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ECONOMIC REVIEW OF EASTERN COUNTRIES: HUNGARY(1)

PART I: INTERNAL ECONOMY

NATIONAL INCOME

The industrialization of Hungary which has been going on since 1945, has extensively changed the economic pattern of the traditionally agrarian society. Before the Communist takeover, the economy was essentially agricultural, and textiles and food processing were the main industries, although some progress had been made during the war in the iron and steel industry, machine building and chemicals. Under the Communist régime, industrialization has gone ahead much faster. The production of coal, steel, bauxite and crude oil has been extensively developed, and the chemical industry has made great strides, particularly in pharmaceuticals and more recently petro-chemicals. The table below shows the contribution of the major sectors of the economy to the national income over the last two decades.

NATIONAL INCOME BY ORIGIN (NET MATERIAL PRODUCT)(2)
(Percentage)

SECTOR	1950	1955	1960	1965	1970
INDUSTRY	26	33	36	42	43
CONSTRUCTION	9	9	11	11	12
AGRICULTURE	48	42	29	23	17
OTHER	17	16	24	24	28

This document includes: 1 Annex

(1) A summary of this report, which cancels and replaces document AC/127-D/445, has been issued as AC/127-WP/369, 9th November, 1973

(2) National Income (Net Material Product) at market prices is the value of material goods and material services produced by the "live labour" of producers within the sphere of material production which is used for satisfying the final needs of the community, i.e. does not include intermediate consumption. The concept of production is limited to material goods and material services relating to the production, transportation and distribution of material goods. Other services, such as personal services, services of banks, education and health services and public administration and defence are not regarded as productive.

This document includes: 1 Annex

2. The obvious feature of the table is the greatly increased importance of industry in the national income. From contributing about a quarter of the net material product in 1950, it is now responsible for a little under half, whereas agriculture has fallen from a position of contributing half to 17% over the same period. Industry also now employs some 37% of the labour force (44% if construction is included) compared with 26% in agriculture (including water conservancy and forestry). In 1950, the respective figures had been 19.4% and 52%.

3. If the growth of national income is examined as distinct from its composition, then the NEM does seem to have been successful in speeding up its development. Whatever basis of calculation is used, national income - net material product - increased at a faster rate after 1968 than before. For example, the table below compares annual rates of growth for the four and five year periods before and after 1968, and also for a four year period excluding 1968.

RATE OF INCREASE OF NATIONAL INCOME (NET MATERIAL PRODUCT)

(Annual averages in percentages)

PERIOD	ANNUAL RATE	PERIOD	ANNUAL RATE
1961/1967	5.2	1968/1971	6.2
1963/1967	5.2	1968/1972	6.2
1964/1967	5.1	1969/1971	6.2
1964/1967	5.1	1969/1972	6.4

4. From an international point of view, the comparison between the two periods is also illuminating. The table below compares Hungary's national income with other CMEA countries before and after 1968.

RATE OF INCREASE OF NATIONAL INCOME (NET MATERIAL PRODUCT)

(Annual averages in percentages)

COUNTRY AND TREND	1961/1967	1968/1972
Rate of Development Accelerated		
Czechoslovakia	3.3	6.3
Hungary	5.3	6.2
GDR	3.9	5.2
Rate essentially unchanged		
Bulgaria	7.7	7.5
Poland	6.3	6.8
USSR	7.1	6.4
Rumania	9.0	8.7

5. In view of the shortness of the 1968-1972 period it would be unwise to draw too hard and fast conclusions from this table. Hungarian commentators themselves admit that the accident of two record agricultural harvests in 1971 and 1972 made a decisive contribution to the results; but this need not invalidate the conclusion that the mechanism itself played a part in enabling a faster rate of growth to be maintained.

POPULATION, MANPOWER AND EMPLOYMENT

6. Hungary's population of 10,415,000 at the end of 1972 was the smallest of the East European countries except for Albania and Bulgaria. While the death rate has remained fairly stable over the last two decades (on average about 10.7 per thousand per annum), the birth rate, apart from a sudden rise in the early 1950s when abortion was temporarily prohibited, has fallen continuously. Indeed, the birth rate fell to a low of 13.1 per thousand in 1965 which was one of the lowest rates in the world. It has risen slightly since then, but the resultant natural increase (i.e. live births less deaths) during the last fifteen years or so, has been very small. The table below compares Hungary's natural rate of increase of population with those of other CMEA countries and some developed countries over the last two decades.

NATURAL POPULATION INCREASE PER THOUSAND PEOPLE 1950-1970

(Average annual rates)

Countries	1951-1955	1956-1960	1961-1965	1966-1970
Communist countries				
Bulgaria	10.7	9.5	8.2	7.1
Czechoslovakia	10.9	8.1	6.8	4.7
GDR	4.7	3.3	4.0	0.7
Poland	19.1	17.2	12.6	8.6
Rumania	13.4	12.0	7.2	13.2
Hungary	10.0	6.2	3.1	3.6
Other countries(1)				
Austria	2.8	4.7	5.9	4.2
Great Britain	4.0	5.2	6.6	5.6
France	6.4	6.6	6.6	6.0
FRG	5.2	6.1	7.2	5.0
USA	15.1	14.9	12.1	8.3
Japan	10.9	10.0	10.3	10.4

(1) 1950-1969

7. The basic reason for Hungary's small population increase has been a decline in marital fertility, rather than structural factors such as the number of women in child-bearing years or the marriage rate. There have been slight increases in the birth rate since 1967, when new maternity benefits were introduced (though even these have now decreased once more), but some Hungarian demographers still think it is doubtful whether it has brought the gross reproduction rate up to the level required for the society to reproduce itself in the long-term.

8. The reasons for the decline in marital fertility are varied. Rising expectations of a higher standard of living and improving possibilities for their fulfilment, has encouraged a policy of keeping families small, and material rewards high - "cars before babies" - as the Hungarian phrase has it. Greatly improved educational opportunities mean that parents, instead of valuing children in the traditional manner - as investments for the future - now try to invest the maximum in each child's future. There is also a housing shortage created by rapid industrialization and the accompanying movement from the countryside to the town, which obliges a majority of newly-weds to stay for a number of years in parental homes, or small furnished rooms. This containment of family size has been made possible by the vastly increased use of contraception and Hungary's liberal policy on abortion. At a rate of something like 230 abortions for every 100 live births, this obviously makes a considerable difference, and a reimposition of the ban on abortion has recently become a prominent topic. The latest indications are that the Government may now be contemplating some kind of "protective" action and has indicated that new regulations will be introduced regarding the licensing of abortions and the procedure involved. It has also decided to raise family allowances, child care assistance, and to extend the period of entitlement to sickness benefit in looking after children. However, it remains to be seen to what extent these measures will be successful. For example, the limited popularity of the 1967 Child Welfare Allowance was lost because price rises eroded its real value, and women felt it necessary to return to work early to earn extra money, and it may be that the present increase in the allowances will be insufficient to offset these tendencies.

9. Whatever the reasons for Hungary's very small population increase, its implications for the manpower situation are clear, namely a gradually diminishing availability of manpower, coupled with an increasing demand for labour, as economic development is pressed ahead. Until now, such difficulties have been manageable, as labour has moved out of agriculture, and greater numbers of women have been employed in the economy. More recently, the labour supply for 1968-1973 was underwritten by the demographic wave caused by the so-called

"Ratko era", which heavily penalized abortion and raised the annual rate of natural population increase temporarily to between 8 and 12 per thousand in the first half of the 1950s, compared to the present 2.6 to 3 per thousand. That "bulge" is now spent however, and the present feeling is that from now until about 1977, the number of young people starting work each year will gradually decrease from about 180,000 to something like 110,000.

10. Clearly this puts a premium on increasing productivity, one of the chronic weaknesses of the Hungarian economy. Almost the only way of increasing output now is by greater labour productivity, which was one of the main aims of the economic reforms, and which requires fresh investment - particularly capital investment - and recourse to Western technology.

11. The situation has been confused to some extent by a high rate of labour turnover. Manpower demands became extremely strong in 1968, often exceeding real needs, a situation which created a high manpower turnover. This was promoted by the dissolution of administrative sanctions against employees and workers changing their place of work in 1968, and a more liberal policy of hiring and firing by enterprises. Although there was a slight increase in the numbers leaving school and looking for work, it was insufficient to meet this dramatic increase in demand. There were increased opportunities to look for higher wages, better working conditions, a more favourable work atmosphere, etc.. At the same time, migration of labour was also caused by factories being relocated in rural areas, or by the rapid development of farmers' co-operatives when they started building up their own subsidiary industries. Some fluctuation was caused when modern developing branches were increasing their workforce at the expense of contracting industries. Nevertheless, the increase in labour turnover was striking. The share of turnover (the proportion of those entering and leaving their workplace, as against the average workforce), which was calculated at 25% before 1968, reached 36% in 1968 and 40% in 1969. In 1970, turnover increased slightly again, although the actual rate of growth in employment decreased during that year. In 1971 and 1972, manpower movement levelled off somewhat, partly because of measures introduced by the Government to enforce recourse to a labour exchange in some cases, and partly because of the limitation of the co-operative's power to entice workers away from industry.

AGRICULTURE

12. The most characteristic agricultural organization in Hungary is the farming co-operative. Most co-operatives were founded in the years 1959 to 1961, and they now number about

3,000 (including the specialized co-operatives and other co-operative associations). They presently cultivate some 5.4 million hectares out of Hungary's 6.9 million hectares of agricultural land (defined as arable land plus household plots, orchards, vineyards, pastures and meadows), giving them an average size of about 1,800 hectares. They employ about 80% of the country's agricultural population and supply 70% of its agricultural production. Being basically an amalgamation of former private farms, the co-operatives combine large scale common farming and the individual cultivation of small plots - household plots or gardens - allotted to each member. On these plots (which occupy about 15% on average of the area of the co-operative) members are free to cultivate plants and breed animals and dispose of these products as they wish - though the sale of animals and animal products is usually effected through the co-operative.

13. The other characteristic agricultural organization is the state farm. These were established after the Second World War as part of the land reform from former large estates, which in view of their relatively high level of economic and technical development, would have been a waste to break up. They numbered about 176 in 1972, and employ about 15% of agricultural workers. Occupying an agricultural area of about 880 thousand hectares, their average size is about 4,900 hectares, which makes them much larger than the average co-operative.

14. Agriculture in Hungary (including forestry and water conservancy) now employs about 25% of the active labour force and provides about 17% of national income (net material product). This proportion has declined slowly over the years. During 1966 to 1970 the average contribution was 21.8% compared with 26.5% during 1961 to 1965 and 35% from 1956 to 1960. Such a reduction has meant that the Hungarian economy has become progressively less dependent on the agricultural sector for its overall performance in any particular year, a trend that will continue, albeit more slowly, in the future. In the same way the labour force has also declined. The 25% or so of 1971 and 1970 compares with 30% in 1965 and 39% in 1960; in 1950 the figure was more than 50%.

15. While its proportional contribution to the national income has fallen, agricultural production in absolute terms has risen fairly significantly. Treating 1950 as a base year of 100, gross agricultural production in 1960 was 120 and 164 in 1971, though there are, of course, considerable variations from year to year. Allowing for these variations, the average for the years 1966 to 1970 (i.e. during the time of the third Five-Year Plan), was 16% above the average for the years 1961 to 1965, which was also slightly higher than the plan target of 13% to 15%. The

average annual growth of agricultural production also accelerated in comparison with the preceding five year period and slightly exceeded the planned rate. More impressive has been the increase in productivity. Gross agricultural output and output per active earner is shown in Chart A. Comparison of present productivity figures with the earlier period of 1950 to 1960 is made difficult because the Hungarians changed their method of recording manpower in 1960. However, taking 1960 as a base year of 100, gross output per active earner a decade later in 1969 was about 180, i.e. an 80% increase. This was a much greater increase than had occurred in the previous decade 1950 to 1959 when per capita output rose by about 40%.

16. Among the conditions of this accelerated growth were improved mechanization, a wider use of up-to-date technology, an increasing application of fertilizers and plant chemicals etc.. However, apart from this improved scientific and technological approach, there is no doubt that a major factor in the improvement was the strengthened organizational and economic position of the co-operative, following the introduction of the new system of economic management. The régime began introducing and testing NEM principles in the agricultural sector in the mid-1960s - some time before applying them to the entire economy in 1968. The basic principles involved an increased acceptance of profits as an indicator of success, a greater reliance on market forces, and decentralization of responsibility for planning and management. Regional organizations lost their authority to dictate instructions, and instead had to rely on recommendations and appeals. The Ministries of Food and Agriculture were amalgamated and downgraded in authority. In 1965-1966, agricultural co-operatives with the exception of grain producers, were allowed to draw up their own production plans and were required to create their own depreciation funds for capital investment. Then in late 1966, the Government also revalued the fixed assets of the co-operatives and cancelled approximately 60% of the co-operative farm debt. In 1968, co-operatives were allowed to sell direct to the home market, and even in some cases to foreign markets. They were also allowed to pursue a much wider range of ancillary activities such as setting up their own processing plants, selling organizations, technical and repair shops, food shops, etc. (though recently these industrial activities of the agricultural co-operatives have been severely restricted). Financial legislation enabled them to undertake a greater volume of self-financed investment and in 1969 and 1970, something like a boom developed in this kind of co-operative investment project. In addition, there was a gradual rise in the level of prices paid by the State's procurement organizations (adding up to 18% between 1966 and 1970) which helped to stimulate greater production.

17. The greatest impact of these various measures was in grain production, principally wheat and maize. To a great extent this reflected the switch over to large scale production after the land reforms. The yields of these crops have increased enormously over the last ten years, such that despite the smaller growing area, the volume produced is much larger. For example, over 4 million tons of wheat was grown in 1972 (and, according to preliminary reports, about 4.3 million tons in 1973), compared with just under 2 million tons in 1961. Similarly, the comparable figures for maize were 5.5 million tons and 2.7 million tons respectively. Hungary is now for all intents and purposes self-sufficient in grain production, being able to meet requirements for domestic consumption, fodder requirements and reserves, and still make sizeable exports in good years. The success of grain production has been due to a number of reasons, an improved farming technology, the introduction of high yielding varieties, increasing use of chemicals and fertilizers, etc.. It was also, at least initially, less capital and labour intensive than other forms of agricultural production and easier to stimulate by price increases. There have, admittedly, been signs more recently that a certain ceiling of efficiency has been reached which cannot be passed without a new phase of heavy investment in new types of agricultural machinery, fertilizer supply, etc..

18. In general, the factor of labour and capital requirements has exercised a strong influence on the fortunes of the NEM in the agricultural sphere. After collectivization much equipment became obsolete and Hungarian agriculture remained chronically undercapitalized and technologically backward. Thus in cases where progress would involve large drawings on capital and labour, serious problems were presented for co-operatives in particular, and differences in capacity to meet such demands aggravated the "class distinctions" always in evidence between farms in the poorer and more prosperous areas. For example, whereas the new regulators had made farms more interested in developing plant growing, they were still unable to ensure adequate profitability for cattle breeding, or for the labour intensive crops of sugar beet, vegetables and fruit. Breeding cattle on the household plots usually involved losses, and consequently livestock diminished to an extent that could not be compensated for by the increase in stocks on the large farms. In addition, cattle breeding was not profitable in the greater part of the large farms either. Accordingly, changes were introduced to the regulatory system at the beginning of 1970. The prices paid by the State procurement organizations for cattle, pigs and milk were raised and the sale and purchase of fodder were liberalized. A 50% subsidy was granted to farms for the purchase of equipment for cattle and pig breeding. Despite these measures, the cattle population has remained more or less static since 1970 at about 1,900 thousand head. Indeed, the number of cattle has scarcely altered since pre-war days, which helps to explain why cattle breeding has been the subject of more decrees adopted by the Council of Ministers and the Agricultural Ministry in the last 15 years than any other problem.

19. The difficulty is one that is basic to Hungarian agriculture, that is, despite a complex system of subsidies and incentives, and price increases, the disparity between industrial and agricultural prices is still too great. Farmers have to pay much higher prices for their machinery, equipment and other inputs, but have to sell their products at fixed and artificially low prices. The disparity is such that some Hungarian economists have argued that for agricultural prices to reflect the actual costs of production, a general 25% rise would be necessary. For this reason there has also been a perceptible decrease in vegetable and fruit growing in recent years, with the result that consumer prices have increased to the disadvantage of low income people, large families and those on a pension. (The per capita annual consumption is now 75 kilos compared with a European average of about 85 to 90 kilos.) As a result, a steady and satisfactory fruit and vegetable supply is now one of the Government's most important targets of social policy. The trouble is the same - the price level does not make the cultivation of these labour and investment intensive plants a worthwhile proposition.

20. Interestingly, one area in which the Government has been successful is pig breeding - particularly important in Hungary where more than 50% of meat consumed is pork. A large scale programme to encourage production was put into effect in 1969, and there was a rise in procurement prices and subsidies. By 1971 the pig population had increased to some 7.5 million head, compared with 6 million a year or so earlier. In the same year 890,000 tons of pigs for slaughter were produced - 200,000 tons more than in the previous year - and very nearly the target of 900,000 tons set for 1975. Indeed, the sudden surge in production created problems for the inadequate capacity of the processing industry, so that some cutback was inevitable in 1972. Significantly, most of the increase was accounted for by the household plots of the co-operatives, and private and auxiliary farms, illustrating the importance of these sections to Hungarian agriculture, and the rapid way in which they will respond to price increases which make production profitable.

21. The Government is aware of this and knows that if production is to be increased and assured, prices will have to rise and the Hungarian consumer pay more for his food. In fact the Government has taken some action in this respect despite the great unpopularity of such increases with consumers. The Central Committee meeting of 20th November decided that in 1973 the price of milk would be raised 44%, butter 20%, cheese 10% and other milk products by 25%. Although increases were offset by accompanying wage rises for industrial workers, they are nevertheless evidence of the authorities' determination to accustom people to a higher prices system. The decision is well

illustrated by the choice of so sensitive an item as milk for the major increase; however strong the economic argument for the move, the social arguments against it would, until very recently, have been considered overwhelming. In November 1972 it was also decided that there would be a general rise in meat prices - another very sensitive item - after 1975, primarily in order to support the heavy Government spending scheduled for 1973-1980, in an effort to achieve some expansion in cattle breeding.

