungarian and Soviet reforms are the closest in their practice and philosophy." Later on, however, a senior Hungarian official, who did not want to be identified, said he had been told by Soviet military sources that Moscow leaders have "approved in principle" a plan to withdraw all 65,000 Soviet troops in Hungary, possibly as the centerpiece for a sizable unilateral cut of Soviet forces in Eastern Europe. No timetable has been established as yet.

The sight of Russian soldiers marching out of Hungary would go a long way toward fulfilling the promise of change that Grósz made in May.

**The Sunday Times,  
28. August 1988.**

Hungary's communist party leader, Károly Grósz, hopes to save the doomed medieval villages of Romania at an emergency summit today with president Ceausescu.

Grósz has led the international outcry against Ceausescu's plan to raze nearly 8,000 villages many inhabited by Romania's ethnic hungarians, and create 250 agro-industrial complexes.

Imre Pozsgay, a senior Hungarian minister, described the plan last week as a crime against humanity... In the areas targeted by Ceausescu's bulldozers, the

peasants are already seeing the signs of the approaching holocaust of *sistematizarea* (rationalisation), the official title of the destruction programme. Villagers I spoke to in the transylvanian province of Cluj, where 103 villages are under immediate threat, said now new building permits had been approved this summer. The rare chance to speak to a westerner among the fruit trees and cabbage patches around their wooden homes brought complaints pouring in from peasants who claim they have been systematically starved. None would give their name, for fear of reprisals.

Romanians see the ethnic Hungarians, and the 220,000 ethnic German or Saxon community, as the lucky ones. At least 12,000 Hungarians fled to Hungary this year, and West Germany has agreed to pay for visas for Saxons who want to leave.

"The Magyars have the Hungarians to look after them, the Saxons have the Germans"—a villager told me. "The Romanians have no one to defend us."

Observer,  
August 28, 1988

The meeting, in the Romanian town of Arad, was proposed by Ceausescu and seems to have taken the Hungarians by surprise. Romania has refused offers to talk made by Grósz since he became prime minister last year.

The meeting takes place at a time of growing international alarm over Romania's plan to resettle villagers, many of them of Hungarian and German nationality, in modern "agro-industrial centers". The plan is the last straw for Hungary where anger over what most Hungarians see as discriminations against 1.7 million minority in Romanian Transylvania has grown steadily since the 1970...

... Last week the reformist Hungarian Politburo member Imre Pozsgay called the village resettlement plan "an injury to european civilisation" and a "shame to socialism". Romania has no allies in the Soviet block on this or most other issues.



# We Need a Dialogue With the Whole Nation

**Imre Pozsgay (55), Minister of State,  
member of the Political Committee  
of the Hungarian Socialist Worker's Party (HSWP)**



Born in 1933 in Kóny. Candidate of philosophical sciences. Member of the Party since 1950.

Between 1957 and 1965 held various posts in the Bács-Kiskun County Committee of the HSWP. In 1968 he was elected Secretary of the Party County Committee. He worked as Deputy Head of Department of the Central Committee of the HSWP, then became Deputy Head of the editorial board of the journal "Társadalmi Szemle" (Social Review).

In 1975 he became Deputy Minister of Culture, later Minister of Culture, then Minister of Education. Between 1982-88 he was General Secretary of the National Council of the Patriotic People's Front. Member of Parliament. In May 1988 he was elected member of the Political Committee of the HSWP by the national conference of the Party. Since 29 June 1988 Minister of State, member of the Council of Ministers. Major publications: "Socialist Society and Humanism" (1978), "Democracy and Culture" (1980).

For a long time we have only been talking of the economic reform in Hungary. We thought it was enough to upgrade the economy's dated system of management, to dole out some freedom and autonomy to the enterprises, to introduce a measure of the private sector and to just keep raising the living standards and by and by that would automatically produce a feeling of well-being and a sense of the better.

But we came to realize, somewhat late though hopefully not too late, that economic reform itself was not enough. However, as we passed from recognition to the first active steps, it also began to dawn on us that the economic reforms of ambiguous success have been dragging on because we have tried to implement them within an unchanged social structure.

It became apparent that no healthy economic progress could be made within the framework of an ailing and dated social and institutional structure: it was necessary to carry out sweeping social reforms touching on nearly every aspect of life, and to reach a new social consensus on ideological, political and social renewal including such problems as honestly and realistically confronting the questions of openness, democracy and our immediate past.

\* \* \*

*To what extent do you think is the programme of national recovery prompted by the opening-out that we have been witnesses to recently, which is aimed at revaluating the hushed-up issue of the fifties, however, painful it may prove to be?*

As far as I can see, it has become evident that an insistence on continuity is a major obstacle to current political development. Obviously there is no national history—true history I mean—which is devoid of the elements of continuity. I do not deny the importance of continuity but I think our policy clung too tightly to the fifties in structure, build-up and attitudes by placing the stress on the achievements of socialist transformation and failing to denounce clearly the criminal and monstrous acts that took place in this country in the fifties.

*Your words seem to suggest that you do not regard 1956 as a turning-point.*

That's right. True, the new policy adopted in 1956 morally denounced the atrocities of the fifties. It did humanize the conditions of socialist construction as regards the methods, but in the basic institutions some structural elements have survived that had been responsible for bringing about the fifties. The past 30 years have been an incessant struggle against these forces, against the regressive structural elements working for the restoration of that period.

*Clear-minded people are aware that the years we are living in are not only those of an economic crisis but of a social and moral crisis as well, which goes at least as deep, if not deeper. There is a crisis in people's hearts minds, and souls.*



I entirely agree. Our decline was not caused by economic reasons in the first place. The phenomena and symptoms of the economic crisis are the consequences of behaviour that bordered on a loss of identity.

What I think is the most dangerous phenomenon in the history of a society, especially of one that set out on a new path with a collective programme, is the disastrous spread of isolation in human relationships. Solidarity has decreased. What underlies this is a lack of faith.

People have ceased to trust the officially presented institutions and chosen a course of isolation and privacy. Lack of confidence forces everyone to adopt a "household" strategy of their own, building their lives on it, as they do not feel their future or present is safe in other communities or institutional forms.

This makes me believe that the crisis we are in now is principally a moral crisis. It paralyses action, it shatters the rational conduct of the economy. What may lift the country out of this moral crisis is not economic mechanisms but a national programme of historic importance.

*The next question also concerns this problem. In a speech you quoted László Németh and Gyula Illyés saying that in Hungary domestic policy could be a true foreign policy as well. We have to set things right at home first, in and around ourselves, in order to be able to enter the stage of international politics as a healthy nation.*

I have some reservations, even suspicions, as to the international role of small countries. I am not too keen on seeing a small nation constantly in the focus of international attention, for this is a sign of a national minority case, of a Lebanon, a Kosovo or a Palestine. I mean that a destabilized nation can best attract the world's attention when it is in a situation of civil war.

As for me, I wish for a national history free from international attention at that cost; I wish we could create a home on Earth from our endowments, such that this country be worthy of a steady respect, one without sensations. We do not wish for tabloid success but respect and approval.

Our most important mission in this regard is to become worthy of the Hungarians living outside our borders. Therefore we have to create conditions that would make it worthwhile to be a Hungarian outside Hungary as well. In any case, I am convinced that the domestic policy of any country or great power determines its foreign policy and this is

even true for small nations. No country can exert a honourable or exemplary influence unless it lives in well established circumstances, giving its citizens self-esteem.

*There is a rightful demand being voiced more and more often to replace government and control of the people with government by the people. Although all sensible people confirm the justice of this claim, history has not always supported it. The socialist society that claims to be a people's society has produced moments in the past 40 years revealing that it allocated meagre doses of democracy from above.*

Clearly we have had enough of paternalism. The dominance of the state had the effect that almost each member of society was assigned a place in the hierarchy. Consequently, people defined themselves first of all in terms of their service posts and not as citizens of a nation. The autonomy of the citizen was too limited and insufficient to encourage people to bravely avail themselves of the possibilities for self-rule and democracy.

If there is an area where we must make progress, this is it. It is illusory to think that we are an unstructured, homogeneous people. I am convinced that anyone who argues so is distorting the facts: glorifying a people without being aware of its inner character and its division by labour is a great mistake.

In my view, a self-governing people is to be conceived of in a structured society. This, in turn, requires institutions within which people can attain self-government and within which alternatives can assert themselves. The related conflicts must take place out in the open and not be swept under the carpet, which only makes it harder to walk on.

I think the citizen must first become the subject of action—and not on a paternalistic basis but with a chance for self-organization and construction. In this regard the most important thing, I believe, is the strengthening of local autonomy. That is the way to achieve a social and political order in which the above mentioned alternatives can be decided in public through elections. And that would involve a plebiscite, a new constitution and several other things.

*These forums are necessary if we are to acquire a true political culture. For generations have grown up without learning what tolerance, what otherness means. They have not learned to argue and confront different views in a cultured way. Being squeezed out of politics, several*



*generations have turned away from them with indifference, exactly when they should have been involved in politics. Not in words but in deeds.*

*This means people in their fifties, forties, thirties and those in their twenties are already knocking at the door. It is an immense source of energy. How could it be tapped for the benefit of the whole nation?*

Only openness will help. It is not a magic formula to say that openness is needed. It means political forces clashing with political forces to make politicians. At present, political affairs are run almost exclusively by appointed politicians who the citizen first hears of after their appointment. Whereas in a normally functioning political system the political struggle is the test that reveals who is worthy of a certain position. This is a paradox which must urgently be changed if we do not want to sink into apathy, if we do not want to wait out a hostile social attitude. What a new social contract may bring about is not social confrontation but the chance for social participation.

Therefore I say that a political culture that you spoke of is not possible without its public institutions. Any renewal initiated from above—whether it is called a reform, turn-over or whatever—will appear to be no more than favours handed out paternalistically, as long as the individual cannot feel that he has a say as well.

In my view the tensions arising from the accumulation of generations will not lead to rivalry for positions but to a political struggle in which the positions will be won by those who can propose something more relevant than the others. Not something more extreme but more relevant.

*The young are insisting on the protection of traditional values. I think we destroyed some values administratively before the new values had assumed at least the same significance as the old. This considerably contributed to the intellectual and moral erosion that accompanied undoubted progress.*

That was a dramatic process. In a way, however, it was also natural as every dynamic and rapid social transformation entails the loss or elimination of former values before the new values have become internalized and accepted by the people as their own. In this sense, moral problems also have a natural historical cause.

In our case, however, there is something else at issue, I think. Here, the new values were not offered to the people in their genuine context.

They felt them to be alien and imposed from outside, and thus they failed to identify with them.

I think that is what underlies our unhealthy state. History goes on in the dialectic of losing and gaining values, but that such a great gulf emerged between the rejected values and the new ones as in Hungary must certainly be attributed to the fact that the new values offered failed to elicit the people's identification with them. We must reconsider this aspect; we have to reorganize human relations and restore some neglected old values, and the new values must be won in an intense human struggle.

*As a former Minister of Culture, how do you assess the alarming signs in culture, the great devaluation of cultural norms?*

In my view very great harm has been done to culture by the drastic reduction in financial subsidies. But the moral problems are more menacing here, too. To return to what I said of values, this means that culture is being reduced to the role of handling crises, of entertaining in order to console and to help us forget our troubles. This, of course, entails a decline in the level of general culture.

I agree that it is a natural corollary of stabilization and renaissance to have restrictions to eliminate losing enterprises and so on but we cannot impose constraints on everything. Quite the contrary: no programme of revitalization can work unless budgetary assistance is guaranteed to the trends and efforts conducive to the hoped-for renaissance.

I think that what may substantially help the nation in this effort is the development of public education, the training of intellectuals, the improvement of science and culture in general. Restrictions only appear to penalize genuine values today, leaving the worthless the chance to prosper.

*Is that because culture was left to the mercy of a consumers' market?*

The worthless can triumph exactly because it appeals to the lowest traits in people, to their backwardness in culture. It is sure business while true values—the cultural dream—are a risky business investment.

*We have talked of the constructiveness of openness. But there are some people even today who argue that this equals anarchy. Faced with certain incomprehensible phenomena, the press is often taken aback. What should be done here?*



I consider it an elementary requirement of honour to respect the freedom of the press—and this applies to the presses' own authorities as well. The present press laws are not flawless but at least they exist. Wherever lawmakers or their controlling organs fail to observe the law, no respectable behaviour can be expected of the citizen. In short, we have to keep to a simple rule valid for all European constitutional states that the law must be observed even if it does not favour the state administration.

We need different organizations and institutions to give a variety of impulses to the press. But they must all remain within legal limits and on legal bases. This means that the fundamental idea of the party must be brought to bear in the party management.

Something else that your question touches on concerns the fear that the widening and strengthening of openness may pose a constant threat. Now this fear must be uprooted.

Those who insist on this view are not sensible enough to realize that they could benefit from it as well, since it would enable them to make well-informed decisions freed from voluntarism. Openness not only protects power but also legitimizes it. Where the forms of the freedom of the press are more advanced, people are more liable to identify with the system. That follows from basic logic.

*You have long made a point of emphasizing responsibility. A former politician observed that where there are no people with responsibility, there are no culprits either—only scapegoats. The culprit and the scapegoat is always selected by the ruling power constellation.*

The question of responsibility is one of the sorest points in our present system and its dysfunctions. One reason is that the responsibilities of the state and the party are blurred, with the consequence that personal responsibility as such disappears and the leaders, as long as their power is firm and unshakeable, are in a position of absolute judgement, granting or denying favours.

When their power is shaken, this role is shifted to public opinion: now it is that which favours or does not somebody, and recognizes only scapegoats and victims at the mercy of mass demands. It is, however, quite probable that the victims they choose are responsible for something, but this something is impossible to define.

When politics are conducted in the open, the chances are that a politician's personal honours also increase. It is not necessarily a fallen

man who parts with his position—he may have merely suffered a defeat. In the present situation, however, anyone who suffers a defeat is a fallen man as well. This is less and less tolerated by the system and by public opinion.

*Recently you have talked of the “aesthetics of cynicism”. It has long been with us and is still strongly felt now. How long do you think it may survive?*

The point to the aesthetics of cynicism is, I think, the confusion of the people with the masses. It bills mass demand as popular demand and need, and if someone recommends Bartók or Attila József instead of some trash, they hasten to declare that he doesn't know what people need. Of course, he knows full well the demands of the people but refuses to comply with the demands of the masses.

Those who advocate cynical aesthetics are eventually those who turn the people into a mob. For those that sees the people as a mass will sooner or later meet face to face with them as a mob. It is then no wonder that problems that are causing national grief are being taken over in sports tribunals and the pubs where the mentality of hysteria prevails. We should not be surprised at this, the aesthetic being as it is.

It is high time for us to commit ourselves to new principles of association which will help us hammer out a new unity to replace the rigid and paralysing one, through discussion and the rivalry of different trends, in a creative environment that also protects minorities. A sufficient, but indispensable prerequisite is profound conviction and tolerance requiring much self-control which honours the right of everyone to autonomous thought. Where unity is ritual and monolithic, it serves power and not progress; there debate is a demon called the enemy. Where unity is creative, debates are a means of renewal. Let us recall what Engels said: “It is immanent in the life and growth of every party that in its bosom moderate and extremist trends evolve and even clash. Anyone who curtly tosses out the extremists, will achieve nothing but their growth.”

*How would it be possible to do it differently?*

It is not only the discontent of the people that has been growing in this country but also a sense of responsibility and the readiness to act. The self-awareness of the people both inside and outside the party has been strengthened, starting with a negative consensus which revealed



that things could not proceed along the old course any longer. The next step was soon to come: it was made clear that the party membership and the citizens wished to share in the exercise of power. They refused to be mere objects of decisions and the executors of tasks assigned to them from the outside without any involvement in decision-making. Today people refuse the conditions under which they are held responsible for carrying out tasks but not for deciding upon them, especially if the decisions are taken centrally.

*Hungarian political life displays signs of inner division.*

And that's exactly where the germs of progress can be found. The rejection of the existing conditions is not only fed by discontent over the economic and budgetary losses but also by the belief that it could be done differently. Logically enough, this entails storms of criticism. There has clearly been a lack of confidence in the efficiency of the official institutions of the system. The country has resounded with a demand for responsibility and for guarantees. Let us examine the real and general cause of unrest. I think it was procrastination and inertia. That was reinforced by a sense of existential insecurity and the lack of prospects. Yet the exasperation over the economic losses and the moral degradation has carried society, not toward self-denial, but rather self-assertion. And the people have brought about this turn. We are now witnessing the realization of Lenin's fundamental idea that government using the people's interests as pretext must be replaced by government by the people.

*What do the Hungarian people know today both inside and outside the party?*

They know that in the 20th century we have exhausted all our reserves with which to tackle catastrophes. That we have no more reserves left for a disaster: we have to live, and we have to live well sooner or later.

To achieve this, we need a new social consensus. First and foremost, we have to realize and admit that citizens, irrespective of party affiliations, have started to create a socialist society from the grass roots. The policy that will emerge victorious will be that which, to quote Kossuth, does not resist the irresistible but is prepared to meet it. This also means that today a general consensus cannot be replaced by agreement with a few outstanding and autonomous individuals instead of the entire nation. We need a dialogue with the whole nation without

fakery, a dialogue between the people rallied in autonomous organizations and power. This requires a clear interpretation of the content of this consensus in a period when the struggle is not centered on the redistribution of excess income from constant growth but on the distribution of losses and sacrifices. We have to discuss candidly who will win and who will lose in the sharing out and why, and how society or the government is going to compensate for the losses involved. As many people will join the new social contract as will recognize in our programme the possibilities for shorter or longer-term solutions to their own problems. This, in turn, requires that the consensus has a programme that does not mistake desire for reality, and acknowledges facts even when they run counter to hopes and wishes. For one of the causes of our many troubles has been that words were going along one bank of the river of reality and facts along the other, and they never met.

In preparing the new consensus the Popular Front could support, as is its duty, the renewal of public law relations, the reform of the constitution and the electoral law, the establishment of plebiscite and the right of association, and the establishment of Constitutional and Public Administrational Courts.

*When we need new conditions for public law and order?*

Conditions that would ensure both the distribution and control of power so that all chances of autocracy and the abuse of power be legally and organizationally ruled out at every level. The development of public law relations must entail the advancement of civil rights. This in turn, is conditional upon a sovereign legislature, a politically autonomous government, strong local government autonomy and last but not least, upon the mature citizen, the responsible owner of the country capable of self-government. Within these constitutional frames, the party—and in partnership with it—the autonomous social organizations and movements, the citizens' unions and interest groups with constitutional guarantee, will have a role that increases and not decreases. That is, to quote Gorbachev's words in accord with our efforts to our greatest satisfaction, we may create an efficient and attractive socialism based on human solidarity, democracy and entrepreneurial spirit via the coordination of the "socialist constitutional state" and "socialist pluralism": a socialism that has not left



behind the realm of needs yet but takes strides toward the realm of freedom.

*But without a renewal of our public law relations in harmony with our traditions, without the extension and guaranteeing of civil rights, the tightening of the legal provisions for public administration, there will be no safe conditions for taking risks, for any enterprise at all, whether in the economy or in politics or in culture.*

The socialist constitutional state—for that matter any constitutional state—is not the product and need for a single social system but the outcome of the progress of human civilisation. Only where there is dictatorship and terror is law disdained; where power works with the consent of the people—where it is therefore legitimate as in our country—there the law is observed even if it is unpleasant or untimely for the power to do so. This is the only way to have a stable society. This is the teaching that Marxism has bequeathed to us, the representatives of the people's power. It is said to be a sign of a nation's decline if its laws are ignored. Most frequently this happens where the uncontrollable state interprets the law arbitrarily to its own advantage. We want to be a "rising nation". And the socialist constitutional state is approaching this goal. Otherwise, it will be hopeless for us to catch up with the more advanced nations economically, because a country that is unable to set things right in its public affairs with the help of democracy and freedom moves about in the world as the villager moves about a metropolis: upon arrival he is confused and at a loss, sensing danger round every corner. Despite our "villager's" existence we have the cultural, social, legal and moral background to move in the world with confidence. Socialism may take up the threads of these precedents safely, though with due criticism.

*A small nation can only survive when it is open to the world.*

For this very reason we must know the world, but the world must know us, too. So as not to lose our sense of balance, we must strengthen our national identity. At present, our economic performance is hardly a basis for self-respect; but we may have a firm basis for self-esteem if we implement a sweeping reform, create greater freedom and build a democratic socialism. A laboratory like this will again have a world-historical significance. And instead of false self-complacency and empty-headed bragging, we may simply feel that the world would be poorer without us. We, Hungarians in Hungary, would reinforce the

feeling in Hungarians throughout the world that it was worth being a Hungarian in Csíkszereda, Ungvár, Galánta, Kismarton, Újvidék, New York, Buenos Aires or Canberra...

It rarely happens that the clocks of Hungary and world history strike in unison. This is an exceptional moment. We must make clever use of the time. Let us not see Kossuth's observation come true this time: "There is a red thread running all through Hungary's history: the word late."

We sense the imminence of a showdown in the air; the pangs and cruelty of one generation being slowly replaced by the next are being felt. We hear ideas half laid out and unambiguous allusions. That all this is taking place in such an awkward way should not be blamed on the speakers or their words. Let us rather blame the conditions that allow us only this narrow margin today. At the time of the generation change and the first steps toward asserting responsibility we can only stutter because we have no words yet for what has no institutional form. Defining responsibility is always part of an advanced political culture, a lawful claim by citizens and party members. Yet I suggest that we should search our souls now to decide on everyone's responsibility inwardly, including our own. When we have come to terms with ourselves, we should seek out in the outgoing generation for what was great and respectable in it. This alone will increase our self-esteem and well-being.

The task now is not merely political; it is historic. It will turn out now if our lot is to crush ourselves on our own barriers or to crush our barriers. The answer must be obvious. The debate of the party conference has confirmed our belief that we may become the vanguard again—and there will be a Hungarian renaissance.

ZOLTÁN ÁCS-LAJOS GUBCSI



# Only If We Shoulder the Present Conflicts

**Miklós Németh (40), Secretary of the Central Committee of the HSWP,  
member of the Political Committee**



Born in 1948 into a peasant family. Graduated at the Karl Marx University of Economics. Lectured for six years at the university and then became Deputy Head of Department in the National Planning Office. Member of the Party since 1968.

From 1981 worked for the Economic Policy Committee of the Central Committee of the HSWP. Leading politician of the economic development program. Chairman of the Economic Committee and the Economic Work Team of the Central Committee.

In May 1988 the national party conference elected him to the Political Committee of the HSWP.

*In my experience, different strata and groups in society, public opinion, the political organizations and company circles, regard our economic situation, our scope for development and activity, in ways that differ in essential points and are superficial, false or incomplete.*

We believe that by opening the Central Committee's work to the public we can help society judge the situation and also be more attentive and thorough and draw views nearer to one another. We are convinced that successful activity inevitably calls for greater openness which will help us prepare for the social debates we plan to hold this year on important economic and socio-political issues.

Consequently, this session is a major step towards drawing society into our economic policy decisions, sharing our concerns with them. This ensures that our proposals are weighed from many aspects and that our decision-making becomes more democratic.

*What are the characteristic features of the national economy?*

From many points of view, we are in a critical situation. Our resources are scarce, and our reserves have been exhausted, enterprise is crushed

under excessive regulation and excessive centralization deriving from economic necessity and, with our production structure, we are unable to join the mainstreams of international development.

For the Hungarian economy, the external balance of payments has been a crisis point for many years now. At present, our annual interest payments and debt service make up some 65–70 per cent of our convertible currency exports. Without additional foreign loans we are unable to fulfill our commitments.

Although our foreign trade relations are growing wider, this is not being accompanied by the Hungarian economy's international integration. Despite their large export and imports, Hungarian companies and economic branches are integrated into the world economy system in a small degree only or not at all. Hungarian entrepreneurs are showing little interest in doing so and, at the same time, under the present conditions in Hungary, foreign partners do not show much willingness to bring working capital into the country.

The gap keeps widening between technological development at home and abroad and our outdated production structure makes us lose ground in foreign markets. By international comparison, our present economic performance is not sufficient to help improve our external balance in the necessary degree.

Other problems of our economic structure also sharpened: an underdeveloped infrastructure, the decline in the food industry's foreign currency earning capability, the excessive weight of basic material and energy industry branches in comparison with their capabilities or, to mention another scale, the lack of small and medium size plants. In today's Hungarian economy, we can only find a few branches or areas that meet the requirements of efficiency, balance, market and demand at the same time. The centrally controlled development programmes has failed to bring satisfactory results, with the exception of one or two cases such as the energy-rationalization programme. The market-motivated structural changes are not powerful enough either.

The growing structural disproportions carry with them failures in production and sales relations. Domestic cooperation and discipline in fulfilling contracts fail to reach the desirable and possible level because of disproportionate development in certain production branches,



because production and sales relations based on common interestedness are loosening and because the prices system and system of interestedness is affected by a confidence problem.

Structural and efficiency problems can also be felt at the sphere of distribution. The level of export and production can be maintained solely by the excessively centralizing role of the central budget and a comprehensive system of subsidies. The earnings of the companies are not in accord with their actual performance.

The limited or underdeveloped conditions in market competition allow for a wide range of companies to make large inflatory incomes. The role of credit in the operation and development of the companies is not adequate and more than half of our entrepreneurs have no relations with the credit sphere at all.

The average living standards of the population have been stagnating alongside demands for performance which are, which has resulted in deterioration in certain strata of society and only a modest improvement at others.

The problem is further worsened because inflexibility in the production structure, the worsening of the terms of trade and the current performance of economy will not allow even the above standards. In 1987, six per cent of the population lived under subsistence level, according to statistical figures published recently. Although we do not have figures for the other end of the scale, that of the most well-to-do, we do know however that there have been major increases in this bracket and this has increased polarization further. We are all aware of the fact that the primary source of differentiation has not been based on performance useful to society and the economy; instead these can be traced back to other factors such as the demographic composition of the families, their financial situation or the utilization of monopolistic or shortage situations.

The problems are also further increased by the failure of our social welfare system to differentiate on the basis of real differences between the strata of society. In this way it is not efficient enough in providing and caring for the most needy.

Further problems are caused by the over-controlled economic management system. Market forces are replaced by regulations. Entrepreneurs are forced to manoeuvre within the limits of parallel

and often conflicting regulations; moreover we often make unexpected changes in these regulations. This often makes companies hesitant and as a consequence develops a conduct on the part of companies that, instead of objective market relations, adjusts to the existing regulations and seeks the back doors that can always be found. This hinders investments by the companies, the people, and by foreign investors and increases the risks for entrepreneurs. Thereby it runs counter to change.

*The present-day problems of our economy can be traced back, in part, to our historical development and in part, are the products of recent decades.*

The party conference and the Central Committee have designated a special committee to examine and analyze the events of the past decades. Therefore now I want to discuss only the trends and experiences of the immediate past, of the past three years, for these have directly influenced our present-day situation in essential fields.

With the exception of the year 1956, our post-1945 economic history has not seen any other successive years like 1985 and 1986 in which a simultaneous decline in three very important fields—economic balance, efficiency and growth—took place. This entails serious consequences. Our debt towards capitalist countries doubled in three years, efficiency declined and the national income, taking worsening terms of trade into consideration, also fall. Although in 1987, some favourable signs appeared, these could only slow down the decline instead of reversing it.

Building upon our successful survival of the liquidation crisis of 1981–82 and the improving economic performance of 1983–84, the economic policy of the last three years was aiming at securing constant sources to fulfil our debt service obligations and made simultaneous moves toward structural changes to adjust to world economy processes and toward speeding up technical development. Today it can be seen that these endeavours overestimated our objective performance and our capacity to adjust while, in the meantime, weakness and inconsistencies in our management method, which we failed to overcome after the April 1984 Central Committee stand, hindered our political and economic efforts.

As I have mentioned our debt to the capitalist countries nearly doubled in the past three years and this is a serious burden in itself. The most



serious consequence, however has been that the increase in our debts did not force acceleration in the technical development or changes in the economic structure in a favourable direction.

*We must draw the lesson of these failures. Our economic policy can be based only on the objective assessment and evaluation of the internal and external conditions. We have to prepare for the uncertainties involved in the changes by outlining adequate alternative courses of action and by the creation of reserves because today, in a world that changes so fast, we cannot afford to plan in one direction only.*

The interpretation and use of the much talked about "restriction" or of restraints, in everyday parlance, serve us with important lessons. The restriction as used in recent years, was based on a subsequent deprivation of the incomes produced and many times on an unjustified redistribution, instead of on making economic conditions harder. In 1985/86, imports and domestic consumption increased considerably thus, in this sense the scope of movement for enterprise also increased.

In the production sphere however, the healthy required selection could not prevail and the trammels on the economy did not ease. In the meantime, the widely established system of syphoning off incomes and the system of subsidies resulted in surplus income that was not matched by performance. On the other hand, efficient activity did not receive its proper scope of movement. Monetary mechanisms, or more precisely the unsettled mechanism of financial and credit policy and the inconsistency in their application, could not promote the creation of macro-balance relations and could not help correct hurried and sometimes voluntary plans.

*What follows from the above?*

We have two major tasks in the future: we must develop our monetary system and credit sphere comprehensively and quickly and we must quickly eliminate elements and constraints from the path of market forces. However, even by fulfilling these two tasks we cannot manage without restriction for a few years to come. We must however, realize that restriction cannot make up for the insufficiencies of the monetary system and cannot ease market constraints either. Thus our past and present problem was not and is not restriction itself but the manner of using it. Restriction can be successful only if it makes possible selective performances, performances adjusted to the demands of competition, in order to create and to use incomes.

Of our experience of the past three years, I would like to mention briefly the sharpening problem of the so-called "crisis branches", uneconomic activities and organizations, because there are certain branches, and activities in our economy whose situation has become critical for objective reasons for a considerable part, and for subjective reasons in some cases.

By international comparison, the geological conditions for the Hungarian coal mining industry has never been favourable. The increase in energy prices in the period between 1974 and 1985 and the occasional price explosions provided justification for maintaining the operation of coal industry and even for development in some places; indeed it made it economic in comparison with the alternative energy sources. In this period, the production costs of the fuel value per unit increased to five times (!) the original costs, while by the end of this period international energy prices dropped. Thus, while the economic conditions basically changed, development decisions turned out to be critically unsuccessful.

Steel and iron too were damaged primarily by world market developments. While between 1978 and 1985 exports prices here increased by only 20 per cent, costs increased by 170 per cent! This happened in spite of the fact that in the meantime the Hungarian economy made many sacrifices to achieve renewal in this branch.

In the food industry, the efficiency of meat production declined essentially. Food export prices fell by 30–40 per cent between 1982–1986 in foreign currency while in the meantime costs, including the money spent on imports, considerably increased. The export markets for horticulture and viniculture products considerably narrowed both in CMEA and in the West.

Neither economic management nor society was prepared for the structural changes in these fields that were necessary and painful and did not commit themselves to radical steps. Since we maintained the export capabilities of unprofitable fields through additional and increased subsidies, there were many branches of the economy that consumed instead of increasing national income. This greatly contributed to the unfavourable results in the years 1985 and 1986.

Thus, it is an essential lesson that we must commit ourselves in time to necessary selective measures because delay only increases losses and worsens the problem.



*The 1988 plan envisages vigorous increase in the internal and external balance of the national economy and subordinates everything to this goal. Why?*

The reform of taxation that came into force early this year and the related price changes created new conditions in many aspects for the economic units and for the population. It takes time to adapt to these and this, in itself, is a source of uncertainty. Besides, we have to acknowledge that the preparation and the preliminary calculations were often based on estimates and assumptions because taxation reform introduced entirely new elements into our economic management. Taking all this into account, we can qualify the national economy performance of the first half of the year as acceptable on the whole.

The first half of this year does not call into question the correctness of the plan targets or their attainability yet, as we have indicated in the report, tensions continued to heighten at certain points. Although the government brought in several measures, these were not sufficient enough to avert dangers, consequently additional and effective measures are called for, including measures not planned earlier.

Weighing the situation and the economic and political significance attached to the best possible fulfilment of the plan targets of 1988 as well as the effects it is expected to have on the financing of the years to come, we decided to reverse our earlier plans and to take the steps first of all to decrease our budget deficit. We calculate that these measures must improve the budget balance by some 10–12 billion forints. I request the Central Committee to support these measures, detailed in addendum No. 2 to the report, and to propose to the government to take the necessary steps as early as July.

*As can be seen from the analysis of the past and the present situation, we still have not found the most expedient method of accomplishing stabilization and advancement.*

Although the government's stabilization working programme correctly marked out the direction of progress, it turned out that the weight of the problems and the size of the measures needed for a real turn is bigger than envisaged at the beginning. What has become pressing now is to clarify the economic and social policy content and at the same time to prepare society for the necessary changes and decisions. For this turn, understanding of society and the support of its active strata must be earned.



Unchanged pursuit of the economic policy would amplify the processes and would put the accomplishment of the major targets of the national economy plan of 1988 at risk and administrative forced-intervention would again be increased.

Our point of departure is that a real alternative for us is a turn in our economic policy and practice because if we carry on with our present practice we will arrive at a dead end.

*What would be the consequences if we did not change our present-day economic policy practice?*

A pursuit of an economic policy without any changes would amplify the processes that endanger the accomplishment of the main targets of the 1988 national economy plan, this, in turn, would again result in an increase in intervention by the government.

A restrictive economic policy burdened by bureaucracy would, in the long run, irreversibly decrease our scope for movement and the development of our economy would fall behind world economic trends. This would force us to continue and increase centrally-controlled redistribution. We would have no other choice then but to continue and widen centrally-controlled redistribution but this would not be able to guarantee the development of society and social policy, nor of the human and economic infrastructure either.

The survival of the deficiencies in the employment policy would force our active population to try to supplement incomes with additional sacrifices at the expense of leisure time and by that the image of a healthy lifestyle, expertise and working time would be further devalued, resulting in a further erosion of cultural, family and moral values. All this would erode the confidence which increased following the party conference but which is still fragile and would make the much needed public consensus impossible, and lead to the disintegration of the economic and social relations.

*What, in essence, do we need? What is the turn?*

In brief, I can say, we must make our economy and society genuinely open. We must create many-sided and intensive relations with foreign countries in all fields in the division of labour. This is the only way to strengthen the driving forces behind restructuring and to dismantle the barriers that make us overdo the protection of our economy. At the same time, we must give scope and possibilities for a vigorous increase in performance and even to force it through economic management

and market means. We must create a situation in the Hungarian economy where only entrepreneurs—either large companies or small cooperatives—with competitive performances have access to development possibilities. To this end, we must reduce the burdens on the budget, primarily the subsidies to loss-making production, in order to be able to reduce the size of income centralization.

Our economic policy that is open to the world and is performance-oriented must be accompanied by a social policy that serves a dual task. One of these tasks is to stimulate performance through developing democracy in the economy, through changing the inner motivation of the workers into a production-oriented system by making society recognize production as an overall value. On the other hand, we must pursue a social policy and create a social protective net that is capable of caring for people in disadvantageous situations. We must increase the range and scope of social welfare by creating a division of labour between the large socio-political systems and local individual social welfare work so that by strengthening the solidarity of society, we could rely also on the force and initiation of smaller communities, associations, company collectives, families as well as individuals.

*Why cannot we wait for the turn any longer?*

No one questions any more that a change like this should have taken place as early as the 70s, as happened in several countries. Although we made up our minds to carry it through several times, we kept postponing it to the present day. Therefore and because of the situation outlined above we cannot wait any longer.

The judgement of the outside world and the expectations of society for real changes also speak in favour of carrying out the change at the earliest and in the shortest time possible.

For this, on the side of external conditions, a favourable background is provided by the impetus of the process of transformation under way in some socialist countries. On the other hand, in the next two years we have a temporary respite from the pressing debt repaying obligations. If we fail to utilize these two years to implement a promising turn, it is to be feared that we will not have the chance to do so later.

Another important factor is that society increasingly realizes that we cannot continue to live and work in the old way without endangering our future.

Therefore, the consistent realization of the goals of our stabilization



programme, calls for a significant change in our economic policy and for a turn in our economic development. This change does not mean deviation from the announced stabilization programme in economic policy; this is not breaking away from it but in fact is in harmony with it. This is a change that is going to realize the basic principles and goals laid down in this programme that consider the present and foreseeable circumstances.

At the same time, the realization of an economic policy that serves stabilization and creates the preconditions for stabilization, can also be envisaged in a way that by stepping beyond the stabilization programme, it cannot be interpreted any more as its realization. This would happen if we choose a way of easing economic constraints and of gaining access to the resources that might entail a considerable worsening of our balance of payment or a larger decline in the living standards than in 1988. This would fall outside the stabilization programme and would mean the introduction of an economic policy that differs from the one we have announced.

Now, economic targets must focus on actual adaptation to the world economy, on structural change and on the acceleration of technical development. This is an indispensable precondition for successfully joining the mainstream in international technical development. To this end we must use adequate means which will also mark a considerable step towards the creation of a socialist market economy. Our economic consolidation can only be based on this.

At the same time we must take into consideration our limitations as well: the increase of foreign debt cannot go beyond the amount recognized as justified by the international monetary organizations and cannot involve impossibly high repayments for the early 90s. Nor can we pursue a policy that, by a drastic deterioration of the living standards, turns society against the programme and, through this, against our policy as a whole.

*It follows from the above that we cannot over-emphasize any of the elements of the economic policy to an extent that it might endanger any of the two main goals: structural change and the improvement of the balance. We must also take into consideration our existing economic and social limitations as well. How to solve this double problem?*

The economic policy that places structural change into the foreground, creates conditions for socio-economic consolidation and



maintains a satisfactory balance condition, necessarily calls for a system of means of several elements. This system must help the creation of a market economy and must include elements that serve as building stones for regulating market relations. The most important elements of this are:

First: building up a genuine commodity, money, capital and labour market, along with entrepreneurial and market forms, in addition to widening the circle of domestic participants and conditions of competition.

Second: the transformation of the economic conditions of companies, whereby they have free disposal of the various factors of production.

Third: through the combined application of stringent monetary and fiscal policy, the establishment of an economic environment that creates stronger incentives for as efficient a utilization of the resources as possible.

Fourth: the transformation of the economic role of the state whereby, beside the direct impact on community-related factors, the adequate operation of the competitive sphere is ensured through legal and economic regulations. These functions demand considerable changes in the division of labour and in the organizational system of the government.

It is to be stressed, however, that we can achieve success only if we apply each of the above elements, not in isolation but in coordination with one another, since by highlighting any of these elements we shall inevitably end up in confusion and failure.

*It is a political paradox that although the turn cannot be delayed any longer, we cannot expect quick and spectacular results from a quick introduction of the measures.*

On the contrary, in certain fields we must reckon on a transitional worsening of the economic factors and indices and with sharpening conflicts. It follows from the structural problems of our economy that the change is particularly time-consuming. In the short term, we can expect a considerable improvement in access to the resources in the economic conditions, an increase of income for those whose performance is recognized by the market and a strengthening of the social protection system. Realistically, we can hardly expect any spectacular results before the mid-1990s. For this reason we must achieve the

position that society realizes the nature of this process and we must prepare ourselves to be consistent and persistent in our economic policy.

Because of the changed situation, the scope available for the turn is comparatively narrow. Yet we cannot say we have no alternatives. But our alternatives are not in the direction we use to follow but in the means we use, in choosing the time needed for the accomplishment of the turn and in the sharing of the risks and burdens. These are at least as far-reaching political issues—especially in the short term—as the alternative goals of development.

Although we cannot yet provide exact calculations, to illustrate from the above aspects, versions “A” and “B” of the report, I think, at present it is more important for the Central Committee to be made aware of the qualitative features of the proposed economic policy trend, to discuss these and to judge the alternatives that serve the aims of the realization of this economic policy. Next year and also in the years to come, we can choose among different ways, depending on the intensity of the structural change and the technical development in the course of the realization of the requirements of economic policy and on how we can share the burdens in time and in the effects accompanying the creation of a socialist market economy.

Besides, from the political point of view, the knowledge of socio-economic effects is at least as important as the above requirements, as is the outlining of the means of socio-political welfare. These characteristics are summarized in versions “A” and “B” to the present level of our knowledge.

In the course of the discussion of the agenda, the Political Committee has decided on the “A” variant, but stressed that it needs proper preparation. The Political Committee said it supports the “A” version because, although it involves greater tensions and risks, it will lead to consolidation sooner than version “B”. A responsible political decision, the choice between the two variants, can be expected at a later time. In the meantime, the interested state organs and experts are being asked to make a wide-ranging analysis and forecast in advance of the political decision and the definition of the state plans; at the same time, society must participate in this discussion. No matter which variant we chose, we must recognize that we have to work with more deter-



mination and firmness because no conception or means can dispense with this.

The "A" variant based on vigorous foreign market opening and structural change and on market effects will affect economic organizations abruptly, or in large "doses" at best. Through a concentrated imposition of the burdens, this version would create faster and more secure conditions for consolidation. It would allow us time to prepare ourselves to meet our international repayment obligations that, from 1991 are expected to increase, and would give us opportunities to keep step with the main development trends in the world economy.

In this version, the main task of the government is to establish price and tax regulations and rules for fair competition that are close to international practice. The income of economic organizations would depend on market forces. This does not exclude intervention by the state, in justified cases, or refloating; however, this is to be approached through a different logic than before, namely interventions should be made in exceptional cases only and should be done in the service of the realization of controlled market relations.

Freer access to imports and increased incentives to export necessitates that the forint exchange rate should be adjusted to our competitiveness. This would be a step towards making the forint convertible in part and increasing import competition would also strengthen the economic conditions for the change since, as the long run, it would slow down inflation and in this way, state-controlled price limits could be eliminated more quickly. For a transitional period, however, we will have to consider a bigger price increase than this year because subsidies will be more radically reduced.

*In addition to the elements of restriction and stabilization in 1989 this version would include elements of consolidation in the regulation as well. Is this a realistic goal?*

This is justified by the fact that without creating the elements of consolidation we cannot achieve easing stabilization.

It is characteristic of the distribution of the burdens in time and envisaging the results that at the early period of version "A" we must reckon with a lower economic growth or an eventual smaller decline, as well as with a lower volume of exports and lower consumption by the population. We think however that from the early 90s, the higher



dynamics based on an improving structure and improved efficiency will compensate for this decline in incomes and exports. It is important to emphasize that due to a transitional worsening in the balance of payment, this version depends largely on our ability to obtain credit abroad, on whether we can win the support of international monetary organizations and banks to this policy. Doing so will be a major task for Hungarian economic diplomacy in the coming 3 to 4 months.

The "B" version envisages that the transformation of the production structure should be subordinated to the short term improvement of the external economy balance. Although this version would entail less tensions than the other, at the time the adjustment period would be protracted with all the detrimental consequences it involves. The biggest danger this involves is that the risks of retrogression would be rather high.

In 1989/90, this version cannot break away from the "income regulation" conception and practice used thus far. Economic regulation would continue to "take notice of" the need of the economic organizations of a given amount of income for their operation and would adjust the system of taxation, price system, budget subsidies to this.

The practice of operative economic control would continue first of all in the field of subsidies and regulations in foreign trade. Because of a smaller devaluation of the forint and a smaller decrease in subsidies, inflationary pressure and price increases would be more moderate in this version.

A considerable disadvantage of this version is that while we would stay within the frameworks of the stabilization programme we would not be able to introduce the elements of stabilization into practice or to realize the goals of the programme within the time originally planned.

Both versions are forward-looking from the aspect that, although they differ in proportions and speed, both shift the majority of the burdens on those who work with lower efficiency. We must add however that, in the end, part of the burdens of the structural change would be shifted on the population. As regards the effects of the two versions on the different strata of society, we can state that the "A" version will revalue the entrepreneurs, the efficiently working groups, including technical and economic professional and skilled workers. At the same time, with the introduction of an institutionalized and wider

protective net those layers of society that lag behind or fall to the margin of society would be better protected. The most burdened would be those layers of society who are not capable of performance, including the unskilled active wage earners and the majority of pensioners. In "B" version, the majority of the burdens would continue to be placed on the ill-paid intellectual layers, skilled workers, young people and on groups on the margin of society.

*It has to be recognized that both versions will bring serious social tensions to the surface!*

The size of the probable conflicts may be larger than those we could tackle with the political and economic means currently at our disposal. Therefore it is especially important to take this also into consideration when we plan our political and economic moves.

The social consequences and socio-political conditions of the economic policy differ in range and proportion in the two versions. Independently of this however, we must renew our system of distribution. Steps have to be taken in the direction of a wage policy and wage mechanism reform and we must change our social security system. We must include unemployment benefit in this system. We must create a system of institutions that can ease the individual and often differing problems of the people and groups of people who drift to the periphery of society.

We must concentrate our material means so that we will be able to maintain the real value of social benefits for the most vulnerable and critical fields while for other fields we must try to maintain their value close to reality.

We must pay special attention to the position of people in retirement and therefore we must work out a new pension system. At the same time, I would like to inform the Central Committee that, contrary to our intentions, we cannot submit to the Central Committee guidelines for a new pension system and, in the situation at present, we cannot introduce such a system before 1990. By that time we can also utilize what will emerge from the wide-ranging social debate. I ask the Central Committee to take cognizance of this and the modification of the earlier decision.

*Finally, could you say a few words about the political tasks involved here.*

No matter which version we chose—the attempts to break out of the present situation will disrupt the previously developed balance of

interests since the changes affect the individual strata and groups of society differently. We must realize that differing interests are emerging in our developing political system more markedly than before and looking for opportunities to express themselves. Therefore we can forecast many debates and conflicts.

It is a common feature of both versions that no full social consensus can be expected since there will be unsatisfied and arguing strata whichever version we decide on, mainly those who will find themselves in a disadvantageous situation. Therefore it would be a serious political mistake to try to force a full consensus on behalf of the entire society. It would be similarly a serious mistake if we failed to make it clear to society that the country can break out from its current difficult situation in the long run only if we shoulder the present conflicts.

Országos Széchényi Könyvtár



# The Rights of the Citizen

**György Fejti (42), Secretary of the Central Committee of the HSWP**



Took a degree in Mechanical Engineering at the Technical University, Budapest, taught at the university for two years. From 1972 worked in the youth movement, becoming Head of Department of the Young Communist League. From 1980 to 1985 was the First Secretary of the Young Communist League Central Committee. Between 1985-87 was the First Secretary of the Party County Committee in Borsod-Abaúj-Zemplén County. Since June 1987 Secretary of the Central Committee of the HSWP.

*A key factor in improving the political situation is the modernization of relations between the state and citizen, a modernization which would encourage a wide involvement of citizens, of their activities and of their capacity to initiate.*

*It is becoming clearer and clearer that comprehensive and radical social and economic reforms can only be implemented in a society capable of creating and receiving them and of expressing appropriately differing views, interests and efforts. Today we are still far from this. Does the new leadership have new ideas on this?*

It is an important conditions for progress for us to be able to remove society, the people from the condition of disinterestedness and apathy that nowadays unfortunately exists in many places.

More and more people should be convinced through their own experience that same attempts at change and action taken against conservatism, irrationality, prodigality and abuse of authority should make sense and that their chance has come.

This entails an analysis of the concept and practice of civil rights, especially of that to combination and association, which was established earlier within the frame of socialism. This is also borne out

by the fact that the questions of human rights—especially in the last fifteen years—have become central in the debate between the two world systems.

*The socialist countries, including our own, have acknowledged constitutionally the basic freedoms set by international protocols but, compared with the developed bourgeois states, have enforced them less strongly. The emphasis was not so much on the rights of the individual as on the collective rights, not so much on political and personal freedoms as on economic, social and cultural freedoms. The outcome has been the indifference of many Hungarians to current affairs.*

Our diverging conceptions of human rights had some foundations in principle—first of all in a rejection of the unlimited right to private ownership—but it was partly based on the undervaluation of the role of the individual and on the overvaluation of the state and its potentials. After the triumph of the socialist revolutions, the peoples democracies considered it natural that they should provide for the meeting of almost all of their citizens demands, which was why the organization of meetings, the establishment of associations and social organs were initiated heavily from above.

A self-limitation of state-power, the essential conditions for the success of civic freedoms was held to be completely unacceptable by the initial, distorted socialist constitutional theory.

Today we have abandoned this ambiguous and fundamentally defensive position. There seems to be an established recognition that the limited success of classic civil rights is largely hindering our social development and has contributed much to the functional disorders of political conditions—which became more serious over the last ten years. Therefore we should boldly rethink the whole domain of civil rights from the perspective of establishing a socialist constitutional statehood.

The historical development of human rights produced a series of universal human values and these are in full conformity with our socialist principles. A consistently human society, which is what we consider a socialist society to be, should provide to the fullest extent for the full realization of civil rights.

*In 1988, two of the rights the political leadership is dealing with are the essential rights of combination and association. These two rights are closely linked in that freedom of combination is impracticable without*



*freedom of assembly since, without the latter, there is no way to establish any social organization or association and have it operate regularly. What does the recent ruling and apparently inadequate constitutional article say on these rights?*

Under section 64 of our constitution "socialism in accordance with the people's interests . . . provides the right of assembly" and under section 65 "the right of combination" with the amendment that this right falls under the regulation of the law. We have no law which deals exclusively with the right of assembly. The exercise of this right is not restricted by law, a situation which is almost unique in modern states. The right of combination is regulated by statute (Number 29, 1981) and not by law; this applies to only one way of exercising this right, namely of establishing and operating associations.

This situation cannot be maintained. It is in our interest that we should establish conditions which are defined legally and which are clear and unequivocal for the authorities and for citizens alike. This means that they should know exactly what their rights and duties are, what the guarantees of their rights and the sanctions for their breach are, and for abuse of rights. In every field of life where the right of assembly and combination are concerned we should go beyond "neither free nor forbidden" situations. They inevitably produce distrust and make processes and reactions unpredictable.

We propose to establish laws on the principle that assembly and combination are the citizen's subjective right constitutionally but that the exercise of these rights—in keeping with international declarations and procedures—can be restricted or made conditional by law.

*What guarantee will be given to the citizen that his rights can actually be enforced?*

A bilateral guarantee is necessary; this ensures on the one hand that the appropriate authority, regarding the forms of the right of assembly and combination which have to be registered, can apply a prohibition only when legal frames are transgressed. But the citizen can appeal to court, where the authority concerned must verify the legality of its decision.

On the other hand, it provides a guarantee for society and the authority which acts on behalf of society, when it makes clear that the exercise of these rights should not violate the constitution of the Hungarian People's Republic, its foreign policies, its obligations deriving from



international treaties, the security of the state, public security and order, public health and morals and the rights and freedoms of others.

The administrative bodies can control the legality of exercising the rights of combination and assembly and the duties fixed by law will make their behaviour calculable by all. Finally it should be noted that it is the duty as well as the right of the authority to thwart illegal activities.

*What should we expect of the legal regulation of these rights?*

First of all the strengthening of civil competence and sovereignty, an acceleration in the self-organization of society "from below" and of a structural reflection of differences between interests and opinions and, through all of this, the comprehensive development of public activity.

At the same time we must take into consideration that, by extending these spontaneous processes, our lives will not be made easier but more complicated. However, establishing the legal frames and rules is the necessary but not sufficient condition for a link between the citizen and administrative bodies, one based on mutual confidence and willingness to cooperate. This also needs a political culture which can be attained only by public experience of a new style.

Nor can it be left out of account that under our recent more complex socio-economic conditions, the right of combination and assembly gives wider elbow-room and opportunity to express civil disobedience. To my mind we should develop new terms here. If we accept that a pluralism of interests and opinions exists in our society, we should also accept the reflection and open confrontation of diverging views, opinions and interests. Naturally this is to be done in the hope of reaching a consensus and approaching interests through compromise. It demands a different form of political activity from the party and from administrative and municipal bodies. They have to establish the practical forums and channels for integrating interests.

*What new kind of relationship is to be created for the various outward forms of civil disobedience, whose existence can scarcely now be denied?*

We should make it clear that the political sphere is neither interested in the concealment or in the rejection of disobedience. Quite the contrary, we should strive to know as clearly as possible the real grounds for civil disobedience and strive to eliminate them with the help of the citizens if we can. This means that by a judicious and trustworthy policy, we should make use of this disobedience, which can create passivity and

even destructiveness but action and sober constructivism too, as the impetus for changes. We shouldn't give ground to the attempt to shift upwards the responsibility for those problems that occur at home and at work and which can therefore only be remedied there too. We should consider with trust each civil initiative whose goals coincides with the norms of socialist society. Reservations and distrust facing the organizations established outside the recent structural frames should be set aside. It is not necessary to make every effort to integrate them into existing movements and organizations. We have to learn how to handle plurality and divergence from the usual forms and schemes. We are interested in cooperation, not in opposition. We should start from the fact that spontaneous civil initiatives do not mean danger but the lack of them along with apathy and passivity do.

*A significant proportion of the population—and especially the intelligentsia—is not only dissatisfied but expresses views that more or less diverge from the line of the party. This used to cause great confusion on policy. And now?*

This cannot be regarded as oppositionary behaviour so much as alternative thinking—to use the term with its classic meaning. Those who represent these views are acting not against socialism but against its functional disorders; they are looking for alternative solutions within the framework of socialism. They do not form a homogeneous group, but different trends according to political values, presumed intellectual heritage and to the nature of their self-isolation for our recent practice. While formerly the alternative proposals for the renewal of economic and socio-political conditions received greater attention, today the efforts related to environmental protection and the radical reform of the political establishment are coming to the fore.

The laws under preparation create an opportunity to regulate relations with groups that represent different views. But first of all these groups have to define themselves in accordance with the spirit and the letter of the law and to separate themselves unambiguously from individuals and groups hostile to socialism. In my view, the views and efforts of groups grounded on constitutionalism, legality, elementary loyalty and constructiveness have to be received with attention by the party as well as by administrative bodies and we have to judge them on their content objectively.



This will happen, in some cases in the heat of debate and in the conflict of views, when necessary. We intend to establish forums for consultations, advisory bodies, which will provide adequate frames for discussing alternative ideas and for their sober consideration. But this needs mutual—and I emphasize the mutual—goodwill and intent. We should create a political culture for the constructive handling of alternative ideas. This is in the interest of all forces that genuinely seek renewal and development. But it is not in the interest of those who are seeking confrontation and a showdown, whatever their position. Even if on a narrow basis, there does exist in the country a definite hostility to socialism and the system.

Under and over-estimating this circumstance would both be a mistake. There are individuals and groups which exclude themselves from dialogue because of their ideas and acts, no matter what they actually declare. Previously they professed “the worse, the better”. Recognizing this as unmaintainable, they have recently changed tactics and proclaimed an alleged willingness to compromise by reference to “imposed geopolitical fundamentals and realities”. But their real views are characterized—less openly—by anti-communism and by making a fetish of bourgeois democracy and the multi-party system. They try to attack and disrupt in every possible field and they devote their main energies to discrediting the party and socialism.

We have to make it clear that the law does not ensure legal room for manoeuvre for these individuals and groups.

*It is easy to predict that they will attempt to obtain influence and positions in legally-operating organizations—there are signs of this already. And they will try by both legal and illegal means to create a grand coalition in opposition.*

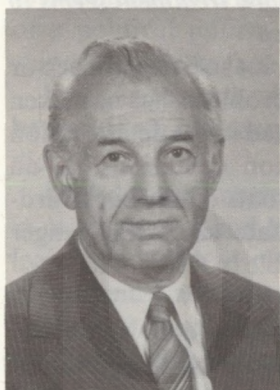
These efforts must be totally isolated. The practice of our party has for long been to make every effort to solve social tensions and problems by political means.

This is the way for the future too. We are neither seeking confrontation nor are we avoiding it. We take the starting-point that everyone should comply with the law.



# How Do You Conceive The Reform?

**Rezső Nyers (65), member of the Political Committee of the Hungarian Socialist Workers' Party, advisor to the Economic Institute of the Hungarian Academy of Sciences**



Born in 1923 in Budapest of a working-class family. He is a typographer by profession. Joined the Social Democratic Party in 1940. After the liberation, Deputy Secretary of the SDP in Kíspeszt. Head of Ministerial Department in the 50s, then became Chairman of the National League of Cooperatives. Between 1951–56 studied at the Karl Marx University of Economics.

From November 1956 on the government commission for public supply. From 1952 member of the Central Committee of the Communist Party. In 1960–62 Minister of Finance. Between 1962 and 1974 Secretary of the Central Committee, between 1966 and 1975 member of the Political Committee.

In the 60s he played prominent role in reforming the economic system and in working out the new economic

mechanism introduced on 1 January 1968.

At the time when the reform came to a halt he lost his membership in the Central Committee and in the Political Committee. Between 1974–81 Director of the Economic Institute of the Hungarian Academy of Sciences and since 1981 scientific advisor there.

The national party conference of the HSWP in May 1988 elected him to the Political Committee again.

Representative of Parliament between 1948–53 and from 1958 to now. Since, Chairman of the Committee on Commerce and Trade of Parliament.

*In the spring of 1985, speaking of the situation of the time, you said that it already entailed the potential for recovery. The present period bears the name of recovery. Is this what you expected?*

I would start by saying that the situation in the spring of 1985 was, it later turned out, much worse than what we thought. Since then, in 1985 and 1986, it was not the situation that has deteriorated but our awareness of it has become clearer. Of course, there is no doubt that

there were mistaken influences exerted upon the economy in this period, this being one of the causes of the renewed upsetting of our balance of payments. In the end, however, it was our diagnosis of 1984 and early 1985 that was over-optimistic, and it is inadmissible to be optimistic when making a diagnosis.

*You are using the first person plural. Who are you referring to?*

The party leadership and the Government. I, of course, saw many things differently at the time, but I also shared some of that optimism, if not to the same extent as the top leadership.

*You also said that public opinion should be given shock treatment to make people realize where we have got to. This shock treatment seems to have been applied. Was it this that you envisaged?*

More or less yes, but the shock treatment was not sufficiently deep or effective, since an analytical exploration of our problems has not taken place. The shock treatment is primarily manifested in the deterioration of living standards and less in our production conditions, in an awareness of the causes and full range of symptoms of our backwardness. I also regard the treatment as inadequate since the danger threatening us remains obscure, we are still unable to think in terms of alternative actions.

The danger threatening our future has not been and is still not outlined with sufficient clarity. There are no answers as to the questions of what the possibilities and conditions of Hungarian politics and economics are for fulfilling its politics and what will happen if the targets are not met or not met in the way envisaged.

*What are the problems whose exploration you feel is lacking?*

We should order our thoughts, make a more accurate mental inventory with respect to our recent history. For a start, we have not been able to make a radical break in our ways of thinking on the economic and even less on the political system structured in the stalinist spirit as such, even though it has already become manifest that this system is not suitable to the building of socialism once the immediate revolutionary situation is past.

Quasi-solutions followed, we said that the system was, for all that, basically good, after all socialism was being built in the stalinist era. And so it cannot be that bad, only the methods need improving. Yet the truth is that whatever is able to function at a certain moment of history might be fundamentally wrong later. After this, I believe that the



collectivization of agriculture was carried out very well, in a fortunate manner.

It was a success because we carried it through not with the deliberateness and careful political examination of the stalinist methods but spontaneously, breaking with the practices of a stalinist-type collectivization, whereby we could call to life a cooperative movement that was exemplary in Europe.

In the second half of the sixties, the economic reform was a correctly taken historical initiative. But when it came to discussing the extension of this reform to the other sectors of society, sometime in 1970–1971, this remained internal to the Party, and we could not agree on what sort of a political reform should be initiated, and how. We came to a standstill, and in fact we remained stuck with an earlier ideology.

Later, in the early seventies, we did not face the issue of what would happen if we did carry out the reform and what would happen if we did not.

Analyses were neglected, because the implementation of programs, in our case, was and based on blind faith, a blind faith that had been legitimate and had played a positive role earlier in the underground movement. I am referring to the extremely strong faith that we must defeat our enemies, that we shall overcome every difficulty, that we shall succeed in whatever we undertake.

When action is guided by this kind of optimism in of a party that is in power, you will easily be lead astray. And we were lead astray in 1972.

*What of the events that began in the late seventies?*

Only economic and political historians will be able to evaluate those. I believe ways other than the ones that we chose, namely, pure restriction made general, were also open to us. We decided on an economic policy manoeuvring with the central restriction of production, investment, consumption and imports, and since then we have approximately doubled our debts. This was not a reform economic policy.

Then the traumas of 1985 were also added to this, such as the mistaken economic policy adopted at the Party Congress. Our problem has always been the economy; such was the case in 1985 too, and the assessment of the political situation based on that of the economy was, unfortunately, wrong. This is a commonplace today; although it is not stated in this manner in the party documents, everyone knows it to be so.



*So the shock treatment has been applied. But the citizens say, well, it was not me who got the country into this state of affairs and yet I am expected to pay the piper. Most people are pessimistic, some intellectuals are also beginning to search for other ways, all at a time when, according to the recent appeals, we should be rallying forces again. Could alternatives help here?*

Yes, and it would also help if the political consensus of the past could be fundamentally renewed, if we could change the present practice of the Party of always wanting to define the courses of action by itself only and then appealing to society through various transmission channels to support the Party or the Party's Government. I do not think it possible to set society going in this manner anymore.

We should make improved efforts to get the progressively thinking strata of society to take an active part in recovery. This implies a significant part of the country's youth, the overwhelming majority of the intellectuals and the growing stratum of the qualified workers.

In my view, this is the intellectual and moral base of our society. If you like, as I am one of those marxists who still have real sociological concepts, this is the extended middle-class of the socialist society being built. This should be won over.