22. While the agricultural sector has been the chief beneficiary of the NEM, and is now one of the most efficient agricultural sectors in Eastern Europe, it is by Western standards, still overmanned and undercapitalized. Consequently, the Hungarians are now intent on encouraging a shift in the structure of the sector which will favour the profitable, but more capital intensive types of production, such as livestock raising and animal products. The shift in emphasis from crop production to livestock production and processing is evident when the 1971-1975 period is compared with the 1965-1970 period from the point of view of investment.

DISTRIBUTION OF AGRICULTURAL AND FOOD INDUSTRY INVESTMENT

(Percentages)

Sector	1965-1970	1971-1975	Absolute Investment Growth 1971-1975 / 1965-1970
Crop production and processing	38.6	28.4	91.3
Livestock raising and processing	31.8	38.1	147.8
Mechanization and other	29.6	33.5	140.0
Total	100.0	100.0	124.0

Source: Calculations of Ministry of Agriculture and Food, as reported by Imre Demeny, Minister of Agriculture and Food, in an article which appeared in Kozaazdasagi Szemle, April 1971, pp. 385-401

23. The goals for the mechanization of agriculture during the plan period 1971-1975, call for a 40% increase over the previous Five-Year Plan period or a total of 16,000 million forint. The bulk of the machines planned to be delivered from domestic and foreign sources include: 45,000 to 50,000 tractors, 8,000 trucks, 37,500 high-load trailers, 5,000 high output combines, 2,500 corn harvesting adaptors, 4,000 dredging-loading machines, 2,500 cornstalk-crushing combines, 5,000 corn harvesters, and 500 potato and 500 sugar beet lifting machines.

24. Doubts have been expressed as to whether the acquisition of these machines will be sufficient to meet the anticipated 15% to 16% growth in agricultural production projected for the period. Originally, Hungary hoped to import only 40% of its agricultural mechanization needs, and to produce the larger share itself. In practice, these ratios have been reversed, and most of Hungary's needs have been met through imports. The current Five-Year Plan projects 55.5% from imports and 44.5% from domestic production, while the planned figures for both the fifth and sixth Five-Year Plans (1976-1980 and 1981-1985) are almost the same. For the three Five-Year Plans therefore, the ratio projected is roughly the same as the present one, i.e. about 55% to 60% of the country's needs are to be imported. It should be borne in mind, however, that the proportion may be even larger, if the programme of mechanization is to be fulfilled. For example, the closing of Budapest's Red Star Factory for the production of tractors occurred after these estimates were made, so that the proportion of imports could be even higher. Nearly all this equipment will come from the USSR and other East European countries. An exception to this will be imports for Hungary's programme of "model" agriculture mechanization - the introduction of the "closed production system" (CPS), in a limited number of agricultural enterprises, the machinery and equipment for which will be largely imported from the West, particularly from the United States and Germany.

25. Under the CPS system, the variety of plant (or animal) most suitable for development in Hungarian conditions is selected, and then its production is mechanized and rationalized to the greatest extent possible, using the most advanced equipment and technical know-how. Co-operation with the West, and particularly with the United States, has been important in the development of this system. For example, the Hungarians have set up a special joint undertaking with the Americans and American companies to search and procure the agricultural machinery best suited to Hungarian conditions. Under this programme, the United States has shipped the necessary machinery, and provided Hungarian farms with necessary seeds and know-how for the development of a series of closed production systems in maize production, providing the complete mechanization of all agricultural processes from soil preparation to the conversion of maize into animal products. Imports of hybrid animals are also being made in order to improve Hungary's domestic breeds.

26. The CPS has had considerable success. The system was first introduced on the Babolna State farm, using the experience of growers in the United States. It included the mechanization of soil preparation, maize cultivation and harvesting, and the conversion of the grain into animal products. A single production unit normally covers almost 800 hectares, and the mechanization cost for a basic maize production unit is estimated at 5 million forint. By the end of 1972, this system of maize production had been extended to a number of other farms with a total area of 126,000 hectares, and it was planned to increase this to 136,000 hectares in 1973. The Babolna farm has also introduced modern chicken raising and poultry breeding, and joint hog breeding facilities - both in co-operation with West German firms.

27. American help is also being used in applying the CPS system to soy beans and sugar beet. The total cost of the machinery and equipment needed to modernize maize and sugar production so far is estimated at $9 million. This machinery has been mainly bought in the United States and is supposed to be repaid by the farms by the end of 1977, largely, it is hoped, from the higher earnings resulting from improved yields. The Hungarians are also interested in applying these techniques to crops which have proved very labour intensive, tobacco for example. In 1973 the first production unit of the new system applied to tobacco was due to be set up, with Canada supplying Hungary with 24 machines to carry out all operations from sowing to harvesting. Finally, the new system is not to be limited to operations just within Hungary. For example, a joint American-Hungarian enterprise, registered in Switzerland, has been established to improve the system and to promote the sale of its services to third countries. For example, in 1972 the Babolna State farm helped to bring the system to the maize fields of the USSR (Odessa) and Czechoslovakia (Dunayska Streda).

28. The rapidity with which the CPS system will be extended in Hungary is difficult to estimate. The heavy mechanization involved makes it very expensive indeed, and frequently it requires large imports of Western machinery for which Hungary has limited foreign currency. It also requires a lot of skilled manpower, of which Hungary is also very short. On the other hand, the CPS system has been seen to be outstandingly successful, and there is some evidence that the Government may be prepared to increase the funds available for the purchase of the machinery and know-how necessary to operate the system. For example, considerable publicity was given by the Government to the fact that 1973's harvest was greatly facilitated by the superb operations of 300 high capacity West German Claas combines that had been imported under a co-operation agreement between the United States and Hungary. The press did not fail to point out

that the combines harvested 100 to 150 tons of wheat daily - many times the amount reaped by the Soviet and East German combines they had replaced, and as a result had helped to reduce the losses caused by foot and mouth disease earlier in the year. Successes like this are not lost on the Hungarian Government (or on other East European countries) and there will be considerable pressure to buy more of this kind of equipment.

INDUSTRY

29. The rate of industrial growth has slackened since 1968, though the precise reasons for this are far from clear. The average annual rate of growth for 1968-1972 was between 4% and 5%, compared with a rate of just over 7% for the years 1963 to 1967. The rate fell sharply in 1968 - 5% as compared with 8% to 9% in 1967. This could reasonably be explained by the transition to the new system (and it was in line with the deliberately low planning targets), but the fall to only 3% in 1969 was entirely unsatisfactory. The rate has increased since then, but is still below the average before 1968.

30. Greater industrial productivity was one of the major aims of the NEM, but it is still not clear to what extent it has been successful in this respect. The fall-off in industrial output mentioned above is not conclusive, as much production in Hungarian industry has tended to be uneconomic and inefficient. For example during the 1961-1967 period a far from negligible proportion of industrial output was not used for domestic consumption or exports, but for stocks. Since then in the last 4 or 5 years the concept of "production for the sake of production" has been put increasingly in the background in an attempt to make industry more sensitive to demand. This could mean a cut back in production in some sectors. Some Hungarians have in fact tried to argue recently that production figures calculated on the old basis no longer reflect the total contribution of industry accurately enough, and that an index of "gross production value" taking into account services rendered between enterprises and price rises due to improved quality would show a much more healthy growth rate for the last few years.

31. It is output per man hour that are perhaps more reliable indicators of productivity. In this respect productivity indices have been subject to a variety of influences. For example, under the NEM enterprises were given some freedom to dispense with surplus labour, but the Government, in its anxiety to prevent widespread unemployment, placed a ceiling on average wage increases in 1968. This regulation encouraged enterprises to employ unnecessarily large numbers of workers to keep wages low so that higher than average wage

increases could be given to selected workers. The introduction of a shorter working week in certain industries had similar results. In addition, the authorities, concerned by labour shortages in highly industrialized areas, planned that over half of all new factories between 1966 and 1970 should be located in areas where there was surplus manpower. Consequently, a large number of enterprises moved to the provinces where productivity was lower. Alarmed at the apparent fall in productivity, the Government then took a series of measures to reverse this policy. The ceiling on wage increases was lifted in 1969 and a tax was levied on the wages of extra staff employed.

32. These developments have made it difficult to gauge the success or otherwise of the NEM in raising productivity. However, an attempt is made in table B to compare the performance of industry in the two periods 1964/1967 and 1968/1971. This is done from four different aspects - gross production, output per worker, output per man hour and number of persons employed.

33. Several tentative conclusions can be drawn from the table. It seems fairly certain that industrial production has grown more slowly in recent years, that total output per person has also fallen, that employment in industry has grown more slowly, but perhaps most significantly, output per man hour has risen. Large differences exist amongst the various branches, but in very general terms a faster rate of production was accompanied by a faster growth of productivity. In a few industries there was a faster increase in output per man as well as output per hour. This was the case for example in the vehicle industry. In this instance, the labour force has risen very slowly since 1964, and the large production increase has been achieved by both a greater output per person, and in particular by a sharp increase in output per man hour. Similar developments have taken place in the electrical and leather and shoe industries.

34. However, in nearly all other cases the rate of increase in output per man from 1968 to 1971 was slower than in the 1964/1967 period. That this was partly offset by the faster growth in output per man hour, reflected a more efficient use of labour during this period. This was the case for example in the printing industry, the demand for whose products has grown considerably in recent years. In this instance the labour force has been increasing faster than before 1968 (one of the few cases where this has happened and no doubt due in part to Government-aided wage preferences), but nevertheless it is increased productivity which has been largely responsible for the faster growth in output. Productivity has also increased in the chemical industry. Output has increased at a slightly lower rate than 1968, as has the labour force, but increased productivity has allowed the chemical industry to grow faster than any other heavy industry since 1968 - also reflecting the high rate of investment in this sector. Productivity has also increased strongly in the precision engineering industry.

35. At the other end of the scale, productivity has decreased in the mining, paper and textile industries. As a result, output in the mining industry has remained more or less static since 1966, as it has in the textile industry. In fairness it should be pointed out that for some years the Government deliberately aimed at a rapid run-down of coal mining, and that some Hungarian economists have argued that a slower rate of growth in the textile industry accompanies the development of a more modern industrial structure as does the decline in the ratio of light industry in general. As production in light industry grew by only 9% during 1968/1971, compared with 22% for heavy industry, then, if these economists are correct, Hungarian industry may well have been modernizing faster than before 1968.

36. However, this may be a line of argument too convenient to the Hungarians. For example, the building materials industry has also shown a very poor performance in the latter period, productivity and output scarcely increasing at all, and whereas it could be argued that a slower production growth in some industries reflects a greater degree of "economic reality", this is not so with the building materials industry. As a very important supplier of the construction sector in general, the importance of the industry is all too obvious, particularly in a country aiming for fast development. But in 1971, the production of bricks, fired tiles, asbestos, cement, roofing shingles, lime and reinforced concrete was actually lower than it had been in 1968, and overall production in 1971 grew by only 1% and in 1972 by an estimated 3%. This poor record was despite a long history of subsidies, heavy investment, preferential wage rates, generous credit facilities and a rise in the price of the industry's products. The industry has had difficulty in digesting the investment, and poor location has made it difficult to recruit sufficient skilled manpower. In addition, poor management and difficulty in forecasting demand has made it difficult for the industry to utilize its capacities properly. Again, in fairness, it must be admitted that the building materials industry is often weak in other CMEA countries as well. Despite the poor record of this industry, the ambiguous results in other sectors, work productivity in the sense of output per hour seems to have undoubtedly increased faster since 1968 than before. While it cannot be proved in any definitive sense that this was due to the workings of the NEM, there is at least a strong supposition that the increased freedom of action given to many enterprises under the NEM has played a large part in this development.

37. Two further factors also suggest that improved performance in the period since 1968 has been based on qualitative as well as quantitative change. First, productivity has in the years in question shown a much faster rate of improvement - whichever index of measurement is used - in the co-operative sector of industry than in the larger State enterprises (table C brings out this difference most fully). It is true that basic productivity in the co-operatives was lower at the outset, allowing greater marginal increases, and that the co-operative sector accounts in any case only for a small proportion of total production; but it cannot be accidental that NEM conditions have favoured precisely the smaller units which, having more freedom of action, were better able to adjust to consumer demand, carried out better market research, and were able to attract labour more easily. Another characteristic feature of development is that the proportion of industrial output going into foreign trade, which had been static around 18%-19% in the years 1965-1968, showed a rapid increase to well over 20% in the years 1969 and 1970 and was provisionally put at over 23% in 1972 (see table D, but NB that these figures are more than usually subject to revision). The metallurgical and vehicle industries, precision engineering and the textile and leather industries showed a particularly rapid increase in their contribution to foreign trade. At the same time, sales to wholesale and retail trade have shown a slight increase, while sales between enterprises themselves increased much more slowly. The connection with NEM measures probably lies in the fact that a greater proportion of industrial output is now subject to international prices and that in so far as NEM measures allow enterprises greater latitude in responding to these, some of the limits placed on efficiency by the rigid and unrepresentative prices characteristic of more highly centralized economies have been circumvented with the result of a further growth in exports. The effect of such external "market" influences should ideally be to foster a more modern structure for industry as a whole. And it is worth noting that here too the co-operatives have shown a characteristically greater sensitivity to new market influences; the proportion of their output going both to foreign and domestic trade, and in some cases the actual volume of the latter rose at a markedly faster rate than in the case of large-scale State industry (see table E).

38. However, it is also important to emphasize that while productivity per man-hour may have increased slightly since 1968, it has still not increased at a rate sufficient to meet the needs of the economy. The growth of output per person has fallen and industrial production has grown more slowly since 1968 as pointed out in paragraph 27. As greater industrial productivity was one of the main aims of the NEM, its performance

in this respect must be considered far from ideal. The problem is aggravated by the fact that Hungary cannot rely on a growing labour force to meet its needs in the future (see paragraphs 9 to 11), and she has few natural resources that can be exploited cheaply by labour intensive methods. Consequently, productivity must be raised if Hungary is to sustain a satisfactory rate of economic growth, and the need for more productivity in labour has become a dominating theme in the Hungarian economy in 1973.

39. It had been hoped that the NEM mechanism would force enterprises to dispose of surplus labour - to eliminate "unemployment within the plant" step by step, so that manpower would be freed for areas where a labour shortage was impeding progress. In particular, it had been hoped that labour would be transferred from the growing, more technological areas of industry (and from industry in general, which is still over-staffed by a considerable margin) to the services, transport, and construction sectors, which were understaffed. But the process of transformation proceeded much more slowly than had been expected, and what regroupings there were which promoted a more rational use of manpower, took place only after special efforts had been made. In this case, the regulators were insufficient to produce the requisite changes. Moreover, the regulators generally tended to create too close a link between profits and wages. A certain percentage of a worker's wages and his annual bonus have been directly related to his company's performance. Prima facie this might seem to encourage efficiency, but what has happened is that the bonuses have become pretty much an automatic part of payment, rather than an incentive, and managers have not been keen to put these rewards at risk by too much innovation or risk-taking on their part. At the same time, labour has tended to be cheap in comparison with capital (see paragraph 36), which has encouraged managers to build new plants using more manpower and existing technology, rather than to modernize production processes, or develop new products. This has been exacerbated recently by the Government's tight credit policy following the 1969-1971 investment boom, which has made capital intensive investment even more difficult. But the most important factor mitigating against increased productivity has been the absolute priority accorded to full employment. This, in itself, has made it difficult to run down a labour force on any significant scale, but, in addition, has meant that closures of plants and bankruptcies in the Western sense are socially unacceptable (see paragraph 35). Rather than let a company go bankrupt, it would be subsidized from the budget, or given special credits to tide it over, or increasingly, the company will be taken over by a Government Agency and its production structure transformed. As a result, the penalties for bad management and inefficient use of resources have always

been rather minimal and the incentives towards efficiency and innovation, weak and uncertain. Finally, the Hungarian Government has always had to take into account the very real consideration of not antagonizing or alienating the industrial working class, the class it looks to most for its traditional support. The Baltic riots of December 1970 made the East European countries very alive to this problem, and Hungary also has a trade union movement which is well organized and is quite vocal by East European standards.

40. Various modifications to the regulators have been made since 1968, in attempts to deal with this problem, but with little success. The most recent attempt was the experimental introduction in 1973 in some 16 factories of a revised wage system under which a given sum of money was paid for a given volume of production, irrespective of the numbers of men involved. It was accompanied by special exemptions from the high wages tax so long as companies could prove higher productivity. However, it is too soon to judge the success of this experiment, particularly in view of the failure of very similar measures in the past. Moreover, while the Government and management are obviously hoping for its success, it will still have to overcome the fears of redundancy and redeployment on the part of the workers.

41. The comparative disadvantage under which large-scale industry has laboured under the NEM as a result of stubborn built-in diseconomies, low levels of profit, problems of sheer scale in the management field and the social constraints against getting rid of superfluous labour became so marked by 1972 that the authorities decided on positive action to break the deadlock. In 1973, some 50 large enterprises, covering 180 factory units and accounting for 55% of Hungary's total industrial production were put into a special category and treated "with special attention". Among other things, this "special attention" entailed a greater and more regular flow of information from the enterprises to the central authorities. The National Planning Office, in co-operation with the various Ministries then collated the data (covering sales, profit, manpower, export production and value of assets) and gave its report to the Council of Ministers. The Council of Ministers has maintained that such supervision should not conflict with the principles of the NEM or reduce enterprise independence. However, it has also maintained that the higher authority could hold the enterprise management responsible, could give orders, and could provide or withdraw State support when it felt necessary. By September 1973, the first Ministerial researches into the situation and problems of the 500 enterprises had been completed. These involved a thorough examination of the enterprises' financial, investment and pricing performance, as well as their general rôle in the economy. The only official

conclusion that has been published so far is that an improvement in export performance, has not hitherto always been backed up by an adequate all-round increase in production, especially where enterprises falling outside the scope of Government development programmes are concerned. The inference may be perhaps that these companies should be assisted to reorganize and revitalize their production structure rather like the 6 giant enterprises discussed in the following paragraph.