This can be done if politics alters the present practice of acting in the interests of an assumed average person, and then the leadership always telling the by now concrete people what the plan is, what they are supposed to support, and meanwhile the working out of reform programs by communities, their own action plans, is neglected. Such political action directed from above is now ineffective.

*Here is the annual plan, full of restrictions, severely limiting the scope of the overwhelming majority of enterprises. It is said that this is necessitated by a debt burden that has to be repaid. What would be the alternative to this, perhaps the re-scheduling of our debts?*

I do not think that this would be an acceptable alternative today, although we might be forced to take this course. This could be worked out as an alternative to fall back on, to examine what can be done if we come to this. Whether there are any alternatives to the present conceptions.

And this is where the first limitation in our thinking arises. For it is possible that there is no viable alternative, but the possibility of what would happen if we did not insist so inflexibly on the rapid

improvement of the balance of payments has not been seriously considered or proved. The mental alternative to this is a more gradual, slower improvement.

For it is a real economic possibility to look for ways of gradually improving the external balance in combination with more vigorous, more radical internal reforms. In this way the truly profitable and other profitable parts of the economy could have access to the necessary imports.

In fact, our recovery program is intended to be something along these lines, its conception is good. I said so in Parliament too, although I am not so sure that whatever is actually happening and the way it is taking place is really in the service of this principle. Presently it seems that another general restriction is coming. . .

*. . . and this has an eerie similarity to the solutions applied until the mideighties.*

Yes, this is a repetition of the same, only with different methods. And I am concerned about this, for, although it is unavoidable for one year, 1988, it is to be feared that we shall be "stuck" with the restrictions later on as well. Building on general restrictions is not an effective economic policy; this we must change! Although it can be said that we shall not be able to work out the combination of selective encouragement and restriction by next year and, for this reason, we shall have to go into this pit.

It is possible that we must do this, but these ideas have not been thoroughly discussed so, in this sense, alternative thinking is lacking; ideas on what will come after next year are also lacking. And it is not only alternative thinking that we lack, but the open exploration of the various ideas as well.

*As far as I can see, we are in a vicious circle. It is not possible to liberalize the market further, because the repayment of debts is the first priority, for which, however, we need more exports, so it is to be feared that this will further stiffen an economic structure that should be made less rigid.*

This is truly a vicious circle. A self-generating process is taking place in the economy, and if we are not able to break out of it, it is bound to lead to some kind of crisis. It is only through a reform policy that we can break out of it; we have to take on the temporary sacrifice that will have to be shared by the entire society.



As far as consumption is concerned, this has taken place, consumers can already feel it. But in the general strategy of breaking out there is still no distribution of sacrifices.

The conception of how to handle temporary unemployment, of how to reduce the high rate of inflation by fiscal means, of consistently cutting loss-making production is still lacking and so is the one of how to break out of the present situation at the expense of such conflicts.

Here we are again met with the general restriction, whose dangers can even now be anticipated; yet an unfounded growth without reform would be no better, just as in 1985.

*Isn't it the heart of the problem that everybody is shouting reform, but in words only, and then slowly but surely everything is reversed? This is how it appears...*

The human element plays a major role in both politics and the economy; this must be acknowledged. The leadership that had burnt its fingers one or twice already is more careful, they will not be so willing to venture on new paths.

Fundamentally, their attitude is aimed at minimizing risks. This, however, is characteristic everywhere in the world. Nevertheless it is also a fact that such an attitude at such a decisive time could adversely affect the progress of society.

*Even so, the risk is great.*

Yes, it is, but the essence of risk-avoiding behaviour is that it will, relatively unnoticed accumulate the problems that will constitute a whole later. Its methodology is postponement. We, as individuals, all think in terms of the short run, there is no use in deluding ourselves, we do not want to be landed in short term conflicts.

This is the weakness of a leadership that has been in power for a long time. Its experience is valuable, but is also its weakness. I believe that this stratum should be retained within the leadership, but a decisive role for them is undesirable at such historic times.

They should be retained in an advisory capacity, advice is always important and worthy of attention, but the role of the human element should also change. Yet, as far as economic activity is concerned, I regard the inadequacy of the sectoral—industrial, agricultural—programmes following the Government Programme as our main problem. They also are too general.

The problems of loss-making production are not emphasized: we



have not yet reached a sufficient degree of concreteness at the governmental level. Governmental action remains far too much within the limits of the annual plan, and I do not have confidence in its success, as the annual plan in fact always promises the continuation of existing processes, moving at this sphere of thought with respect to the real processes. Of course, one cannot do anything else in the present way of thinking and means of annual planning.

*You believe then that we would need a more vigorous, more independent government. Do you mean a Government that could, eventually, defy even the Party?*

No, this is not what I mean when I say that we need an independent Government. Rather, I mean a Government with a wider social base. I envisage the top levels of politics in a way that, in addition to the Party, other political forces also and truly exist in society, but passively, in a position of "wait and see", so to speak.

In my view, this political force should be a people's front in which the Party could participate in the debates between the various tendencies through political means, taking the initiative, and, accordingly, the Government would be a People's Front Government.

*What does this mean in more concrete terms?*

I am in favour of a full-scale review of the people's front policy. We should return to the people's front policy and to the kind of people's front we used to have at the time of the anti-fascist struggle and after the Liberation and the People's Front could operate as its continuation—modernized of course—under the prevailing conditions. It would have to coordinate the various tendencies of Hungarian progress and, working as a force in alliance with the Party, would also play a policy-making role and would widen the organized support for the socialist reform policy.

This would be a political movement in which compromises could mature. But it would not unite the entire nation. This is another idea that we have to give up. We must acknowledge the fact that, from the point of view of thinking, the future of socialism and that of the nation do not fully coincide.

In our view, some of the people want socialism and think in terms of socialism, while others are not enemies of socialism, but they think in terms of national progress and advance, rather than in terms of socialism. It is very difficult to judge the size of this and the other stratum.

But these forces can unite if they perceive trouble, danger, if they can see what is threatening them. The People's Front should be an alliance of forces capable of acting and wanting to act for progress!

So I envisage the People's Front Government as in a triangle. The Government, as a collective state body, is, in my view, not responsible to the Party; that, I believe, is a mistaken conception: the party members in the Government are responsible to the Party in their persons, but the Government is responsible to the People and to the Parliament!

*What could be the role of representative organizations such as the trade unions? They are often accused of being opposed to the reform. What should they do in the interest of progress?*

I am of the opinion that the trade unions can fulfill their fundamentally important social role only if they fundamentally renew themselves and clearly define their function within our socialist political system. A successful economic and political reform coincides with the general interests of the trade unions, since, by virtue of their *raison d'être*, possibilities of economic progress advantageous to the lot of the workers are also indispensable to them.

This is the basic situation which will determine the long term relationship between the trade unions and the reform. In the short term, however, you cannot expect to have all trade union groups and strata to have an interest in the reform, because interests within the movement as a whole are varied.

The economy is in a process of change and this change affects various strata differently. This is understandable, as there are dynamically developing sectors in the economy, there are sectors of average standards and there are others that have to be reduced in size.

One cannot expect miners and metalworkers to be enthusiastic about a reform that will restructure production, when that might entail short-term disadvantages, loss of jobs or curtailing of wages. The reform frequently sharpens and magnifies the contradiction between short term and long term interests.

One of the major problems of our trade union movement is that it is overcentralized and develops its centralized view mainly on the basis of the interests of the most disadvantageously affected layers. This is what happened in 1968 and after when, in relation to the loss-making



companies, the entire trade union movement took up a defensive stand rather than supporting the reform.

Had the movement given a larger scope to the internal debates of the workers, to the confrontation of their interests, it would not have been forced to raise the standpoint of the momentarily disadvantaged strata to the level of a general trade union standpoint. In this way, their situation became easier in the seventies, but they will have to pay an increased price for that in the eighties and perhaps even in the nineties.

The problem is, however, international. In the present situation, the trade unions have to review their role, their attitude to the technological revolution, to market competitiveness and to the new processes taking place in the international economy. The trade unions of the advanced industrialized countries and those of the socialist countries did not react to this in the same way. The process of rethinking is yet to take place in the socialist countries.

*So, in your view, these problems are general. Yet we have our specific problems too.*

Yes. I believe that the gravest problem here is that under the monolithic approach still predominant in the socialist countries, the state merged with the Party and the trade union with both. This threefold intertwining was the essence of the stalinist model.

At the time, referring to Lenin, the trade unions were assigned the role of being pre-schools to communism, and work related to the protection of interests was thrust to the background. Emphasis was on education and propaganda. This, however, reflected a deeply anti-leninist spirit, as Lenin's writings prove that he, at the beginning of the twenties, posited the interest protecting function of the trade unions precisely to counteract the dangers of state bureaucracy and called upon the workers to fight against an exaggerated bureaucracy.

Unfortunately, after 1948, the Hungarian trade unions continued to operate in the stalinist spirit and, although they have changed a great deal, they still bear the marks.

Today they are looking for their new role in opposition to a political conception that only exists in its remnants, although strong remnants—while they themselves are overcentralized, and work parallel with the state and Party organs, which follows from the intertwining referred to.



*Has the trade union movement not changed in its essence even over the decades?*

Well, the Hungarian trade union movement today is not what it was during the Rákosi era. It underwent two changes, one in 1957 and one in 1968. The protection of interests has been incorporated, even if not sufficiently vigorously, into its work, the setting up of the body of shopfloor stewards has loosened over-centralization, and these are important.

On the whole, however, these changes have not reached the level where the trade unions would be capable of adequately representing and protecting employee interests while also serving social progress. I emphasize this function—protection and representation of interests—because I do not believe that, in addition to this, the political representation of the socialist state and of socialism should also be among the duties of the trade unions.

The trade unions cannot have a social interest more important than the adequate expression of employee interests. They relate to socialism only through employee interests. For if socialism is not present in these interests, then everything has gone, you cannot ordain it with decrees.

*The protection of employee interests is dealt with at many levels. In addition to the sectorial organizations, there are the county trade union councils, and as we go up the hierarchy these bodies become increasingly "political" in nature . . .*

. . . And they represent increasingly general interests. The situation of the National Council of Trade Unions (SZOT) is still the best. The NCTU conducts an actual dialogue with the Government and occasionally it even opposes the Government, but its interest integrative activity is essentially parallel to that of the Party organs—so that the party-type activity is doubled, while the classic trade union function is lost. In this way the enforcement of professional interests—and this is the most important criterion—is neglected. One of the reasons for this is that the trade union movement is still built downwards from the top, and not vice versa. Its principles of organization are based on the "transmission" of party and government policies, while the protection of interests at shopfloor, corporate and trade level has virtually become a basic necessity. In this area, the principle of organizing on the lines of democratic centralism is truly laden with problems!

*It was mechanically taken from the Party. In addition, trade union leaders are generally also members of some Party body, hence they are obliged to represent the Party's stand also in the trade union. How could they be less tied?*

It is true of all of our mass organizations that they could represent interests better if they were democratically organized movements built upwards from the bottom, based on the federative principle and were not dominated by an authoritarian leadership.

In so far as authoritarian leadership is predominant, it is natural that the person of the leader determines the course taken and activities parallel to party and Government come into being. Apart from this, I see the legitimacy of the question in that in practice these personal combinations can constitute a breeding ground for the distortion of actual functions.

*I would say it is not too bold an idea that the renewal of the mass organizations—including the trade unions—basically depends on the ability of the Party to renew itself. This is also going to be discussed at the Party Conference. What can we expect from this?*

This cannot be accurately predicted. There are attempts being made within the Party as to how to break out of the present situation, but these different ideas have not been summarized. I believe we are now within a communist movement that is similar to the surface of a lake when it begins to ripple and surge, both the surface changes and the direction of the current cannot yet be seen.

The main issue, and this is unclarified today, is to what extent the Party is able to determine what society today expects from a movement and without determining its relationship to a Hungary engaged in politics.

Unfortunately, these analyses have not been made in sufficient depth before the Party Conference. For this reason I believe that we shall not be able to solve most of the problems facing us at the Party Conference. I hope that this will take place in the period between the Party Conference and the next Party Congress.

According to my understanding of the situation, the Party Conference should determine the issues to be dealt with after the Conference as well as the spirit in which these issues should be handled, including matters such as the place and role of the Party in society and in politics.



*Is the Party resolved to do so?*

As far as I can see, there are two vigorous trends within the Hungarian communist movement. In between there is a significant stratum that finds it difficult to identify itself with either. One of these trends stresses that the primary task of communists is to unify political thinking and action essentially on the basis of the prevailing political principles. According to this approach, most of the present political problems originate from the lack of a united communist stand.

According to the other trend, political reforms are needed. This is also not against unity, for they say that the unity should be increased on the basis of reform politics that entail alternatives.

The supporters of this trend believe that the majority of the present problems arise from the fact that we communists have not yet given an adequate answer to a significant portion of the questions facing us. These answers are yet to be worked out. And this process of working out answers could create a new unity that might not attract everyone, but that would not matter.

*What is between the two? What does this significant stratum represent?*

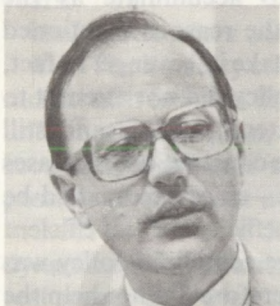
It must be admitted that we do not know ourselves well enough. The trends referred to have not evolved clearly as alternatives to one another. There is no clear definition of positions, we are still groping in the dark. One thing is certain, that we need a new unity in the given situation.

The intermediate stratum could become the centre of the party movement only if it is able to properly integrate the reform policy and the unity requirement. It shall have to draw from both trends, not eclectically, but weighing matters in a manner expressing the interests of the movement and of the country. The extent to which this succeeds at the centre and in the basic organizations of the party movement can be determined only after the Party Conference. It is certainly not realistic to expect the Party Conference to solve the great political questions of development with a single act—this will only be possible in the course of a further process.



# The Costs of the Bargain

**Imre Tarafás (41), First Deputy President  
of the Hungarian National Bank**



Took primary and post graduate degrees at the Karl Marx University of Economics. Between 1973 and 1986 employed at the National Bank of Hungary as Head of Department of Current Price Policy. From 1986 Head of Department in the National Planning Office, since February 1987 Scientific Secretary of the Hungarian Society for Economics. Professor, author of a book on international financial relations. A work co-written with Lajos Gubcsi "Invisible Money" was also published in German. As a financial expert has represented the World Bank in several countries. Since October 1988, First Deputy President of the Hungarian National Bank.

*Let us not go back to 1968, to the beginnings of the new economic mechanism. Let us focus on the situation as it evolved from the end of the seventies, now giving us our ninth lean year.*

I divide this period into two parts. The situation was different between 1979 and 1984 and different in the two or three years after 1984.

*What was the difference?*

It may sound shocking but I am of the view that our economic policy in the early eighties, at the time of the liquidity crisis, was basically correct. The re-establishment of the external balance and then the minor reduction of our debts were the top priorities, preceding any other objective. Although the measures taken were extraordinarily harsh—prices and corporate taxation were significantly increased and, in general, domestic demand was reduced in an unusually firm manner, the target, the immediate and major improvement of the balance of payments was successfully met. It would have been hardly possible to set any other target with the threat of a liquidity crisis looming. For had

we tried to squeeze out the transformation of the economic structure simultaneously with the improvement of the balance of payments, which would have been illusionary in any case, this would have decreased domestic absorption to such a staggering extent that it could not have been fitted into the system of political balances of the past thirty years.

*Could the overall picture of this period be so unambiguously positive?*

Not at all. That is why I said that the economic policy was "basically correct". Of course, problems continued to accumulate as the economic structure remained unchanged for the reasons mentioned above, and it was quite obvious that this would take its revenge. In fact, we made an even greater mistake: economic policy did not attempt to restructure the economy, not even to the extent possible and still tolerable. Even at this time it was clear that the constant tax increases were beginning to exhaust efficient enterprises—since taxes could be levied on these only—while the burden on the inefficient or less efficient hardly increased. In other words, the restrictive economic policy was unjust in the way it distributed burdens and therefore did not help the initiation of the structural renewal from either aspect.

*So, after all, the economic policy was restrictive, its general effect was restrictive.*

Yes, this is the general views. Yet I believe that the restriction was not general but selective, and unfavourably selective. For, as we went along, we artificially maintained unviable enterprises again and again for reasons of convenience.

*Did we have a change in considering matters otherwise in 1984, the last year of success from the point of view of the balance of payments? What was its essence?*

We should have initiated a radically different economic policy. We had been proclaiming the need for normativeness, for the equal treatment by the government of every single enterprise. The grip of the liquidity crisis loosened, so selection should have been entrusted to the domestic and the external markets, to a very large extent. Only enterprises producing marketable products should have been given larger scope. Naturally, economic policy would not have had to give up, even in such a case, the direction of sectors employing large masses of people or determining the life of whole regions.



*And then everything would have flourished in the mid-eighties?*

Nothing of the sort. An economic policy entrusting most of the decisions to the market has to reckon with the fact that the national income might not grow for years. But, in the meantime, the efficiency of economic activity would improve. This is what we are anxiously waiting for and what we have been looking forward to in our slogan "structural renewal". This, of course, would have been concomitant with the fact that if the national income does not grow or even decreases, then domestic absorption will also have to decrease, for years.

*And this is where the "if"—1985—comes into the picture.*

Yes. The liquidity crisis passed, but economic policy did not take the radical turn towards the direction described above. Instead it began an unfounded activation, it "dynamized" the economy and even found economic arguments to support this in the statement that it is not possible to carry out a structural transformation with reductions and without accelerating development. Then, together with the slogan of dynamization, the attractive idea of maintaining and then increasing real wages and even more vigorously, that of increasing corporate incomes soon found its way onto the agenda of various political decisions. In the meantime, of course, the further reduction of our debts had to remain one of the top priority targets. These two objectives together assumed a degree of efficiency and income generating capability on the part of the Hungarian economy that the previous years had provided no foundation for whatsoever. (I won't even mention the effects of hard winters and severe droughts or renewed deterioration in the terms of trade.)

*But the possibility of a thoroughly considered turn in the right direction was obviously within reach. For in the spring of 1984 the leading Party and Government bodies worked out a reform program embracing the entire economic control and promised substantial changes. Moreover, it seemed that rapid steps would be taken to build up the reform institutions.*

Yes, in the mid-eighties the reform measures seemed to acquire a new momentum. New forms of corporate control were introduced; wage and price regulations became more liberal, the "price-club" was set up; promising steps were taken to institute a new order of refloatations and liquidations; preparations were speeded up (even if, initially, there was a great deal of resistance) to create a two-tier banking system.



*Come to think of it, we could talk here without anything to worry about, if all these measures had actually been taken. Yet, something happened in 1985.*

The unjustified economic growth and the continued pressure to reduce our debts, together with the plan to raise the standard of living far exceeded our powers, the performing capability of our economic structure and the decision making ability of economic control. The Government, the economic policy has obviously lost confidence, although the success of the preceding five or six years in reestablishing equilibrium, in avoiding a crisis and the maintenance of political stability would have entitled the political leadership to take firmer action.

Instead, bargaining began. I remember the crisis in confidence between the Government and the enterprises was perceptible in the second half of 1985 and it became manifest by the beginning of 1986. This tied the hands of both of them. Bargaining became an everyday occurrence. This "attempt at reaching agreement"—not in the least in the reform spirit—was conducted between the bodies of economic control and the various lobbies of enterprise groups and sectors. The enterprises extorted newer and newer promises and concessions in return for which they again and again promised that they would be able to support a forced domestic growth and an improvement in the external balance. Had the economic policy remained tough, they would have been able, sooner or later, to force the irresponsible or those in a crisis sector to adjust. Instead, the interests of the latter prevailed. The exceptions, concessions, unprincipled preferences and extorted subsidies generated higher corporate revenues than efficient management. This was also noticed by the efficient enterprises and, sparing no efforts they too began lobbying.

Naturally, this could have no consequence other than reducing the restriction of domestic demand to an illusion. On the one hand, the productivity of the economy decreased, growth came to a standstill, while corporate incomes increased on the other hand. This latter also affected pay-packets, yet the greater damage was not that the income of the population exceeded our resources, but that management become irresponsible. The result was a fast build-up in debts, reaching nearly USD 1.5 billion in 1986...

*Yet the reform measures resolved on in 1984 could perhaps have been viable for all that.*

No. And the problem was not only that the measures came into force not simultaneously but in doses, one after the other, occasionally even at cross purposes with one another—this in itself reduces their strength—but mainly that the economic policy divested of its principles unintentionally turned the operation of its own reform institutions and reform measures into formalities. Why should the enterprise councils have bothered with the struggle in the hard external markets or of improving efficiency with the thousand odd conflicts this entails for them when they could easily obtain resources through bargaining? The outcome of insolvency regulations—planned to be really far-reaching—is well seen in the fact that apart from one, no enterprise of significance had to undergo an insolvency procedure. Slowly but surely wage regulation also returned to the illiberality of before.

*That is to say, domestic absorption grew at an unjustifiably fast pace. Obviously this is why exports were insufficient.*

Even though there remained a very strong pressure to export, as the spectre of an unsupportable extent of foreign indebtedness was again becoming flesh-and-blood reality. Exporting was thus a must. In this way enterprises could present their new export undertakings as matters of national interest, while a large part of their products was being increasingly devalued. They again and again obtained new subsidies for an activity that had been depreciated by the world market, as, owing to the pressure to export, economic policy was forced time and again into new bargaining with the enterprises. The results of these bargains are well known: enterprise productivity decreased, incomes increased.

*Could you give us a list of the disadvantages that arose from the situation that evolved by 1986–1987?*

Let us consider the most important, one by one:

- 1 We further preserved the structure of the economy.
- 2 Rather than reducing it, we dramatically increased external debts.
- 3 A part of what we export has strongly depreciated, while its production is highly import and energy intensive.
- 4 Export incentives are exaggerated, which damages domestic cooperation, the supporting industries are lacking and the import requirements of the economy are continuously increasing.



5 As a result of all this, we have reproduced the constrained paths for economic control that, at the time of the liquidity crisis, but only then, were unavoidable.

*And what follows from all this?*

A very hard dilemma. We have to resolve the still existing contradiction of the absurd situation in which we try to stabilize the economy so that the strong pressure to minimize imports and to maximize exports is retained for years, which, of course, implies the preservation of the existing structure, so that in some years' time we can start our on a path of recovery, of growth. This contradiction keeps creating crisis situations, just as in the past, while the structures, methods, etc. with an interest in maintaining and preserving the present situation are retained. Beyond a certain point it is virtually impossible to say, which is the more decisive: the pressure to export (and to minimize imports) which goes with the stiffening of the structure—and, for a few years, with an unavoidable further deterioration of the standard of living—or the equilibrium of the forces with an interest in the rigidity of the structure, which renders this pressure constant.

*Before posing the questions related to the future, let us remain with the evaluation of the present. You mentioned that a range of correct reform measures of economic control do not work. Bluntly, is this primarily the fault of the economic control or that of the management system of the enterprises?*

The enterprise management system is what it is because it can afford to be that. Many will admit this relatively openly. So long as they can earn money in this way, they will primarily attempt to do so rather than aim at increasing productivity.

*What could change this state of affairs?*

I can't explain this very accurately. But I am convinced that under the present conditions, in the system as it has evolved here, the point is not that "everyone should work a little better and then the economy will soon start to recover, the standard of living will not be threatened". The point is that the economy is in fact in grave danger, because its structure is fatally obsolete. Major activities—such as metallurgy or mining, primarily coal mining, not in the least justified by our natural endowments, and a significant part of the food industry—play a highly important role, although this is so the world over. For these reasons the Hungarian economy is facing very severe structural problems. The

world market is certain not to buy the products of these sectors at a price sufficiently high to provide coverage for the Hungarian living standards. These sectors will, therefore, have to be transformed, a significant part of these activities will have to be terminated and this will imply suffering and conflicts. Radical restructuring would be inevitable even if the rest of the economy, the major part, functioned properly.

*In comparison to the weight of these problems, did economic policy work, or, to put it more politely, did economic policy function with the necessary efficiency in the course of the last few years?*

It certainly did function. I find the arguments saying that the system of economic control has to be reformed because the economic mechanism does not function, misleading. It is true that we are still very far from having as advanced an institutional system of economic control as we should. Nevertheless, very significant steps were taken in the period 1985–1987 towards a new system of control. We prepared a transformation of the banking system practically within a year. The same holds for the tax reform. But, in the meantime, everyday economic policy, day-to-day economic control shied away from conflicts and, please, do not write down what I am going to say now . . .

*. . . it is our custom to write down such things as these, too . . .*

. . . well, then, the economy was not, in fact, controlled. Under such circumstances not even the most perfect system could work properly. Let me give you just one example. There is a manifest need for a comprehensive reform of ownership. This can be expounded in many ways but its essence is that, as from the beginning of next year, we shall have a new Association Act. This would enable state enterprises, cooperatives and private individuals to found joint stock companies and state enterprises and cooperatives to be transformed into joint stock companies. This would be a significant step towards enabling the participants of the economy to operate in the forms most suitable to their activities. This would also constitute a major step towards the establishment of a capital market, too. Yet, the fact in itself that we are creating such legislation and that a major part of the Hungarian economy will be transformed in this way (for there is no reason to believe that the entire Hungarian economy will operate in this form) is no guarantee, no panacea against the maintenance of the bargaining relationship between Government and enterprises. If the Government



will not take a firm hand and allows the state to be at the mercy of the enterprises by accepting this formula—if this be the case, nothing can cure the economy of its characteristic lack of productivity.

*How was responsibility shared between economic and political control in recent years?*

I was part of the former, so I can only assess that. Nevertheless, I wish to emphasize once more: let no one believe that if, from this minute on, everybody acted as is described in the textbooks, we could have an easy time of it. Even then, inflation, unemployment and deteriorating living standards will accompany us for quite a while yet, because the economy is facing the test of a major restructuring. This implies risks on the part of those who undertake it, direct it or let themselves be directed. This is primarily a political risk. Obviously, if unemployment occurs on a large scale because economic policy proclaims that uneconomic activities must not be continued, the economic policy-maker will also have to share the burden. But the decision is, it has to be, political, first and foremost. Experience shows that politicians' instincts lead them to avoid such unpleasant decisions (and this is also proved by the short term periods) by trying to draw money from elsewhere, by bridging the problems with assistance, including foreign indebtedness. In the long run, however, all these can accumulate in a very unpleasant manner. And even long runs come to an end eventually.

*We have talked about the damage caused by the complicated web of the Hungarian system of bargaining. I would like to end this topic with a pointed question. Are there any new, not yet applied possibilities, in the system of regulators that would provide a breakthrough towards efficient and rational management?*

A general answer to a general question: there aren't.

*Such a statement can hardly be made by someone like yourself, in a responsible position who had earlier sought out applied monetary and exchange rate policies at the National Bank of Hungary and whose present task at the National Planning Office is the organization of general economic control.*

The repeated waves of regulation organized for the control of the economy by themselves merely hide an illusion. Of course, I don't want to be taken for a nihilist with this statement. We either allow monetary regulation to be fully asserted in reality, in which case it will be the application of the monetary instruments that will intensify and bring to

the surface the conflicts that we have to face and then we shall also have to undertake the unpleasant price of these solutions ; or if we do not dare to undertake this, then it will be a vain attempt to try to enforce monetary regulation, then having a two-tier banking system is in vain (although that by itself is able to force the hidden conflicts and backlogs to the light of day more openly). The establishment of the two-tier banking system was an enormous step ahead, but its mere existence is no guarantee that its effects will also be able to unfold. Last year we did not succeed in getting the monetary system to assume an adequate role in wage regulation. The current annual plan prescribed the reduction of domestic consumption in order to improve the balance of payments. Then we had to make a choice. The first option was to decide that the budget should spend less in relation to its revenues to decrease its deficit or even to achieve a positive balance, or, and this was the second option, we had to decide whether to pressurize commercial banks through the Bank of Issue to encourage enterprises to keep their money in the banks rather than spending it, or, if they did not comply, to force the banks to reduce their lending. This was the second way of reducing purchasing power.

*Yes, but as a result interest rates rose to 17–18% and this strangles the economy.*

There is no point in arguing about this. If we expect monetary policy to reduce domestic absorption to a significant degree, then this means monetary restriction, in which case very high interest rates cannot be avoided. In the United States, interest rates moved around 20% in the early eighties, for a long time—even though the American economy is an economy where companies are highly sensitive to costs and the money and capital markets are also highly advanced. And monetary policy would not budge. It remained consistent. Years later interest rates dropped back to 6–7%, inflation virtually ceased—because the economy adjusted itself and started functioning again.

*It would be an error in scale to compare Hungarian and American companies. This unexpected interest pressure is unusual and obviously intolerable for Hungarian enterprises.*

This was certainly not unexpected! And it is intolerable only for those who are unable to meet the national economic requirements mediated through monetary policy, who, despite these, wish to expand or survive. It all boils down to the fact that after several attempts it is



just now that we have got to the point of commencing the economic adjustment that the Western countries had carried out at the end of the seventies and the beginning of the eighties. They also had to live with unpleasant conditions at the time, with a high rate of inflation, high interest rates, enormous unemployment and a declining economy. We took exactly the opposite course until the end of the seventies.

*And where are we now, in May 1988?*

We began the year with a plan that places a great burden on the population. The standard of living is declining, retail prices are strongly increasing and have increased. I am, however, of the opinion that, in view of the need to significantly reduce our external deficit, enterprises should have been more heavily taxed. This was not done. Thus the application of restriction fell to monetary policy; monetary policy had to try to draw in the enterprises' savings and, parallel with this, to make loans dearer to reduce lending. This necessarily lead to tensions. One important lesson, however, can be drawn from this: corporate taxation was not increased because we bowed to the mood—I would prefer to call it demagoguery—that has spread in recent years. We accepted the belief that under the conditions of the so-called restrictive economic policy, even the efficient enterprises were unable to make investments or to modify their structure. So we were “expansive” as far as taxes were concerned. Nor did we cut the subsidies given to enterprises sufficiently. I am perfectly aware of how difficult a task this is, as it affects very wide areas of the national economy, including retail prices. Nevertheless, we must not continue the practice of everybody agreeing to the proposition of having to reduce subsidies but never making a firm and concrete decision when it comes to concrete conflicts.

*This appears to be a stalemate. Or an inability to decide. Or backing out. Or political interests. But what would be the way out?*

Now the emphasis has been shifted to the strengthening of the monetary instruments. This could—subconsciously—be motivated by the hope that this will “painlessly” manage tensions, there will be no need to deal with concrete affairs and conflicts. But when the banking sector, carrying out its duty, begins to take firm action to reduce purchasing power, the faith abates, as this, too, leads to concrete pain in specific cases. This is the very nature of monetary restriction that it is not possible to tell in advance and accurately precisely where and precisely who will be hurt by the general restriction. In this sense we are

unable to control accurately the parts of the processes actually begun—of course, control would not want to aim at this in a market economy. So it seems that whenever we want to avoid concretely manifested tensions (such as increasing taxes, reducing subsidies) then it is vain to circumvent matters through more general regulations (through monetary restriction) as that also will be manifested in concrete reality—but then we should be able to handle it as such. If, however, we want neither the one nor the other, then it is possible to gain a breathing space today, but the lack of oxygen will re-appear in another form in a few months' time.

*In other words, the techniques of dodging are not really successful. Would you say that this was the gravest problem for 1988?*

Yes. I don't think that the major issue is whether the rate of inflation is 15%, 16% or 17%...

*...but this itself distresses me, for I can hear from an increasing number of sources that inflation might really rise to above 15%...*

That was my private view and I argue too that such a "miss" does not yet mean the failure of economic policy or the breaking loose of an inflationary hell. The actual issue is whether we shall be able to eliminate the deficit of the balance with the necessary resoluteness and which channel we shall use to do so. Whether we shall be sufficiently firm in the budgetary policy. Whether we shall dare to choose between the two options theoretically offered: whether we shall be able to reduce subsidies or to increase corporate taxes. When it comes to reducing subsidies, we always agree in principle but as soon as concrete action is needed, we can only agree on negligibly small sums. And nobody wants even to hear about raising taxes—which is not to be wondered at, as it, coming three or four months after the introduction of the new system of taxation, would undermine its seriousness. Or, instead of these, should we expect the solution to come from the sphere of lending? As I have already said, the pain would be just as great there as well. But if we did not shoulder the drastic steps in either of these areas, 1988 will pass by and we shall not be able to meet the target of not increasing our foreign debts by more than USD 500 million. It is in itself questionable whether this could be financed from abroad. But even if we managed to stumble through 1988 in some way or the other, we would still have to take the same measures that we failed to do in 1988—only, by then, we would have to be much more drastic.



*Which of the many unpleasant steps would you choose and how would you argue for that course?*

We have to face the necessity of making radical cuts in the production of the crisis sectors, such as iron and steel, coal mining and a significant part of the food industry. This naturally would have repercussions on exports and imports, and particularly on employment.

*Would this not have a staggeringly paralyzing effect in view of their relative importance and of the expectable chain reactions?*

Here we are faced with matters of such consequence that they can be handled only by economic policy. If, in the processing industry, smaller or larger enterprises go bankrupt, close down, cut back on production and employment, then the market mechanism is sufficient to handle these problems. But in the former cases the state will have to plan and with economic politivity control, say, what the magnitude of production should be in this or that metallurgical plant and the ways in which the consequences of that decision can be counterbalanced in exports, imports and in employment.

*Does this mean that the liquidation programs of 1986 and the related governmental decisions do not work?*

If I have to give a plain answer then I would say, no they do not work.

*What then should be done?*

Subsidies must be cut radically even if these activities fall back significantly. Such an attitude on the part of the Government would exercise a very great effect on the operation of the economy within a very brief period of time.

*How?*

Those who, in the course of the past few years, have got used to being able to blackmail the Government to obtain extra subsidies by saying that "otherwise there won't be this or that, exports or what not", would now have to realize from this new type of firm government action that they cannot continue in this manner. So everyone would, first and foremost, look for ways of getting themselves out of trouble through improving their own management.

*Is this opinion not too pro-government and rigid or, excuse the expression, too servile? As it is based on the "need to discipline" enterprises?*

I don't think so. It seems to me that now everyone is more or less

agreed on the course to be taken. It should not be possible to obtain money for survival by complaining reference to the truly hard market conditions or for developments or wages so that the inefficient could live just as well or even better—out of budgetary funds—as those who put a great effort into improving their efficiency and their market presence.

*Here we are going in circles round the same dilemma: namely what are the areas where measures could be taken rapidly? Increasing taxes or even stricter monetary policy, with even higher interest rates?*

I would not raise taxes but I would certainly reduce subsidies and here I would also include the radical reduction of tax preferences and concessions. This would have a wide-ranging impact. Another condition for success, however, is that in the monetary sphere we should really demand that commercial banks meet the monetary regulations pertaining to them. What we should monitor is not whether a bank pays 12% or 17% in dividends. This is not what the measure of their success should be! This should be preceded by how they follow the national purchasing power regulations!

*And if they do not perform well enough, can the banks also be refloated?*

They have to perform, for that, too, is part of their state regulation. Those who run them can be, must be, called to account. But banks, especially such large banks as ours, should not be refloated, for that would shake the financial system of the country. There is no need for this. Yet, there is another aspect to the matter. If the banks act in conformity to the above, that is, they mediate the national economic requirements towards the “real sphere”, the enterprises, in line with the regulations of the Bank of Issue, then the entire Government must support them when they have to take firm action against anyone who is unable to meet the requirements of efficiency and solvency.

*I would like to hear your opinion on two, much disputed and sensitive issues: devaluation and the so-called foreign exchange auction.*

There have been heated arguments about exchange rate policy for a long time. One group advocates regular devaluations arguing that this encourages exports, reduces imports and they also believe that at least a great part of the subsidies, if not all, can be cut thereby. The other group feels that the export increasing and import reducing effects of devaluation are not perceptible in Hungary and so long as the structure



of the economy is obsolete and rigid and is not allowed to be improved, subsidies will continue to exist—even though they should not. I personally believe that the devaluations so far have not improved the structure of our exports. Nor did import requirements decrease. Retail prices, on the other hand, have increased. I have no faith in redemption through devaluation.

*It has become fashionable to recommend the introduction of the free auction of foreign exchange, meaning that if someone has the forint coverage, he should be able to obtain the foreign exchange needed even if at a higher price developed in the course of bidding against competitors.*

I regard this as a dangerous recommendation. I am against such an artificial double exchange rate. It would hardly be in the spirit of the reform. In an economy where enterprises rely heavily on subsidies and concessions, the enterprises that also need foreign exchange to survive would be able to obtain their foreign exchange needs only at much higher prices owing to the auction and, for this reason, they would apply for even more subsidies and concessions. With this the free exchange rate could easily spiral upwards. The deficit of the budget would increase further and, probably, there would be no option left but to tax the efficient enterprises even more. Of course, the Government could decide not to yield to the requests for more subsidies. In this case, the weak would become unviable in the market and would perish. In such a case it would be just as easy to liberalize import and market competition as in the case of foreign exchange auctions. Nevertheless, there is a major difference between the two methods. A system of foreign exchange auctions could easily disrupt our finances.

*Quietly but increasingly the opinion is heard that the development of infrastructure taken in the wide sense of the term could become one of the key issues of our economic and social progress. This is an attractive idea—but we do not know what is meant by it, as it has not been properly expounded.*

I also am in favour of such an idea. Such policy requirement, however, can be raised only if its wide-ranging consequences are also shouldered. For me, the main issue is what sort of economic policy or, to go even further, what sort of an economic system should be developed that would be able to support the actual development of infrastructure.

*What do you have in mind?*

The wage level that has evolved in Hungary provides coverage only

for material goods of the costs of the reproduction of labour—i.e. of the standard of living and not even that in full. Wages provide no coverage for those parts of the costs of the reproduction of labour that we refer to as “services” which is the same as infrastructure in the wider sense of the term. These costs are born by the budget, through subsidizing retail and producers’ prices, preferential taxation, investment contributions and support. This is so in infrastructure and also, to a lesser extent, in the food industry. Thus a significant part of the open or hidden budgetary subsidies are today concentrated in the productive infrastructure and in the food industry, while another large part of the budgetary expenditures is used to finance non-productive infrastructure (education, health care, etc.). These burdens of the budget are primarily covered by the high taxes collected from industry. This is one of the reasons why the industrial price level is so high. All in all, the level of wages is too low and the level of industrial taxes and prices is too high in comparison to the standard of living.

*If such heavy taxes are levied on industry, how can the sources needed to finance the rapid development of infrastructure be obtained?*

This is indeed a serious problem. Enormous amounts are at issue here. The improvement of structure and of efficiency may later free certain sources, but these would hardly be sufficient to cover the costs of improving our extremely obsolete infrastructure. Beyond a certain limit, raising taxes would also be in contradiction to our other objectives, such as the independence of enterprises, profit and asset-increasing motivations and adjustment to the market. But even if taxes were raised and other resources were obtained, it would still remain highly questionable whether infrastructure could be rationally developed and operated in the present system.

*What is at issue?*

If wages are relatively low, and the fees for infrastructural services are also low, then consumers tend to behave in an unreasonable manner. It may happen that with the low fees and high subsidies we irresponsibly create an unreasonably high demand for services—which we are then unable to meet.

*So we have come to the eternal final point of all discussions, to wages.*

As I have said, labour is unfortunately rewarded much below its value, i.e. its cost of reproduction. For this reason, infrastructure in the present system can only be developed in ways and out of funds that



would be opposed to the market conception of economic control, to radical reforms.

*What conclusion can be drawn from this?*

That a much higher part of the costs of the reproduction of labour should be built into the—obviously much higher—wages. In this case, enterprises would purchase labour at a higher price and so their production costs would be more in line with the actual situation, their profits would better reflect their actual efficiency. Naturally, profits would be lower due to the higher wage-bill. But they would pay less in taxes, as the task of financing infrastructure including its development would not be the task of the budget alone under the new system. This is the great issue that the wage reform has to face. Decisions must be made as to what range, what portion of infrastructure should and can be run at market prices, including the financing of its development. Wages should be increased to include the countervalue of these services. But the budget would continue to finance the remaining part of infrastructure.

*Yes, but this new wage level, after differentiation, could easily cover the price of dearer services for certain segments of society, while it would not in other cases.*

This is a justified concern. Decisions have to be made as to where such tensions can be permitted and where not. Once it is decided what infructural services are to be built into the wages, the next question arises, namely, how can this be executed now and in the immediate future when living standards will deteriorate rather than being improved. As individuals' and families' demand for services is very different, depending on their age and other circumstances, a general increase in wages on the one hand and the raising of fees on the other hand would result in great burdens in some cases and unjustified advantages in others. Another issue is what repercussions would this have on employment? For, obviously, if management is rational in the future, then the increase in wages will reduce the demand for labour.

These are questions to which I do not know the answer. Many new questions should be raised and discussed—first by experts but then by the public, for these are issues than cannot be decided, if only economic and financial aspects are taken into consideration. The reinvigorated reform movements should not be allowed to dodge these sensitive but unavoidable issues.

LAJOS GUBCSI

# In Whose Interests?

**Dr Sándor Nagy (42), General Secretary  
of the Hungarian TUC**



Born in 1946 in Vértess in a working-class family. Graduated at the University of Economics, later taking doctors degree in economics. Party member since 1946. Between 1970 and 1973 senior lecturer at university. Since 1979 Deputy Head and later Head of Department of University and College Affairs in the Central Committee of the Hungarian Young Communist League. Secretary of the National Youth Committee for seven years.

Since December 1984 Secretary of the National Council of Trade Unions and its General Secretary since June 1988.

Between 1980–85 member of Parliament, member of the Presidential Council.

In May 1988 he was elected member of the Central Committee of the HSWP by the national Party conference.

*It has been striking for some years that contradictions and conflicts that intensify from time to time quite suddenly emerge in various fields of life. For example, in the middle of the 80s both the government and the companies adopted a form of behaviour that played with time and emphasized the responsibility of the other party. In recent weeks certain, sometimes very significant organs of the press have assumed an attitude that fundamentally questions, even contests the system of values. What is more, there seems to exist an enlightened camp of reform-minded economists with redeeming proposals that the apparatus does not understand and perceive. Besides that, a great number of things indicate that a want of feeling for this exists. Can you see such divisions and gaps?*

Those who have been following the press and the various developments in public life, have for a long time perceived that at different



levels of the political, economic and social leadership are people who have for a long time been insensitive to the changes that matured in the country over a long time period. This stagnation in the various levels of the leadership is being attacked by a small, but in its conduct and public actions, quite an active group which wants to change everything in Hungary, a group which professes super-reforms through the action of super-reformers, but it imagines all this in a way that is in contradiction to the historic traditions, the cultural and geographical features, the potentials of the country and the reality of the existing social and economic structures.

*Could you be a bit more precise?*

Well, I think two great dangers are lurking here. One of them is that if we delay the inevitable steps needed to change the system of political institutions and to develop the economic reform. The other is that our steps may not be sufficiently well-based and that we are not satisfactorily taking into account the social consequences that arise from the realities of our country. It is clear that both such steps would backfire. This is proved, on the one hand, by the fact that the postponement of changing the structure of the economy has now become the source of grave problems; another example, on the other hand, is the reform of the tax system, which was finally introduced in a form vastly different from the original goals, since the real economic situation had in the meantime rewritten the original requirements.

*Does that mean there are more than these two roads?*

That's right. I find it necessary to emphasize that I believe there is another road too. And I see this road not just as the false compromise. This alternative rejects the above two approaches and tries to find a real formula which rejects not only the forces that do not want and will not undertake any change, but also the forces which only try to put into practice in Hungary formulas disguised in academic phraseology that they have heard or read somewhere else. We cannot accept that the choice lies between a bureaucratic planned economy and a market economy. We have to take pains to reach solutions that make the economy more efficient and preserve the socialist character of the society, to put it more precisely, the socialist ideals which reject exploitation of one group of people by another one, which acknowledge the equality of opportunities and differences in income based on performance and work and not on preordained differences in wealth.

*The question of responsibility cannot be evaded. Who should be responsible?*

We are all responsible. For a long time we made ourselves believe and perhaps we were also made to believe that responsibility, and with it competence, are separate items linked to certain posts and functions or perhaps to special situations and opportunities.

*But how could someone who has not got the opportunity be responsible?*

He can be responsible by deeming himself as a citizen to be competent with all the opportunities. In Hungary all honestly working citizens are competent, irrespective of their posts. Unfortunately, this competence does not seem to be manifest in the current mechanisms. The dispossession of the press by various but very narrow groups is especially manifest. So the opportunity to put this principle into practice is often lacking.

*To say the least, it is misguided for things to work in such a way, that everybody should deem himself competent. This is anarchy.*

In that sense, it would be, of course. But by saying that I mean that we live here in Central Europe, with given limits and problems; from day to day we face concerns, and those who in their daily work take part in smaller or larger changes, in creative work, whose work is aimed at—although just a little—getting on in life and whose efforts serve more or less the well-being of the population—such persons are by all means competent.

*But this is precisely the competence that the last 40 years have dissuaded most of the people from.*

And that's where the rub lies. Fortunately, that time is now past, but for a long time to name problems, to formulate social truths, to call problems by name, to reveal sensitive issues to the public—all of that explicitly seemed to be the exclusive right of people in certain posts.

*And what about today?*

We can see daily that the trade union membership is increasingly dissatisfied with the unions. This dissatisfaction is partly caused by the fact that the expectations the membership has of the unions have increased. But dissatisfaction and impatience are still the basic feelings of the membership toward the unions. Let us look at the signs that indicate this dissatisfaction. The point is essentially the protection and the representation of interests. It means that the membership is calling the unions to account for how the present difficult situation came about.



This dissatisfaction is also manifest in the fact that membership has decreased, even if not to the extent that we had expected.

*Had the unions expected a drop in membership from the beginning?*

Yes. At the beginning of the year we expected about a 6 percent drop in membership. The actual figures show that this drop was only 3 percent, but this also indicates something. In the present situation people are full of tension.

*What do you see as the main causes of dissatisfaction?*

The causes are, in my opinion, obvious. The real wages and living standards of large strata and groups of people have been decreasing for years. It is a long process and in such circumstances it is natural for a significant part of the people to expect the unions to seek to protect real wages, to improve working conditions and life in general, since this is the basic function of trade unions.

In recent times another phenomenon, which is equally grave as the decrease in real wages, has increasingly manifested itself, a phenomenon that I would call the feeling of being under threat. This feeling can be attributed to the fact that in certain regions, industries and trades uncertainties and tensions in employment have emerged.

*It is obvious that part of the dissatisfaction is directed against the leadership of the trade unions.*

In our circumstances this is, on the one hand, understandable, but, on the other hand, it reflects certain distortions too. It is understandable, since in our system of political institutions, the decision-making mechanisms and those of settling disputed issues are leadership-centered. That is, quite a number of questions are decided at high levels, in many cases issues that should not be decided there at all. This gives rise to the impression—and quite justifiably—that all problems go to the highest leadership, since it is up to it what the trade union movement does.

But this, in fact, is a distortion. On all levels of a healthily functioning organization and of a healthily functioning trade union movement, it is equally important how the given body of the union operates, how it is engaged in politics, how it formulates its own positions.

*Many people blame the unions and make them responsible for things that they are eventually not responsible for.*

This is due to the mechanism in which the TUC and the government always seek agreement and always seek it at all costs. This is so in the case

of all important issues that are in connection with the living and working conditions of the people. This gives rise to a situation in which for a significant percentage of issues some sort of a compromise is adopted. And the nature of compromise is that the position of neither side prevails in its original form; that is why you cannot judge in a pronounced way what the consequences would have been if either this or that variant had been accepted.

*A compromise is always reached on the basis of mutual agreement, therefore they bear responsibility together.*

I think that this philosophy of cooperation has to be changed. You must not seek an understanding and agreement at all costs; it is much more important that both sides should elaborate their position in a clear way and publicly. Then the side which has the right to make a decision, should make a decision. Either by taking into consideration the views of the other side, or not, but even here, the public should learn what the original proposals and alternatives were, and then, on the basis of the decision, it will after some time be able to judge which position was after all justified by the developments. And from all that citizens and union members can draw their conclusions as to the government and the union leadership respectively. In my opinion this is a more efficient, a more democratic and a better arranged model, than compromising on interests not in front of the public and at all costs.

*It is undoubtedly the protection of interests that can be seen in the focus of all discussions on the renewal of the activity of trade unions.*

Yes. You cannot help noticing the shifts in stress and the changes in the real processes that have recently brought the unions' function to represent interests to the fore. By incidentally, this problems associated with this have not been theoretically explored yet. In my view, they should be and soon. We must have answers of theoretical value to such fundamental questions.

From this point of view, not only the steps that have been taken so far are important but also the ones ahead. Here is, for example the new Associations Law. These are processes that outline the framework of an economic model with mixed ownership. This is a digression, but I would like to say that it has turned out that state property in the form it functions at the moment will obviously not become a basis for the formation of an owner-type motivation, which would be the most rational and profitable for the whole society. And this is not a special



Hungarian problem—other socialist countries face the same question. I think that as far as ownership, its content, form and capacity are concerned, both nationalisation and the more vigorous inclusion of the savings of private people, that is private capital are justified. The basic question of state property is how to make it more profitable. The answer is either privatization or nationalisation. The attitude and the point of view of the owner, on the basis of which the double role of trade unions was interpreted, are being reformed by the actual economic processes going on today. This is a process with several focuses, a process that leads to a form of ownership that takes into account state, social, group and private property and foreign capital. The position of the employer and that of the employee are—as compared to the previous situation—more markedly separated. One of the consequences of that is that the representation and protection of the interests of the employees, the interest-protection function of the unions is more markedly emphasized.

*Many people say that this process questions the existence of socialism itself, its foundations and also the principle that "the country and the factories belong to you, you build them for yourself".*

I do not think so. State property has never functioned, and will never function in the future, in a way that all citizens exercise their rights as owners directly. The exercise of the functions of owners makes up the powers of certain institutions, persons and bodies, and that is why conflicting interests and tensions inevitably emerge from the difference between the positions of an employee and an employer. It would not be so only if we lived in an absolutely self-managing society, in which the confrontation of the positions of owners and employees would be naturally pointless, since decisions are made on the basis of full self-management. We are far from that; consequently, the representation and protection of the interests of the employees is today extremely important and essential.

In several questions, where problems were in the past settled by the resolutions and decisions of state organs, leadership based only on resolutions is beginning to be replaced by a model based on agreement. Let us take wage regulation, for instance. Wages can be regulated in two ways. The first is the one, when after various discussions—and this is how we have done it so far—the government made a decision and determined that this is the wage that can be paid under such and such

conditions. In the other model, the government does not make resolutions, but tries to agree with the unions on the wages. In extreme cases, this can have the same result, when the government applies resolutions, but the content of the agreement and the responsibilities are completely different, and an agreement will always rest on a wider basis. Consequently, the basis for enforcing the agreement is also wider.

From the point of view of processes under way and concrete situations and problems, the handling of personal interests has come to the fore. It is especially so in the case of conflicts, in which things are no longer general and impersonal, but concern specific individuals. I think that the protection of interests must not be confronted with the representation of interests. One postulates the other. You cannot protect interests if, before a decision is made, you do not represent them well; and conversely, you cannot represent interests efficiently, if it cannot be seen that the decision will be able to protect these interests. And you cannot represent and protect group interests if you do not see the individuals and vice versa.

I support the idea of passing a Trade Union Act, an Act which provides for all important questions of the functioning and possibilities of trade unions in Hungary today, an Act which unambiguously lays down the duties and the rights of both the state organs and the unions.

*Many people think that such an Act would narrow the scope of activity of the unions.*

There is undoubtedly an element of truth in this point of view. There are many examples in the world to prove it so. In Europe, governments usually have laws passed to limit the free scope of activity of the unions. But in Hungary the question is not how to curb a radical trade union movement with the help of an act on unions, but how to regulate and strengthen its predictable actions through reasonable and clear provisions. So that you could know precisely who can apply what means and what the conditions and circumstances are in which these means can be invoked. I am convinced that in the stage that we are now in the sharpening of conflicts is inevitable. Our future depends on whether our ability to handle conflicts improves or not. The formation of an ability to handle conflicts is closely related to the readiness to face up to conflict. We quite often do not face conflicts in a more open way than today because we do not possess the necessary preparedness,



system of institutions, the means to handle them, because we cannot keep the manifestation of interests in reasonable channels.

That is why certain tensions will inevitably take on a political nature. If we take it seriously that the manifestation of interests in itself has nothing to do with the political system, that when a worker or a group of workers are disadvantaged to such an extent that they can express their reaction only by serious and resolute action—for example by going on strike—then no one should be allowed to call this to be a political action, because the rules of when a strike is simply the enforcement of one's interests and when it becomes illegal and political in its content are not clearly outlined.

*So in the forthcoming period conflicts between interests will sharpen and measures will be taken that are against the interest of the workers.*

In that respect we have to consider very calmly whether we are able to create a social protection net—financially and in other ways—that will alleviate economic effects as they affect the family; a net which will protect the families from finding themselves in a hopeless situation.

If we cannot achieve that, then no matter how rational the idea that conflicts should not escalate, but remain within given limits and concentrate on certain points is, it is inconceivable that it should be only the people who pay the price—who after all cannot be blamed for taking a job in this or that industry or company.

*This is where the most important principle of the trade union movement, solidarity, comes in.*

That's right. The key to this, the key to responsible but at the same time efficient trade union behaviour is the consideration of how to harmonize conflicting interests, how to find the smaller or greater compromises that are rational for the economy, but still acceptable to society. The job of the trade unions is to formulate concerns and problems. The trade union that says that it does not want to add to the headaches of the government by identifying them by name, does not help society. Only that trade union helps the society which—through well-formulated views—saves the government and the political leadership from making decisions that later founder on the resistance of the society. This is what I regard as the central problem of interest protecting, interest representing union activity.

*Can we base the purposes of the economic policy on the new confidence of the people?*

It is not confidence what we need and I think, people don't need to believe that it will be so and so. We do need certainty, certainty to the extent that can be expected. And not in the shape of promises, but in the functioning of our systems and in the possibility of control and in a kind of calculation on a large scale, if we take such and such measures then the outcome shall be this if we think rationally. Consequently this is the question of trust to the effect that we can create an amount of certainty.

I also agree with those who claim that inflation beyond a certain extent belongs to economics, manageability of which cannot be precisely estimated now. There are experts who say that this certain turning-point occurs at approximately 30 per cent. But in my view that is already within the domain of the inflation beyond control and I don't know after how many per cent inflation becomes unmanageable under Hungarian circumstances; but I do have the feeling that an inflation planned at about 25 per cent—gently speaking—can approach the extent that to put it mildly speaking brings manageability into question.

In the meantime we have to take into consideration all the outcomes, i.e. the self-inducing processes: what will it mean as regards social insurance, the increase of the budgetary expenses, the growing deficit and its servicing.

If structural employment tensions are unavoidable, or let's call it unemployment, then it should be handled in the way expected of responsibly thinking states, governments, trade unions and social organizations. Consequently proper establishment is needed and moreover not when the problem is already on a scale that it cannot be treated but prior to this.

We need means whose concerted functioning must be ensured. We do have some but their concerted functioning has not been realized yet. In my view the most important thing is that we should start on a lightning completion of all the things we have been speaking of for some years, namely we need a new social political conception, a new social establishment or a net and everybody can make use this concept as he or she considers it to be better. But now we had better do more than only speak about these things. In an efficient economy even those



with higher incomes can feel good if in the society solidarity exists. If it does not have established conditions, if structural change becomes the case of the persons who in a certain sense can't be blamed for having taken a job in a given crisis-branch or have been born in an area like this or for the goods they produce being devalued by the world market or—God forbid—due to an insufficient economic decision having joined an investment, which did not depend on their decision—in all these cases institutions of solidarity functioning in the appropriate form should be created for them, too.

Beginning from 1989 we should take measures of reform in the wage policy. For these questions as well as and not only for other questions of the economic management, changes should reach the critical point. If this does not happen, then in my view the new programme for economic policy won't be able to function. If a decrease in real wages becomes the source of social tensions which can query the execution of our intentions from a political aspect then we cannot avoid initiatives in some other certain sources in order to prevent tensions like this.

*What are these sources?*

I count among them gross investments, certain company reserves, the expenditures of the budget in general, different special facilities for paying whose extent I am unaware of but I can only suspect that it must be a very significant sum of money. And last but not least the manifest and short-distance elimination of the non-profitable foreign trade connections, whether socialist or non-socialist ones.

On the other hand I find it very important that the society should be able to handle conflicts more effectively than today and this is the field where the role of the trade-union cannot be replaced.

It is especially important in such a period that a trade-unionist movement is counted on.

In my opinion not only the economic mechanism needs changes in our situation, no matter how obvious its priority is. But there isn't any mechanism which solves certain concrete tasks of economic organization and management, like that of structural change. Structural change cannot be imagined as a spontaneous process. It needs exact planning and conditions. The real, economically rational and socially tolerable course should not begin with closing unprofitable factories and then finding something else, but first we should work out what to do instead, what happens to employment and production and only

after answering these questions can factories be closed. If the sequence of steps is not right, it can result in serious conflict. I am experiencing phenomena of this kind in mining and metallurgy, though a lot of agreements were reached on many forum with the conclusion that we are not ready now for the handling of these issues.

LAJOS GUBCSI

OSZK

Országos Széchényi Könyvtár





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# What Should the New Constitution Be Like?

**Academician Kálmán Kulcsár (60),  
Minister of Justice**



Between 1950 and 1957 worked in the judiciary and became member of the Supreme Court.

Between 1957 and 1969 worked at Loránd Eötvös University of Arts and Sciences and at the Hungarian Academy of Sciences. He spent 1965–66 in the United States as a Ford Fellow. Between 1969 and 1983 Director of the Sociological Institute of the Hungarian Academy of Sciences. Member of the Party since 1970.

Professor full member of the Hungarian Academy of Sciences since 1982, becoming its Deputy Secretary General in 1983, Minister of Justice since June 1988.

At present he is Chairman of the Hungarian Sociological Society, Editor of the journal "Social Research" and Vice-Chairman of the Hungarian Section of the Hungarian-Soviet Sociological Cooperational Committee.

**His major works: Society, Policy, Law (1974), Contemporary Hungarian Society (1980), Modernization and Hungarian Society (1986).**

*Has the economic reform, the new mechanism, become distorted in the wide sense of building society since the postponement of a political reform has left the economic experiment without a background? And if this supposition is mistaken, that is reform has not failed, then what remains and how can the different stages in the political attitude be defined?*

All reforms are distorted if they involve only one or another sphere of the society. So our reform will inevitably remain distorted, if it only involves the economy. As a point in case let me tell you that in the 1840s the German economist, Friedrich List, wrote on the Hungarian economic reform—as you know, we were undertaking reform at that time as well—and concluded that the economic reform in Hungary could only be successful if the system of political institutions and the whole society could be transformed. This is just as true today.



*What are the signs of distortion?*

They are generally or seem to be known, but to my mind a thorough analysis and examination of their features is still to be made.

*Is it correct to say that so far no reform has affected the political sphere?*

We cannot call it a reform, although several significant steps have been taken towards transforming it.

*And these steps?*

First of all, the introduction of multi-candidate elections, which took place in two stages; although the first stage brought few real results, there were many more in the second, despite the overall efficiency being weakened by certain aspects of our political culture—the familiar practice of politics that cannot be overcome easily, even if we exclude the interests concerned. The reform of the administration, which brought the state apparatus much closer to the people and has proved that real steps toward autonomy are indispensable for a political reform, was also important.

*And what would you say has not taken place yet?*

Our political system has, in fact, two components. One of them goes back to the distant past—let us not talk about it now—the other bears the basic features of the political system that evolved in the Soviet Union in the 1930s. The model for our political system had, from the beginnings, several disfunctioning elements, but today it is scarcely adequate for our social and economic requirements. It delays the progress of modernization, its disfunctional consequences are becoming increasingly obvious.

Our present, or rather our future society, needs a political system which—with some simplification—can provide a wide scope for creative energies and abilities, a system that enhances the efficiency of the whole of society. It is here that the most decisive step is needed: this political system must be transformed; the elements that took shape in Stalinist times cannot be regarded as a model for socialism in the political sphere.

*In this respect—especially since Gorbachev came to power—it is easy to find a consensus and this has been formulated at all levels of politics. The question today are different: what, how, in which way and how far. And not in general, but in the forthcoming two or three years.*

It is extremely difficult to place things into stages; you must always

approach the plight of various social strata and groups, their values, their readiness to cooperate and all those factors that have a concrete influence on them. However, the main line can certainly be defined and this is to be done along with the taking of some resolute steps.

*What would you consider the right order of doing things?*

You have to start with the clarification of the role of the political party. Whether there should be several political parties in Hungary or whether the HSWP should retain its dominant position is not a question that can be raised in practice now. Though there is no objection in principle against the multi-party system, you have to take into consideration our historic experiences and the possible practical consequences as well.

In the Hungary of modern times, even since political parties in the modern sense began functioning, with one exception, the dominant party has never been overthrown either by an election or by parliamentary action. In practice we have always had a "one-party system", even if other parties, as participants, were present on the political stage. Initiating now a transformation in this aspect most likely would generate political lability so deeply, that it would be impossible to handle the present difficulties in the economy and in the society. Such kind of changes needs more stable conditions.

*Let me put another question remaining with the problems of today, even though looking back is obviously instructive. Would you say that the consideration of a multi-party system in Hungary is ill-timed?*

Yes, I would.