42. In 1973, 6 or 7 of Hungary's largest factories were singled out for special treatment, and taken back under direct Ministerial supervision. Official finance was pumped into them, and arrangements were made for a change to a more economic profile. The 6 enterprises are the Hungarian Shipyard and Crane Factory, the Csepel Automobile Factory, the Red Star Tractor Factory, the Driving Motor and Elevator Factory, the Ganz-Mavag Engine, Wagon and Machine Works, and the Concrete and Reinforced Concrete Works. The first of the 6 firms to undergo central reorganization was the Red Star Tractor Factory, which was merged with the Gyor Wagon and Machine Works in March 1973. The factory is no longer producing tractors, but will manufacture component parts for public vehicles instead. This will require expensive retooling - which it could never have afforded by itself - as well as the retraining of the labour force, something which is not too popular. The hope is that these measures will transform the company into a profitable concern and eliminate worker discontent. The Shipyard and Crane Factory will concentrate on river craft, rather than ocean-going vessels, the Csepel Motor Factory is to stop production of middle-sized lorries, the Driving Motor and Lift Factory is to concentrate on gear boxes and industrial motors, while the Ganz-Mavag Engine Factory is to specialize in the mass production of a few specified types of lift. In almost all cases there is a clear connection between the proposed change of economic profile and the demands of intra-CMEA specialization, although increased export capacity towards the West as well is not necessarily ruled out. Taken together with the statutory wage rises to be mentioned later, these measures represent a clear recognition of the fact that the NEM regulations in themselves have proved incapable of exercising the full desired influence on the more traditional sectors of Hungarian industry. It is too early to say whether a decision of principle has been made on a partial return to administrative control, or whether the aim is simply to overcome certain stubborn obstacles to rational development before returning to purely regulatory controls. But one thing which seems clear from the measures taken at the largest enterprises is that the changes to be implemented, are designed to speed up the process of structural change - implying the concentration of forces on the most profitable branches and products from the point of view both of domestic consumption

and foreign trade - which is in itself, an important original aim of the NEM measures. Some support for this point of view was provided by the dismissal of the whole management of the Beloiannis Telecommunications Factory at the beginning of October 1973. This appears to have been the first case since 1970 of an enterprise's management being demoted en bloc - apart that is from the six or seven factories mentioned above. However, in those cases, the factories had been singled out, without any special opprobrium, for special treatment in the Party's measures of November 1972. The Beloiannis case was in striking contrast to earlier cases such as the Bakony Motor Works (which was more or less admitted to be bankrupt in 1971, but which the Government shored up tacitly with even larger subsidies) and the Red Star Tractor Factory (which was moribund for many years before the decision to "renationalize" was taken in November 1972). It would appear that the Hungarians are, at least, really trying to put some teeth into the policy of greater Ministerial supervision, and also that a successful export performance is no guarantee of invulnerability, even at an enterprise like Beloiannis which was largely supplying CMEA markets.

INVESTMENT

43. In 1968, simultaneously with the freeing of the majority of producers, i.e. primary industrial prices, the scope of investment based on enterprise self-financing was broadened. Enterprises were given additional institutional powers which included the power to initiate the replacement of obsolete fixed assets, modernization programmes, expansion of production and also non-productive welfare investments. In addition, central plans no longer carried any plan indices or limits on enterprise investment. However, through control of depreciation funds, profits and credit policy, the State still retained considerable control. For example, decisions over certain categories of investment remained with the Government, the most important of which were individual large-scale investments (which were treated as part of the Plans), non-productive investments in the power and transport industries, and non-productive investments of Councils and official bodies. On the financial side, central financing was expected to continue to account for a considerable share of overall investment, but bank credit and self-financing by enterprises were intended to play a significant and expanding rôle. In order to help achieve this, enterprises were empowered to allot a growing share of profits into investment. Interest rates were to regulate the process by raising investment costs to firms, and providing a savings alternative for those with available funds.

44. Nevertheless, despite the retention of overall control by the central authorities the investment situation became unstable after 1968. An important reason seems to have been that the Government seriously underestimated the size of the profits that would accrue to the enterprises in 1968, as well as additional funds that became available from the high level of sales of used or scrapped equipment. The result was that the investment resources of firms were much greater than planned, and the additional funds encouraged many enterprises to start new investments. An additional reason was that the regulating controls did not cope effectively with the situation as had been hoped. For example, while interest rates did grow considerably from 1968 to 1971 (and in addition in 1969, the charge on capital assets was extended to cover assets acquired through bank loans), it had little effect on the demand for loans or on enterprise saving. This was because the added interest cost could generally be passed on through price increases (due to the sellers' market) and the financial need of the enterprises overwhelmed the incentive to save. At the same time, the banks did not really have to apply commercial criteria to loan applications, because there was little threat of loss from repayment failures - the budget either absorbed the losses or subsidized the enterprises that were in financial trouble. As ever, the fear of the social and political consequences of letting firms go "bankrupt", ensured that there was little restraint on the issuing of credit. Also, given the pressures by other various groups, notably central and local authorities, also to increase their investments, the result was a heavy excess demand for capital. A boom rapidly developed.

45. Outlays of funds by enterprises and co-operatives leapt by a third in 1969, and as this coincided with a similar increase in State investment, the market rapidly became overstrained. Too many schemes were started with too little preparation, and of too uneconomic a nature, and the National Bank and sectoral Ministries were less vigilant than they should have been in arresting such schemes at the outset. The problem was also distorted by the system of prices and subsidies in force, which did not always enable realistic assessments of capital return to be made. The inflation in industrial prices accompanying the boom and the coming into operation of the NEM led to a great increase in investment costs, and the artificially low cost of labour (caused by severe wage restraint) encouraged managers to build new plants using more manpower and existing technology, rather than to modernize production processes, or develop new products. Expansion of plant capacity seemed to promise a larger scale of production or bigger volume of profits. Consequently, the volume of unfinished capital projects increased dramatically, completion periods lengthened, and ordinary reconstruction tended to be neglected.

46. The imbalance in supply and demand for investment funds was particularly bad in 1970, when the volume of enterprise investment again rose very sharply, and the final volume of investments exceeded the plan by about 20%. Then in 1971, investment outlay in the social sector increased by 12% and, as in 1970, most of the increase was accounted for by the enterprises, rather than by the central authorities. All this led to increasing enterprise budget deficits and spiralling investment costs: between 1968 and 1971 construction costs rose by 25% to 30%, while the cost of related technology rose by 40% to 50%. Consequently, the Government intervened at the end of 1971 to control the situation. Investment in the social sector for 1972 was fixed at the 1971 level, that is about 106 billion forints. In order to achieve this the number of large individual State investments planned by the Government for 1972 were reduced, and the investments of enterprises and industrial co-operatives were cut by 2 billion forints below the 1971 level. It was planned to effect this by a reduction in the segment of the development fund which could be formed out of profit, restrictions on bank credit were tightened, and the credit ceiling was fixed below the 1971 level. In addition, enterprises undertaking new construction projects had to set aside 20% of the construction costs as an obligatory reserve. The idea was that under such circumstances it would be to the advantage of the enterprise to modernize rather than build - a weakness of the investment boom noted earlier - as modernization projects did not require the 20% desposit.

47. The measures were successful in limiting the growth of investment. The final figure for investments (in constant prices) was 2% below the plan figure. In current prices investment amounted to 103 billion forints, compared to 100 billion in 1971 - indicating a significant increase in building costs. Moreover, while in the previous 3 years the proportion of total investment financed by enterprises and co-operatives had increased (from 49% in 1969 to 54% in 1970 and 57% in 1971), in 1972 it decreased somewhat. In fact in 1972, the amount of enterprise and co-operative investment (in value terms) decreased by 3% to 4%, while central investment, on the other hand, rose by 10% to 12%. The controls on investment continued to make themselves felt in 1973. Indeed, enterprise managers have complained that investment has now become a little too difficult. As activity on large Government projects appears to have increased in 1973, the comparatively low level of investment spending seems to be due entirely to restraint on the part of enterprise managers. The combined effect of the investment deposit scheme, and the burden of the 1973 special wage increases seem to have proved more effective in limiting investment, than any official sermon against extravagance. The investment boom was probably a unique occurrence. As pointed out it had happened more from a miscalculation of profit levels

and a resulting confusion (as illustrated by the subsequent revisions of the investment figures for 1968) and a failure to apply the appropriate controls by the central authorities, rather than an actual lack of controls in an institutional sense. Once action was decided upon it was relatively easy to assert this basic control.

48. Nevertheless, the Hungarian Government seem to have no desire to repeat the experience, and are apparently determined to maintain for the time being at least the full rigour of the various administrative and financial sanctions introduced. For example, at the beginning of 1973, the Government adopted the findings of an investigation of enterprises handling of investments since 1968. It found that on the whole, the handling of many investment decisions on the utilization of funds in a responsible way. But it criticized them for inadequate preparation and assessment of proposed development projects. It concluded that while enterprises were to retain their decision taking rôle, preparatory work for investments was to be improved and that "this and its implementation" had to be controlled to a greater extent by supervisory bodies. Effect was given to this conclusion at the beginning of March, when the Council of Ministers passed a resolution on enterprise investment, which laid down guidelines on the kind of preparatory work that firms should undertake in connection with their investments. This included an obligatory determination of the goal to be achieved by the investment, the relation of this goal to the national economic plan, and why it was considered timely. The preparatory work was to include a careful financial plan, and the cost of the investment - taking into account expected price movements - and the sources from which it had to be financed had to be stated. The decision to approve the investment was to be left to the general manager of the enterprise. If the enterprise wanted a State subsidy or credit to supplement its own resources, a "basic document" had to be drawn up on the preparatory work. This investment document became the main document for the approval of the investment and a prerequisite for all investments which required a State subsidy or bank credits, as well as investments financed by enterprise funds, if the investment was a major one.

49. It is difficult to assess the extent to which these resolutions represented a retreat from NEM principles. It can be argued that these measures have reduced the independence of enterprises and mean a step backward in the field of reform, but there is no doubt that between 1968 and 1972 the authorities, especially the industrial branch Ministries, surrendered to the enterprises their rôle in controlling, informaing and guiding to a greater extent than was desirable or even intended. Even the

original reform did not want to carry enterprise independence to the point where the regulating activity of the central authorities was pushed too far into the background. Moreover, although they were being imposed as central directives, they did not, for the most part, represent direct interference in the details of the enterprise operation, and thus do not seem to be a return to an administratively run, or command economy. However, if these measures are considered together with the other restrictive measures taken in the fields of wages and prices, then a different emphasis could emerge. It is perhaps interesting that the solution to the investment problem was found in more central control, rather than establishing more effective financial controls in a "market" sense.

PRICES

50. The NEM set up four categories of prices: officially fixed, maximum prices, prices allowed to fluctuate within limits set by the State, and free or non-official prices. The first two categories included 70% of domestic raw material and semi-finished product prices; 60% of agricultural prices, and 50% of consumer goods prices. The latter was intended to protect consumers against any deterioration in the standard of living, and as only 23% of consumer goods actually had free prices, the situation was not greatly different than before the NEM. Consequently, the State retained extensive control over relative prices, and social, rather than economic considerations continued to play the major rôle in price formation. Nevertheless, the Hungarians were aware that the evolution of a more rational price structure, adequately reflecting the conditions of supply and demand, was vital to the long-term success of the NEM. The restructuring of the system was to take a long time, the Hungarians speaking of at least 10 to 15 years to evolve a viable system, which also indicated that the NEM was to be thought of as a similar long-term undertaking.

51. The major innovation in pricing policy was the decision to allow some enterprises to fix the prices they charged other producing firms - with the exception of prices for most raw materials, which continued to be set by the State. Because of the absence of any real competitive element in the Hungarian economy, this inevitably had the effect of allowing some firms to act as monopolistic sellers and increase prices at will. These prices were passed on where possible by the purchasing firms, generating a strong inflationary trend with industrial producer prices, and allowing these firms to build up large profits. As a result, a substantial proportion of these profits stemmed from price increases that could not be justified, or could be justified only partially, by the modernization or greater quality of the product manufactured. Where supply and demand were roughly in

balance, this tendency to raise prices was held in check, but where there was a monopolistic supply situation, or where demand exceeded supply, prices rose sharply. This was particularly true, for example, of the capital goods industry, which faced an enormous deferred demand. This was serious, as capital goods were vital for the technical development of Hungarian industry, and technical development was a major aim of the NEM. But because of the high cost of capital goods, and the artificially low cost of labour, labour intensive investment remained more attractive than capital intensive investment. Moreover, the creation by many enterprises of large additional funds due to price increases was a major contributing factor of the investment boom which followed in the years ahead. Clearly, the Government had not expected enterprises to increase their prices quite to the extent that they did, and in turn, this led the Government to underestimate the amount of additional funds that became available for enterprises to invest.

52. On the other hand, while enterprises able to raise prices reaped windfall profits, other enterprises, whose prices were fixed by the State, or which enjoyed a lesser degree of monopoly (and many large State firms were in the first category), suffered losses. In order to eliminate this discrepancy, and to prevent bankruptcies, the Government taxed the "profitable" firms, and subsidized the "unprofitable" ones. (On top of this, the State often had to subsidize consumer industries in order to prevent the higher prices from being passed on to the general population.) As a result, "profitable" firms paid bonuses to management and workers from the profits which remained after taxes, whereas "unprofitable" enterprises often paid bonuses out of fictitious profits created by the State subsidies. As no distinction was made between the bonuses paid in the two types of firms, the bonus system failed to perform its intended function of rewarding economic efficiency.

53. The meeting of the Central Committee of the HSWP in November 1972 adopted several measures which tried to deal with these problems. For example, an important aim of prices under the NEM, had been to bring the level of agricultural prices slowly into line with industrial prices. Since 1968, central procurement prices for various agricultural products had been raised considerably, and output had significantly increased as a result. But it was also the Government's intention that the general public should become accustomed to paying higher prices as well, and accordingly a decision was taken to increase the prices of dairy products and meat. (This decision is dealt with in more detail in the section on Agriculture.) A decision was also taken to increase the prices of cigarettes and spirits 15%-25%, chiefly to be able to finance the central wage increases that were decided on at the same meeting. But besides actual

price increases, several measures were also adopted on pricing policy itself. Among other things, these involved stricter price control, including the compulsory reporting (and justification) in advance of price increases, the raising of the proportion of "tied" prices in the building industry to 90%, and extension of the use of contractual prices in the largely free producer price field, and an undertaking not to increase the prices of basic goods or the proportion of free prices before 1975. Later elaborations of the Government's new price policy showed that it also included a new method of calculating free prices, a more precise definition of "unjust" profits, and greater powers for the National Materials and Price Control Office, including the obligation to harmonize the activities of the Ministerial and local council price control authorities.

54. The clearest restriction on further price rationalization was represented by the ban on any further rise in basic fixed prices or any extension of the free price range until 1975. It was later revealed that the Government intended to hold down the increase in the average price index in 1974 and 1975 to 2% per annum, compared with 3.6% in 1972. This statement implied that since there would be no more central price increases, free prices would be allowed to continue to rise at more or less the same rate, and by implication, their scope, while still comparatively narrow, would not in any significant way be restricted further. There was also some economic justification for the move to tie more prices by contract in the largely "free" producer price field. There had been some notably sharp rises in the price level in certain branches in 1972, e.g. 6.7% in the paper industry and 6.2% in the electrical appliance industry, and coupled with lax contract discipline this amounted to an unfair burden on those enterprises, many of them large exporters, who were dependent on a wide range of semi-finished products. Nevertheless, the introduction of such a system can only entail a limitation on the extent of free price formation in this area, and its successful enforcement will involve some kind of administrative control. Similar considerations also attach themselves to the decision to introduce stricter price control. It is unclear what the new methods of calculating free prices will involve, but the stricter price control and reporting of price increases will in practice probably mean that most enterprises will face a price audit once a year, and that prices charged by private craftsmen will also be checked, penalties being imposed in cases of excessive profiteering.

55. The precise definition of "unjust profits" was embodied in a Council of Ministers resolution issued at the end of June 1973. Applying only to free price products and services, the decree makes enterprises and co-operatives subject to prosecution "if they make profit by methods contrary to the principles of the socialist economy", such as abusing a monopoly position,

marketing inferior goods without comparable price reductions, not passing on lower material costs, increased subsidies etc.. Other instances are given, but the decree is loosely worded, probably because the Government does not want to inhibit those firms producing free price goods, from making necessary or "fair" price increases, and thereby discouraging them from making innovations, or possibly causing them to stop production of a particular line altogether. This awareness of the need to leave firms some room to manoeuvre in price adjustments, means that the legislation can only be judged by the practice of it, and this remains to be seen. Probably there will be stricter control in connection with free price products, and enterprises will be careful not to attract attention from the consumer or the authorities, by making excessive price increases. But it would be an exaggeration to suggest that the decree is aimed at curbing enterprise independence. Rising prices, inequalities of income, and conspicuous consumption by a few members of Hungarian society, have inevitably aroused a certain amount of resentment and ill-feeling among the less well off industrial workers. Consequently the decree has a considerable element of propoganda value. It provides the Government with a weapon it can use to ward off this resentment by making a number of examples for example. The possible nature of the measure as a public relations exercise is also interestingly marked by the provision in the decree that the trade unions are among the bodies that can initiate a prosecution under the legislation. The Government also revealed that it had set aside funds to offset any major world market price increases which might threaten to raise the level of domestic prices above the planned 2% increase, but it stressed that these reserves would be used with the greatest circumspection.