*And ill-advised politically?*

In these matters ill-timed and ill-advised mean the same thing. And I would repeat that it is also probably unfeasible. In fact the pluralism needed in the political sphere can be guaranteed within a one-party system too, within the party and through the participation of other social organizations. In this respect it is extremely important, not the least for the further development of society and the political system, how the new role for the single and dominant party in this political system can be identified.

*How can we do that?*

Since the HSWP is a dominant party, we have to analyze how leading parties everywhere in the world function.



*Without arguing semantics, I would like to ask whether you think "governing" or "leading" is the correct word.*

An answer to that would require thorough sociological analysis. At the moment we can state without doubt that it is governing too. In order, in the future, to differentiate between the two words, the process that I would like to talk about from several aspects in this interview should first of all take place. So it is always the leading or more properly the ruling party that defined the policies of the given society and "leads" this society by these policies, and „governing" as a task is for the state organization which is also administering of the policies.

Another question—although we can hardly analyze it here—is how the party can form these policies, how its inner mechanism works and how the social environment is involved in these mechanisms. It is the ruling party that nominates and defines the government which will execute its policies. There are many examples in other countries as to parties and their governments operating in a much more organic way than in Hungary, of the party leadership sometimes merging with leadership of the government...

*...for example in West Germany, Austria or in the USA...*

...and this, of course, usually means a different party and government structure in these countries. In Hungary it is the separation that would be more important, at least in the present situation.

*In this case what can exercise control over the governing or leading party and government, if the sketchy concept of "social control" is assumed not to be clarified? If the "independence" of the government is made larger, then how will the government be able to criticize the perhaps faulty decisions of the party that has delegated it?*

This is linked with the second element of my argument—the problem of who the government is responsible to. The political leading force of the country and the organ that embodies its sovereignty have to be separated from each other. The first is the party, the second the Parliament.

In modern politically organized societies, the government led by the party bears two responsibilities: it is responsible both to Parliament and to the party that has nominated it. In Hungary the responsibilities of government to Parliament have not really been worked out. The efforts to work out these responsibilities are being seen today and have to be encouraged. The government submits a programme to Parlia-

ment and, by having it adopted, has itself accepted as government; in the same way Parliament has to vote whether it accepts the individual members of the government.

After this the government is responsible to Parliament for all the actions that arise from its programme. It is responsible for what it does and also for what it fails to do. In the sense of public law, or that of the constitution, Parliament can call the government to account and can, after all, outvote a minister or the whole government and the government has to accept that.

*Can you imagine these relations coming into play in the activity of the Hungarian Parliament and government in the foreseeable future?*

If reform of the political sphere progresses faster than it has so far—and I see an opportunity for that—then within the foreseeable future, by the first half of the 90s such a development can evolve, after a new constitution which is planned for 1990.

But let us look at the other side as well: the party too can call the people it has nominated and delegated to the government to account, not constitutionally but as the right of the delegating political organization. And if it withdraws its confidence in them, it can even force them to resign. In the constitutional sense this is not a recall. This is a resignation and for the person concerned it has to appear as a duty arising from his relation to the party delegating him. (This is not purely a question of party discipline, since the party can nominate non-party members through the appropriate channels to serve as ministers.)

In the country, party leadership of state organs should exclusively be manifested through the government. The party has and must have a political course, which it forms within its own organization, with its own inner mechanisms, in the formation of which local and regional organizations also take part, but its relations to the government should function through one point.

There are obvious differences between the given activities of the party and the ones outlined here. But when analyzing the present situation we must not forget about the historic circumstances that have formed the communist parties, their programme-setting activities and organizational framework. In any case, we hardly could suppose, that history, and the socio-economic context could remain “neutral” or without any effect on the parties in the present, and in the future...



*That sounds quite mysterious . . .*

The scientific analysis of the party should go back as far as the turn of the 19th and 20th centuries, to the political features of the Russia of those days, to the requirements of underground work and to many other things. Such an analysis is indispensable in order to carry out an organizational reform of the party.

No element should be mystified. We must see what the function of each element in a historic situation was and also judge whether it is still performing this function today, or whether this particular function is necessary at all today, and, finally, what kind of organizational set-up or methods it needs.

*Why do you think the political leadership has not and does not seem to be about to undertake such an open and thorough analysis at a time when it is obviously preparing to renew itself and, indeed, is practically also forced to do so?*

The party has scientific institutes of its own and work on this is also under way in the research institutes of the Academy—although I would not call that research comprehensive. There have been some results but these are, for the time being, less consistent and are not being applied primarily because the organizational framework of the party, its accustomed activity and action that have taken root in the past 40 years, have not particularly required such analyses until quite recently.

*An embarrassing question: have researchers been daring, resolute and exacting enough to put their views forward? This involves the question of scientific ethics.*

Let me repeat that there has been such research and it has mostly been published in various periodicals. Under the supervision of the Academy, for instance, comprehensive research has been going on into public law and constitutional affairs with an independent programme and independently from the institutions in order to prepare a new constitution. There have been quite a few resolute, I would even say, sharp debates, over the transformation of the political system.

*May I ask you once more whether the leadership of the Academy and scientists has been resolute enough?*

They have not always been resolute enough. The old reflexes have and still have their effects here too, it has not always been easy for researchers to say what they should have or would have wanted to say. That is why Ferenc Erdei the late great Hungarian sociologist and

former secretary general of the Hungarian Academy of Sciences spoke about social researchers being in a "threatened" position.

I myself have received the reproach in the past that our researches only point out negative phenomena in their analysis of society instead of identifying positive features. The differences between the logic of the work of science and that of politics—Marx also was aware of this—were obviously not manifested in these reproaches.

So what concerns its inner organizational problems, the party has until recently not required scientific work of such nature, even if, at the same time, it set higher and higher requirements for clearheadedness based on research into other fields of the development of the society.

*How far can one go today in research into the activities of the party?*

As far as finding the structural and functional role of the party in society and clarifying the tasks and activities arising from that role.

*What are these tasks?*

The formation of policy in general and controlling the execution of these policies. Although in any party the last word always belongs to its leading bodies, these policies must be shaped after analysis and approval by the entire membership.

I would emphasize that this politically functional relationship between the party and state leadership can, in my view, function efficiently only in national, in social, dimensions.

The district or county party organs and their staffs cannot be on the same terms with local or county administrative organs as those that are taking shape at the highest level of the political sphere. Local party organizations may have a significant task in their political work in connection with the nomination of local or regional organs of self-government or even in nominating members of Parliament, and this can indeed be work of a political nature, but party leadership of local administrative bodies or other state organs would reduce the efficiency of the state apparatus.

A county or local party organization should basically organize its own party life and take part in shaping the policies of the party by analyzing and reporting the local or regional execution of party policies in general.

*This is quite a hard view that you are taking and as regards the future, I rather doubt whether it can be put into practice, since in reality it has been precisely the local and regional party organizations that have tried to*



*“lead” their regions and counties, usually in a much more direct way than that at the highest level of national leadership.*

Yes, there are several examples that could be mentioned here—although a lot of them have positive consequences. Apart from general policies, there are regional and local policies but it is not the local party organs that shape them and then have it executed by the state organs, because in this case the efficiency of the operation of the state apparatus would remain in the low level of today.

“Local” policies are the business of self-governing bodies in which you can find people nominated by the party and later appointed. In this case the leading role of the party does not—in my opinion—diminish; with this modification the party does carry out the political activity that is the role in the political sphere. And that role is to define policies in general instead of providing administrative leadership.

*Is not what you have just said a form of self-deception, namely that the role of the party will not diminish. Is not this new role a reduced role? For this is the question that has to be faced.*

It is reduced to the extent that in such a system it will do its own work, since today that is exactly what it is not doing. If in a society an organization does not exactly the job it should do, this leads to confusion. All organizations can only work well if they perform their own function or functions.

If an organization undertakes to do things that do not arise from its nature, then, with the best will in the world and with the best staff, it can only perform these jobs badly. This is what I mean by “functional” operation and this is what I consider important. If we accept that in the process of modernization, the various functions and the various organs performing these functions have to be clearly separated from one another, then this will preclude the rationality of one field attempting to impose on another.

Naturally, a part of these changes of that these rationalities have to be controlled in their entirety. This is the task of the political sphere. This is much more difficult, much more exciting, and something that promises greater results than indirect intervention into other spheres of action.

*Turn to the next link—Parliament.*

This is where the development, the democratization, of the political system has so far made the most progress. Of course, further steps are

needed. Steps that would mean the fielding of more than one candidate as something real, and not the simple pairing of people chosen in advance on the basis of calculated statistical figures. I have no objections whatever to a governing party nominating its own people for election. I also accept the fact that the party supports this kind of nomination through its own means.

But I cannot accept that the party should try to dissuade people from running in elections or create such a situation in which people whom the locals would like to nominate at the selection meetings of the Petriotic People's Front cannot be nominated. The few such cases that have occurred at the previous elections should not be repeated next time.

And there is another problem too. Local elections, local policies merge with certain feelers of great politics. Let me give you an example. The elections regulations state that local people and also the workers of local factories and offices etc. can take part in the work of a selection meeting, and that the latter can also nominate candidates.

In Budapest, but perhaps in many other towns too, most of the workers in such factories, offices and so on do not live where they take part in the nominating process. In other words, an organization apart from the local residents is in the position of nominating a candidate from its own ranks or from somewhere else, a candidate who belongs to the local population only through his place of work, but the problems of living there, the problems of life there do not concern him at all, or concern him in a different way.

These two things have to be separated. The participation of large organizations, perhaps industries in the nominating process, must be resolved in a different way, for instance by changing the national ticket.

Parliamentary elections, by the way, reflect not only the activities of the government, but also the policies of the party. They constitute an important element of social control over the political sphere, and also as a reaction they are indispensable factors in the self-correcting mechanism of the activities of the party.

*You have mentioned a "new constitution". Is there a need for a new or an amended constitution?*

I think we have to clarify things and draft a new constitution. However, the principle of continuity has come to be quite rigid in Hungary, so it is natural that there are formidable forces behind the



idea of modification. Perhaps it is not a question of a "new" or an "amended" constitution that is most important but content; I would still opt for a new constitution.

What we have been talking about so far, I mean, several aspects are difficult to fit into the framework of the old constitution. That is why we need a new one.

*Would a new constitution contain a provision for the leading role of the party and another one for a one-party political system?*

There has been a debate going on among experts whether the leading role of the party should be provided for in the constitution or whether there should be an Act passed on the party.

Contrary to the concerns of several constitutional experts, I would provide for the role of the party in the political system in the constitution, especially because, our constitution traditionally contains provisions on the nature of our social order. And if this is so, then the constitution should provide for everything that actually and really influences the political life of society. We must not close our eyes or take other courses, since things that are not properly provided for will be regulated by practice and it is not certain that it will happen in the way the drafters and the members of Parliament had anticipated.

*What would be the essentially new elements of a new constitution?*

I would very clearly provide for the central role of Parliament in the life of the state. Second, I would not allow for—I would even ban the word—the substituting powers of the Presidential Council. Well, we want to have a Presidential Council, that is a collective head of state, you can discuss whether it is correct or not...

*Can you imagine an individual head of state as well?*

There cannot be anything that precludes it. The point, however, is that it has to be laid down who has what powers and the functions have to be separated. The legislative, the executive and the judicial branches have to be separated from one another.

I would define the powers of the head of state—collective or individual—but without the power to substitute of Parliament. I would make the role of the judiciary much clearer with suitable safeguards for its autonomy. The judiciary should play a more important role than today.

A Constitutional Court should also be established that exceeds the present half-solutions and is able to function. The responsibilities of the government and those of the ministers have to be laid down as well.

After that the most important thing is to define local self-governments in a clear way. In the Hungarian political system and political culture at present the most efficient steps could be taken on the line of local self-government.

LAJOS GUBCSI

OSZK

Országos Széchényi Könyvtár





# Creating a Market and Increasing Competition

**Tamás Sárközy (48), Parliamentary Secretary to the Government**



Began his career in the Ministry of Construction and Town Planning. After six years he became a research fellow of the Academy. His major research task was the juridical establishment of the socialist enterprise-theory. In 1972 his study on state property earned a Candidate's degree in jurisprudence; in 1978 he received the degree of doctor of the Academy for his book on enterprise theory.

Since 1979 professor at the Karl Marx University of Economics, Head of the Economic Law Department since 1981.

Member of the Coordinating Committee for Economic Regulation and the Consultative Body of the Economic Committee of the Central Committee of the HSWP. One of the theoretical promoters of the Act of Association to be enacted in 1989.

Several books of his have been published in Hungarian and abroad.

*Let's start at the beginning: what economic, legal approach justifies the new association law?*

The company rights that emerged in Hungary after 1968 embraced quite a wide field. These must be adjusted to our present-day conditions and must be updated by utilizing our experience of international economic development. A joint stock company for instance is still governed by the 1875 Trade Code. Our company rights today are in art too complicated and in part contain constraints or artificial differentiations that are not in conformity with our economic and political goals. It is expedient for example to discard the rigid differentiation between companies of "juristic" personalities and "non-juristic" entities, to bring an end to the exaggerated isolation of domestic and international companies and the overemphasizing of



unlimited and universal liability which hinders investments. This, among other things, would make possible the cooperation of companies and citizens in companies, a bigger involvement of the means of the population and of foreign capital while, by widening the circle of stock companies, we could help strengthen the bonds market and stimulate a quicker influx of capital. While drafting the new law we aimed at retaining time-honoured and accepted forms in a modernized form and at basing our new organizational solutions upon the already existing forms in the principle of continuity.

*The legal-political basic principles of the new draft?*

The first principle is the uniformity of the law which indicates that it is valid for all forms of company without any restrictions on any sectors. The second basic principle, the freedom of partnership, is linked to this former. This means that companies can be established by "juristic" personalities or private persons, Hungarian or foreign, either among themselves or in the form of mixed companies, in conformity with the requirement of competition-neutrality and sector-neutrality. It follows from the freedom to establish companies that the ban must be lifted on joining more than one company or, more precisely, it should not be subject to licencing. It follows from this that the new association law intends to enforce an overall system of normative conditions in place of the system thus far, which had been one of licencing, a case-by-case licencing system.

It is very important to know that no administrative enacting clauses are attached to the law. Thus the company law tries to lay down long-term and stable conditions for establishing companies, so that these cannot be subject either to the effects of economic boom periods or to short-term budget considerations.

*How many forms of partnership have been included in the draft law and in which sections of the economy are they supposed to operate?*

According to our plans, from January 1, 1989, we are going to offer, to companies and to the citizen, six company forms and we are leaving the choice to them without exerting any pressure or influence on them as to which they choose. The six are as follows: general partnership company, with work collectives as a sub-type; deposit company; syndicate; joint company, limited or shareholders' company. As this list shows, some of these forms have already become an organic part of our economy and, in the future, the range of organization-

entrepreneurial forms will widen further. If we consider the possible partnership forms one by one probably, it is the general partnership company of juristic or non-juristic entities and the limited partnership companies that will increase most quickly in number. The best fields for the operation of these companies are offered for example in the construction industry, the range of service trades, but also by certain fields in research, development and design. For that matter, I do not think that in a few years the number of big private companies will grow significantly. In my view, the economic control system—by upholding the principle of competition and neutrality towards sectors of the economy—can be directed in such a way that citizens will invest primarily in socialist economic organizations. It should also be mentioned in this context that the new company law can have a significant influence also on the small entrepreneurial fields that are not covered by it. It can advance among others the modernization of those that operate on a contractual basis and can promote new solutions also in traditional small-scale industry and retail trade.

*Both the public and economic experts are primarily interested in knowing about the organization of stock companies.*

The new association law wants to make it possible for state companies to become stock companies, to create new ones, in partnership with foreigners or private persons. The transformation of state companies is possible also in the case of what we call “large” companies which, today are operating nominally in the form of trading companies. Today, several administrative structures are operating in limited form only. The stock company can grow in numbers as a result of the refloating processes.

As shown by experience and as predicted the monetary institutions and the insurance sectors are also giving priority to this partnership form and interest has been shown towards it by foreign companies. Several “large” companies and trusts that are at present under state administration and some large companies that are managed by company councils have also indicated their intention to change into stock companies, partly to acquire additional capital and, partly, to create more direct interestedness through proprietorship. Since our aim is not to create some organizational “trend” but to stimulate the development of organizational forms in the interest of creating profit-making capabilities in the long run, I consider any transformation



possible on an entirely voluntary basis only. Therefore, we do not need to engage in any campaigns to promote transformation. I do not think that in the next five years the majority of state companies are going to become stock companies. Transformation is not a problem-free process and it would by no means be correct to grant economic-political advantages in order to support the stock company form. Consequently, despite an expected increase in the number of these stock companies, personal partnership forms will remain dominant in our partnership forms instead of impersonal property-fusion forms. Limited companies offer possibilities for entrepreneurship, not only for private persons but for companies as well.

*What will be the position, function of deposit companies, joint companies and fusions?*

The deposit companies do not have an independent juristic personality and, since they are operating<sup>4</sup> with full partners who manage the business with full responsibility and with silent partners who are responsible for the company's activity with their stake only, they are a special, mixed form of companies. This set-up makes the authorization of silent companies unnecessary and, at the same time, makes possible for anyone to participate in business by investing money, under legalized, controlled and taxed conditions. Although the joint company may become less popular chiefly because of the appearance of the limited company which has a more modern form, yet its complete disappearance as a form would not be desirable. Its fate must be decided by economic-market processes. The role of fusions, the basic cooperation-integration-company forms, will undergo considerable changes. The new regulation wants to improve their flexibility and operational capabilities and it can also allow professional interest-representation elements to appear in this partnership form. While setting up regulations for these, special care must be taken to prevent them operating like a trust or to limit competition or to create new monopolies.

*Who is going to supervise or control these companies?*

Since the regulation of the companies is normative, the control of legal conditions must be entrusted to courts of registration. Thus, legal supervision over companies will be entrusted to judicial bodies instead of to state or regional administrative organs. All companies will be registered in a trade registry which, at the same time, guarantees that

they are made public. The inner supervisory organs of the stock companies, larger joint companies or limited companies are supervisory committees; those which have more than a specified number of employees must ensure employee participation in the management.

We have in mind one third workers' representation in these committees. At the present stage of drafting we are engaged in discussions with the trade unions. In the view of the majority of our working group, workers' delegates should be directly elected by the workers' collectives, while the trade unions want workers' representation to devolve upon themselves.

*Within companies of members with differing positions of force how do you guarantee the protection of creditors and the interest of the minorities?*

Basically, the protection of creditors is guaranteed by regulations on responsibilities and by business data, registered in the trade registry, and made public and controlled by courts of registration. Although this is not the duty of the law, in my view, the protection of the creditor should be guaranteed on the organization side as well. We included in the proposal preventive measures for the protection of minority rights and by suggesting that certain decisions should require an unanimous vote.

*The draft law propagates sector-neutrality, yet cooperatives seem to be coming under a different judgement. Why?*

The cooperative, in principle, can of course also be considered a partnership; however, because of traditions, and because of the special features of cooperatives, they cannot be subject to the association law. Therefore, in the future too, the regulations for the cooperatives will be stipulated by the cooperative law. As regards cooperatives becoming companies, a controversy is taking place because many consider this as a violation of the intransferability of cooperative property. In my view, we must create the possibility in principle for such a transformation but the concrete conditions for it must be governed by the cooperative law instead of by the association law. One thing is certain, in the future the cooperatives will create a great variety of company forms.

*What is the schedule for the drafting of the law?*

When the full text of the draft was ready, by the second half of May, and collation work started among state administration and business



federation bodies, it was followed by a series of professional and social discussions. The draft law that utilized the proposals of these processes were submitted first to the Council of Ministers and then to the autumn session of Parliament, together with a uniform entrepreneurial tax law. The law that calls for modifications in several other laws or provisions is scheduled to enter into force on January 1, 1989.

*One more question. Does the association law contain legal regulations only for modern forms of enterprise and investment? Here the economic system of conditions is rather backward. Can and should it be introduced under these conditions on January 1 next year?*

In my view, the company law will be a programme-setting code that can be a driving and stimulating force on the economic environment and on the rest of the reform measures as well. It is evident that more time should have been devoted to concrete professional work instead of general debates, but this did not depend on us. We do our best to thoroughly prepare the law so I think we should not await any longer to introduce it.

*Until now, there has been no representation of the workers in stock companies, joint or mixed companies; indeed trade union rights had been enforced to a small extent only.*

This is just what the association law is going to change by institutionalizing direct participation of the workers' collectives in the management of joint and stock companies. Besides, it is going to secure trade union representation in the other companies. However, we differ over workers' participation in management and trade union representation, and in our view these two should be separated from one another.

*How do trade unions react to this?*

At this stage, the position of the trade unions is that the two should not be separated because the trade union representative has been defending until now the rights of the workers when decisions were made. During discussions, however, members of the working groups considered it justifiable to separate trade union representation from direct workers' participation in company management. Views are also held that since companies are organizations of investors, workers' participation is not needed at all.

The economic organizational forms however must be synchronized. Contradictions such as company councils with elected workers' repre-

sensation of least 50 per cent and in other company forms with more should not be allowed to occur. Workers' participation long ago won recognition in Western Europe, including, in stock companies as well.

The basic provisions of the law originally allowed for supervisory bodies having decision rights in joint companies, limited companies and stock companies and the "employee block" within these bodies had the power to prevent, by veto or by other means, decisions that were unfavourable for it.

In the course of debate, this was modified, since we had to adjust to the situation in our own country. Since we could not establish the range to come under the supervisory committee, the functions we defined are more or less the same as the existing ones, namely, the supervisory body controls the operational management as an organ of the proprietors. The elected representation of the workers would be one third of this supervisory body and in cases when they are at odds with the majority of the supervisory committee, a general meeting of the membership must be convened. For that matter, the process of legislation is open, so that there can still be changes here.

*According to the basic principles, in the cases when a company employs more than 200 people, the workers' participation is provided for. How did you set this limit of 200?*

In my view, workers participation only makes sense in larger companies. This is a general trend internationally. Of course, this limit of the number of employees is necessarily arbitrary since it cannot be adjusted to any objective standard. Company management, in general, would like to push this limit upwards while the trade unions want to have workers' participation for the lowest possible number of employees. Two hundred is a compromise between differing positions but in my view this number fits conditions in Hungary.

*How do you think workers' interests can be represented in mixed companies launched by foreign capital? Up to now capitalist shareholders of mixed companies did not have to fear that Hungarian employees would want to deal with management or to influence their decisions.*

There are developing countries that, basing their economic strategies on the influx of foreign capital, offer employment laws differing from the domestic laws as one of their attractions. We too considered similar solutions so that foreign participants in mixed company are not burdened with workers' participation in management because this



might scare them off. However, the mixed companies are Hungarian legal entities and investors who are coming from states with developed legal systems, will probably have little problem in adopting to the laws of the host country. Therefore, we propose trade union rights and workers' participations of expendent proportion for all employers, including those with a foreign majority or even a 100% foreign holding.

*The draft law also includes the issuance of workers shares. The company can give such shares at reduced prices or free, if it elects to do so, to its workers. How should this be interpreted? Is it a new form of social allowance, bonus or what? The "worker" who becomes a shareholder, will also become a proprietor? Can he provide security to this workplace by possessing his share until his retirement?*

The special workers' share is neither social allowance nor bonus. It can only be endorsed within the company. After leaving employ of the company, it must be bought back by the company, except in the case of retirement. The rights of a shareholder worker are equal with the rights of the rest of shareholders and perhaps this will help make shareholder workers more interested in the company goals and since stock companies agglomerate capital, it cannot happen in any other way. The simple hired worker approach must be avoided in socialist society as well. Besides, socialist values favour the equality of chances. This can be helped by reduced price or free shares for the company workers. In this way those who cannot invest capital can also become shareholders. It is of course upon the company whether to issue company shares or not and to decide the circumstances under which a worker can be given reduced price or free shares. In such decisions the collective of the company and the company trade union must have a say, of course.

I would like to emphasize however that the workers' share can no way influence employment relations and the shareholder can be dismissed in the case of reorganizations or lay-offs. In case of quitting voluntarily or in case of dimissals, the company is obliged to buy back the share at current rates or, in the worst case, in nominal value.

*Business federations are affected by the new company law in other ways as well. The law makes it possible also for these organizations to make undertakings and to gain profits. The same applies to budget organizations as well. In the end however, the budget organizations are risking the money of the tax-payers and the business federations the*

*money of their membership when they make investments. Under what guarantees can they do so?*

As regards the direct participation of these organizations in the companies, our goal is to reduce the administrative barriers of the past. Why should social organizations, interest representations need a mediator to be able to participate in their own company? Thus, if their statutes allow for it, social organizations, business federations, can also take part even as founding members of a company. In the case of state budget organizations no permission is required from superior organs—contrary to the rules before—for their participation in limited companies, since the risks can be calculated. To join unlimited companies, however, ministerial permission would be required since in this case, the total loss could be shifted upon the budget.

*Four parliamentary committees have already discussed the draft law. What was their reaction?*

Company managements want the law very much. From them we have learned a lot. I would however, warn against expecting the law to work miracles. In my view, in the early 1990s, the majority of companies will not function in this form. Of course the association law will help a lot in the modernization of our economic organizational system. There is some ideological confusion on the part of some, which considering the antecedents is understandable. Through systematic work however, we must dissolve any misunderstandings.

KATALIN BOSSÁNYI-ÁGNES MÁRVÁNYI





# Society and the New Law of Association

**Miklós Németh (40), Secretary of the HSWP's Central Committee, member of the Political Committee**

*How does the drafting of the law of association fit in to the process recently started by the introduction of new forms in company management and by reforms in banking and taxation aimed at developing market conditions?*

The law sets out on the premise that, at the present stage of our development, social and economic conditions are ripe for taking the necessary steps which, in the long run, can promote the development of better co-operation and flow of assets among business entities. This is—as has frequently been remarked—an essential condition for the realization of our economic policy objectives.

However, our experience is that current regulations no longer meet the requirements of business. On the one hand they hinder the development of flexible management forms, on the other hand they do not attract a flow of capital between companies, the investment of foreign working capital or personal savings of individuals. They are not creating sufficient stimulus to increase asset capital. While preserving well-established forms such as, joint ventures and syndicates the new law up-dates regulations for joint stock companies and limited companies. It also simplifies the formats which have been too complicated up to now: thus it makes possible for some ventures (working pools), as well as civil legal associations to reorganize themselves into unlimited partnerships. The associations of companies, individuals, Hungarians and foreigners alike will be regulated by the same law. The barrier hindering the association of companies and citizens will be demolished. Uniform regulation will apply to the joint ventures between capitalist and socialist companies and Hungarian companies. In other words, we intend to create forms and conditions for entrepreneurship which are easier to grasp, better express the demands of business and are more practicable.



*Will the new law demolish the barriers hindering our development, and how long is it expected to provide regulation?*

It is an important that no executive regulations are attached to the law of association. This circumstance greatly reduces the opportunity of frequent and repeated corrections on the part of the administration. We must create a stable law serving economic renewal. It has to be in harmony with the long-term interest of society, indeed be at its service, and enforcement should yield results in the short-term as well.

By making a new law, various combinations of management forms can be instituted, and the regulating role of the market can be strengthened. The introduction of internationally known enterprise forms widens the possibilities for international economic co-operation. All this can result in a better utilization of the means of production, the savings of companies and the population and businesses operating well will have better development potential. Through this, we can encourage a solution for the currently most important task: the establishment of a socialist economy operating rationally and effectively.

In the socialist countries until quite recently the concept that prevailed almost exclusively was that state property is the truly socialist and the most effective management form, the property which is centrally and directly managed with instructions and rigid subordination system.

The image of socialism, which propagated the hegemony of state property or at least its superiority in comparison to other property forms, in fact, over-simplified the thoughts of the marxist classics. Namely, it disregarded their teachings on self-management, co-operation carried out by different forms of associated communities. Practically, it also denied the justification of private and small properties within the socialist economy.

*In Hungary the effectiveness and the collectivization of established property forms are at a low level, their detachment and separation hinder structural reorganization. The formal ownership ties of the work force do not create sufficient incentives, they do not motivate people into utilizing their productive capabilities.*

Our most important task, now, is to find the methods and forms of a more effective operation of assets in state ownership. One must also see, that there are activities—for example, in the food industry, in

commerce, catering and in communal and other services—which by their nature cannot be carried out economically in state-owned large companies but only in co-operative and associated, private or personal property forms and within the structural framework corresponding most adequately to the nature of their activities.

The planned changes are primarily aimed at extending entrepreneurial opportunities for companies and co-operatives. At the same time, they may give the potentials for private ventures, investments by individuals and investment of foreign, capitalist and socialist, working capital in various forms. The latter is as much needed as the deployment of individual and collective entrepreneurship and initiatives in our economy short of capital.

The majority of state-owned companies will continue to operate under the supervision of the company councils and workers' boards after the enactment of the law of association. No transformation campaign is needed. Where, for practical economic purposes, the association form is justified and the participation of foreign owners is useful—for example, certain large enterprises with several plants or some special trusts and companies such as banks, financial institutions, insurance and foreign trade companies—the change will be possible, and the enterprises can decide freely and independently in this matter. The associations established in this way—for practical reasons their number and ratio to other forms would probably be limited—would consist of joint stock and limited companies. No change in ownership form would therefore take place. The proprietary functions would be performed by companies, commercial banks, financial institution and other communal organizations such as local councils. Thus, they would all function as social property.

As a consequence of these changes, the number of small- and medium-sized firms of mixed properties, in the long term will probably increase. The private venturing and investment by the population, as well as foreign participation would have greater opportunities than they have at present. This development would require and facilitate a more sophisticated and differentiated concept and attitude, a more verifiable and open operation of proprietary functions. The law ensures adequate means, legal guarantees to keep the amount of shares to be sold under a certain limit. It also makes it possible that the property ratio of the state could enforce the implementation of the government's will.



*At the same time, relevant provisions set limits to prevent individuals from becoming "dominant shareholders".*

The foundation of associations is regulated by generally applicable conditions. The presently demanded, characteristically individual authorization would be generally terminated. It would be maintained only for a small circle, basically for associations formed with mainly foreign participation. There would remain certain activities where foreigners or Hungarian individuals could not acquire property or rather they could not form associations. These include, for example, defence, energy, radio and television broadcasting, inland revenue among others. Legal supervision over the associations is uniformly exercised by registration courts.

*What kind of changes does the law of association make in economic regulations in order to provide equal terms of competition?*

Every business organization must be regulated, motivated or, if necessary, restricted according to its performance and actual achievement and not according to its form and the sector it operates in. We must make sure that, in the future, only such organizations can remain in markets, which are really efficient and prosperous businesses. It is a basic requirement that investment in an association should not be disadvantageous compared to investing in an existing organization by the regulations. All this requires the development of market relations and the establishment of a system to evaluate wealth. The management of wealth and the efficient utilization of assets should be at the centre of the system of incentives.