56. It is difficult to assess the full implications of these modifications of price policy to the future of the NEM. Despite an annual 20,000 million forints spent on price subsidies, the Government's official aim is still to evolve a consumer price system proportionate to value. However, the Government have also admitted that the implementation of this decision is proving to be much more difficult than had been imagined, and that its attainment will still take "two or three" plan periods. Moreover, it does seem clear from the foregoing analysis, that the problems encountered by the Government in easing price control were greater than they had expected, and that they have been obliged to put a stop to its further development in the immediate future, i.e. until 1975. It is too problematical to predict what will happen after this date, but it remains true that the Government's decisions in this field will determine the whole course of the NEM.

EARNINGS

57. Between 1955 and 1971, average monthly earnings in the socialist sector by workers and employees (largely identifiable with administrative and clerical staff), virtually doubled from 1,125 forints per month to 2,200 forints per month - or by about 4% per annum. However, the rate of increase varied considerably during the period concerned - it was about 6.5% from 1955 to 1960, about 2.3% from 1960 to 1965 and 4.2% from 1965 to 1970.

58. The rate of increase also varied considerably from one sector of the economy to another (notably between agriculture and industry), within individual sectors, i.e. from one industry to another, geographically from one area of the country to another, and also between the co-operative and State sectors. Indeed, the variation has been so great that the overall pattern of earnings has significantly altered. This can be shown graphically as in Chart F or by the table G below. The striking feature of these diagrams is the way in which the average industrial wage has fallen from a position of pre-eminence to one of relative inferiority. The table shows that in 1955 industrial earnings led the field, being some 7% to 8% ahead of the social sector as a whole, and as much as 30% higher than the State sector of agriculture. In 1960 wages in the construction sector equalled those in industry, but the two were still well ahead of the rest of the field. Then the transport sector drew level.

59. Developments have been even more striking since the introduction of the NEM in 1968, when industrial wages actually fell below the average of the sccialist sector for the first time, and wages in State agriculture leapt ahead to bring this traditionally lower paid sector ahead of industry.

60. Nor does the picture appear to alter essentially if the sectors are compared from the point of view of average monthly income deriving from the employer, this quantity being largely composed of earnings, and receipts from the profit participation fund, indeed in some cases, i.e. with respect to State agriculture, the difference is, if anything, slightly increased. Another factor which is likely to have prejudiced the position of industrial workers is the steady rise in prices, particularly of seasonal foodstuffs under the NEM, which naturally has less effect on the partly self-supplying peasantry. It is only when income is considered from the point of view of earnings plus social insurance benefits that income differentials are somewhat reduced.

61. There has also been some change in income differential between the State and the co-operative sectors. For example, between 1968 and 1971, average earnings in the State sector increased by 16%, and 19.7% in the co-operative sector. In respect of total income derived from the employer, the increase was 18.3% in the State sector and 24.7% in the co-operative sector. Moreover, while average earnings of workers in industrial State and co-operative sectors increased by about the same proportion between 1968 and 1971, the total income of workers in the co-operative sector increased somewhat more. (It is also possible that the available figures understate the increase of earnings that has occurred in some co-operatives.) It can be argued that the level of average earnings in State industry is higher than in the co-operatives. However, this ignores the fact that the structure between the two is also very different. State industry, for example, covers a much wider range of incomes than co-operative industry. For instance, it is boosted by the exceptionally high wages earned by large numbers of workers in the mining industry. Earnings in the iron and steel industry and in light industry, on the other hand, have been well below this average. Again, no general statement can be made about income trends in Hungary without some mention of the great regional variations which still exist under the NEM. For example, in 1971, average real income per capita was 22,190 forints in Budapest, 19,514 forints in counties Bekes and Csongrad, but only 16,626 forints in Hajdu-Bihar, Szzbolcs-Szatmar and Szolnok.

62. These variations are not necessarily a result of the NEM. The geographical variations mentioned above obviously existed long before the NEM, as did, for example, many of the variations in industrial wages mentioned above - the mining industry has been in a position of wage superiority for years. What is true is that in any country with a traditionally centrally planned economy, heavy industry tends to be favoured more than is economically justified in comparison with other sectors of the economy. It therefore builds up a great deal of subsidized inefficiency and "feather-bedding", such that when controls are eventually removed or relaxed, other sectors of the economy tend to move ahead faster than previously. At the same time, existing industrial inefficiency becomes much more obvious and difficult to justify than before. The result is that the traditional chief beneficiary of Communist society - the worker in the large State enterprise stands to lose most, or gain least, from any relaxtion of central control.

63. None of this is specific to Hungary. In Yugoslavia, for example, where relaxation has gone much further, far wider differentials have appeared between various sectors and a great deal of corruption and profiteering has also developed. Yugoslavia is, of course, an extreme example, but in comparison with other East European countries, the process of relaxation of control in Hungary is quite considerable. Consequently, the problems of income differential have also arisen in a rather more acute form.

64. As a result, the worsening position of industrial workers vis-à-vis the rest of the community became a topic of increasing concern during 1971 and 1972, and an important weapon to the conservative opponents of the NEM. Finally, at the Central Committee meeting of the HSWP on 20th November, 1972, a series of measures were adopted aimed at redressing some of the imbalance. The main measures, which became effective in March 1973, were:

(a) A central wage rise of 8% on average for industrial workers and 6% for building workers over and above the normal yearly increase.

(b) A strict differentiation in the distribution of pay increases.

(c) Drafting a table of wages for skilled workers and specialists to be applied on a national scale.

(d) The abolition of regulators tying wages to profits in mining and the power industry.

(e) Experimental introduction of "wage mass" taxation system in some branches.

65. The idea of the central wage rise for industrial workers was to help State controlled industry in general, and the large enterprises in particular, to make up the ground they had lost as regards wage levels vis-à-vis the co-operatives and private industry. The aim was either to divert the flow of labour away from the latter branches, or force them to take on heavier financial burdens if they were to go on offering preferential wage rates, as co-operatives carrying on industrial type activities would not qualify for the central wage increase. The increase was also aimed at redressing the differential that has grown up between agricultural and industrial workers. For example, the Government indicated that the industrial wage rise should, even taking all other factors into consideration such as cost of living differentials, mean a considerable increase in real income among working class families, whereas agricultural incomes would depend more on production results and the luck of the weather. Although some agricultural price increases should ensure that agricultural incomes do not stagnate, it seems likely that at least in 1973, the recent tendency for peasant incomes to rise faster than those of industrial workers will be reversed.

66. The wage increase was also to be applied selectively, or with strict "differentiation". Interestingly, the principle of differentiation itself was one which is basic to the NEM and often by no means popular either with the conservatives or with

the workers themselves. It meant that within the wage increase of 8% and 6% for workers employed in the State industries and building industry respectively, the wages of skilled workers and foremen increased by 10% and 8%, i.e. above the average, while the increase for ancillary and semi-skilled workers was considerably less. The policy was also to favour those in "unfavourable" conditions of work.

67. Officially, the Government bore 60% of the total cost of the wage increases, but in practice, their contribution appears to have been less in the way of a straight forward subsidy, than a waiver of a proportion of the profits tax on enterprises. Firms were warned not to pass on any burden in the form of price increases, and to meet the cost by improved labour distribution and organization. The official Government line was that of the total extra wage fund, 80% should be devoted to ensuring a basic rise of 8% for skilled workers and 4% for other workers, while the remaining 20% was to be granted on a differential basis, with preference being given to workers of good calibre, and those engaged in difficult work. The latter payment brought the overall increase for skilled workers to the 10% figure mentioned above and 5% for other workers.

68. The Central Committee issued a communiqué in June saying that the March central wage increases had been "implemented well". After being combined with the normal annual wage increase of about 4%, no-one should have received less than a 10% increase. The level of the statutory wage rise was itself as high as 10%-12% in the case of women, shift workers and others doing heavy physical work - as was intended. While there are still many complaints that income differences are still too marked, the Government does not seem disposed towards any further statutory intervention to preserve industrial working class interests in the near future. The Government has pointed out that already in 1972, private artisans, who constituted only 5% of the tax-paying population, had paid 40% of all taxes collected, and has intimated that any special increases in wages will be for civil servants and research workers in 1974-1975. Most interestingly perhaps, has been the rejection by the Government that incomes earned from "second jobs" (an important source of money for many families in Hungary) were unjustified per se. This would seem to confirm that the March wage rises were at least intended as a once-for-all measure, and strengthens the impression that they may have been to some extent a concession to working class forces.

69. The new national wage scale for skilled labour was specifically designed to narrow down the opportunity for local variation in wages, while, beginning in 1973, the close connection between wages and enterprise profits was to be eliminated in coal mining and in the electric power industry. This regulation was evidently justified by the fact that these two industrial branches market their products or services at fixed prices, and were unable to make profits that would enable them to provide wage increases - although miners' wages appear to be unjustifiably high already.

70. Finally, as an experiment, the wage - mass system - designed to stimulate greater economy in the use of labour - was to be introduced in some enterprises. It was to take the place of the "average wage level system", under which enterprises pay very high progressive taxes on every percentage wage increase above an indicated level fixed by reference to the average growth in per capita wages and profits. This was unfavourable to enterprises planning a reduction in the work forces. The new system is one which has already been used for some time at State farms and some State service enterprises - for example forestry. The main features of this complex system is that taxes will be paid primarily on the total wage volume (or fund) instead of on the per capita or average wage level. Its intention is to penalize managers for any gross increase in wages regardless of the development of profit, so that it is against his interest to take on more employees, even at a less than average wage.

71. The statutory wage rise represents a fairly clear case of central action being taken to remedy disproportions thrown up by the working of the NEM, as does the introduction of the national wage scale for skilled workers and specialists. Such action does not, however, imply a rejection of the mechanism as a whole. As previously argued, the development of income disproportions is inevitable when central control is relaxed, and the more it is relaxed, the bigger these "disproportions" will be. The problem then becomes one of whether to remedy these disproportions by re-establishing former central control, or modifying the mechanism sufficiently to cope with these disproportions and thereby enable most of its essential features to be retained and perhaps extended at a later date. The Hungarians have chosen the latter alternative, modifying the mechanism where social conditions demand it, and in future any economic "reform" will have to tread carefully in order not to antagonize the traditional interests of the industrial worker.

PLANNING

72. During its December 1972 session, the National Assembly adopted a new law on national economic planning. According to the Hungarian Constitution "the economic life of the Hungarian People's Republic is determined by the State national economic plan", but until the December law was passed, there had never been any codified regulation on planning itself, its method, policy etc.. Only individual national economic plans had been enacted. The December law was, therefore, the first legal statute to regulate planning itself, its system, the rôle and responsibility of individual organizations, and to define the sphere of jurisdiction with regard to planning.

73. To a large extent, the regulation of the planning system had been made necessary by the introduction of the NEM itself, and it is important to remember that the need for the new law was first expressed as early as 1970, when the horizons for the NEM were comparatively trouble free. The Hungarian Government had always emphasized the importance of the Plan, both as a reflection of the social ownership of the means of production, and of the lack, or extreme difficulty in evolving, any other way of exercising co-ordinated central direction over economic life, assuming that some kind of direction must be retained for reasons of development and stability. Consequently, Five-Year and One-Year Plans have continued to be regularly produced since 1968, and contain roughly the same data as previously.

74. It is only possible to give a very short description of the general changes to the planning system by the NEM, and the many adjustments which have been made since then. Briefly, the respects in which planning experience has changed:

(a) Instead of highly detailed plans, the content of plans came to depend on their function. Long-term plans (10 to 15 years) now outline the basic objectives of policy relating to international relations, living conditions, and economic development in general; the medium-term plans (5 years) contain guidelines for growth and indicate mandatory tasks (e.g. in investment) for the five-year period, while the short-term plan (1 year) has a more flexible nature. Apart from defining the obligatory developments for its particular year of the Five-Year Plan, it provides opportunities for modifying the longer term plans and introducing policy changes (e.g. the revision of investment targets in 1972).

(b) The quantitative directives of the Plan are now generalized and not broken down into detailed targets for each enterprise.

(c) In certain areas quantitative directives have been replaced by directives specifying the kinds of economic regulators which should be employed (i.e. profit and wage) to achieve the same results as by direct control.

(d) The State monopoly of planning has been broken by allowing enterprises, co-operatives and councils to draw up plans of their own. It is a function of the respective Ministry to ensure that the plans of the enterprises it is responsible for, are within the framework of the general planned economic policy.

75. Because of these changes, the old forms of detailed quantitative targets, enforcement and implementation became obsolete, and at the same time, a number of uncertainties and ambiguities began to arise. The new law on planning was a response to this situation. Its professed aim was to at last register in legal terms all the changes in planning practice implied by the NEM, remove ambiguities, and provide for a more effective and clear division of responsibilities. But in the event, the law was passed barely a month after the publication of the 17th November communiqué of the HSWP Central Committee, so it was inevitable that it should be viewed in the light of the other adjustments to the NEM system announced in the communiqué.

76. The December law adumbrates the three kinds of Plan mentioned above and clearly intends this system to survive in the foreseeable future. It makes the medium-term Five-Year Plan "the most important in the systematic construction of planning", "the fundamental instrument of systematic and purposeful planning" and it is the only kind of Plan which is enacted by the National Assembly, and which therefore has the force of law. Significantly, the Plan law makes it clear that "in implementing plan targets it is mainly the method of economic regulation that must be utilized". The national economic plan must determine the primary aspects of price policy and price regulation, regulation of credit policy, wage regulation, regional development ... The issuing of concrete economic regulations is the perogative of the Council of Ministers, the competent sector Ministers, and other organizations with a national sphere of jurisdiction.

77. The specific manner in which the Plan law referred to the fact that plan objectives must be implemented primarily by means of economic regulators can fairly be taken as a registering and approving of one of the most fundamental aspects of the NEM. The law also registered approval of the present system in other ways. It did not endow the higher directing organizations with greater powers than they already had, and neither did it decrease the independence of the enterprises or other economic organizations. Indeed, to the extent that the law gave actual expression to the rôle, and underlined the necessity, of independent planning at enterprises, co-operatives and councils, it perpetuated an important achievement of the NEM. This was even more significant in that such planning had often been difficult and many enterprises had often been led to plan far beyond their means, and the responsible Ministers had also frequently failed to establish a proper system of co-ordination and advise during the planning process.

78. Curiously, the December law made no reference to the proposed establishment of a new planning institution - "the State Planning Committee" - which was announced in December 1972, and which was to "co-ordinate on a higher level than hitherto all governmental activities in relation to planning". In fact, the new Committee was only set up at the end of June 1973, replacing the Government's much broader based Economic Commission, of which every Minister was a member. The Committee was headed by Gyorgy Lazar, who was also Chairman of the National Planning Office, the implication being that the latter body might regain some of the power it had enjoyed before 1968. It was stated that the tasks of the new organization were to direct and co-ordinate more effectively the planning work of the National Planning Office, the Ministries, the local councils, the highest State authorities, to make proposals to the Council of Ministers on national economic plans and economic regulators, and to exercise stronger control over implementation. In addition, the Committee is to contribute to more effective investment planning, co-ordinate the drawing up of the State budget and credit policy guidelines, and to bring these latter two items into harmony with the national economic plan. At the same time, party and Government control over the planning process was further increased by strengthening the rôle of the Economic Policy Committee (attached to the Central Committee), so that party policy "in connection with economic construction work, and the regional and county implementation of economic policy may receive a more important rôle than hitherto". Another department - "the Regional Economic Development Department" was also set up and attached to the Central Committee. The function of this Committee is not clear, but the name implies that the party centre intends to exercise increased supervision over the economic work of the large and industrially well developed county and regional centres.

79. Modification of the planning system continued with a resolution of the Council of Ministers at the end of August 1973, providing for two new kinds of control over enterprise activities; supervision by "control agencies", and the creation of a new kind of internal control over the activities of the enterprise. The duty of the controlling agencies is to see that central economic policy decisions are adhered to by enterprises and that centrally set targets are met. Evidently, this is to be achieved by checking on the progress of certain enterprises, preselected on the basis of their poor performance, lack of innovation, excessive profits, etc.. Enterprise managers are also to organize a new system of internal control. Those who actually exercise this control are to report their findings to the enterprise manager and are to be subordinate only to him. The internal controller is evidently to be some kind of enterprise trouble shooter - "the more important tasks ... are to supervise the technological and economic implementation of the economic decisions, and in so doing to check on the use of the means of production, ... the work performed, and enterprise organization, to check on the tasks stipulated in the various plans ... " etc..

80. Taken together, all these modifications to the planning system mean that a significant change has taken place in the NEM apparatus. But the implications are still far from clear. As usual in the Hungarian context, much more will depend on practice than on theory. It is obvious for example, that the terms of reference of the new State Planning Committee give it great political power, and that the other new organizations give the party and Government machines more political control over the planning system. But it remains to be seen how these authorities use their new powers in practice. For example, the State Planning Committee has now met several times, and discussed among other things, the clothing industry, but its wider powers still remain to be seen. It should also be borne in mind - particularly since no reference was made to it in the December planning law - that this body might possibly be a kind of temporary body designed to deal with a temporary problem of co-ordination, as was the Committee that worked to control investments. However, it is also clear from the August resolution that the Government wishes to increase considerably the controlling activities of Ministries as well as the internal control of enterprises. The question arises as to whether this is contrary to the spirit of the NEM, and whether it interferes with enterprise independence. In the case of internal control, this is probably unlikely, as the organization and direction of internal control are the perogatives of the manager of the enterprise. With regard to the control activities of the higher bodies, judgement is more difficult. The Government's desire to have Ministries etc. exercise increased control over enterprises obviously contains the threat of at least a partial return to centralization. But it must be remembered,

that despite the expansion of enterprise independence under the NEM, the régime have never renounced using central control as an economic weapon if necessary. It is also true that the post-1968 planning system often led to insufficient co-ordination and exchange of information between the Ministries and their enterprises and this was a situation which clearly needed to be remedied. As often happens in the Hungarian situation, the resolutions and modifications to the planning mechanism are loose and vaguely worded - deliberately so - and much depends on how actual practice develops before it can be decided whether a real breech of NEM principles has been made.