Uniform regulation of business associations makes it necessary to unify the various taxation regulations currently in practice for companies and ventures. For this reason, simultaneously with the law of association, a new law of taxation applicable to all business should be drafted. Parallel with this, steps must be taken to do away with the regulation of incomes separately under a wage reform. The requirements for changing the system of economic conditions could be summed up briefly by saying that actual competition in the market is indispensable to assert the social usefulness of the various forms of properties and organizations. This also requires central planning to take into account the new opportunities opening up for capital flow.

The spread of various association forms requires a further development in the operation of money markets. It is necessary to work

out the institutional and operational setting for the state controlled and organized security market, thus to organize state supervision over the securities and the securities board. Thus would be organized the flotation and circulation of securities such as bonds and shares, and they would control the legality of such securities.

*Besides the organizational aspects of business, to what extent will the planned changes affect distribution?*

Presumably, the proportion of incomes originating from the investment of savings will increase, differences in wealth and standards of living will become more marked and obvious. We can expect that, as a result of the new law of association, differences in individual incomes will increase, since successful business ventures will result in a stronger differentiation. However, it is clear some people have been growing rich anyway, and new wealth may come without the introduction of new association forms, for example, from letting property, winning the lottery or football pools, from savings bank deposits, bonds, not to mention illegal, almost uncontrollable and speculative investment by so-called sleeping partners or even usurious loans.

It is not within scope of the law of association to deal with the material inequalities arising from the share-ownership, money-making damaging equal social changes and the restriction of citizens' wealth-accumulation; this should be handled by the regulations on the income flow, by income tax and by death duties. Improving the financial means of society can also be promoted by the modernization of the ownership system, through a more effective operation of the economy. In addition to the present wage-earner and employee interests, there is a great need to strengthen the property awareness and motivation of the workers, as well as of the economic driving force arising from this. It requires a certain opening up in ideology, as well, because ideology which is hindering the improvement of efficiency cannot be good.

It can be expected that, following the introduction of the law of association, a greater interest will be manifested in the returns on investment and purposeful capital flow. We hope that this will not only apply to private property.

*Wealth or capital as an income source, inevitably raises the questions of exploitation. One of the most important goals of socialism is to do away with exploitation. We thought this could be done by eliminating private property, and we declared this by laying the foundations of*



*socialism, though the human and social relations, the characteristics of the labour market and shortages have survived up to now and made the exploitation possible even if only in a particular and an isolated manner.*

The law of association does not create the circumstances under which private activity or adequately regulated and joint ventures with foreign participation restrained within defined boundaries could again develop class discrimination resulting in exploitation.

As a consequence of the law of association, it is an unreal to suppose that, outside the scope of small-scale production, large scale private entrepreneurs would come into existence irrespective of economic policy intentions or that private wealth could greatly increase within a few years. It is more likely that the present incomes arising from illegal investments will become more controllable and taxable. The new conditions offer a good basis for the population to spend their available income investments in a way that serves the interests of the society rather than on wasteful consumption.

It can be expected that practical experience will convince people and society of the usefulness of possibilities offered by the new law; for society as a whole, a higher income will be earned in accordance with greater risks, better and more valuable work. They will also realize that the levelling in their present incomes would damage not only the present situation of the companies and members of society but their future, growth and ambitions too.

In the practical operation of the law, it can also be expected that a more resolute and effective ownership interest is going to appear in management, with a marked separation of proprietor's, manager's and employee's interests from one another. The outcome of these changes are likely to influence the relationship between the economic and political systems, the forms of their co-operation and the division of labour between them. In the future, it can only be judged by practical experience what sort of changes would be brought about by the spread of business associations, in the relationship of the political institution system and the economy or rather what sort of changes would be necessary in order to implement our social policies.

*The law of association also means the development of new forms of workers' participation. What kind of new possibilities would be opened up for the workers to join in enterprise management by participating in the activities of the board of supervision.*

The expected measure supposes a change or rather an increase in the role of trade unions, either directly or indirectly, making it necessary to renew their substantial and formal elements.

Needless to say that this requirement is also there if we examine the party's place in production and management and its role and opportunities in business.

By passing the new law of association, several statutory and non-statutory regulators—the Civil Code, the Code of Labour Legislation, the law on state enterprises, co-operatives and state finances, the degree on liquidation, several cabinet decisions and orders—must be modified, some have to be abrogated and new ones must be drafted. This can, however, only be clear after the law is passed.

OSZK

Országos Széchényi Könyvtár





# Will There Be Free Competition Among Enterprises?

**Ferenc Vissi (42), Deputy President of the National Material and Price Office**



Educated at the Karl Marx University of Economics, in theoretical planning and analyzing. Taught at the university for three years, then section head at the National Material and Price Office and later head of the Office's Foreign Trading Price and Fiscal Department. From 1977 on, he was dealing with the general problems of economic regulation at the Central Committee of the HSWP.

Nominated on 1 January 1981 as Head of Department for Economic Regulation at the National Planning Office. Became Secretary of the Coordinating Committee for Economic Regulation set up to draw up the broad range of steps needed to improve regulation.

In 1984 became Deputy Head of the National Material and Price Office. Lecturer on price-policy at the Department of Finance of the University of Economics. Author of several studies, his book "Economic Regulation" was published recently.

*One of the least clarified issues in today's reform debates is the role of the market in Hungary's economy. Some economists are talking about unlimited market possibilities, free market economy but we do not fully understand what they mean by this because the market is burdened with thousands of limitations and because market is not the only criteria in international competition either. What role market will play in economy in the next two or three years? What can be done to dissolve controversy and debate between the "reformers" and the economic management? What do we mean by market today?*

We have been using the term "controlled socialist market" for a long time now without having reached any understanding over the separate terms of "controlled", "socialist" or "market" either.

As regards the scientific definition of the market, we do not have any



special problem since it is a comparatively clear-cut definition in spite undergoing much development in the past 150 years. Instead, our traditional problems and also our debates are political, economic-political in nature because the main issue to be decided is which are those fields of economy, society where we must, can and are supposed to rely on market relations and for what purpose and in what extent we must limit the market effects and what justifies us in doing so.

Since market and market relations are always concrete, politics, despite all the complexity involved, must be able to tell to what extent it is advisable to rely on market relations in a given time and with given perspectives and which are those fields where it does not wish to enforce market effects and it must also tell what does controlled market mean for it. In a very big part of the economy the questions what to produce or how much to produce must be left to the decision of the seller and the buyer. It is also their business to decide how to react to the requirements set by the need of keeping pace with technical developments, market effects, price changes in particular and, to the changes in the buyer's demand, in general.

At the same time every government—including the most liberal western bourgeois governments and the orthodox dictatorships—will tell which are those spheres where they do not want to subordinate the operation of the system to the daily changes in the market forces.

*In Hungary's case which can these spheres be?*

For example, a great part of scientific research and fields of education and socio-politics. Scientific research cannot be cut into pieces to make it follow the boom cycles in relevant fields of economy. Similarly, the development plans, alternatives for the basic public services must be based, instead of some short-term price changes for example, on a set of values that are valid for a longer period of time. The reverse of it is not true however because neither the above spheres can be managed in the long-run on the basis of a policy which takes no notice of the existing price relations.

Whenever politics or the government decide to set aside or to limit market forces, it will always replace the buyer's value of judgement, to some extent, with some centrally issued decisions. In this role, the government is always giving money, usually from state tax revenues, for the financing, will guarantee employment and a given level of supply etc. thereby proclaiming that when it replaced the value of

judgement of the concrete buyer it has made a rational measure in view of society.

In the bigger part of the economy however there is no rationality in social level in replacing the buyer's value of judgement and the state administration or any other authority would replace the buyer with values differing from the buyer's and press through interests other than the buyer's interest in the given case and this would lead to distortions in the judgement of relations and would change the relations in the economy from natural relations into relations opposing the economic unit and the representatives of the official power. (From our history we know this type of system.)

The essence of what I mean is that the role of the buyer—domestic or foreign—in a wide range of social interests and in production must not be replaced and market forces must not be restricted.

It is not by chance that I keep talking about the buyer's position when I am talking about the market because the producer in his capacity as the seller is at the service of the buyer and not the other way round, as in some cases he is thought to be. I realize, of course, that many producers have been restricted also in their position as sellers yet if we make a detailed analysis of these cases we will find in the background a role—usually protectionist role—that is replacing the buyers judgement of value.

*What does "socialist" mean in the above mentioned definition?*

In my view, when we are talking about market we should say "socialist" or "capitalist" only when we want to differentiate between socialist or capitalist countries.

"Socialist", as an attributive has become simply an antinonym for "capitalist", without containing the definition of its actual characteristic. In my view, market has neither socialist or capitalist characteristics. Capitalist or socialist—as I mentioned above—are merely suggesting which social system the country in question belongs to.

In the past the term "capitalist" was extended to describe functions it should not have. Thus these "interpretations" were both misleading and erroneous. The socialist countries inherited the market forms (monopolist, oligopolist) together with the capitalist market, as well as market methods, company strategies, company management and organizational forms.

Market forms, methods, strategies, management or organization



will remain the same, whether capitalist or socialist. The reason for our lagging behind in the past and also in the present is that these categories and functions have been considered to be functions and categories created by official ideology.

It follows from the above that there is no socialist or capitalist market, there is simply the market.

Aside from this, there exists social and government policy that—out of society's interests—will implement market restrictions or, as mentioned above, will exclude market effects. The distinction between socialist and capitalist markets might have had a role to play even regarding the above components 40 years ago when power and ownership relations had been basically changed. Today however I see no sense in any debate on this basis.

Similarly, I also consider misleading the debates of the past 20 or 30 years intended to decide whether plan or market should be given priority. This too is a reflection of a past ideology and motivation of power.

*Both at home and in the CMEA, the view is held strongly, indeed it is accepted as fact, that the socialist market is plan-controlled and has no monopoly relations. Taking this reality into consideration, what does "planned" mean in the "socialist market" today since, correctly or not, in the past 30 years, the development of the economy and the economic policy has been based on this concept?*

If we do not look upon "plan controlled" as a taboo, we get closer to the realities at once. For me, plan-controlled means two things. On the one hand, a modern state (party, government) wants to foresee processes (and plans them in advance) the realization of which calls for macro-level, society-level policies and for an active role on the state level. These can be either economic or social processes.

On the other hand, the system (sub-system) operated by a modern state is characterized by the maintaining of balance. A system like this will not come about automatically, it must be planned. Therefore, in my view, plan-controlled development means that the actual processes are weighed, qualified in this duality.

Surveying socialist development, we will see that our mistake in plan-control was that we had been out of step which in turn resulted in unnecessary centralization and bureaucracy. In the meantime, the systems (sub-systems) failed to maintain balance mostly because the

necessary control-mechanism was missing so it could not call for the maintaining of the balance.

As regards the market forms, the forms of competition, my view is that a small country that wants to open towards the world and that wants integration not only with the East but with the West as well, does not have any realistic choice because it must demonstrate its existence and vigour in the very same situation of competition as its rivals. In competition one must stand one's ground.

*In this case then, since our market continues to operate in part in the "traditional" way, how can we control it?*

Well, this is an essential question. In the past 20 years controlled market meant three things.

Firstly, certain decisions of the national economic plan excluded market factors so that decisions were made to fit into the plan instead of into the market factors and the only activity to be implemented was the one set out in the plan.

As a second feature of the controlled market, the state does not want to allow market forces originating from other fields to affect a given area of the economy, therefore the state gave subsidies or refunds, averted effects or protected from effects, made interventions.

Thirdly, with what we called the "economic control system", we made attempts to influence and control the market activity of the companies. These were the three features of controlled market as interpreted by economy experts and planners.

*Excuse me, but, today in 1988, I am not much attracted to learning how these processes were interpreted 20 or 30 years ago. I am much more interested in learning how we are going to interpret market control in the years to come?*

As follows from the above, the conception "controlled" can be filled with meaningful contents, even in the sense of the meaning used in the past. Here however I would like to emphasize another element, one that was neglected in the past but has a promising future.

This is a specific control mechanism of the modern market and it makes the conduct of rival sellers and buyers comply with the norms of what we call fair conduct. This means, among other things, that the greater potential is not taken unfair advantage of, the monopoly situation is not used to exclude rivals from competition—in general there is fair competition.



Here I would like to call attention to an interesting feature of the market abroad. It is not by chance that in the past 20 to 30 years the market of the developed capitalist countries has become controlled in this aspect. They have competition laws, anti-trust laws and anti-cartel laws. In the interest of society these force even the biggest monopolies to observe the norms.

Today the free market does not mean disorganization in the industrial western countries. We might as well say that in this regard the western market is more controlled than ours.

The organization structure, institutional system—state administration—that emerged in Hungary in the wake of the political decisions of the 1960s and the early 1970s was aimed at the centralization of the company organizations so that to make them, among other things, capable of helping the political power to enforce its will.

But what happened in the past 10 years? With the development of the economic mechanism the companies were given more and more independence but at the same time they had growing interest in restricting competition. This is nothing extraordinary, since competition is uncomfortable for everyone and it is only natural for those involved to want to limit it if they can.

Thus, while earlier policy and economic management practiced the method of excluding market effects and of setting limits to competition, it is now the company that does so in order to protect its interests. Competition is an enormous driving force however; the winner can get richer, while the loser falls behind. For this very reason I consider it important to utilize this driving force of the economy to the widest possible extent and degree in the interest of society.

*I would like to point to a concrete step taken in this direction. From the autumn of 1987, the party leadership began to transfer economic direction increasingly to the government and with it, according to all indications, the necessary freedom of action as well. Are there any indications that the government is going to expand control of the market in the sense you described above? Has it decided to do so?*

An this stage I cannot give you a definite answer. Nevertheless I can tell you that a decision has been made under which we must work out the possible ways to develop this type of control and it is not point zero we shall have to start from. We have been working along these lines for

two years now but there is still much technical work to be done before it can be brought to realization.

In our view, a control over the domestic market must be created in the sense of the control that is regularities western market competition.

Therefore we are convinced that we must draft an up-to-date competition law to serve as the basis for banning any misuse of superior positions. Although we do have the law to prevent the misuse of these potentials today, we do not have any serious chance of actually enforcing it for the very reason that the superior positions are being created by the economic management—on a mass scale. . .

*And who is going to "ban" them from doing so? Economic management? How are market forces to be created while prohibition is in force?*

Prohibition is an interesting element of economic management. In the West—where it serves to enforce a kind of norm—prohibition allows for bigger freedom than any administrative control would do, no matter how liberal the latter is. We too have the same in mind. Anything that is harmful in competition or in the cartels must be prohibited.

It follows from the above that not all price cartel forms are harmful and forbidden. In a developed world, production cooperation is creating a large number of agreements which, as a rule, accompany vertical relations, the technical innovation chain.

It must not be permitted however that these agreements exclude anybody from competition and from the market or that the disadvantage involved because of exclusion from the market exceeds the advantages provided by the agreement. Today, in most cases, the companies and the economic management fail to realize that their conduct restricts competition.

Therefore, it is essential that the results of an analysis of the alternative should be built into the processes. Thus in the cases mentioned above it would become compulsory to examine the agreements from these given points of view. The decision on setting limits to the competition or to cartels must be done by institutions set up for this purpose. We however do not have such institutions.

*The setting up and operation of such an institution involves the danger that it may, sooner or later, become a "bureaucratic hydra" otherwise it will be unable to judge on their merits tens of thousands of agreements.*



*Moreover once the expected company law comes into force, the number of market factors will increase further and the situation becomes much more complicated. So, my question is, do you indeed need this institution?*

The reexamination of tens of thousands of company agreements is out of the question and similarly the institution becoming a "bureaucratic hydra-head". The only way we can imagine this task is to make enterprising and the fusion of capitals free. This way it cannot even occur to anyone to refuse permission for an economic activity on the grounds that such activity already exists.

Of course, as a basic need, we must reduce the number of superior potentials. This is among the preconditions to achieve that a competition supervising apparatus should tackle essential economic issues only like import competition, economic management, decisions (organization supervision, the creation of competition, neutral taxation) and company decisions, in order to avoid being lost in a jungle of insignificant, individual problems borne out of half-way solutions.

All the developed countries operate such institutions and there is no reason to believe that we cannot, without letting it to become a hydra-head, or a bureaucratic, oppressing burden.

One of the major tasks of this institution would include the exercise of control over economic fusions. In such cases when companies want to merge or to join and when the newly established company's control over the market would increase to the extent to allow for its taking use of its advantage over its rivals, the companies involved in the deal must prove that their activity in this new form is the most useful solution both for society and economy. The planned fusion will be banned if it is proved to have a harmful effect through setting limit to the competition.

In Western Europe, this method of limiting the competition has several decades of history and today, the primary aim is to prevent distortions in the market structure.

In Hungary, where the situation is reverse and where the number of competition limitations is very high, we must first start reducing their number using some principles and programmes as a basis. This calls for preparedness also on behalf of the government in order to create a situation where competition supervising bodies are not required to tackle measures in place of the state administration.

*Do you have concrete authorization for the establishment of such institute?*

As I have mentioned before, the work has been going on for two years now at expert levels. We have been authorized to work out the operation of an institution of this type so that when it gets approval it could fit in the mechanism.

*What name would it be called?*

We did not consider this question yet. Its function would be of an authority over prices and competition. Some people suggest calling it a cartel office, others price and cartel office while again others competition office. For the time being we are busy defining the technical contents instead of looking for a name. And, the technical contents are not easy to define either.

*Why?*

When we say that harmful monopoly situations must be eliminated and that no one must be allowed—and here the emphasis is on *no one*—to create such, there still remains a basic issue, namely to decide what is it “harmful”. In the socialist countries “harmfulness” does not have any separate economic system of criteria so that we must work out one and, of course, we will also have to have it accepted.

Besides, economic “harmfulness” has legal norms as well, so obviously it calls for evaluation in both regards. I would like to call attention to the fact that the economic and legal norms alike depend on the interpretation of competition by policy since the general frameworks of competition are decided at this level.

From the interpretation of competition, many things become clear. For example if official policy relies on a growing competition and on the incentive and pressure effects involved then it will let competition perform its functions in the widest possible field of economy, i.e. will give it priority. As in the case of the market, the question to be decided about competition is not if it is socialist or capitalist (and I do not see any sense posing the question in this way) but to decide if competition is honest or dishonestly and if its norms are in step with the requirements of the modern world or not.

*Am I right to presume that what you are suggesting is that modern society—independently of the social system it belongs to—calls for a controlled market in a sense that control means the observing of the norms without posting policemen on every corner?*



Yes, that is what I meant to say. But the creation of steady norms and a highway code of steady values is yet to be done. What we called "economic control system" above must become a steady element of the highway code of economy.

Mergers and competition must be regulated by laws. In a modern country the observing of the economic highway code is equally compulsory for the management, the party, the government and for all those acting in the economy. This is how the balance of economy is maintained and this is a basic precondition if we want to demand that the seller and the buyer place their relations on trust and rely on the quality work of one another, helping in this way the well-being of the society as a whole.

Market and competition are inseparable and neither of them can be simulated. In the past when we talked market, we tried to "transmit" market values to a given territory by introducing certain regulations but these were only substitutes for the genuine market relations.

True, we did this mindful of the fact that simulated market is still better than nothing or than the exclusion of the market forces. It was no wonder that the hoped-for results either failed to materialize at all or had been very limited. Half-solution is no solution in this case either.

Unfortunately enough, we are in a situation today when anybody can claim to be a "reformer" who comes forward with an idea or, with the opposite of the very same idea. In our country debate ethics have yet to be improved. Prestige is a very big power and it will not endure personal insult any better than enemies.

I can tell from my own experience that professional debates—or differing views—are taken as a personal insult by those whose opinion is opposed and, in this way, we cannot expect even a minimum tolerance towards differing views.

To change this situation we must hold many, many public debates and in the course of these debates we can find out who is the reformer and whether it is the reformer and the economic management who are actually opposed to one another.

LAJOS GUBCSI

# Who Can Interfere in Company Affairs?

**Tamás Beck (59), Chamber of Economy**



Engineer by profession. His professional career has been in Hungarian industry. Between 1963 and 1970 worked as managing chief-engineer.

Between 1970 and 1973 plant-manager of the Light Industrial Organizational Institute. Studied at Princeton University in 1971-1972. From 1973 he acted as general manager of BUDAFLAX Flax-spinning and Textile Works.

Member of the Board, Deputy Chairman and President since June 1988 of the Chamber of Commerce (Chamber of Economy since 1988). Member of the Committee of Economic Policy of the Central Committee of the HSWP since 1985 and in 1986 became member of the Industrial Policy Council. Elected to the Central Committee of the HSWP in 1987. Titular university professor. In 1985 received State Award and in 1987 the Danube-Europe Institute based in Vienna, awarded him its Great Golden Commemorative Plaque. Since October 1988 Minister of Trade.

*How much are we affected by the economic reform launched in 1969? What are the main causes of shortcomings? What can the Chamber of Economy do to help carry out the reform process in full?*

One of the greatest shortcomings in the implementation of the reform has been the failure to take the right steps at the right time, consistently with the original aim. Instead of comprehensive reform measures often unrelated to companies, untested or even unrealizable elements have been put on the agenda. In the meantime, we expect others to create the conditions that are indispensable to make a success of the given question.

This is what happened with tax reform when it was not accompanied by genuine price reform. Yet we introduced personal income tax without a wage reform and now we are busy with a budget reform while we have already done the tax system.



The trouble is that the organizations in charge of the various fields are only aware of their own problems and hope that market forces, interestedness and structural change will come about somehow. This in spite of the knowledge that it has been stated in nearly all the elements of the reform that new solutions can have no real effects without the above conditions. We very often overlook the fact that these conditions are not to be taken as given, they come into being through a combination of effects, as consequences in the course of the operation of the economy.

In today's changing world I think it is purposeless to talk about the accomplishment of the reform in full. Instead we should prepare ourselves for continuous modernization. Moreover there are still problems awaiting attention in the current reform steps which we were not able to devote enough energy to in recent years. For example we could use wide-ranging methods of coordination to bring together the interests that emerge in the economy. We could help establish a relation among these interests where an agreement among the interested parties will have the power of decision.

Removing the need for the government to make any decisions and approvals we could release much energy for other purposes. The operative control tasks in recent years have diverted attention from these questions.

In this field the situation is still undecided both in theory and practice since coordination of interests has a very negative side too. The process is time consuming. Counter arguments must be listened too and compromises must be made.

And since there are many people who take the view today that there is no time, our system of management is rushed and we are unable to change an approach that wants to change the economy overnight into one of gradual, coordinated steps.

All the Chamber of Economy can do is raise its voice against this, because until the government has a much bigger say in company affairs than the companies themselves there is no point in fighting for the coordination of interests. Consequently, first the remaining reform moves must be coordinated to that for instance the reform of social security should happen only after attention has been paid to the basic principles of a new wage and budget system and prices should not be adjusted to the principles of the tax system alone but attention should

be given to questions of distribution and the income levels of the population as well.

*In 1988 what can the Chamber of Economy do to make amends, at least belatedly, for the faults that occurred when the taxation system failed to give due consideration to the principles of efficiency, to the creation of equal changes as well as to the creation of a control system that is based on neutrality from organizations and is activity-oriented?*

Although the basic principles of the tax reform are good in themselves, some of the effects and some of the rates brought about changes that were too sudden. A step-by-step approach as mentioned before and the planning of the direction and proportion of its impact in advance could have made it more tolerable and at the same time the processes themselves could have been influenced as well.

During the preparatory work the Chamber of Economy repeatedly reiterated the view that the economy would need time to adjust to the changes. Unfortunately the decision was (and maybe still is), in the hands of those who did not seem to realize that it requires one or two hours to turn a ship in the opposite direction. Seamen know this but naval bureaucrats may not.

The problem however has worsened primarily because during 1988, as a consequence of the economic situation, the economy has been restrained, chiefly in the field of domestic consumption. This mainly affects the population and the companies. It affects the budget less.

The impact of this restraint is passed onto realignment brought along by the tax reform and, since the dividing lines merge into one another, it gives the impression that tax reform is responsible for all problems. The mistake in the introduction of the tax reform was that the decision came too late and consequently it could not be properly prepared.

We must seek solutions to the problems that surface in the transitional period but the effects can only be weighed on the basis of practical experiences. Although we must be consistent we must not think that modification, simplification or rationalization mean reversal. We need common sense and flexibility here too.

*What are the main thoughts of the Chamber of Economy on the company law now being drafted?*

The Chamber of Economy expects that the company law will create the frameworks and opportunities for an organic development for



economic units and for the different organization of those engaged in the economy. We hope it will provide conditions for the development of entrepreneurship and will guarantee the neutrality of the sector and equal conditions for competition.

Conditions must be created for different units of the economy to change from one organizational form to another and differentiation must be achieved between the categories of the proprietor and the employee. In the field of organizational forms and internal control systems there should be a greater variety of forms and less restrictions.

So-called "property managing" organizations must come into being and although their role cannot be exclusive in the economy, their tasks cover a wide area and may, for example, fulfill functions directly linked with the protection of wealth in their charge (this insurance institutions).

At the same time we must preserve all the values created in the course of our development so far. The entrepreneur structure must be made competitive both at home and abroad. The good elements in the Shareholders' Company Law, dating back to 1875, must be preserved.

*Talking about company interests, to what extent does the 1988 economic control system (price and tax reform, wage economy expenses) promote and to what extent does it hinder the realization of the development programme from the point of view of the companies? Much is heard about the worries that the new tax system decreases the income of some 30 per cent of the companies, thereby increasing the proportion of companies in deficit. How do you judge this?*

As a matter of fact, as early as 1988 we can more or less talk about the work programme; only that set stability as a goal for the government. And although it is obvious that stability is a precondition for progress, it is not progress. It is very important as early as today to work at full speed to shape the programme that marks the path and conditions of progress.

The short-term effects of the changes introduced in 1988 are not linked to the tax system but to the income control system instead. And despite the restrictions this latter involves, there would be no problem should these main rules give clear-cut directions. Even today the companies are "expected" to do a lot of things which run counter to their rational interests.

Interestedness and incentives set the companies many and often

contrasting tasks. At the same time, a significant area of resources is ruled by a rigid system of distribution. In order to obtain extra resources there is much to attend to and in the meantime the outcome is uncertain since these resources are granted on a case-by-case basis.

As a consequence the companies' business activity is limited and while the barriers are difficult to break down, under the existing frameworks company activity cannot be expected to result in changes that might make their effect felt in the macro-economy level. This only makes our legging-behind bigger and will not cut our budget deficit either!

The worsened income positions of the companies (some 50 per cent of the total number of companies) can be traced to several causes. For me, it appears essential that these causes should be brought to the surface and adequate solutions should be found to them.

Where the cause of the problem is excessive cut off, it should be reduced and where the company or the economy control is functioning improperly this is where a change is called for. We considered the 1988 wage economy method a transitional solution right from the start, thus the first steps taken in the direction of a wage reform must include a cost-oriented wage economy at the company level.

*In the Hungarian economy locked-up capital has low efficiency and much of the resources are still wasted. What do you think the government and the companies should do to put things right? The same question applies to the slow pace of structural change.*

I am convinced that instead of the quantity of the available resources, it is technical standards and level of modernization that are the main sources of the problem. This unfortunately applies not only to material resources but to the workforce as well. The problem is further worsened by the fact that the products lag far behind today's requirements, both in standards and quality, and this is a case where cause and consequence have of the same root.

In this way we waste our capacities, material and work since they cannot be utilized at their value. Therefore, the chief requirements of the structural change that aims at creating new products should include the production of quality. This calls for additional material and mental resources.

The production range of the companies included a range of new products in the recent years. Their quality, the care taken over their



production however is not better than before and thus they do not sell any better. They do not reflect proper mental value. To put things right the government must support and encourage technical development while the companies must demand disciplined and quality work. The latter calls for a comprehensive, constructive and disciplined mentality in the economy as a whole and makes the improvement in productivity and efficiency imperative at all levels.

Regrettably we do not tackle the question of morale the way we should and our failure can be traced back to no other reason than our insufficient knowledge of the situation existing in the economy in the micro-sphere level. Of course when I am talking about morale I think of it as a complex that covers a wide spectrum. There things to be done keep accumulating since the existing level of morale in the economy cannot allow either a bigger increase in efficiency or achieving a breakthrough. We must make progress in this field too if we want to realize effectively the goals of the reform that are becoming increasingly complex.

As it is widely known, the balance of the Hungarian economy's exports in trade with the capitalist world is unfairly small. Therefore by the early 1990s we must inevitably increase our exports to reach the dimension of 6 to 7 billion dollars. This, in addition to a coordinated planning of our national economy processes, also calls for increased efforts by the companies (improved utilization of capacity, productivity, quality, economizing on materials) which with the current approach would be hardly feasible.

*Do you agree that it is intolerable for companies to make up for inefficient work and market failure by increasing their prices or by using tactics in order to manage to survive?*

These statements generalize, are vulgar and in my view unfair. Unfortunately enough the company sphere has had to "swallow" many of them. No wonder since the factory is the lowest grade in the hierarchy and as such it has the lowest resistance to fight against the blame shifted to it for mistakes and shortcomings.

Price increases, in the majority of the cases, serve to counter-balance cost increases. For the last 30 to 40 years we have been working on exploring our internal reserves but these will not be available until the end of time. I do not, of course, want to state that no company happens to make unjustified and unlawful price increases, simply that this is not

the case in general. The topic of price increase had been realistically and profoundly discussed at the March 4 session of the Chamber of Economy by minister László Somogyi, who explained that under the existing financial and liquidation conditions there is not much possibility left for Hungarian companies to hold back production.

But let us stay in 1988. In the first quarter, the economic administration increased the price of the money, the price of electric energy and the price of transportation. And there has been a range of other cost increases as well. How one can explain this? I am looking forward with interest for someone to come forward and explain it to me how to do it without being rhetorical.

When announcing support for the anti-inflation steps by the government, the Chamber of Economy stated that only those price increases can be accepted as ethical that can be proved to be the consequences of a production cost increase independent of the companies.

I have depicted the situation in a simplified way of course; it is made complicated and distorted by a large number of factors (import price increases, world market trends, mismanagement, etc.). We should reach the point where domestic prices too are moving downward, where the price reflects quality improvement and, in a word, where market forces dominate. This requires a lot of things, including for example company expenses without containing factors of cutbacks. This is a situation we cannot talk about yet.

Nor does the government adjust domestic prices to the world market prices when there is a downward trend in the latter, although this would set an example. The Chamber of Economy disagrees with the method of using tactics but it must be also clearly seen that this method is only practicable in a deficient economy.

We have established an ethics committee and we anticipate that any time a citizen, company or cooperative discovers something unacceptable they will notify us about it. This committee is chaired by Dr. Gulyás, a retired company manager, the holder of a State Prize, the deputy president of the Chamber of Economy.

*What changes would you deem important in the economy and in the control system in order to realize the stabilization programme?*

As it has been said many times, the best approach would be to increase the sphere of movement for the economic units. The means for



this are known and have been properly explored. To mention only a few: the centrally controlled conditions of the economy must be well-defined and must be widely known; the changes must be calculated and foreseeable on the basis of economic phenomenon (I did not say stable but foreseeable!); there must be an improvement in the distribution of labour in all fields of the economy, including the tasks between control and management. The paternalist approach must be replaced by trusting the decisions on their own business to the companies themselves; management must not call at every step for the assistance of the authorities; definite steps must be taken to cut back budget expenditure and the money thus saved must be used to develop branches producing national income.

*What should be done to make restriction selective instead of general?*

The answer can be clearly seen in the above proposals. Under pressure, the economy is forced to make restrictions; these however do not influence the productivity. On the contrary, under such conditions, an opportunity must be given to those who can produce more, better and who have the potential to produce viable products.

This selective mechanism is best operated by the market and the development of the process too can primarily be assisted by means of the market. The March 1987 tax reduction in Austria is a good example to illustrate this. The approximately 20 per cent reduction in VAT and in personal income tax is aimed at increasing productivity.

*What does the Chamber of Economy do to fight excessive control in the company sphere?*

The Chamber of Economy recently established an "ad hoc" committee of company managers to survey the factors that hinder company independence and its realization. The outcome of the survey, included in an approximately 70-page reports, is quite devastating.

On the basis of this report we want to initiate steps to achieve that, with the modernization of company planning work, the review and definition of the tasks of the state control and last but not least with legislation, the number of regulations that control the companies in questions that should be decided at company level must decrease. Thus does not seem to be easy, yet we must undertake to fight against instructions of this nature with determination in the future.

"The thick bush" left over from the past must be thinned. It is a good omen that the authorities, including the Financial Ministry, approach

the issue positively by reconsidering their own regulations and by scrapping several of them.

“Only one economic control organization should be allowed to rummage in the companies’ pockets”, is the conclusion of the committee’s work.

*Some hold the view that there is money in the Hungarian economy, at the company level, as several investments in recent years seem to show, only the companies complain too much because of restrictions. How would you respond to this?*

The financial problems of the companies has primarily been fiscal in nature. The gross reduction that has been placing burdens on the companies has been increased year by year. In 1985 and in 1986 this already surpassed the total amount of original incomes realized in the economic sphere (i.e. taxation plus depreciation).

While, the gross reduction in the percentage of the original income in the economic sphere had been 94 per cent in 1980, in 1985 it was 100.9 per cent and in 1986, 103.5 per cent. Consequently, in essence the reduction from the companies is more than the cash flow, which is a self-destructive, harmful thing by any economic theory.

Part of this reduction had been given back to the economy in the form of support to expenditures but of course not to those companies—or only to part of those companies—where the reduction had been made.

This resulted in increasing tensions and the lack of understanding between the financial institutions and the companies. In 1985 for instance the balance of financial support, based on figures by the Central Statistical Bureau, made up 66.2 per cent of the original income of the economic sphere, i.e. that much had been centralized. In 1986, this was 63.6 per cent. I do not have figures for the year 1987 yet but the situation must be similar.

Thus to the question where is the money, I can reply in cold blood, with certainty and correctly, that the money is not in the economic sphere but in the budgetary sphere and in the possession of the population. In support of this there are plenty of data available at the Chamber of Economy. We have placed the data and this calculation at the disposal of the economic administration.

TAMÁS SZÖNYEI



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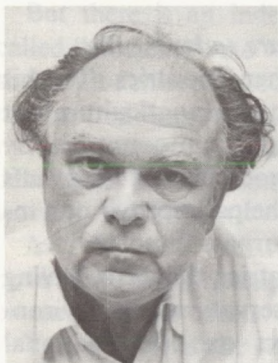


OS

Országos Széchenyi

# Can Agriculture Develop?

**János Márton (66), retired General-manager  
of the Agrarian Economics Research Institute**



As a young man was active in the Peasant's Party, in 1945–46 county secretary of the National Peasant's Party. The next main stage in his career was at the National Planning Office, where he was Deputy Chairman between 1954 and 1956. Since the 60s he has dealt with agricultural research and is one of the establishers of current Hungarian agriculture. For 15 years from 1970 he was director and director-general of the Agricultural Research Institute. Since 1979 member of the Board of the National Council of the Patriotic People's Front and from 1985 its Deputy Head.

Publishes regularly, with major works entitled *The Intensive Nature of Agriculture* (1964), *The New Structure of Our Foodstuff Economy* (1974), *Integrating Agriculture* (1977), coming out of the *World-Provision Crisis*

(1986). Many of his books have been published abroad, including "Dynamics of the Hungarian Agricultural Structure" which was published in Geneva by FAO and Economic Commission of UN.

In the course of the recent decades, agriculture ran an impressive development course and scored great successes among public and professional circles alike. This led to increasing burdens shifted to the farm sector, especially in exports, so much so that while the farm sector is producing "only" 20 per cent of the national income, one quarter of the total domestic exports, including one third of export to capitalist countries, comes from agriculture.

Considering the farm sector and its link with the reform, we must first point out that this branch has been undergoing a continuous renewal ever since 1957. In the past 30 years there were only a few successive years when conditions did not change. While technological development slowed down by the late 70s and early 80s, organizational transformation became increasingly intensive.



Let us recall the spread of small production cooperatives where agriculture had a pioneering role to play but the breaking down of the barriers set by single—polar agrarian activity and the introduction of secondary or supplementary branches was also a big breakthrough.

At the same time, the less willingness to adopt to the reform spirit was shown at higher professional levels. I can state that cooperatives had bigger freedom in the first half of the 1960s than in the period between 1980 and 1985, when the constantly changing regulations, statutory obligations wanted to syphon off new values produced so that they can be regrouped within the budget. But with trammels put on, movement was hardly possible!

*How would you describe Hungarian agriculture today?*

It is best to do in comparison with other countries. In this comparison the results and problems of the Hungarian agriculture best compare with the agriculture of the West European countries. By results I mean that it supplies a comparatively good level of foodstuffs for the population while in foreign trade it helps improve our international balance of payments. Its exports surpass imports.

However, it also compares with these countries that it is having similar overproduction problems, nature conservation and environmental problems and it increasingly borders on other national economy branches. The old, traditional “plain” farming that meant plant cultivation and animal husbandry alone, is gradually disappearing to give place to a specific, economic branch of agrarian profile and with farming as the main or secondary activity.

*One might think that the primary task of those who own land is to cultivate this land. . .*

Only a very unexperienced person can think that it is worth doing anything exclusively as a main occupation, under conditions when in a considerable part of the year, natural and climatic circumstances make it impossible. Even animal husbandry has its own cycles, although it provides more continuous occupation than plant cultivation.

This led to a quick spread of divided economic activity in the rural areas with agriculture only a part of it. This change is also due to growing demand by the rural population for more income and to the population's wish to narrow the gap with the city people practically in all aspects of life, including the time spent in work and with leisure, and also in cultural consumption and life style. The phenomenon created by

this situation in our country are very similar to other European countries.

*Where is Hungarian agriculture's place in Europe?*

In general, we are on the top, either on the basis of the production per hectare, the value of the per capita production or the general expenses. However, this differs according to the three major branches of agriculture. As concerns crop land yield, we are on the top.

The same is not true however for animal husbandry. In this regard, we are in the lower zone of the leading group while in horticulture in the upper zone of the medium group.

But there is an index that places us on the top. This is the so-called "efficiency rate" of the machinery used, as in comparison with the result achieved, we use the smallest number of machinery, specific means, buildings, chemicals, and materials coming from outside. This however, must not make anyone self-conceited since it involved drawbacks as well, since the main source of this is plenty of human work.

*Isn't this good "index" the consequence of a situation that was forced on us? Isn't this a consequence of our investing less and less on increasing or renewing our assets?*

Yes, it is. It is the result of the excessive use of human work, the gradual deterioration of existing means and the exploitation of the arable lands. Also the socialist countries' stock of assets is much higher than ours, while that of the capitalist countries can only be compared in magnitudes. In the United States for instance, at least 30 times as much machinery is used in agriculture than in our country.

*What consequences might this short-sighted approach entail?*

By its nature, agriculture likes to think in longer perspectives, since in different branches genuine results take several years to come. Plant cultures operate in 10 to 20, cattle breeders in 7 to 12 rotations and even pig branches operate in at least 3 to 4 years rotations. The slow return of the invested capital is a fact that is widely realized.

Internal relations, specific economic laws force the agricultural economy to plan in perspectives. We, however, did just the opposite in the past ten years. Ever since 1978, we have been living more and more on a day-to-day basis because the agrarian sector was forced to increase its exports as much as possible, while receiving the least possible budget support amid the biggest possible deductions.



*Is there a danger of the branch becoming incapable of development sooner or later or even of maintaining the present level?*

I think it is among the goals of the government to stop the overburdening of the branch by holding back or by limiting production and to increase the value of exports with industrial earnings.

*Does it mean that the task is to create balanced domestic supply and to make other sectors take over the export roles with properly high level products?*

Yes it does, but only if it is a realistic expectation that industry lives up to requirements in a foreseeable future, that is, within 4 to 5 years, more precisely, before a total deterioration in agriculture and, if it will be capable of replacing agriculture's positive balance in foreign trade.

*Do you think we have no more than 4-5 years for the redistribution of the roles?*

We have 4-5 years at the most, because the overburdening of agricultural workers and the use of human work in these proportions cannot be increased any further. In this field we can only move backwards.

On the other hand, the deterioration of the stock of assets and the exploitation of the arable land cannot be continued for long either because this would, as a rule, lead us to a point where we will be unable to achieve results even smaller than those we achieved at present. The farms are less and less unable to replace the amortized wealth and machines with better, more up-to-date and higher-capacity machines.

At least 40 per cent of the machine park needs to be urgently replaced not only because they require plenty of repair but also because they cannot produce the quality required by big production results. The deteriorated means entail huge servicing expenses and need an enormous quantity of spare parts. This makes production much more expensive.

*You mentioned industry several times. Now, if we are talking about industry, is it possible for a country to make its agriculture develop and renew continuously without a proper background, a good level and standard in industry?*

No, I can assure you, it is not. It is possible only for a short, transitional period. It is only out of necessity that in the agriculture-industry relations, it is the former that can adjust to international relations and is steps ahead of the latter.

If agrarian economy is not supported by an industry that is more developed than it is, the purchasing power that buys its products is going to decrease in a short time. A population whose living standards are declining will not and cannot demand better and higher standards in food supplies. On the other hand, in a situation like this the agrarian sector cannot be given innovation incentives, modernization means, infrastructure or modern environment for its development.

*Then at the end of the 20th century, cannot agriculture become a driving force in the economy as a whole?*

No, it is an absurdity. Permanently, by no means. It would be an outright catastrophe. It can become a driving force only for a transitional period, at the most.

*How long can today's Hungarian agriculture endure the existing level of industry which is far behind the required standard? How much time do we need to make things change?*

For this too, I give no more than a maximum of 4-5 years. This is how much time the agrarian world needs to be set on a new course so that exports will not place such an oppressive pressure on it as it does today. On the other hand, the current production level can be maintained with the current technical imports and development only that long.

For example, in five years from now we shall need huge technical imports if domestic and COMECON industry fails to catch up with the top international field. Industry defines, simply by its nature, the fate of a country and the agriculture of a country.

As a consequence of wrong decisions in recent decades, Hungarian industry failed to take agriculture seriously enough. As a result, some 40 per cent of the industrial means used in the agricultural branch originate from foreign countries. Certain types of modern machines or equipment come exclusively from foreign countries. This, in itself, would not be such a big problem.

It however makes one ponder over the fact that Hungarian agricultural machine industry had once been in step with the most developed European countries. This was the case even in the period preceding World War II. They "succeeded" somehow to waste this away—"we are going to be a country of iron and steel"—and to fall behind from the vanguard position.

Our handicap is so heavy that we cannot possibly balance it very



easily. I think, the greatest possibilities here are offered by intensive participation in the international division of labour. We must select the production lines that are most needed for agriculture and that can be best converted by it.

And, another important thing. In my view, import competition must be made possible both for the products of the import sector and for the products used by it.

*In what way can the overall problems of industry influence the branch, besides those already mentioned?*

As I have mentioned already, the problem is that its lagging behind does not force it to step up innovation activity. The level of industrial development is a kind of model for agrarian producers. The lack of modernization in industry makes for even a lower level at other fields. With a higher level industry, agriculture will also reach a higher level, if only because their infrastructures link with one another.

I can as well say that this is a joint "transmission" system of cables that is transmitting values and is spreading good and bad alike. Industry's problems are also reflected by the expenditures: the gap between the prices of agricultural and industrial products is growing wider. That is to say, if the prices of industrial means are high, then agricultural production will also be more expensive. It is characteristic that over two thirds of agricultural production costs can be traced back to the industry. In this case, no matter how successful an agrarian plant is, it will be unable to counterbalance the vigorous dynamics of industrial price increases, or only to a small extent.

While in recent years, industrial prices increased considerably, the production prices of agriculture hardly changed. The majority of foodstuffs had been subsidied by the state. Although with the cutback in the subsidies the price of the food products increased, the producers price level increased very moderately only, the same way as sales prices. Money did not increase much in the branch and in the meantime, the population paid more for the products.

*Did the widening gap between the industrial and agrarian prices and the cutback in subsidies result in the parallel impoverishment of the big companies?*

Yes, it was something like this. This is reflected by outward signs as well—the condition of the buildings, roads, machines and also by the fact that they can spend less on granting social, cultural allowances to

their workers and they can spend only limited amounts on the development of their closer social environment, on the development of the villages, settlements.

A considerable part of the big plants often have not enough money even for the financing of the reproduction—they had managed to widen somehow—or for the financing of their own development.

*How can then agriculture join in the reform process? What steps will it have to take? How can it break through the walls?*

Let us start with the organizational issues. In my view, there is not a single element in agriculture's representation system that fits in the reform. On the contrary, they are downright alien to the reform process. The present-day organizations are hardly suitable for any new-approach work.

For instance, there is no genuine representation of the small plants and there are no branch or specialized branch representations either.

Cooperatives are divided on a regional, county basis and these offices are interdependent of the public administration, party and state bodies. In this way it is very difficult to tell whose interest they represent in reality.

The situation is the same with trade unions. In this field any serious, radical change can be expected only after the entire system of representation is transformed in Hungary. The split personality situation must be eliminated. These organizations should be built from the rank and file in a genuinely democratic way and should function accordingly.

*What changes are needed in agriculture?*

A lot of changes. The same principles apply here as in the other branches, in industry or let us say in the servicing trades. I think partnerships must be created that, by stepping over the boundaries, are capable of activating the capital among the state, cooperative and private sectors. Members of these companies can be recruited from all the three groups.

This reform successfully opens the way for the use of working foreign capital. Unfortunately, however, the Hungarian economy is not yet prepared to receive working foreign capital either in approach, knowledge, organization or control. The pressures for the encouragement are still missing. Time is running out, however so we must move quickly not to miss the last train.



The increased inclusion of foreign working capital could be a way out of the pressing situation which is caused by a widening gap between the prices of farm and industrial products. Our most valuable reserves are our best arable lands that are still not sufficiently utilized. With adequate capital we could create ultra-intensive plant cultivation and animal husbandry.

Changes are called for also in the nature of agricultural foreign trading. Without this, agriculture will not be able to meet the requirements even if it works tooth and nail. This trade should become what it is supposed to be, the art of selling.

Today the difficulties that emerge in deals are always blamed on the producers by saying they are not offering products that are in demand. But in sophisticated agriculture it cannot happen that its products are not purchased somewhere in the world. The question is for how much and where.

Domestic trade should compete with foreigners. It should be capable of conquering the market, and do efficient marketing work, not only beyond the frontiers but also inside the frontiers. And those who are unfit for this work, who do not have the necessary knowledge should not be able to make a living out of it...

LÁSZLÓ DEÁK

# Why is Hungary's Foreign Debt On The Increase?

**Imre Boros (41), Head of Department  
of the Hungarian National Bank**



Worked as researcher at the Department of Finance of the University of Economics. Since 1973 worked at the Foreign Exchange Policy Management of the Hungarian National Bank. Now Head of Department of Arbitrage—Foreign Exchange and Money Market.

Author of several text-books on technical banking technology and international monetary processes. His major publication entitled "Failures and Lessons of the Gold Payment System" was published in 1976.

He was given a State Award for his outstanding work in developing international monetary relations in 1983.

*To what extent can Hungarian foreign exchange management be restricted?*

Hungarian foreign exchange management is rather restricted; in fact it has a high degree of foreign exchange management restrictions. If someone receives foreign currency, he has to hand it over. On the other hand, foreign currency can only be obtained from restricted sources. In addition to these, the prices of selling or buying are not market prices; they are market oriented, because we continuously adjust them to the prices of the world market, but they are still not world market rates.

The management of the foreign exchange is too centralized, thus those responsible for other company matters are not allowed to handle foreign exchange matters. This restriction has no basis.

*Is the fact of the restriction without a base or simply its degree?*

Mostly its degree. Matters are not dealt with where they should be. Let me give you a simple example. When a firm which caters to the domestic market and also operates in an export-import area wants to do business with a suitable commercial bank, it can only arrange half of its business with that bank—the domestic half.



If, however, it needs a banking settlement for some import matter, it has to turn to the bank of issue. This is completely irrational today. I feel the necessity of a central foreign exchange management is understandable under the present conditions, that is, it is especially justified when there is uncomfortably little foreign currency available; all this could be arranged in a million other ways. It could be worked out for one hand to concentrate and settle everything, and in another way when this hand has a good view of things and the ability to arrange these foreign exchange affairs. I think that the latter would be the right solution; it would give a large scope for the independent arrangements of others.

*Is it true, then, that the centralized foreign exchange management must be maintained because of the lack of foreign currency?*

If the essence of the monopoly over foreign exchange is that a central view is necessary for foreign exchange processes, then I have no argument with it. But if the bank of issue, which has the monopoly, tries to do everything, to arrange even the most trivial matters, then I think it is absurd.

*To what extent do these foreign exchange restrictions hinder the real economic process of the country?*

A lot. The reason is that it contains many procedures which otherwise could be done through a general permission and thus individual cases could run freely. Now, however, a permit process has to be applied to each case.

*In the National Bank?*

Of course. In Hungary the Hungarian National Bank is the foreign exchange authority. There are other countries as well where foreign exchange management is very restricted, but in those countries it is not the duty of the bank of issue. Anyway, no matter who is responsible, it would be just as harmful.

*Since the end of the 70s there has been much talk of the convertibility of the forint. Anyone being realistic understood that the forint could not be convertible within a reasonable time. Regarding external convertibility, however, the interviews and various statements might have given the impression that this was on the agenda. Today, however, there is nothing to indicate this. Are there any steps being taken in this direction?*

Ever since there has been a uniform rate, theoretically there could have been external convertibility at any time. I think it could be carried

out within a year of making a decision on it. As far as I know there are no serious preparations being made to do so. This is roughly part of the same disorganized package which is our foreign exchange management. So, as well as many other important issues, we are not dealing with this one either.

The decentralization of foreign exchange affairs for individual companies, however, is on the agenda; most of these should be the responsibility of the commercial banks instead of the bank of issue. Part of this package could be that the fluctuation of the exchange rate (since with external convertibility, the rate should reflect the real market rate), leaving more room for manoeuvre, we can approach a more efficient external convertibility. For this the financial conditions can be easily made.

*Why aren't there any serious preparations being made to enact this proposal? Isn't this the most important preliminary condition for foreign capital entering the Hungarian economy?*

That is true, and that is why it is so important to do something about it. If the forint has external convertibility, forward exchange rates must be made for convertible forints. This is a precondition for foreign capital to come here and to see if it wants to "leave" so that it can do so under market conditions. The main point is that today things are not advancing. There are proposals, but since they end up in desk drawers, there is a general hesitancy in this area.

*Let us go back to the question; can we trace the consequences of over centralized foreign exchange management in Hungary's economic process?*

I will try to illustrate such a consequence.

Because of its foreign exchange monopoly, the Hungarian National Bank is a foreign currency wholesaler and retailer. This dual function within one institute is rarely efficient.

I think that today the main job of the Hungarian National Bank is to manage Hungary's foreign debt, and to ensure good conditions for this. The Bank does this. On the other hand, however, it also deals with a lot of 20 dollar and 40 cent remittances, 2,000 dollar credits. The banking system which is coming into being and growing in Hungary now, and the gradual expansion of the financial agent network have attracted many young and agile experts from the bank of issue.



Another hindrance is that the Hungarian National Bank today is an organ of the state budget, and not a managing organ. And today the organization of a modern role for business in foreign exchange is vital. Rational investments are needed. The Hungarian National Bank is not capable of doing this. It cannot keep pace with the new and hard demands the economy requires; neither through its personnel, and neither through its technical side. Let us take an example: in payment for an export transaction, a firm acquires several hundred thousand marks, which thus come into the country, to the Hungarian National Bank from the Bundesrepublik. It takes months for the firm to get forints for these marks. But, if this foreign currency revenue does not turn into forints quickly, it will have a loss of more than a million forints, a current asset loss, because of which it will have to take current asset loans at a high price, and this will result in a decrease of its economic efficiency. This is how slow foreign exchange management slows production down.

*Are firms exerting pressure on the Hungarian National Bank to change this policy?*

Of course they are. The pressure is very strong from the direction of the commercial banks and firms. All the same, this pressure has not had the required effect yet. Hiding behind different political standpoints, it is possible to successfully defend this intolerable practice of the Hungarian National Bank.

The magic word is said all the time: this is central foreign exchange management. Period. That's all. Companies are doing everything they can to have business which, in volume, is insignificant to the Hungarian National Bank, yet which is very important to these firms, transferred to other banks that are entitled to do foreign exchange activities: to the Central European International Bank, to the Foreign Trade Bank and to the City Bank. These three institutes have the right to manage a company's foreign exchange affairs. Because of their size, however, they cannot take on great volumes or a great amount of business.

*And the solution?*

The solution is that these affairs should go to where they really belong: to the companion system between the commercial banks and the firms. Matters should be put on a totally economic basis. The companies always go after their money saying, "Listen, my marks came in on 8th May, and you only credited it in forints after a month or

two. Meanwhile, we had to borrow at 13% interest, which we wouldn't have done so if we had had my forints!"

A firm can only weakly put such complaints to the Hungarian National Bank, since the "dialogue" is an unequal fight. The Hungarian National Bank, on top of this, has no economic interest, financial or administrative, in speeding up these matters.

Nor does it have the money. Very serious investments, extremely expensive software, technology, computer systems and expert staff are needed for this purpose. Because of its financial interests, a commercial bank would, sooner or later, have to buy these. The Hungarian National Bank, functioning as a budget organ, may not do this at the necessary speed. If it does, it will do so on a humanitarian basis, something I do not believe.

*You are managing the area within the Hungarian National Bank which, if I may say so, speculates on international foreign exchange markets. Would a loosening of the foreign exchange monopoly make your work easier, or is there no relationship between these two?*

It would undoubtedly have advantages. If commercial foreign exchange business was removed from the bank, the foreign exchange bank could concentrate on the fields that are its main responsibilities: managing the country's foreign debt and foreign exchange reserves. This is why I support the above ideas. Significant changes are needed in the outlook of the management of the bank, too.

The area of operations that I direct is in everyday contact with the world market; we deal with very large sums of money. It might be called speculation, but I would rather put it that we have to manage the structure of our foreign debt and our foreign exchange reserves under optimal conditions.

*Does that mean that we are investing our own foreign debt and foreign exchange on the international money markets?*

Exactly. We "move out" of a foreign exchange, and we "move into" another; perhaps we decide not to keep our reserves in Eurodollars because American treasury bonds would be better at the moment, perhaps at the next moment the proportion of the holding in gold must be increased. This requires many decisions every day. It might sound strange but it is a task of the economy that has a lot of business administration projections. There are many demands for significant improvements. We have to spend a lot of money, as compared to



business administration, on new technologies, software, and on training people. It is very difficult to fit all of this into the budget. As for as our demands are concerned, there are a lot of "whys".

Those who are members of the decision-making bodies do not know this market, they only see that they have to spend another half a million dollars, they have to send another expert on a field trip abroad costing 30 thousand dollars.

A less topical point of view is that this is a vital element for our field to operate successfully and which one day will bring a profit. The wheel is stalling here, as well as in the management of foreign exchange affairs.

*If my maths are right, as the Prime Minister said a few months ago to Parliament in September, that we had more than a 10 billion dollars foreign debt, that is, man, woman and child we owe more than a thousand dollars per head. How could this have happened? Why did this information explode on us so suddenly?*

This "new" information, naturally, seemed sudden to the Hungarian public. We have been forced to loosen our information policy in the international sphere. In contrast to other socialist countries, we have given much more information and data about our economy and finances.

In carrying out domestic social reforms, informing the public should also improve significantly. Since this was, for a long time, hermetically isolated from the whole of the economy, and, then it was a blank spot of information; there was a sudden great shock. The country's foreign debt had not grown to this size overnight.

*Is this how it would happen in other countries, that the information which mostly concerns the population is sealed from them?*

Not at all. In most countries the size of foreign debt and its increase is information legislatively obtainable. It is determined by legislation how great the debt can be both within the country and abroad, and this is also supervised. Oddly enough, this kind of parliamentary control is obtained when there is already a significant amount of debt accumulated. But, of course, it is much better than doing nothing in this respect.

*Can it happen in an appropriately managed financial policy that a leader decides whether the foreign exchange situation is concern for the population or not? Or is it the responsibility of the political leadership?*

By no means. This should be straightened out. Our foreign debt policy should be evaluated: we have a debt of 10 billion dollars, we have to examine what we spent this money on, whether the goals were right, and, most importantly, how foreign debt could increase to this amount. We have to look at the past as well. It is now certain that the debt concerns the Parliament, the government—and the people. Because it is theirs. The debt.

*Nevertheless, it seems that in the past year our foreign debt jumped suddenly, presumably because of errors in finance handling and of financial policy.*

The foreign debt of a country may increase or decrease depending on the state of the balance of payments at the end of a year. The foreign debt is determined either in the currency of the country, or in dollars. If we determine it in the currency of the country, and we, for instance devalue the currency, this debt in forints will automatically grow.

If we determine the debt in dollars, the question will be what our foreign exchange structure is, what currencies constitute our debt, and how the rate of these currencies have changed meanwhile. If bad decisions are made, if the development of the foreign exchange market is not evaluated correctly, and if the foreign debt, meanwhile, is in strengthening DM, or in Swiss francs, etc, it will mean a higher value in weakening dollars. This is what happened to us in the past few years.

*I have heard from financial experts in the West that the Hungarian National Bank has made several bad decisions in this respect. Without going into great detail, is this true?*

There have been several poor decisions and several good ones. It is undoubtedly true that our foreign debt has been in strengthening foreign currency.

*And does this mean that it is technically unfavourable because of these reasons?*

It is not favourable at all. But at the same time it is also true that the interest rate of strengthening foreign currencies is lower, and this is favourable to us. The total interest payment last year was a little lower than it would have been if we had had our foreign debt in dollars, or, if we had put it into dollars. But the price was that our foreign debt in dollars went up by more than a billion.



*To be realistic, what can we expect in our foreign exchange management in the next two years? What is the inevitable, the most important measure?*

I do not know what will happen. I can only tell you what I would personally like, and what I consider realistic.

There should be two basic steps. On the one hand, a company's foreign exchange activity should be transferred to its own sphere of authority, that is, all commercial foreign exchange activities should be decentralized; they should be urgently put into the hands of the commercial banks. Let the commercial bank share with its client on an economic basis. Meanwhile, the supervisory powers of the bank of issue over these activities should be strengthened.

On the other hand, at last, the organizational framework should be formed so that the management of the country's foreign debt should be put entirely on a professional basis; that we should not further politicize this matter more than necessary. The organizational, personal and technical conditions connected to this should be significantly improved.

To be more precise, these conditions should be created.

LAJOS GUBCSI

Országos Széchényi Könyvtár

# What Shape In Our Foreign Trade in?

**Péter Balázs (47), Head of Department in the Ministry of Commerce**



Doctor of economic sciences. In 1963 began working at the Elektroimpex Foreign Trading Company. Since 1969 worked for Ministry of Foreign Trade and in 1980 became Deputy Head of Department of Socialist Countries. Between 1982 and 1987 Commercial Counsellor in Brussels. In 1987-88 he became Deputy Head of the Secretariat for International Economic Relationship of the Council of Ministers. Since June 1988 Head of Department in the Ministry of Commerce, Secretary of the Operational Committee of Budapest-Vienna World Fair. Publishes regularly with studies on foreign trading policy problems, on economic relations between the EEC and CMEA and external relations of the European Community in the specialist journals. Lecturer on integrational theory at the University of Economics.

*As being "delegated" to the Common Market in Brussels you had direct experience of how we are judged on our attitude and what is the ratio of our successes to failures. To begin with, what kind of grievances have you brought back?*

It's a commonplace that we have achieved only a marginal position in the world market. During the past one and a half decades, our achievements have been undervalued. This is also considered as an objective process, so there is no need for national self-torment. CMEA-countries have been in this stream, in general. However, not only our region is characterized by this process. There are other countries as well at the same level of development, depending on the centrally positioned and technically most advanced countries.

The so-called "half-peripheries" in different regions of the world have experienced the same course of deterioration in trading balance and indebtedness as we did. The debts of CMEA-countries to the capitalist world were USD 72 billion by the end of 1982.



Furthermore primarily due to the changes in the raw costs of materials, the accumulated trade deficits of Eastern Europe to the Soviet Union between 1972 and 1983 amounted to 11 billion in transferable roubles. The European CMEA-countries (excluding the Soviet Union), though to different degrees, with different methods and emphasis, have all chosen to reduce imports. The imports of Eastern Europe between 1979 and 1982 dropped by 22 per cent.

*For this, one can hardly blame the whole world.*

We, ourselves, perhaps, could have got away with it somewhat better if we had proceeded more courageously on the road chosen by us, and had not looked always back or aside asking "are we allowed to do it?" The changes taking place in the Soviet Union have eventually justified—though with half-success—those who had insisted on faster progress.

Our present and future position in the world economy is considerably predetermined. This must not be ignored. No incompetence is, however, permitted, no fatalism is justified. As a result of our actions, in spite of hardships, we live better than any of our socialist neighbours. We know, of course, that this kind of welfare is built on sand. If we do not want to ruin it, we must reinforce and even replace its foundations.

*In such a predetermined situation how can one react realistically to the deterioration in the trading balance?*

In general, it is possible in two different ways: some countries reacted by improving their export-performance both in quantity and quality, others decided to curtail their imports substantially. We have seen extreme examples of both. For the first one, India is a good examples and Rumania for the other. It is out of the question to further increase imports while exports make no headway. Production and consumption requiring convertible currency imports have become fashionable in Hungary. We can hardly imagine our life without them. It is, however, well-known that such imports are not in proportion to our convertible currency export output.