ASSESSMENT

81. The NEM has now been in operation for over five years. The mechanism has been attended with some successes - a slightly faster rate of growth of national income, a better performance in the agricultural sector (arguably the major achievement of the NEM), an increase in industrial efficiency, etc. - but it has also encountered a number of deep rooted problems, which have slowly forced the Government to take a more interventionist rôle and draw back somewhat from the original NEM principles.

82. The first decisive reassertion of central control was in June 1971, when the regulators were modified to curb excessive enterprise investment and to limit the mobility of labour. Despite these restrictions, investment spending in 1971 continued to be too large, and exceeded both the plan and available resources. Because of overspending, many enterprises went bankrupt and imposed a heavy burden on the State budget, which was forced to bale them out. In this respect the objective of closing unprofitable enterprises was not met, and State subsidies in 1971 amounted to 53 billion forints, compared to 35 billion in 1968. Accordingly, further restrictive measures were taken at the beginning of 1972, which involved a further partial reintroduction of central control. Investment expenditures for 1972 were held at the 1971 level; the share of investment financed by enterprises was cut back, and a new State bank was set up for the purpose of handling the increased Government share of investment. Restrictions on credit for additional capital outlays by firms was also extended. As a result of the shortage of manpower, the 1971 restrictions on labour mobility were extended through 1972, and a concerted drive was launched to strengthen work discipline and to revive "socialist emulation" - the latter being a clear stop to the conservative elements in the Government.

83. The process of reimposing a measure of central control reached its climax at the Central Committee meeting of the HSWP in November 1972, the provisions of which involved some kind of increased intervention in most economic sectors - industry, investment, wages policy, prices etc.. In all these measures there was a limited, but nevertheless distinct drawing back from the basic principles of the NEM, in the interests of re-establishing certain social, development and even political priorities closer to the traditional model of a Communist economy. Most of the measures had been foreshadowed in statements and speeches made earlier in the year, and the economic reasons for them were generally sufficient in themselves, without looking for purely political motives or outside pressures to explain them. Moreover, it is a mistake to assume that the partisans of the NEM were automatically in opposition to changes in the mechanism, even on the scale implied at the November meeting. The NEM was never intended to be a static and unchangeable system, and it had always been foreseen that considerable changes and modifications would be found necessary as time went on. But there still remains the important point that solutions to these problems could have been found along other lines, but were not, and that the solutions that were adopted were all concerned with re-establishing some measure of central control. In this respect, the November meeting definitely represented a compromise between the proponents of the NEM and their conservative critics. Events since then, and particularly the subsequent elaboration of the Government's economic policy in March, confirms this impression. Moreover, whereas many of the measures taken in 1971 and early 1972 to control the economy were cast in the form of modifying the regulators, many of the measures adopted since the November meeting have been more in the nature of administrative edicts, which have given a rather different "feel" to the general environment in which the NEM now operates.

84. As far as the future of the NEM is concerned, the crucial question is, of course, not so much what administrative devices are used, but the spirit in which they are applied; there is such a thing as intervention to end intervention, designed to clear the way for a more free working of "market" forces in the economy, and it remains to be seen to what extent the retreat from NEM principles since 1971 has been a tactical move to preserve as much of the policy as possible intact, or a permanent retreat to traditional command methods of economic management. The answer to this question may be more apparent as the outlines to the Plan period 1976-1980 become gradually available, and in particular, what refinements to the regulators are proposed.

85. Finally, the changing conditions and relationships within Eastern Europe have also had their effect on the NEM, and will continue to do so in the future. When the NEM was introduced in 1968, the international situation was favourable for such an undertaking. The Soviet Union had been involved with "reforms" of its own, and seemed well disposed towards the idea, and Czechoslovakia had already introduced its "new economic model". Since then, the general picture has changed. The concept of "integration" within the CMEA has replaced "reform" as the dominant economic concern and interest of Eastern Europe, and the Czechoslovak reform has been eradicated by the Soviet invasion. This changed political climate in Eastern Europe has tended to favour the more conservative sections of the Hungarian Communist Party (and this includes both the older traditional conservatives and what is called the "new left" among younger members) against the "reformist" elements, and consequently truly radical measures seem for the moment to be precluded. While this remains so, the main task of the supporters of the NEM will be to keep as much of the policy intact and in operation as they can, rather than seeking to extend it.

PART II: FOREIGN TRADE

CURRENT POSITION

86. Foreign trade is particularly important for a country such as Hungary which has limited natural resources and a relatively small domestic market. The importance of foreign trade to the economy is illustrated by the fact that 40% of Hungary's national income is derived from trade. Exchanges with Hungary's trading partners have grown faster than national income and a 1% growth in the latter has in recent years required a 2% growth in foreign trade. Hungary's main trading partners are the Soviet Union, the GDR, Czechoslovakia, Poland, West Germany, Italy, Austria, Yugoslavia, the United Kingdom, France and Switzerland. Among the countries of Eastern Europe, Hungary lies fourth after East Germany, Czechoslovakia and Poland in terms of total foreign trade turnover; in 1972 it reached a total of $5,926 million(1). The value of foreign trade per head of population is approximately $620. Over the last five-year plan period (1966-1970) total foreign trade

(1) Hungarian forints converted to US dollars at the rate US $1 = forints 11.74 up to and including 1971 and thereafter at the rate of US $1 = forints 10.81

turnover grew by 59%, that is 9.7% per annum. In 1971 turnover rose 14% above the 1970 level and in 1972 it rose 8% above the previous year. During 1966-1970, imports grew considerably faster than exports i.e. by 64.5% compared with 53.3% for the latter.

87. The greatest increase in trade turnover since 1965 has been with the non-Communist countries and their consequent share in overall trade has risen marginally. Trade turnover with these countries has risen 83.5% compared with 80.1% for Communist countries. In both sectors imports have shown the greater rate of increase. However, the pattern has not been the same in all years and export gains contrary to expectation were achieved in 1969 mainly to non-Communist partners as a result of favourable world market prices prevailing for many Hungarian exports. Similarly imports from these countries rose sharply in 1970 to assist an ambitious domestic investment plan. In contrast, during the first two years of the 1971-1975 plan period, trade has increased faster with Communist countries and exports rose faster than imports to both Communist and non-Communist partners.

88. During the years 1966-1970 Hungary has had an unfavourable balance of trade with the exception of a small suplus in 1966 and a much larger one in 1969. Her cumulative deficit for the period was $92.4 million. She was in surplus with Communist partners to the extent of $122 million but recorded a deficit with non-Communist partners of $214 million. In 1970, the last year of the plan period and again in 1971 Hungary recorded sizeable deficits of $186 million and $489 million respectively, reflecting the overheating in domestic investment activity. In 1972 Hungary converted her 1971 deficit with Communist countries into a large surplus of $251 million and she managed to reduce her deficit with the West from $256 million to $55 million.

89. In 1971 exports rose by 8% despite vigorous domestic demand, bad crops in 1970 and as regards certain products, less favourable market conditions abroad. Imports rose 19% due to combined impact of domestic and external factors. In particular a significant element causing the increase in imports was a heavy demand for capital goods, far in excess of the domestic supply. Agriculture called for much more machinery, fertilizers and fodder as the record level of pig population was being stabilized. In addition, Hungarian enterprises tended to over-import in large quantities for stockpiling purposes as a hedge against anticipated price increases in raw materials and semi-finished goods. In 1972 the Hungarians made a determined effort to restore the equilibrium; exports rose by 21% and 20% respectively to Communist and non-Communist partners, while to the industrial West they rose by 22%. These rises were due largely to above-plan deliveries to CMEA countries and higher priced exports to the West.

TRADE WITH COMMUNIST COUNTRIES

90. Communist countries in 1971 accounted for 68% of Hungarian trade turnover. After the USSR, the largest partner was the GDR, followed by Czechoslovakia and Poland; these four countries accounted for 59% of total turnover. Trade with this area since 1960 has increased at a slower rate than trade overall, although the apparent slowdown in trade in 1966 was largely due to new prices introduced into intra-bloc trade which caused a relative reduction of trade in value terms. In 1971, Hungary had a surplus only with Poland, North Vietnam, China and Mongolia and her deficit with the sector overall reached $250.5 million, compared with 1965 when she recorded a surplus overall and with GDR, Poland, Czechoslovakia, Albania, Yugoslavia, China and North Vietnam in particular. Recent imports from more industrialized Communist partners represent an economic advantage to Hungary, since a surplus on bilateral account, which cannot in practice be transferred, represents an interest free loan to the debtor partner. Following the visits of Janos Kadar, Fock and Dr. Jozsef Biro to Moscow last Spring, it was agreed to revise upwards the year's estimates for Hungarian-Soviet trade. Hungary managed to achieve a surplus with Communist countries overall in 1972 and with all individual countries except Albania, the GDR and Cuba.

TRADE WITH THE SOVIET UNION

91. The Soviet Union is Hungary's main trading partner, accounting for 34% of total turnover in both 1970 and 1971 and 35% in 1972. Since 1965 trade has risen by 96%. Since 1968, the Soviet Union's share in Hungarian trade has fallen from 37% to its present 35%. The pattern of Hungarian-Soviet trade in the period 1966-1970 has given Hungary a small surplus overall of $58 million; this was reversed by the large Hungarian deficit in 1971 which amounted to $143 million. Nearly half of Soviet exports to Hungary comprise raw materials and semi-finished products. The USSR is particularly important as a supplier of energy and raw materials to Hungary (see Table VII). Nearly all Hungary's imports of crude oil and petroleum products, iron ore and pig iron, come from the Soviet Union, as do a large proportion of her timber, phosphate fertilizer and electric power imports and half her purchases of coke, cotton and rolled steel. Machinery and equipment are important Hungarian exports to the Soviet market and in particular motor vehicles (lorries and buses), diesel locomotives, communications equipment and cranes. The Soviet Union also provides a stable and unlimited market for industrial consumer goods, pharmaceutical products and agricultural products, especially fruit and vegetables; although the Hungarians profess to believe that Soviet tolerance of second-class export goods is already beginning to reach its limits.

TRADE WITH EASTERN EUROPE

92. The countries of Eastern Europe now account for some 31% of total Hungarian foreign trade turnover. Turnover during the period 1966-1970 increased by 52%. Hungarian exports expanded at a slower rate than imports. The most notable increase has been in trade with the GDR. In 1966 the GDR displaced Czechoslovakia as Hungary's second major trading partner overall and in the period 1966-1970, turnover rose by 80%, the GDR was followed by Bulgaria (+77%) and Yugoslavia (+77%). With the GDR in particular Hungary's trade has grown because of the increase in co-operation and specialization in the industrial sphere. Hungary exports her traditional products to Eastern Europe, machinery and equipment, bauxite and alumina, consumer goods, fruit and vegetables. Of recent years Hungary has considerably increased her exports of engineering products and components; in return from Eastern Europe she receives coal and coke, copper, sulphur, basic materials for the chemical industry, and engineering products chiefly from Czechoslovakia and the GDR.

TRADE WITH NON-COMMUNIST COUNTRIES

93. Trade with the non-Communist partners since 1965 has been characterized by some fluctuations, especially in the rate of increase of imports. Trade with this sector accounted for 32% of total turnover, and of this 80% is with the Industrial West. In the period 1966-1970 Hungary recorded an overall deficit of $214 million, with the non-Communist trade partners. Hungary's leading Western partners are West Germany, Italy, Austria, the United Kingdom, Switzerland and France, who together accounted for 65% of trade within this sector ($1,135 million). However Hungarian trade with both Switzerland and the United Kingdom decreased in 1971 by 10% and 4% respectively and in 1972 it fell by 28% with both countries. In 1971 imports from the Industrial West increased much faster than planned and earnings from exports actually declined as a result of the economic slowdown in Europe. In 1972 Hungarian imports from the West were cut down and exports increased, sometimes on a dramatic scale, but the year's trade account with the West still closed with a deficit of $55 million.

TRADE WITH DEVELOPING COUNTRIES

94. Hungarian trade and aid activities with the developing countries continue to make slow if unspectacular progress in most parts of the world. During the period of the last Five-Year Plan, 1966-1970, Hungarian trade with this area rose by 40% with imports increasing faster than exports. Trade with this area accounts for some 6% of total turnover. Hungary's leading trade partners

are India, Egypt, Pakistan and Brazil. (See Appendix IV.) In 1971 trade turnover with this sector actually fell by 3% although Hungarian exports recorded a small increase of 3%. Hungarian trading activities in the Third World are supported by the extension of medium to long-term non-convertible currency credit facilities to promote exports of Hungarian capital equipment.

95. In the Middle East, only two new credits were extended during 1972: a small $5 million credit to South Yemen and $50 million to Iraq. This latter is interested as forming part of a bloc operation involving the Soviet Union and several of the East European countries, to help the Iraqis during the period when they were in dispute with the Iraq Petroleum Company, and able to sell very little of the oil from the nationalized Kirkup field. The $50 million credit followed earlier extensions of $15 million in 1969 and $30.6 million in 1970: almost all of these sums were made available to the Iraqi national oil industry for technical assistance, help in exploration of the Rumaila field, and for the purchase of capital equipment for the national oil industry. A new feature of the credit arrangements was that Iraq could repay in oil (originally 70% but amended in 1972 to 100%).

96. In Latin America also, the Hungarians seem to have made efforts in a small way to increase their aid and trade activities over the last three or four years, particularly in 1970 and 1971 when small credits usually ($5 million to $10 million) were made available to about half a dozen of the South American countries. These were mostly for the purchase of Hungarian railway and transport equipment, and for use in development of the mining industries in Chile, Bolivia and Peru.

97. Hungarian interest in less developed countries elsewhere (Africa and SE Asia) was limited, and perhaps the only notable feature was that efforts were made with India in the latter part of 1972 both to extend the total volume of trade and to extend the range of commodities to be exchanged.

TRADE WITH MULTILATERAL PARTNERS

98. Payments for the greater part of Hungary's foreign trade, that is with most Communist and developing countries, are conducted through bilateral clearing accounts. Trade with multilateral partners accounts for only 27% of total trade, and with these countries Hungary recorded a deficit, on visible trade in 1972 of $58 million, compared with $215 million in 1971. In the period of the last Five-Year Plan, the cumulative deficit with these partners reached $65 million with a surplus only in 1969.

TRADE WITH MULTILATERAL PARTNERS IN MILLION US $

	1966	1967	1968	1969	1970	1971	1972
Turnover	602	636	711	870	1,174	1,209	1,764
Exports	290	311	341	456	566	497	853
Imports	312	325	370	414	608	712	911
Balance	-22	-14	-29	+42	-42	-215	-58

COMMODITY COMPOSITION

99. Nearly half Hungarian exports comprise machinery and consumer goods and the balance is divided almost equally between agricultural and food products and semi-finished goods and components. Food and agricultural products figure prominently in exports to the Industrial West and due to the growing amount of industrial co-operation between Hungarian enterprises and Western firms, there has been some increase in export of engineering goods to these countries. Of Hungary's total imports, over 50% comprise fuels, raw materials and semi-finished products, both from Communist and non-Communist partners, but very little fuel or electrical energy comes from non-Communist countries. Hungary is a net importer of fuels, raw materials, machinery and transport equipment and is a net exporter of industrial consumer goods and agricultural and food products.

TOURISM

100. In recent years there has been a substantial increase in the number of foreign visitors to Hungary which is shown by the following figures:

	Total visitors	From non-Communist countries (in thousands)	Percentage from non-Communist countries
1965	2,136	430	20
1968	4,307	529	12
1970	6,320	736	12
1971	6,105	875	14
1972	6,386	988	16

The number of visitors from non-Communist countries has more than doubled in the period 1965-1972, but this was less than the increase in the number of visitors from Communist countries. The number of "guest days" - an indicator of tourism earnings has continued to rise creating a favourable trend in convertible currency earnings. As regards Western tourists, there has been a rise both in the proportion of "more demanding" American, Swiss and West German visitors and at the same time in Hungarian hotel, restaurant and other prices. Net convertible foreign exchange earnings from tourism in 1971 are estimated to have been in the order of $43 million and last year they may have risen to $46-$48 million. The figures for 1971 are reinforced by statements made by the Hungarian Minister of Home Trade and Chairman of the National Council for Tourism, who said that revenue from non-Communist countries was $55-$56 million and that 30%-35% of this was placed at the disposal of Hungarian citizens travelling to the West; this would make net earnings for 1971 in the order of $40 million. Net convertible currency earnings from tourism contributed considerably to financing Hungary's debt with multilateral partners in 1972. Hungarian plans to further develop tourist facilities should ensure a continuing and increasing source of convertible currency revenue.

WESTERN CREDITS

101. Hungary's policy of entering into industrial co-operation agreements with West European countries has helped, to a certain extent, to reduce her need to borrow or obtain credits from the West. However, it remained essential for Hungary to acquire additional hard currency to finance her recurrent trade deficits with the industrially advanced Western countries. Her import surplus from this area in 1971 amounted to some $256 million. In their approach to this problem of how to finance the hard currency element of their foreign trade the Hungarians have adopted an independent and enterprising approach when compared to the other CMEA countries. On the one hand Hungary has received credit to cover major purchases of capital equipment from NATO countries but consistently on a smaller scale than other members of CMEA. The proportion of long-term credits of more than five years outstanding at the end of 1970 was the lowest of any East European country (with the exception of East Germany which comes into a special category in this matter). The position had altered radically by the end of the next year when Hungary had the highest percentage of credits of five years and over to total debt outstanding. In 1971 Hungary purchased at least five chemical plants from Western countries as well as capital equipments for a wide range of industries. At the end of 1972, the accumulated outstanding debt to NATO countries was $145 million representing about 5%

of NATO countries' credit to Eastern Europe. In the period of the last Five-Year Plan (1966-1970) $225 million of new credits were extended to Hungary, i.e. an average of $45 million a year, the smallest total of all the East European countries. In 1971, she was granted another $31.4 million. At mid-1972 Hungarian debt outstanding to NATO countries stood at $152.4 million, of which $99.2 million was over five years. Because of the relatively small amounts of buyers/suppliers credit the Hungarians have sought and accepted they appear to have the lowest debt service ratio among the countries of Eastern Europe. Repayments in 1972 totalled only $26.3 million.