*Are we linked to the capitalist economy?*

Yes, we are, by obtaining a wide range of items, from raw materials to components, parts, and technology.

*Where can one detect the most errors and lack of export performance?*

There are three "suspects": production, financial regulations and foreign trade. It is easy to say that convertible currency export trade

basically depends on the marketability, quantity and quality of goods produced and on how production reacts to the changing requirements in the market. This is the plain truth.

In fact, production should be put in a position, by financial regulations and related foreign trade services, so that an entrepreneurial spirit capable of satisfying the most difficult and demanding markets could develop.

*Realistically, is it possible at all, to treat the three markets—let us consider only two, the internal and the convertible currency markets—in the same way, and to engage in them competitively?*

It is impossible to produce two fundamentally different qualities. All export-production carried out under protection is just an illusion—but of course, the producer will decide and produce in accordance with the currency of the payments (whether in U.S. dollars or Hungarian forints). This a contradictory situation. One must follow an exacting level of expectations.

One factory can only produce one kind of quality. But let us dwell on the subject of encouraging production aimed at export. Regarding this problem, there are various political and economic schools, each of them eventually finds the means of incentive or enforcement according to its conviction. I believe in an “incitement showing the way out of emergencies”. This is not an attempt to reconcile the two schools, it simply indicates the priority of tasks. It is a futile exercise to set awards for an economy which is not susceptible to extra production—a lion that is sated, cannot be incited even with the most attractive morsel, to jump through a hoop in flames. First, they must be put under pressure but even this is insufficient; the pressure must be eased with strong—and selective—incitement so that entrepreneurial companies are lead out of it.

There are a lot of questions around the encouragement of export. For example can a maker who, as a consumer, receives goods of low quality and careless services, manufacture a product of good quality? Certainly not. How much is the tax-burden that would finally cripple the export-spirit? Unfortunately we are near to this level.

To what extent should a manufacturing and exporting company have a share, if at all, of the convertible foreign exchange income originated from its own export? In my opinion, it should certainly have a share of it. Another question arises, how is this share utilized? Is it



spent on business expenditures (travelling and advertising costs, etc.), importing raw and auxiliary materials, products, accessories, components, parts or capital project goods to further expand export capacity? It must to my mind, primarily contribute to the expansion of export capacities.

A further question is whether a bureaucrat tuned to the consideration of "superior aspects" can be transformed into a manager capable of taking risks? Clearly he cannot make this transformation. A person can behave in one way only. The measure of quality and marketability of goods is always the acceptance by markets with the highest standards. Our export products which satisfy the market requirements of the developed capitalist and the immensely rich oil producing countries, where competition is extremely sharp, due to a strong demand, could be sold elsewhere.

The question is whether the attainable results are proportional to the problems caused by markets with the highest standards? It can safely asserted that this result or rather this level of difficulty, the risks and the costs of perseverance in the difficult, demanding markets are not calculated into the results of these firms or into their cost bearing capabilities. The personal incomes of their staff dealing with these problems have not yet been taken into consideration either.

*To what extent are we present in the market?*

In the markets of the most industrialized countries, the presence of Hungary is hardly visible. There are several reasons. One of them is the product mix of our exports: raw materials and semi-finished items are directly used in production, and they are thus not spectacular export products.

Quite a lot of our products of good quality appear in the market after further processing only. (For example, a Hungarian journalist is looking in vain for Hungarian gooseliver exported to France in hundreds of tons.)

Some of our industrial products are marketed under other established foreign brand names, which is not necessarily disadvantageous for us (as is known, it requires a lot of money and a great deal of expertise to maintain a good brand name). Beyond these exceptions, the Hungarian supply is, indeed, hardly visible in the capitalist markets.

*Can you say a good word, at least, for our willingness to play certain roles in the market?*

It causes us a great deal of anxiety to see that we are hardly visible, apart from a few nicely organized exhibitions, and series of lectures, on some festive occasions. Naturally, there is an explanation for this: on the one hand the political barriers, the cumbersome process acquiring permits (residential, employment, etc.), on the other hand the modest allocations of expenditures of firms, the rigid regulations for travelling and staying abroad and so on.

In the background to all these difficulties, we can discern an artificially low level of East-West relations and the heritage of political confrontation too. Naturally, all the above are correct conversely too. If the presence of CMEA-countries is hardly visible in the streets of Western European capitals, it is also true that the streets of Eastern European cities are not crowded with the advertisements and signboards of western firms either.

If our businessmen totter in the capitalist markets, it can also be said that western businessmen go astray in the same way in the labyrinth of official authorizations and hierarchies of the mammoth enterprises in CMEA-countries.

In the socialist and capitalist countries, entirely different systems of conditions have been established, which have, in general, remained mutually unexplored. Only a narrow circle of businessmen and agents travelling regularly is familiar on both sides with the "mysterious" circumstances of the other side, and thereby they are becoming the experts in almost a special trade.

This line of thought has a deeper and a graver aspect, too. The foreign trade of socialist countries has practically prepared to export goods quickly and in large quantities. To meet the Plan, it has been sufficient to "push" goods across the border.

The delicate job of selling in the capitalist market, and marketing, is known only by hearsay in our country. Even if it is known, it is not applied. Largely, we export "products", and they are dressed up as "goods" by firms abroad.

A lot of our products of good quality cannot be marketed because of their appearance, packing, finishing, labelling, as well as their marking, description, introduction and advertising, which are insufficient. All of this costs a lot of money, and requires a great deal of expertise.



Measured by the capitalist yardstick, Hungarian foreign trade and manufacturing companies—in this respect there is no difference between them—do not possess any of this.

*Are we incompetent—that could be changed rapidly—or are we poor which would take longer to solve?*

Much depends on the expenditure, on the inadequate attitude and decisions. I am thinking about marketing costs, necessary in sales, about which I was taught that it was a mere prodigality.

The view has continued; some of the first victims of every austerity programme are “suspicious” promotion, publicity representation, travel expenses, etc. This sort of expenditure require relatively very large sums compared to our incomes. In Belgium, for example, a first class daily allowance is hardly enough for a lunch for one in a decent restaurant to which an important business man can be invited.

The occasional misuses, the incorrect spending of such expenses, should not be prevented by ignoring it all together. This is the reason why our salesmen are often left at the mercy of their foreign partners or what is just as bad, they have to rely on the resources of commercial representations in such matters which have nothing substantial to do with their business (thus even providing transport for them by car).

*The reform is not yet visible in the foreign trade.*

Nevertheless, there are some obvious signs. First, I would mention the right to engage in foreign trade, which has been the most acute bottleneck so far. From the beginning of this year, we have at last achieved what is considered to be a normal condition; that is, that the right to carry out foreign trading activities has ceased to be a privilege for only a few enterprises; instead it has become a “subjective right”.

The score of contacts with foreign markets has already expanded by involving specialist staff of manufacturing enterprises in business trips abroad (since 1968). The transactions, however, are eventually concluded in the name of a foreign trade firm acting as an intermediary. Consequently the manufacturing enterprises could not discern the success or the failure of the transactions. In case of complaints, they could hide behind the foreign trade firm claiming it was not they themselves who had cut a poor figure in the market.

*And by the extension of this right has the actual reform really started?*

Naturally, the “subjective right” by itself does not mean expertise, capability or experience. Envy at the foreign trade profession can be

detected in the regulations—even recently—giving the right to enterprises on condition of their acquiring a professional staff and expertise similar to that of the traditional giant foreign trade firms. This is, of course, an impossible requirement and there is no need for it at all.

One could note that even in the case of the specialized foreign trade firms, the level of autarchy, self sufficiency, which has evolved in our country (as well as in the other socialist countries) is not really necessary. The specialized foreign trade firms have developed into autarchic monsters possessing their own information and marketing base, their own business administration staff and network of agents and representatives since there was nobody to rely on.

Of course, there are similar companies—factoring houses—elsewhere. The majority of exporters, however, are operating in a different manner. Even the specialized foreign trade firms abroad are willing to use market studies that can be ordered as services, giving assignments to competent commercial banks, insurance and shipping companies etc. to conclude business on their behalf.

This is even more true in the case of manufacturing enterprises. It is their business to integrate product development and sales into production by constantly being present in the market, watching which goods are in high demand and what competitors are doing, how their own goods are accepted and what traders do there.

For them foreign trade consists of only two important steps: they sell the goods, i.e. conclude contracts and make arrangement with the relevant authorities to issue the necessary licence. All this, of course, requires legal knowledge, a command of foreign languages and commercial expertise. It is also necessary to be familiar with the domestic regulations, but it does not require a market research or administration staff, these activities can be bought as services.

The professional envy expressed by the old approach of foreign trade companies is demonstrated by the fact that the regulation did not try to create a new system of foreign trading by the manufacturing companies. Instead, they “admitted” the producers—one by one and under hard conditions—into the existing system of foreign trade.

*How is it done elsewhere?*

In those countries where important interests are at stake in exports, these kinds of services are undertaken by the state, and under favourable terms—even free, in some cases—these are at the disposal of the enterprises.



*What other mistakes should be corrected by an eventual series of reform steps?*

Foreign trade administration has long needed to organise trade development properly. A dissorted structure has evolved: exhibitions abroad serving political purposes are overdone, other means are underdeveloped and divided.

All sorts of organs—recently competing with each other—are in the business, for example, of information supply, but such information is still rather far from the information actually required by the client companies.

The functions of authorities and enterprises are mixed. For example, budgetary means aimed at export development are handled by profit oriented enterprises. Trade development is still not treated as an item. In the case of certain expenditures, decisions are made exclusively on the basis of costs without the knowledge and monitoring of results.

In some cases, however, the necessary cost—and this is the opposite extreme—are entirely disregarded in the decisions. E.g. it is ridiculous, indeed, to organize a large delegation composed of the representatives of different organs while all the costs are covered by the “enterprise’s own, mean straitened foreign exchange budget”.

*That’s all?*

I may add that in a broad sense, there is another important aspect of the development and the activation of foreign trade. Until the incentive system we have dreamed about does result in the desired attitude of enterprises as an “automatic perpetuum mobile”, there will be enterprises in need of help, direction and the removal of administrative obstacles in order to realize their well-intentioned initiatives.

These enterprises must be dealt with one by one. There has to be a “door” to be entered by any enterprise claiming to “have an export idea” and to be left with a ready programme. Indeed, it should receive help to make the idea viable and it would be explained how to take the necessary steps, moreover it would be “introduced” to the next office even without personal contacts.

*There are stories about the leisureliness of our trade representations.*

The role of the Hungarian foreign representations has increased. They have to strengthen their advisory and information services for exporters. The representatives of enterprises which recently received foreign trade authorization are going abroad by the dozen. They

require expertise and basic advice. So far there have been only closed circles.

The foreign trade representations of the capitalist countries do not serve the large firms but the small ones. At least, in the FRG and Austria, the style of activities of the trade representations is clearly moving in this direction.

*The forms of co-operation recommended for western firms and practiced by us are oldfashioned and outdated...*

The East-West co-operations (of the first generation) built on the capital goods imports of the 60s have lost their vitality. A new form is taking shape. Its substance is the import of capital, including technology and management. Aside from the difficulties of the present business situation, there are still a lot of obstacles.

The political, legal and economic distrust in the socialist countries is invariably extensive, and it takes a long time to disappear. A well-operating joint venture is the best means of persuasion, and a wide publicity campaign must be conducted here.

The embargo (COCOM) imposing a restriction on the export of high technology also causes some problems, not that we bump in it at every moment, but rather because it discourages western firms from doing business with us ("who knows where the limits is", etc.).

We are not considered to be a very attractive investment target: our market is a small one, we do not offer a transit point to the other—otherwise attractive—markets of our own economic grouping, and export in other directions can be hindered by our grouping. Productivity is low but the welfare burdens are high, and administration in the enterprises is cumbersome. It is "top heavy".

In this context, it is also true that until our regulations are perfect and foreign investors and partners in co-operations are rushing to the Hungarian market, the foreign firms coming forward with their ideas "must be taken by the hand" by somebody and helped to go through the procedures, as soon as possible, avoiding the difficulties. This should be achieved without any special acquaintances or references. This is not the case now, we still have a lot to do in this respect.

*What is our general trade policy position like?*

It is in our interest to promote the dynamic development of CMEA. We have always been at the fire-front of this concept. In the developing world, obstacles are not appearing in legal-trade policy guise. We feel at



home in the operative business organization, and our activities are increasing here.

The developed capitalist world is the most difficult area for us. Currently they apply three different types of trade policy towards us: as far as some of our remote partners—Japan and New Zealand—are concerned, they treat us as a most favoured nation, e.g., without discrimination in accordance with our “adequate” relationship and the present balance of power, and in addition we also enjoy customs preferences from them.

Our treatment by the U.S.A. and EFTA countries can be considered as normal: an MFN-approach is applied (besides, there are, however certain politically motivated reservations, formally and partly emerged discriminations).

A discriminative treatment is applied against us by our nearest and most important group of countries, the European Economic Community. Negotiations are in progress in order to remove this. This is not the first time that we have made initiatives to demolish obstacles: in the 70s we tried it in GATT, later together with other CMEA member states, at the beginning of the 80s we also made certain steps—this time by ourselves—but without any success so far.

The problem is the same. Not only the method of approach but also the background of world politics has changed on each occasion. During the last three-four years, a new period of East-West co-operation has been established which-putting old political dogmas aside—can realize the mutual recognition of the two groups and open an opportunity to conclude a Hungarian-EEC-agreement in accordance with our interests and principles. The official negotiations were started in June 1987.

It is not an easy job to get along with the “twelve-headed dragon”, because of its internal reconciliation of interests, its reactions to our initiatives are sluggish, requiring a lot of patience. Of course, there exists an economic ideology of discriminatory treatment toward the socialist countries which is built on two main factors.

One is the “unlimited capability of manoeuvring” distrustfully attributed to the planned economies (which unfortunately has been rather spectacularly rebuffed by experience). The other is the generalization and extrapolation of the current problems of economy (e.g., debts, import restrictions, etc.).

Due to these circumstances, the capitalist countries have been “prompted” to display their conduct selectively.

The main purpose of economic integration is to expand the “scope for movement”. So far, this role has hardly been played in our economic integration. It has not extended its markets, especially not in the field of East–West co-operations. Eastern Europe is excluded from the integration process of Western Europe. The further Western Europe develops the greater the gulf is becoming between them and us.

We started off with a considerable disadvantage which could hardly be reduced. The normalization process between CMEA and EEC is proceeding on a new and progressive basis of principles.

The obstacles in commerce—customs duties, quota-restrictions—must not be underestimated; their reduction or elimination can be of vital importance for the individual enterprises or subsectors. But if problems of trade policy should be ranked from the view point of the national economy, there are three vital factors.

First, there are heavy obstacles to integration originating mainly in other integrations due to the fact that they deprive us of various preferences or put us into a disadvantageous position. I consider, however, the narrow scope of movement within our economic integration to be almost as a difficult problem as the above.

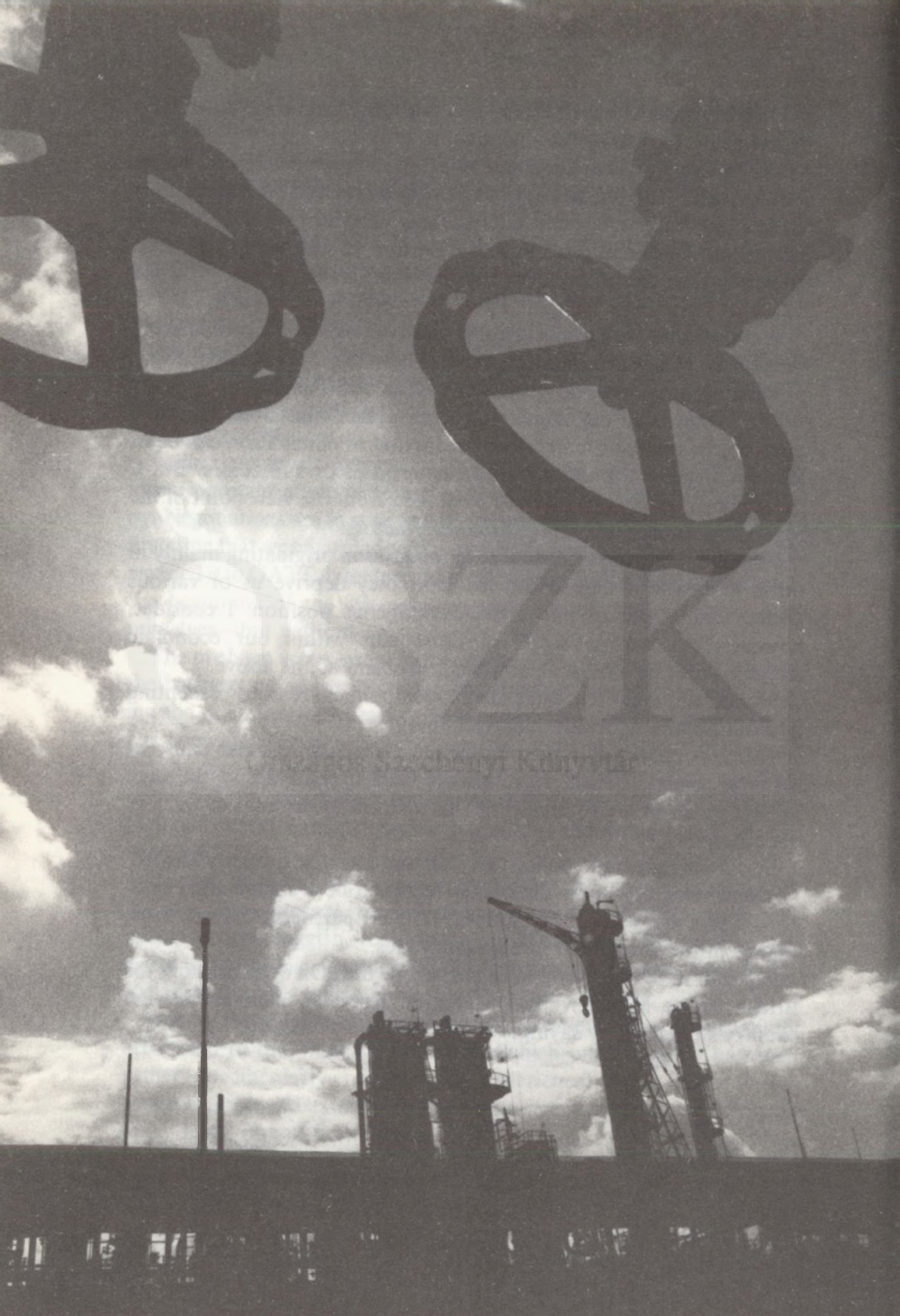
Secondly, quite often, there are explicit political reasons preventing us from obtaining certain high technology.

Third, at present international financial mechanisms also cause us many problems. Credits have always been expensive and the high market prices of high standard goods distributes earnings to the rich countries.

In our foreign trade policy these factors must be properly treated. For outsiders, economic diplomacy seems to be a complicated business. There are a lot of regulations, difficult partners, and one must engage in the struggle in foreign languages.

The aim to be achieved is a rather simple one. On one occasion, the British Prime Minister, Mrs Margaret Thatcher, summarized her country’s interests by saying: “I want my money back!”





Országos Széchényi Könyvtár

# Self-knowledge

**Dr Mátyás Szűrös (55), Secretary  
of the Central Committee**



Born in 1933 in Püspökladány. (Representative of his native town since 1985.) Member of the Party since 1955. Graduated in 1959 at the Institute of International Relations of Moscow.

His diplomatic career began in the Ministry of Foreign Affairs. From 1965 to 1975 worked in the Foreign Affairs Department of the Central Committee of the HSWP and became Deputy Head of Department. Ambassador in Berlin 1975–78, in Moscow 1978–82. Since 1982 Head of Foreign Affairs Department of the Central Committee of the HSWP, from following year Secretary of the Central Committee.

His major publications are *Our Homeland and the World* (1985), *Some Seasonable Questions of the International Communist Movement* (1985).

*To what extent do the recent changes in domestic policy influence the ideas that shape Hungarian foreign policy?*

Far-reaching changes have in fact taken place in Hungarian domestic policy in recent months. It has become generally recognized in Hungary that it is no longer possible to postpone firm action for a comprehensive renewal and to accept the unavoidable internal tensions. This has been indicated by the work of the national party conference, the Central Committee and the National Assembly and I would also include here the recent sessions of the Central Committee of the Young Communist League. The basic question for our renewal is the radical reform of the malfunctioning political system, and the creation of an open, humane, democratic socialist state based on respect for the constitution. This is also a fundamental condition for our economic survival and for the implementation of our programme of stabilization and advance.



It is naturally these internal goals that primarily determine our foreign policy strategy and our day-to-day tasks. There is no need to formulate a new concept in our foreign policy: our tested principles must be asserted more consistently and boldly and with greater initiative. Our basic point of departure remains the most effective possible representation of our national interests, so that by asserting them, we can contribute in a creative way to the drawing up and attainment of common socialist goals. We must strive to ensure that our foreign policy preserves the prestige and international recognition we have won and if possible further increase it, thus assisting the solution of our domestic policy problems.

Hungarian diplomacy should first of all project to the world a faithful image of a reforming Hungary that is undergoing political renewal too and modernizing. At the same time it must continuously analyse the changing international circumstances, taking into account the future perspectives, seeking all possible points of contact through which we can become more fully integrated into the system of relations of the world economy and international politics, above all on our own continent. Our foreign policy must be more insistent than in the past in urging the qualitative renewal of cooperation among the socialist countries, transferring it to the foundations of an equilibrium of national interests. At the same time we must also work more effectively in the security, scientific-technological, cultural and humanitarian fields. Parallel with our aspirations directed at the expansion of democracy, we see a possibility, for example, for Hungary to become "specialized", as it were, among the socialist countries in the subject of human rights. In this spirit we submitted a proposal at the Warsaw session of the Political Consultative Body of the Warsaw Pact for the creation of a working committee to deal with human rights and humanitarian questions. Over the longer term we could conceive of Hungary becoming an international politological centre dealing with human rights. In this context I would like to stress that Hungarian foreign policy regards it as one of its constant and special tasks to follow the fate of the Hungarians living beyond our borders.

To successfully carry out our increasingly complex international tasks we must preserve and develop the good relations we have established with all the major powers and practically all countries of the world through persistent work. It is also an indispensable condition for

the effectiveness of our foreign policy that we must constantly evaluate our international position and define our goals without embellishment, in an atmosphere of social openness and with the control of our general public. We must also ensure a fitting role in our foreign policy activity for the organizations of a non-governmental nature and for person-to-person contacts. This too reflects a change in attitude: the demand for the democratization of foreign policy, giving it a societal nature. In this way our international activity can continue to be a sound factor in our national consensus.

*Many people feel that Hungary's foreign policy has recently taken on a sharper profile than even before. If this is so, how could its main aspects be summarized?*

It is a fact that over the past decade Hungarian foreign policy has gradually taken on a characteristic profile of its own, our sovereignty has become more complete and our scope for action has grown. For one thing, internal changes—as I have just mentioned—have made new demands on our foreign policy. More precisely, they have demanded the increasingly firm assertion of our national interests. For another, there has been a change in the external conditions, to which we have also had to adjust.

The general democratization of international and European relations has been a favourable condition in giving a more individual character to our foreign policy. The Helsinki process, in which our country has taken an active part right from the outset, has been an important field and achievement of this. Hungarian foreign policy has taken advantage of the possibilities offered by the easing of relations. It has been active primarily in questions on the European level where this is particularly justified by marked Hungarian interests, historical, geographical, economic and other bonds. Examples of this are our participation in the tripartite initiative urging cooperation among the countries not possessing nuclear weapons, our proposal for the withdrawal of American F-16 aircraft from Europe in exchange for appropriate reciprocal measures, and our aspiration that the reduction of conventional forces and armaments should extend to the forces on our territory right from the first stage. In this spirit we announced at the Warsaw session of the Political Consultative Body of the Warsaw Pact already mentioned, that Hungary is prepared to coordinate the proposals in this field at the alliance level. Such a distribution of tasks is



in line with the modernization of the functioning of the Warsaw Pact and could serve as an example for the future.

The democratization has naturally also affected relations within the alliance system. The earlier rigid relations are becoming more relaxed. Today, our ties to the Warsaw Pact and the CMEA are based on coordinated relations and simultaneous representation of national and community interests.

*The role of small countries in world politics seems to be growing stronger. Is this increased importance only an illusion or a genuine process on which Hungary could build over the longer term?*

I am firmly convinced that it is not merely an illusion. The small and middle-sized countries, which represent the great majority of the countries in the world, are now playing an indispensable and constructive role in shaping international relations. It was in the early eighties when relations between the two big powers had reached their lowest point that these countries—including Hungary—showed the great deal they are capable of doing to maintain the dialogue and preserve confidence. The improvement of relations between the Soviet Union and the United States does not reduce, rather merely alters this international role and responsibility. It could even be said that the democratisation of world politics already mentioned, the ripening of conditions for a favourable turn in international affairs even further broadens the scope for action of these countries and adds new elements to their possibilities for asserting their interests. It is precisely with them and based on them that an all-European "security net" could be formed to prevent the reversal of the process of detente and the cancellation of the achievements reached in the field of peaceful coexistence. Hungarian foreign policy can count on the growth of the role of the small countries as a lasting trend.

*How independent can a small country be in today's alliance systems? Would full independence be advantageous at all?*

I consider that the classical, 19th century concept of unconditional independence and full sovereignty is no longer applicable, even in the case of the great powers. Full independence is not possible, just as complete isolation cannot be achieved either. As a consequence of the challenge of the global problems and the growing internationalization of production, mutual interdependence has become the decisive feature in international relations and in the relations between sovereign states.

The experiences of complex international integration in the past decades show that the individual countries impose restraints on themselves in exchange for the advantages offered by cooperation. The commitments undertaken in international treaties also represent restraints, but this is a renunciation that is accepted voluntarily. At the same time it can be seen that within the alliance systems and parallel with the strengthening of the integrational processes I have mentioned, the national element has not lost its significance but has rather increased in value. The aspirations for the increased assertion of national interests within the frameworks of the integrational organizations have grown stronger. These two trends are operating simultaneously. In our age the successful functioning of any political or economic alliance system increasingly depends on how far it is able to meet this two-fold demand and how it creates harmony between these two elements.

*What is the extent of the role played in the shaping of Hungarian foreign policy by the fact that we are one of those nations with an unfortunate history that has resulted in exceptionally large numbers of its members living—one Hungarian out of three for various reasons—outside the present borders of the country?*

The figure you give is precise. It is perhaps worth recalling for the sake of younger readers that after the disintegration of the Austro-Hungarian Monarchy that grouped over a dozen different peoples, 40 per cent of the Hungarian-speaking population became overnight a national minority in one or other of the surrounding successor states. They did not leave the native land, the borders stepped over them. It was in this way that the Hungarians became the largest minority in Europe. This is why all Hungarian political leaderships since Trianon have had to face this situation. It was never easy to shape a responsible position not coloured by emotions, but that was the honest intention of the Hungarian progressive forces in the inter-war years and that is our firmest aspiration today too.

There was a period after the Second World War in Hungary when—because of the political concerns and a mistakenly interpreted concept of internationalism—this question was not given sufficient attention in official policy. Later the Hungarian leadership began to deal with the question—although not with sufficient firmness or thorough circumspection—but in the hope that the question would be more



tractable it was not given publicity. The present openness and publicity is an important new element.

Our position of principle is unchanged. We regard the Hungarians living beyond our borders as part of the ethnic nation and our policy feels a responsibility for their fate. We are striving to help to preserve and strengthen the national cohesion of the Hungarians living in the world and the integrity of our national past, to prevent the fragmentation and forced integration of the Hungarians. We are raising our voices when we see the violation of collective and individual minority rights. No one will do this for us, it is up to us to do so. At the same time our policy also builds on the two-fold bonds of the minorities—to their mother nation and to the country of which they are citizens. We are convinced that in relations between civilized states ethnic minorities can be not a factor of division but much rather a bond. Experiences show that the reassuring treatment of the nationality question can have a favourable influence not only on the trend in bilateral relations, but also on the atmosphere of the whole region. Unfortunately, the contrary is also true.

*On the historical scale it is already long ago that Lenin formulated his theses; do they appear to be sufficient for the solution of the ethnic nationality problems—in a socialist manner—in today's changed situation? Assuming, naturally, that the Leninist norms are fully respected in each of the countries concerned.*

Lenin's thinking and actions were naturally based on the concrete conditions of his own age. Despite this, his theses still remain valid today in many respects. The problem is thus not with the Leninist nationality policy, but with the whole of a socialist political system that is not capable of imposing limits on the arrogance of state power and of protecting minorities from it. Among the Leninist principles I would stress above all the guarantee of the right to self-determination, maximum satisfaction of the individual and collective nationality demands and counterbalancing of the disadvantages of the minorities by ensuring additional rights. It is an important component of the Leninist ideology that the majority ethnic nation should follow what could practically be called a policy of dissimilation, that is, one impeding the assimilation of the nationality. These recognitions have still not lost their validity or timeliness. The problem arises from the distorted application and practical violation of the principles, for there

is no communist party anywhere whose leadership would deny them in words. However, it must be seen that the nationality policy is an integral part of politics on a wider scale and the handling of the nationality question depends on politics as a whole. The guarantee and exercise of these rights is the yardstick of democracy in socialism too.

*Are there any practical ideas for the settlement of the deteriorating Hungarian-Romanian relations?*

We have and have always had a constructive idea. We do not bear the responsibility for the deterioration of the situation.

I would like to start from the fact that at the Debrecen-Oradea meeting in 1977, the parties adopted a 21-point plan of action for the comprehensive development of Hungarian-Romanian relations. But they remained for the most part unimplemented, through no fault of ours. We once again drew the attention of the Romanian side to this in June 1987 at the talks between the Central Committee secretaries; we once again proposed the joint strengthening of political, economic, humanitarian and cultural relations. On this occasion too the Romanian side showed interest only in advancement in the economic field, while at the same time continuing to make unfounded political accusations. Their latest measures have further deteriorated the situation of the nationalities living in Romania, threatening their prospects for the future. These measures include the ban imposed on the use of Hungarian personal and place names, and above all the announcement of the "settlement plan" for the destruction of villages and the commencement of its implementation. All this is causing grave concern to international and Hungarian opinion and is inevitably also influencing both bilateral relations and the international atmosphere.

There has been no change in our correct position of principle, about which I have already spoken. This has been confirmed by numerous Hungarian leaders, including most recently the general secretary of our party. We for our part are striving for reconciliation and good neighbourly cooperation. The Hungarian National Assembly also adopted a position in this spirit. Our goal is the substantive discussion of relations, an approach of good will to the problems and the respect of fundamental human rights. We have not as yet experienced tangible readiness for this on the Romanian side. However, together with the rest of the world, we are hoping that commonsense will prevail. There are precedents for this in our relations. Among others, this is why Petru





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