102. The position, however, is entirely different when Hungary's activities in the Eurodollar market are taken into consideration. She has been active since entering the market on a small scale in 1968. In 1969 the Bank of London and South America headed an international consortium of banks to provide a loan of $15 million for five years. This was the first loan to be extended to an East European country for industrial development; in this case by one specific industry. This was to be used by the Hungarian Aluminium Corporation to finance the expansion of their fabricating capacity and thus boost their export sales, particularly to the West. A second loan followed in May 1970 but for double the amount - $30 million - again raised by a BOLSA-led consortium to finance the expansion of the pharmaceutical industry. It was estimated that the loan would cover about one-third of the total cost of investments planned by the industry for the next Five-Year Plan (1971-1975). The large investment programme to be embarked upon was partially dependent upon the acquisition of certain types of equipment in the West. Pharmaceutical products are one of Hungary's chief exports and it was hoped to almost treble its convertible currency earning by 1975 to reach $45 million. Then in June 1971 Hungary became the first East European country since the war to float a Eurobond issue on the London capital market(1). The National Bank of Hungary issued $25 million of 8¾ bonds for

(1) Hungary was able to float a Eurobond issue because she had taken steps towards settlement of her foreign public debt. This originated from issues made prior to the Second World War. In the cases of Austria, Belgium, Luxembourg, Denmark, France, Greece, Netherlands, Norway, Sweden and Switzerland agreements have been concluded and mutually agreed claims have been paid. In the case of the United Kingdom and Canada agreements have been concluded. Total claims of the above amount to some $50 million of which $45 million has been discharged. An agreement has been initialled with the United States and negotiations are proceeding with Italy.

a maximum of 10 years, the co-managers being the National Westminster Bank, Morgan Grenfell and the Moscow Narodny Bank. Nearly 80 other banks participated in the issue, which was over-subscribed. It was a clean financial loan, not attached to any specific use but according to the prospectus it would be applied to financing the convertible currency content of various investment projects directly linked to accelerating the rate of industrialization of the country. At the end of the same year Lloyds and Bolsa International headed a consortium of 18 international banks in arranging a $50 million five-year loan to the National Bank of Hungary to assist in financing the programme to develop export orientated industries. The loan at that time was the largest so far raised on the international market for a CMEA country. These loans, together with other small credits provided by various Western banks, brought the total of Hungarian Eurodollar borrowing since 1968 to $213 million, excluding the 1971 Eurobond issue. In the Autumn of 1972 Hungary returned to the London capital market when the same banks that had managed the previous Eurobond issue floated another on behalf of the National Bank of Hungary of $50 million. This one was for a maximum of 15 years and carried interest at 8½%, (¼% less then on the 1971 issue) and was also over-subscribed. Since the Autumn of 1972 Hungary has raised further loans including one headed by Japanese banks bringing her total eurocurrency borrowing to over $330 million. These Eurodollar borrowings are bigger than the sum outstanding on suppliers/buyers credits to NATO countries and add considerably to Hungary's future debt servicing burden.

CO-OPERATION WITH THE INDUSTRIAL WEST

103. Hungary was the first East European country to realize that in order to raise productivity in both industry and agriculture at all rapidly, prerequisites for modernizing industry and raising the standard of living, she must import industrial equipment and advanced technology from the Industrial West. This posed the problem of how such imports were to be paid for as Hungary's exports to the West in the mid-1960s consisted largely of agricultural produce. The value of such exports could not be expanded sufficiently to ensure the availability of the necessary hard currency given the basic problems involved in increasing output regularly, coupled with the inelasticity of demand on Western markets. Hungary therefore has attempted to raise both labour productivity and industrial standards by entering into a series of industrial co-operation agreements (ICAs)(1) which would enable her to avoid the

(1) In the absence of any agreed nomenclature it is not at all clear precisely what types of deal are included in the term "industrial co-operation". This leads to inconsistency between seemingly authoritative statements. Compensation trading or parallel deals do not constitute industrial co-operation which can be defined as the sharing of production the exchange of licences or the joint exploitation of technology or markets.

building up of large hard currency debts thus creating a debt servicing problem. Co-operation agreements were initially attractive to the Western partner because of the relatively high quality of Hungarian engineering products based on long traditions of skilled workmanship, particularly in the precision and electrical engineering industries. With only limited design and development resources available they decided not to continue with ambitious attempts to develop a range of precision machine tools but to rely on the use of Western designs and licences. A similar decision was reached for the development of electrical machinery, especially larger turbines and generators.

104. The pragmatic approach to economic problems in general and monetary ones in particular was shown by the flexible attitude Hungary adopted towards signing ICAs. From 1965 onwards agreements covering many different forms of industrial and agricultural co-operation have been negotiated. From a slow start this policy has gained momentum; only 27 agreements were signed in the years 1964-1967, 26 in 1968, 42 in 1969, approximately 25 in 1970, 50 in 1971 and 70 in 1972 making a total of 240.

105. Information relating to the distribution of industrial co-operation agreements is only available as at the end of June 1971 but the proportions are not likely to have changed significantly. The total number then amounted to 164 and the breakdown between industrial sectors was:

Branch	Number	Percentage
Machine industry(1)	122	75
Chemical industry	13	8
Light industry	10	6
Agriculture	17	10
Food industry	1	1
Other	1	

106. When the total of ICAs was 220 the Hungarians classified the types of agreements as follows:

Type of Agreement	Number	Percentage
Exchange of documentation (incl. licences?)	80	36
Joint production	70	32
Product sharing	29	13
Market co-operation	23	11
Other	18	8

(1) A figure of 162 equal to 74% was given in September 1972 when the total number of ICAs stood at 220

107. Hungary has signed most ICAs with West Germany, followed by Italy and France. The most comprehensive list relates to mid-1971 but is not likely to have changed significantly since.

CO-OPERATION CONTRACTS BY COUNTRY

Country	Number at 30th June, 1971
West Germany(3)	47
Italy(4)	17
France	16
Yugoslavia(1)	15
Switzerland	12
Sweden(5)	11
UK	10
Austria(2)	10
Denmark	3
Canada	1
Finland	1
Norway	1
Others	20

(1) Yugoslavia is included because settlement is in convertible currency.

(2) This seems a very low figure. One source at the beginning of 1973 said 64 co-operation contracts had been signed and a further 46 were in preparation.

(3) According to another source dated August 1972 about 100 contracts had been signed.

(4) At the end of 1972 it was claimed 19 contracts had been signed.

(5) 36 contracts signed and 50 were in preparation at the end of 1972.

108. Some of the most important ICAs contacted between Hungary and her Western partners were enumerated in AC/127-D/272(Revised) of 25th May, 1970. As indicated in paragraph 21 above Hungary has continued this policy and speeded it up in the last few years. One feature has been the negotiation of several agreements involving agricultural produce or chemicals for use in agriculture, e.g. the Norwegians breeding minks on Hungarian farms while retaining ownership of the animals. Recently new and more complicated types of agreements have been entered into, as the following examples indicate. The manufacturer of cash registers is undertaken by the Budapest Office Machine enterprise and the Czech firm of ZVS on the basis of co-operation and licences provided by the West German firm of Anker Datentechnik and its Austrian subsidiary. A joint firm, IGA, was set up in 1972 with Austria for the purpose of selling capital equipment for the oil, chemical and pharmaceutical industries in third countries, while Ganz and Fiat are co-operating to supply turbines and generators for power stations in Turkey and diesel motors for power stations in Greece. A company has been registered in Amsterdam and Curacao setting up jointly owned Hungarian and American subsidiaries in third countries to exploit Hungarian biochemical products for use in plastic surgery. Another new development since the previous report is the emergence of Japan on the Hungarian and East European scene. The years 1971 and 1972 have seen the signing of a protocol on technology and scientific co-operation, the purchase of technical know-how on the manufacture of PVC flooring and of a licence and machinery for establishing a knitwear manufacturing enterprise. On the other hand at least two licences appear to have been sold to Japan. This development seems likely to be followed, at least from 1974 onwards, by an even more rapid flowering of Hungarian co-operation and financial relations with the United States.

109. A yet further development is the possibility of an agreement being concluded to set up a joint meat combine based on existing pig breeding co-operatives which would process and market pork products (especially it is hoped in the West). A Western firm (or firms) would provide 49% of the capital needed to set up the enterprise and the remaining 51% would be provided by the co-operative, with the help of a credit from the National Bank and a State subsidy. This would constitute the first joint enterprise with a Western partner for productive purposes, since the law permitting foreign investment in Hungary (see paragraph 101).

LICENCES

110. The most important part of many ICAs is the acquisition of licences to use Western manufacturing processes which also involves the relevant technical know-how and its application to production methods. The introduction and assimilation of certain aspects of advanced Western technology was recognized as essential if the quality of Hungarian products was to be raised for domestic consumption and for exports to both East and West. To speed up the process resolutions were introduced in 1969 which allowed enterprises that buy licences to receive preferential treatment in respect of reductions in customs duties, credit, etc. and a special enterprise, the Licencia Patent Marketing Enterprise, was set up to deal solely in these products. How this has expanded is shown by the fact that only 63 licences were purchased in the 20 years 1947-1967, 92 in 1968-1970 and 50 in 1971 making a total of 205 (from Western and CMEA partners).

111. In 1968 Hungary bought licences, blueprints, designs, and services to the value of $1.4 million while in 1971 the total reached $10.2 million. The latter figure comprised $1.5 million worth from the rouble area and $8.7 million from the dollar area. The main Western countries providing licences and know-how were West Germany to the value of $4.0 million, France $1.2 million, Sweden $0.5 million, UK $0.4 million, Austria $0.3 million and Switzerland $0.3 million. Yugoslavia, which for this purpose is considered to be in the dollar area, sold Hungary licences to the value of $1.6 million. From the rouble area the USSR supplied $1.0 million worth. However trade in licences, blueprints, plans, designs and services is by no means a one-way traffic, in fact in 1968 sales were greater than purchases by almost $0.2 million and in 1971 were valued at $9.3 million against imports worth $10.2 million. The distribution of sales between the dollar and rouble areas was nearly equal in 1971 being $4.9 million to the former $4.5 million to the latter. The value of actual licences sold amounted to only $0.8 million the major part consisting of plans, blueprints and designs. The main customers in 1971 were East Germany who took $2.8 million worth, Iraq $1.8 million, Czechoslovakia $1.2 million, Algeria $0.8 million, India and Poland each $0.4 million. It is interesting to note that the Soviet Union was not listed as a major purchaser.

HUNGARY CO-OPERATION WITH CMEA

112. The share of Communist countries in Hungary's trade was 61% in 1950 and by 1972 this had risen to 68%. The increased share of the Soviet Union is especially important, having risen in the period mentioned from 27%-34%. Co-operation

with Communist countries, particularly with the Soviet Union has ensured supplies of raw materials. Of the main industrial raw materials, Hungary is only self-sufficient or producing a surplus in one commodity - bauxite and even in this case Hungary has been obliged to conclude a long-term agreement with the Soviet Union so that Soviet hydropower resources can be used for the processing of alumina mined in Hungary. Therefore the security of raw material resources has been a key question for overall Hungarian economic progress and will continue to be so in the future. Imports of such materials from the Soviet Union have in the past been transacted on the basis of long-term agreements, at stable prices and relatively low transportation costs and from the non-convertible currency area. Hungary has also been able to rely on the Communist market, particularly the Soviet Union to take exports whose quality would not enable them to be sold in the West. In 1970 Hungary exported 5,000 buses to Socialist countries and more than half of the total production of pharmaceuticals goes to this market.

113. In co-operation among Communist countries, besides trade relations, the extension of production based on specialization and co-operation represents an important development. Specialization agreements have been concluded in a number of areas, in the framework of which CMEA countries have decided to divide production, in order to exploit advantages of mass production, thereby enjoying the economies of scale.

114. Production relations have been developed recently with several Communist countries in the truck and bus industry, through the exchange of components. Against the delivery of components for Soviet motor cars, Hungary receives the finished article, similar agreements exist with other Communist countries in respect of motor cars and lorries. Co-operation is taking place with the GDR in the spheres of machine tool manufacture, telecommunications, the precision engineering industry and in the manufacture of agricultural and food machinery. Agreements exist with Rumania for instance, in the manufacture of railway dining cars and with Bulgaria agreements have been concluded on specialization in medical instrument production.

115. According to an agreement concluded with Bulgaria, Hungary will cover the bulk of her requirements from the large capacity sodium carbonate works to be established in Bulgaria by importing 120-140 thousand tons per annum; Hungary contributes credit and machinery in return. A substantial portion of Hungarian sulphur requirements, about 100,000 tons per annum, is covered from Poland allowing Hungary to produce sulphuric acid on a considerable scale. A broad system of specialization

agreements exists in the pharmaceutical and rubber industries. The exchange of artificial fibres has begun with the GDR and with Poland, and an agreement has been concluded with the Soviet Union on co-operation in the manufacture of plastics. Details of some co-operation agreements will be found at Appendix VIII.

116. The economic co-operation among countries participating in CMEA has led in some areas to multilateral co-operation. An example of this is the unified electric power grid of the CMEA countries. In this way Hungarian electric power supply can rely on the grid - this reduces necessary reserve capacity, makes the utilization of natural differences possible and balances peak demand periods. Hungary's participation in the common railway wagon pool has reduced the number of empty runs while utilization of wagon capacity has increased and hiring charges lowered.

117. Hungary joined the CMEA International Investment Bank when it commenced operations in January 1971. During the first two years of the bank's operation, Hungary was due to contribute 29.3 million transferable roubles(1) (of this 30% was to be in convertible currencies) and during the same period, Hungary was allocated credits totalling 47.6 million transferable roubles. Those credits will be used mainly in the 1972-1973 period and are destined for the Hungarian State railways, the Ikarus Car Body and Vehicle Factory and the Budaprint cotton mill.

PROSPECTIVE DEVELOPMENTS

118. In the current five-year plan period Hungarian-Soviet trade is to rise by 60%. Hungary along with other East European countries has expressed concern about supplies of raw materials and energy in the long-term. Hungary is dependent on Soviet exports in this sphere and has attempted to obtain some Soviet commitments for the period up to 1985. The Soviet Union, for its part, has been showing some reluctance to meet automatically all such Hungarian demands. It is likely that Hungary, besides being expected to contribute towards raw material exploitation on Soviet territory in conjunction with other East European countries, will also have to increase her purchases of Soviet machinery and consumer goods. The percentage of raw materials coming from the Soviet Union may decline relatively though it will increase absolutely. The margin, for example, of Hungarian oil requirements not covered by Soviet deliveries may reach 4.5 million tons by 1975 and this helps to explain

(1) The accounting unit used in intra-bloc settlements by IBEC

the negotiations which the Hungarians have been conducting with Iraq, Egypt, Libya and Nigeria in recent years for the supply of crude oil and with Czechoslovakia and Yugoslavia for the construction of a pipeline to carry oil from the Adriatic (see paragraph 123 below). Procurement of oil from such sources might involve certain difficulties for Hungary, which would probably have to compete with Western customers and pay in hard currency.

119. Within CMEA, the Hungarians have shown themselves disposed to stand up for their own interests. The terms of the "Complex Programme" adopted at the 25 Session (1971) of the CMEA, with references to increased multilateralism, more rational pricing and exchange rates would seem to incorporate Hungarian views. But the Hungarians have, in deference to CMEA policy engaged to expand their trade with Eastern Europe faster than trade with the West and in 1972 this was the case and it is evident that bilateral trade agreements will remain the major medium of intra-CMEA economic relations.

120. Hungary, one of the more active CMEA countries, as far as industrial co-operation is concerned, is likely in the period up to 1975 to become increasingly involved in specialization and co-operation agreements with other East European countries and to a lesser extent with the Soviet Union. Hungary has repeatedly emphasized the need for specialization in the engineering sector and the speed up of standardization generally within CMEA.

121. The new law enacting the 1970 Decree on Foreign Investment which came into effect last year allows the establishment of joint enterprises on Hungarian as well as foreign soil particularly for market research and marketing activities. The law provides for foreign legal entities, companies and corporations to participate in associations formed in Hungary to the extent of 49% holding by the non-Hungarian partner (this may be in the form of joint enterprises, joint stock companies or limited liability companies). The Hungarian Government, for its part guarantees free transfer of profits and repatriation of capital, via the National Bank of Hungary, in the investor's own currency. This can apply to both Communist and non-Communist partners. However the Hungarians have made it clear that western investment and involvement will not be permitted as for example, on the scale it is in Yugoslavia and most ventures are likely to be in the marketing sphere, particularly for products of industrial co-operation. Indeed some official commentators on the new law have claimed that it cannot allow shared ownership of a

producing as distinct from a marketing or planning enterprise as this would be contrary to a clause of the Hungarian constitution. Equity partnership has not been ruled out but is unlikely to materialize in the near future.

122. Hungary is likely to continue her aggressive pursuit of Western technology both purchasing machinery and equipment, mainly on credit and through co-operation agreements. The resultant improvement in product quality should make Hungarian finished goods more acceptable in western markets. This will be particularly important in the context of Hungarian relations with the enlarged EEC, given the uncertain future for agricultural exports under the application of the common agricultural policy.

THE ADRIA PIPELINE

123. Hungarian industry's demand for oil is increasing considerably from year to year. Demand will continue to increase and the country's major external supplier - the Soviet Union, is not prepared to meet the anticipated requirements. Consequently the securing of new oil sources is becoming more and more a matter of urgent concern. For Hungary, the import of Middle East oil is the obvious method of closing the gap and its transportation through the Adria pipeline seems a practical solution. Preliminary agreements were signed in 1971 by the Hungarian foreign trade enterprise Mineralimpex, the National Crude Oil and Gas Industry Trust and a Yugoslav enterprise INA. (Industria Nafte of Zagreb). The agreement provides for INA to complete by the end of 1975 the construction of the whole of the Adria pipeline's Yugoslav section from the port of Bakar (near Rijcka) to the Yugoslav-Hungarian border town of Bokov. There have however been official reports that implementation has so far been delayed, to the Ungarians' considerable annoyance, by difficulties over the conclusion of contracts in Yugoslavia.

124. The 240 km section of the pipeline within Hungary will be built as a Hungarian-Czechoslovak venture and will run from the border along the southern shores of Lake Balaton to the Szazhalombatta refinery near Budapest. From there according to Hungarian sources 50% of the oil will flow onwards to the Czech border using the already completed CMEA Friendship I pipeline. Until now this line has carried Soviet oil from Bratislava to Szazhalombatta, but when the Adria pipeline is finished, it will operate in the opposite direction. When operating at full capacity about 20 m tons of oil per annum will be transported by the line of which 5 m tons will go to Hungary.

125. Iraq is the country likely to be Hungary's main Middle East supplier of oil. Iraq has received loans from the USSR and other Communist countries, Hungary among them, which it would like to repay with oil, an arrangement which the construction of the Adria pipeline will facilitate.

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1110 Brussels.

APPENDIX I

HUNGARY: FOREIGN TRADE

(In million US $)

		1965	1971	1972	Percentage change: on forint basis 1972-1971	Percentage change: on dollar basis 1972-1971
Total trade	Turnover	3,029.8	5,490.0	6,445.6	+8.1	+17.4
	Exports	1,509.5	2,500.4	3,291.7	+21.2	+31.7
	Imports	1,520.3	2,989.6	3,153.9	-2.9	+5.5
	Balance	-10.8	-489.3	+137.8		
Trade with Communist countries	Turnover	2,076.0	3,686.6	4,312.9	+8.3	+17.0
	Exports	1,057.8	1,723.0	2,282.1	+21.9	+32.5
	Imports	1,018.2	1,963.5	2,030.8	-3.8	+3.4
	Balance	+39.6	-240.5	+251.3		
Trade with non-Communist countries	Turnover	953.8	1,803.5	2,132.6	+7.8	+18.3
	Exports	451.7	777.4	1,009.6	+19.7	+29.9
	Imports	502.1	1,026.1	1,123.0	-1.1	+9.4
	Balance	-50.4	-248.7	-113.4		
Trade with industrial West	Turnover	758.0	1,538.8	1,800.2	+8.4	+17.0
	Exports	351.0	641.6	872.5	+21.9	+36.0
	Imports	407.0	897.2	927.7	-1.9	+3.4
	Balance	-56.0	-255.6	-55.2		
Trade with developing countries	Turnover	195.9	264.7	268.5	-6.6	+1.4
	Exports	100.8	135.8	148.6	+0.8	+9.4
	Imports	95.1	128.9	119.9	-14.3	-7.0
	Balance	+5.7	+6.9	+28.7		
Trade with multilateral partners	Turnover	551.0	1,136.0(1)	1,763.3	+22.5	
	Exports	257.0	496.0(1)	852.8	+32.7	
	Imports	294.0	640.0(1)	910.5	+14.3	
	Balance	-37.0	-144.0(1)	-57.7		

Note: The discrepancy between "non-Communist countries" and the sum of "industrial west" and "developing countries" is due to statistical accounting of freight costs.

SOURCE: Vilaggazdasag

(1) Data excludes following multilateral partners: Denmark, Norway, Australia, Canada, United States and Japan

APPENDIX II

TRADE WITH COMMUNIST COUNTRIES 1965, 1970, 1971, 1972

(In million US $)

	Imports	Exports	Turnover	Balance	Percentage change in turnover 1972-71
Albania	2.0	2.0	4.0	-	+37.0
	4.2	2.5	6.7	-1.7	
	6.4	2.8	9.2	-3.6	
	8.3	4.3	12.6	-4.0	
Czechoslovakia	134.5	179.3	313.8	+44.8	+21.1
	197.9	185.1	383.0	-12.8	
	249.8	198.3	448.1	-51.5	
	269.1	273.4	542.5	+4.3	
Bulgaria	22.1	20.3	42.4	-1.8	+9.8
	48.7	26.3	75.0	-22.4	
	49.0	46.1	95.1	-2.9	
	42.6	61.8	104.4	+19.2	
Poland	88.3	105.0	193.3	+16.7	+18.2
	144.6	136.5	281.1	-8.1	
	150.6	187.0	337.6	+36.4	
	165.5	233.6	399.1	+68.1	
GDR	131.2	135.1	266.3	+3.9	+16.4
	261.1	218.2	479.3	-42.9	
	319.3	243.3	562.6	-76.0	
	333.0	322.0	655.0	-11.0	
Rumania	38.8	28.7	67.5	-10.1	+7.5
	60.8	49.9	110.7	-10.9	
	73.4	66.7	140.1	-6.7	
	74.6	76.0	150.6	+1.4	
USSR	553.3	525.4	1,078.7	-27.9	+20.8
	829.5	808.8	1,638.3	-20.7	
	1,015.6	873.0	1,888.6	-142.6	
	1,093.6	1,187.7	2,281.3	+94.1	
Yugoslavia	27.3	29.2	56.5	+1.9	+6.6
	45.8	54.0	99.8	+8.2	
	61.8	56.2	118.0	-5.6	
	54.1	71.7	125.8	+17.6	
China	10.6	14.7	25.3	+4.1	+74.8
	12.6	8.4	21.0	-4.2	
	14.0	16.5	30.5	+2.5	
	20.6	32.7	53.3	+12.1	

(In million US $)

	Imports	Exports	Turnover	Balance	Percentage change in turnover 1972-71
North Vietnam	3.7 0.7 1.5 1.0	5.3 17.2 16.4 18.0	9.0 17.9 17.9 19.0	+1.6 +16.5 +14.9 +17.0	+6.1
North Korea	3.4 3.7 4.0 2.8	1.6 3.2 2.8 2.9	5.0 6.9 6.8 5.7	-1.8 -0.5 -1.2 +0.1	-16.2
Mongolia	2.7 1.7 3.2 2.9	2.8 4.4 5.4 7.2	5.5 6.1 8.6 10.1	+0.1 +2.7 +2.2 +4.3	+17.4
Cuba	0.3 5.7 14.9 7.7	8.3 5.0 8.7 7.0	8.6 10.7 23.6 14.7	+8.0 -0.7 -6.2 -0.7	-37.7

APPENDIX III

TRADE WITH MAJOR WESTERN PARTNERS 1965, 1970, 1971, 1972

(In million US $)

	Imports	Percentage change 1970-65 1971-70 1972-71	Exports	Percentage change 1970-65 1971-70 1972-71	Turnover	Percentage change 1970-65 1971-70 1972-71	Balance
Austria	51.7		39.4		91.1		-12.3
	97.7	+89	71.9	+82	169.6	+86	-25.8
	117.1	+20	65.6	-9	182.7	+81	-51.5
	96.6	-18	86.5	+32	183.1	+0.2	-10.1
Belgium/ Luxembourg	17.1		8.1		25.2		-9.0
	28.1	+64	13.6	+68	41.7	+65	-14.5
	36.5	+30	13.3	-2	49.8	+19	-23.2
	20.8	-43	15.6	+17	36.4	-27	-5.2
West Germany	77.4		79.6		156.0		+2.2
	128.0	+65	158.7	+99	286.7	+84	+30.7
	176.1	+38	144.9	-8	321.0	+12	-31.2
	236.9	+35	180.8	+25	417.7	+30	-56.1
France	27.1		17.8		44.9		-9.3
	52.0	+92	27.0	+52	79.0	+76	-25.0
	83.0	+59	25.7	-5	108.7	+8	-57.3
	90.3	+9	38.9	+51	129.2	+19	-51.4
Netherlands	18.4		16.7		35.1		-1.2
	38.2	+108	24.7	+48	62.9	+79	-13.5
	41.7	+9	29.4	+19	71.1	+13	-12.3
	37.4	-10	36.5	+24	73.9	+4	-0.9
Italy	49.4		54.1		103.5		+4.7
	97.0	+96	126.4	+134	223.4	+116	+29.4
	120.8	+25	138.0	+9	258.8	+16	+17.2
	111.7	-7	205.8	+49	317.5	+23	+94.1
Sweden	9.6		12.0		21.6		+2.4
	22.3	+132	22.5	+88	44.8	+107	+0.2
	27.5	+23	20.5	-9	48.0	+7	-7.0
	23.5	-14	25.8	+26	49.3	+3	+2.3
Switzerland	25.5		41.2		66.7		+15.7
	57.2	+124	78.4	+90	135.6	+103	+21.2
	56.4	-1	65.6	-16	122.0	-10	+9.2
	37.2	-34	50.9	-22	88.1	-28	+13.7
United Kingdom	49.5		28.5		78.0		-21.0
	92.5	+87	55.9	+96	148.4	+90	-36.6
	92.5	0	49.3	-12	141.8	-4	-43.2
	71.8	-23	30.5	-38	102.3	-28	-41.3

APPENDIX III(a)

HUNGARY TRADE WITH NATO PARTNERS 1970/1971/1972

(In million US $)

	Exports	Imports	Turnover	Balance
United States	8.9	36.6	45.5	-27.7
	10.9	55.2	66.1	-44.3
	14.6	44.0	58.6	-29.4
Canada	8.3	8.2	16.5	+0.1
	8.3	10.1	18.4	-1.8
	12.4	11.1	23.5	+1.3
Belgium/ Luxembourg	13.6	28.1	41.7	-14.5
	13.3	36.5	49.8	-23.2
	15.6	20.8	36.4	-5.2
Denmark	11.6	12.1	23.7	-0.5
	10.4	12.5	22.9	-2.1
	12.6	16.5	29.1	-3.9
France	27.0	52.0	79.0	-25.0
	25.7	83.0	108.7	-57.3
	38.9	90.3	129.2	-51.4
West Germany	158.7	128.0	286.7	+30.7
	144.9	176.1	321.0	-31.2
	180.8	236.9	417.7	-56.1
Greece	10.0	12.7	22.7	-2.7
	9.8	9.7	19.5	+0.1
	17.6	11.0	28.6	+6.6
Italy	126.4	97.0	223.4	+29.4
	138.0	120.8	258.8	+17.2
	205.8	111.7	317.5	+94.1
Netherlands	24.7	38.2	62.9	-13.5
	29.4	41.7	71.1	-12.3
	36.5	37.4	73.9	-0.9
Turkey	13.2	17.4	30.6	-4.2
	11.5	16.1	27.6	-4.6
	8.2	7.8	16.0	+0.4
United Kingdom	55.9	92.5	148.4	-36.6
	49.3	92.5	141.8	-43.2
	30.5	71.8	102.3	-41.3
Iceland(1)	0.1	1.2	1.3	-1.1
	0.1	0.8	0.9	-0.7
	0.2	0.5	0.7	-0.3
Portugal(1)	0.2	0.5	0.7	-0.3
	0.1	0.7	0.8	-0.6
	0.1	0.7	0.8	-0.6

(1) Figures for Iceland and Portugal are from Western Partner statistics

APPENDIX IV

TRADE WITH CERTAIN DEVELOPING COUNTRIES 1965, 1970, 1971

(In million US $)

	Imports	Exports	Turnover	Balance	Percentage change in turnover 1971-70 1972-71	1970-65
Argentina	10.2	0.5	10.7	-9.7		+24
	12.6	0.7	13.3	-11.9		
	5.0	1.8	6.8	-3.2	-49	
	4.0	1.7	5.7	-2.3	-16	
Brazil	8.4	2.5	10.9	-5.9		+113
	14.8	8.4	23.2	-6.4		
	13.4	2.0	15.4	-11.4	-34	
	27.7	4.4	32.1	-23.3	+108	
India	21.9	16.8	38.7	-5.1		+16
	23.2	21.8	45.0	-1.4		
	26.5	19.9	46.4	-6.6	+3	
	31.7	29.8	61.5	-1.9	+33	
Iraq	-	2.8	2.8	+2.8		+118
	0.6	5.5	6.1	+4.9		
	0.9	7.5	8.4	+6.6	+38	
	8.2	10.9	19.1	+2.7	+127	
Iran	5.6	3.7	9.3	-1.9		+175
	14.9	10.7	25.6	-4.2		
	7.0	10.9	17.9	+3.9	-30	
	10.1	11.5	21.6	+1.4	+21	
Morocco	9.1	8.8	17.9	-0.3		-69
	4.3	1.2	5.5	-3.1		
	3.8	0.6	4.4	-3.2	-20	
	3.4	1.7	5.1	-1.7	+16	
Pakistan	1.4	1.6	3.0	+0.2		+287
	5.0	6.6	11.6	+1.6		
	7.7	4.6	12.3	-3.1	+6	
	5.2	2.5	7.7	-2.7	-37	
Sudan	0.8	1.2	2.0	+0.4		+370
	4.8	4.6	9.4	-0.2		
	5.5	4.9	10.4	-0.6	+11	
	4.2	2.3	6.5	-1.9	-37	
Syria	4.6	3.1	7.7	-1.5		+52
	5.4	6.3	11.7	+0.9		
	3.3	7.7	11.0	+4.4	-6	
	8.2	10.5	18.7	+2.3	+70	
UAR	8.5	18.5	27.0	+10.0		+51
	17.6	23.2	40.8	+5.6		
	15.4	25.7	41.1	+10.3	+1	
	21.3	28.0	49.3	+6.7	-35	

APPENDIX V

FOREIGN TRADE: COMMODITY COMPOSITION/COMMUNIST/ NON-COMMUNIST COUNTRIES

IMPORTS
By percentage(1)

	1965		1971	
	Communist	Non-Communist	Communist	Non Communist
1. Fuels, electric energy	14.1	0.3	10.1	1.5
2. Raw materials, semi-finished products, spare parts	47.7	60.6	42.9	57.0
of which				
raw materials	26.0	26.4	20.0	15.9
semi-finished products	15.2	30.8	15.8	34.4
spare parts	6.5	3.4	7.1	6.7
3. Machinery transport equipment, capital goods	25.0	11.8	30.3	15.9
4. Industrial consumer goods	7.1	2.6	10.2	6.1
5. Raw materials for food industry, live animals food products	6.1	24.7	6.5	19.5
of which				
agricultural products, animals	3.1	10.0	2.0	7.3
food industry products	3.0	14.7	4.5	12.2
Total	100.0	100.0	100.0	100.0

(1) Because of rounding, percentages may not add up to 100.0

EXPORTS
By percentage(1)

	1965		1971	
	Communist	Non-Communist	Communist	Non Communist
1. Fuels, electric energy	0.8	1.8	0.7	1.0
2. Raw materials, semi-finished products, spare parts	24.6	32.8	22.9	36.7
of which				
raw materials	4.5	12.5	4.2	14.6
semi-finished products	14.5	19.0	11.82	20.1
spare parts	5.6	1.3	6.9	2.0
3. Machinery, transport equipment, capital goods	36.4	6.4	33.4	7.6
4. Industrial consumer goods	21.7	19.9	24.7	18.6
5. Raw materials for food industry, live animals food products	16.5	39.1	18.3	36.1
of which				
agricultural products, animals	4.6	18.6	5.8	17.6
products of food industry	11.9	20.5	12.5	18.5
Total	100.0	100.0	100.0	100.0

(1) Because of rounding, percentages may not add up to 100.0

IMPORTS BY PRINCIPAL COMMODITIES

	1965	1970	1971	As percentage of total imports in 1971(1)
Coal and lignite ('000 tons)	2,665	1,986	1,961	1.2
Crude oil (" ")	2,251	4,349	4,892	3.1
Iron ore (" ")	2,481	3,119	3,156	1.1
Rolled steel (" ")	216	483	574	2.6
Copper and copper products ('000 tons)	25	36	60	1.0
Tractors (no)	6,024	4,855	16,108	1.7
Passenger cars ('000s)	12	49	54	2.2
Lorries (no)	2,166	15,618	14,274	1.7
Blast furnace coke ('000 tons)	1,022	1,172	1,143	1.0
Plastic basic materials ('000 tons)	20	78	78	1.0
Chemical fibres (" ")	28	36	38	1.1
Fertilizers (" ")	622	1,419	1,480	1.4
Coniferous sawn wood ('000 cu.m)	785	960	1,125	1.8
Raw cotton ('000 tons)	72	98	66	1.7
Vegetable oils (" ")	184	336	368	1.4
Feeder grains (" ")	479	141	648	1.4

(1) Calculated on a value basis

IMPORTS BY PRINCIPAL COMMODITIES

	1965	1970	1971	As percentage of total imports in 1971(1)
Hot rolled semi-finished steel products ('000 tons)	58	182	237	0.8
Rolled steel ('000 tons)	605	632	607	2.8
Alumina ('000 tons)	194	415	428	1.5
Aluminium unwrought ('000 tons)	18.8	52.6	62.2	1.2
Complete factory equipment (m forints)	740	770	577	2.0
Buses (no)	2,173	4,745	5,024	4.2
Pharmaceutical basic materials (m forints)	292	343	390	1.3
Packed medicaments (m forints)	492	955	1,151	3.9
Leather footwear (m pairs)	9	13	14	2.9
Cotton fabrics (m sq.m)	101	83	87	1.3
Raw meat ('000 tons)	41	43	62	2.1
Slaughtered poultry ('000 tons)	36	57	73	1.9
Canned fruit (" ")	46	82	92	0.9
Canned vegetables (" ")	108	156	173	1.5
Wine of grapes ('000 hl)	689	975	1,088	2.0
Cattle and calves for slaughter ('000)	148	220	213	2.7
Fruit ('000 tons)	182	305	326	2.1

(1) Calculated on a value basis

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APPENDIX VII

IMPORTS FROM THE SOVIET UNION IN 1970

		% of total imports from USSR
Crude oil ('000 tons)	3,952	91
Iron ore ('000 tons)	2,986	96
Crude phosphates (tons)	450,617	75
Pig iron (tons)	189,708	99
Rolled steel (tons)	364,254	72
Hot rolled semi-finished steel products (tons)	164,346	77
Aluminium (tons)	68,509	84
Tractors (no)	2,992	62
Lorries (no)	6,445	41
Coniferous sawn wood (cu.m)	888,388	93
Coke (tons)	539,750	43

EXPORTS TO THE SOVIET UNION IN 1970

Alumina (tons)	200,892	48
Diesel motor trains (no)	40	100
Buses (no)	2,808	59
Lorries (no)	1,226	83
Packed medicaments ('000 forints)	715,352	75
Footwear ('000 pairs)	6,685	53
Cotton and cotton fabrics ('000 sq.m)	28,180	28
Hosiery (tons)	1,776	47
Slaughtered poultry (tons)	18,614	33
Canned fruit (tons)	47,478	58
Canned vegetables (tons)	111,983	72
Wine of grapes (hl)	342,276	35
Bread grains (tons)	199,887	40
Fruit (tons)	130,069	43

APPENDIX VIII

HUNGARY CO-OPERATION WITH COMMUNIST COUNTRIES

Attached are some details of Hungarian co-operation projects with Communist countries.

BULGARIA

1. There exist two joint Bulgarian-Hungarian companies: Intransmash, established in 1964 - this exists to facilitate mechanization and automation of interfactory transport and warehouse operations, it works mainly in the sphere of research and development. Agromash was founded in 1965 and was later joined by the Soviet Union, it again is mainly concerned with research and development, in the sphere of agricultural machinery. It has developed sugar beet harvesting machines, grass seed and cereal purifiers, threshing machines.

2. The Hungarian foreign trade organization Komplex and the Elzett Metal Plate and Sheet Works provided technology and equipment for a lock factory at Varna in Bulgaria. The building design and construction was done by the Bulgarian Zavod Metal Works. The Bulgarians will eventually manufacture 11 different types of Elzett locks.

3. The Hungarians have contributed machinery and equipment for the construction of a soda works in Bulgaria, the repayment is in the form of calcinated soda over a ten year period.

4. Co-operation exists in the manufacture of railway goods wagons, the waggon framework is constructed at the Chervena Zvezda and Georgi Dimitrov plants in Sofia while Hungary provides brakes and axles.

CZECHOSLOVAKIA

1. Joint Hungarian-Czechoslovak projects include the electrification of the railway line between Komaron and Komarno (71 km) - all design is Czechoslovak. A joint station is to be built at Szob and Sturovo. A Hungarian-Czechoslovak technical committee has been formed to create a central channel to regulate Danube tributaries, this is due for completion this year.

2. Co-operation exists between the Czech enterprise, Hirana and the Hungarian Medicor. Czech enterprises specialize in dental surgery equipment to cover requirements of both countries, while the Hungarians have discontinued this production and instead are concentrating on the production of operating tables and incubators. This is carried a stage further by joint activity in equipping hospitals for third countries.

3. Tractors "Mepol-Terra" have been jointly built by the Czech tractor works at Jicini and the Hungarian agricultural machine works under West German and French licences.

4. The Hungarian Komplex and the Czechoslovak Trancakta foreign trade companies signed an agreement in January 1971 for co-operation in the production of pig breeding stations. The Hungarians supply the complex engineering parts while the wall panels requiring wood and timber are to be delivered by the Czechs.

5. An agreement exists for the manufacture of Eternit tubes. Raw concrete is delivered by the Labatlan cement factory (Hungary), it is processed at the Nitra factory in Czechoslovakia, it is then returned to Hungary.

6. Technoimpex of Hungary and Invest of Czechoslovakia are co-operating with Sveter of West Germany for the building of slashing machines to modernize the Czech textile industry. 50% of the components come from West Germany, 50% from Hungary based on West German documentation. Assembly is in Czechoslovakia.

GDR

1. In the sphere of automobile manufacture, Hungary supplies some components, while Ikarus buses, which are constructed in Hungary, use drivers' seats from the Moewe plant in the GDR. The Hungarian enterprise AVF (Electrical Motor Vehicle Equipment) supplies electric car components, ignition motors and dynamos to GDR and in return receives completed cars. Hungary makes the driving gear for the 087-T agricultural trailer produced in GDR. Hungary will later provide other parts, eventually production will commence in Hungary with parts coming from the GDR.

2. The GDR gave up production of "button-hole" sewing machines, fixing machines and button sewing machines - these are now manufactured in Hungary. The two countries appear jointly on third markets and export complete clothing factories.

3. The Hungarian Optical Works and the Zeiss Works of Jena have a co-operation agreement, whereby Hungary produces large series of spectacle lenses to Zeiss standards, there is joint research on X-ray equipment. Hungary is using Zeiss equipment and components in the export of hospital equipment and cameras to third countries.

4. In the chemical industry an agreement was concluded in 1971 between the Borsod Chemical Combine and the Buna Chemical Plant on co-operation in the production of polyvinylchloride, and joint research for certain types of plastics has begun operating; in the field of chemical fibres the Hungarian Viscose Factory and the Schwarza Chemical Fibre combine have co-ordinated their research and development work in order to obtain a greater assortment of qualitatively higher grade nylon fibre.

POLAND

1. An agreement signed at the end of the 12th Session of the Hungarian-Polish Standing Committee for Economic Co-operation established a joint office to be known as Interkomponent in Warsaw; its purpose is to co-ordinate development of the two countries' electronics industries.

2. In other spheres Hungarian-Polish co-operation and specialization is lacking - several projects have reached only the discussion stage such as the manufacture of small cars and a joint foundry in Poland and much that has been done recently concerns only the development of technical and scientific co-operation rather than actual production.

3. In the sphere of plastics an agreement has been signed recently on product specialization and for mutual deliveries of synthetic fibres. Hungary will increase production of polyacryl-nytril fibre to meet Polish requirements, while Poland will specialize in the production of polyester. By 1980 the value of mutual deliveries is expected to exceed those of 1972 by 6 times.

4. The Polish-Hungarian company Haldex is expanding its activities. It was set up in 1959 as a joint-stock company. It is engaged in (a) the recovery of coal from coal waste and in (b) the utilization of coal waste for filling in mines and as an additive in the production of cement. New agreements provide for the construction of 2 new waste refining plants and one light aggregate factory.

5. Some measure of co-operation exists in the assembly of buses and lorries in Poland. Hungary provides such parts as rear axles, aluminium engine blocks, gear boxes and steering systems while Poland provides radiators, gear boxes and injection pumps.

ROMANIA

1. Hungary and Romania are working together to construct an alumina plant at Tulcea (Romania). Hungary through the Chemokomplex enterprise is supplying the entire design and technology. Equipment will be manufactured by both countries to process varying grades of bauxite.

2. Cotton yarn made in Hungary is twisted and processed by the Talmacs Thread factory in Romania and then transported back to Hungary; Romania is paid for this service by supplies of yarn.

3. Hungarian lead slag and agglomerates are being processed in Romanian plants - payment is to be effected in lead blocks resulting from the processing.

4. Machinery for the canning industry is being manufactured co-operatively. The Romanian plants manufacture this machinery on the basis of Hungarian blue prints, in return the Romanians hand over a proportion of the sales revenue to Hungary.

5. In an agreement signed by the Hungarian Foreign Trade Enterprise for Motor Vehicles (Mogurt), the Autotractor foreign trade enterprise at Brasov, and the Pitesti Dacia Foreign Trade Enterprise, the first Hungarian spare parts to be fitted in Romanian vehicles were delivered early in 1972. Further co-operation is envisaged whereby the Hungarian factory will be receiving plan drawings from which car and engine parts will be manufactured for Romanian orders.

USSR

1. Hungary is delivering 18 different components to the Soviet Tolyatti Works (producing Fiat cars under licence) and in return the Tolyatti works will deliver 65,000 Zhiguli cars to Hungary in the period 1970 to 1975. There is also extensive co-operation in bus manufacture. The Gyor Wagon and Machine Works delivers axle housings for Soviet buses and Soviet factories manufacture and deliver front axles, hydraulic equipment and other items to the Ikarus factory in Hungary.

2. As a result of the decision to develop a plastics industry using ethylene as a base, Hungary and the Soviet Union have decided to co-operate in the development of an ethylene plant at the Tisza Chemical Combine in Leninvaros (capacity 250,000 tons p/a). A 300 km pipeline is to be constructed paralleling the Druzba II crude oil line and connecting with the West Ukrainian plastics plant. The Leninvaros plant will process 750,000-800,000 tons of gasoline per annum into olefin products, which the Hungarian plant will begin

delivering to the Soviet Union in 1975; it is expected to provide 130,000 tons of ethylene and 80,000 tons of propylene annually for a period of at least ten years. The Soviet Union, besides providing machinery and equipment for the plant, will by 1980 be sending to Hungary 10,000 tons of high pressure polyethylene, 10,000 tons of low pressure polyethylene, 15,000 tons of polystyrene, 10,000 tons of acrylonitrile, 2,500 tons of styrene monomers and 5,000 tons of ethylene glycol.

3. The Hungarian-Soviet alum-earth agreement has been in existence since 1962. It provided that beginning in 1967 Hungary delivered increasing quantities of alumina earth to the USSR each year. The volume is expected to reach 330,000 tons in 1980. Using the cheap hydro-electric power available in the USSR, 165,000 tons of aluminium will be produced and sent back to Hungary in the form of aluminium blocks.

4. The Hungarian Research Institute for Leather and Synthetic Leather has developed, together with the Institute of the Leather Industry in Moscow a process for vulcanizing of shoe soles, this is being put on the world market as a joint Hungarian-Soviet licence.

YUGOSLAVIA

1. Ikarus and the precision instruments factory, which are both members of the UMI Metal Industry associated enterprise of Belgrade signed a 5 year co-operative contract in 1972 with the Hungarian firms Raba-Gyoer and Mogurt. Under the contract Hungarian and Yugoslav firms will deliver to each other parts and assemblies for buses. Hungary will cover Yugoslavian requirements for special vehicles, e.g. refrigerator vans, tank vehicles, as well as engines built on basis of the West German "Man" licence. Yugoslavia will supply Hungary with injection systems for diesel motors, engine blocks and certain types of axles.

2. In late 1967 Industrial Instruments (Hungary) entered into a 5 year co-operation agreement with the Yugoslav "Sever" motor works. The joint working agreement calls for a mutual product development programme in the small household appliance field; an individual parts manufacturing programme; co-ordinated sales effort and mutual exchange of technology. In May 1969, Industrial Instruments concluded a similar working agreement with another Yugoslav enterprise, the Obod appliance works of Cetinje - this agreement concerns the production of automatic washing machines, using the Italian "Indesit" licence.

3. The co-operation agreement has been renewed (1972) between the Komarom Oil Company and the Novi Sad Oil processing company (Yugoslavia) whereby large amounts of oil are despatched to Komarom to be refined and are returned to Yugoslavia in the form of petrol, paraffin, bitumen, grease etc. The Yugoslav firm pays for this in dollars and enables the Komarom company to utilize spare capacity. In 1972 90,000 tons of oil were refined at Komarom in accordance with the agreement.

APPENDIX IX

HUNGARY - ECONOMIC GROWTH, LONG-TERM RATES

(Average annual percentage growth)

	1961-65 result	1966-70 result	1971-72 result(a)	1971-75 Plan
Net Material Product	4.7	6.8	6.3	5.6
Gross Investment (a)	5.1	10.4	3.8	5.9
Agricultural Output	1.3	3.5	6.5	3.7
Industrial Output	8.0	6.2	5.6 (b)	5.9
Industrial Labour Productivity	-	5.9	5.8 (b)	4.6
Retail Sales	5.2	8.9	6.8	6.8
Real income per capita	3.4	6.0	4.3	4.7

(a) Gross fixed capital formation; excludes changes in inventories.

(b) Includes results for first half of 1973.

SOURCES: Hungarian media; ECE

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AC/127-D/445(révisé)

CHART A
GRAPHIQUE A

GROSS AGRICULTURAL PRODUCTION AND AGRICULTURAL PRODUCTION PER ACTIVE EARNER

1960 - 1972 (1960 = 100)

PRODUCTION AGRICOLE BRUTE ET PAR PERSONNE EXERCANT UNE ACTIVITE REMUNEREE

ANNEX to
ANNEXE au
AC/127-D/445(Revised)
AC/127-D/445(révisé)

CHART A - GRAPHIQUE A

INDEX OF GROSS AGRICULTURAL PRODUCTION AND GROSS AGRICULTURAL PRODUCTION PER ACTIVE EARNER 1960 - 1972
INDICE DE LA PRODUCTION AGRICOLE BRUTE ET PAR PERSONNE EXERCANT UNE ACTIVITE REMUNEREE, DE 1960 à 1972 (1960 = 100)

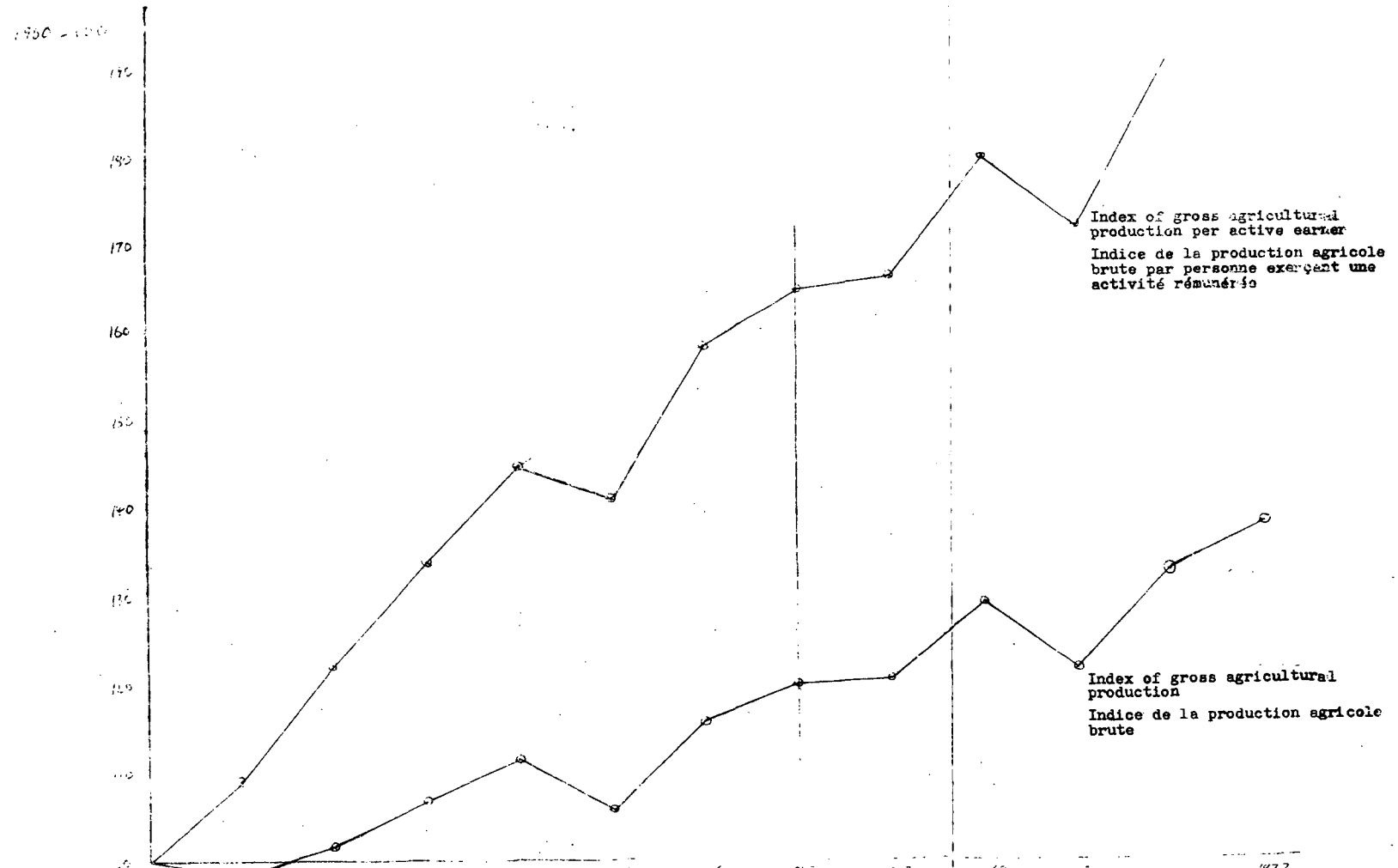

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TABLE B
TABLEAU B

INDUSTRIAL PRODUCTIVITY - 1964/1967 AND 1968/1971 COMPARED

PRODUCTIVITE DANS L'INDUSTRIE - COMPARAISON ENTRE 1964-1967 ET 1968-1971

ANNEX to
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TABLE B - TABLEAU B

INDUSTRIAL PRODUCTIVITY - 1964/1967 AND 1968/1971 COMPARED

PRODUCTIVITE DANS L'INDUSTRIE - COMPARAISON ENTRE 1964-1967 ET 1968-1971

INDUSTRY	INDEX OF PRODUCTION / INDICE DE LA PRODUCTION		INDEX OF OUTPUT PER PERSON EMPLOYED / INDICE DU RENDEMENT PAR PERSONNE		INDEX OF OUTPUT PER MANHOUR WORKED / INDICE DU RENDEMENT HORAIRE		INDEX OF N° OF PERSONS EMPLOYED / INDICE DU NOMBRE DE PERSONNES EMPLOYEES		INDUSTRIE
	1964/1967	1968/1971	1964/1967	1968/1971	1964/1967	1968/1971	1964/1967	1968/1971	
Mining	104	100	114	106	119	109	92	94	Extraction
Electrical energy industry	127	123	127	119	129	128	100	102	Energie électrique
Metallurgy	117	115	117	111	117	118	101	104	Métallurgie
Machine & machine building industry	127	104	117	105	117	116	108	99	Machines & construction de machines
Production of vehicles	121	135	116	133	116	146	105	102	Fabrication de véhicules
Electrical machines & appliances	127	132	118	125	119	137	108	105	Machines et appareils électriques
Telecoms & vacuum engineering	142	124	129	111	128	120	108	112	Télécommunications et industrie du vide
Precision engineering	132	129	120	118	124	127	111	109	Mécanique de précision
Iron + metal mass products	122	120	124	109	121	120	100	109	Produits ferreux & métalliques
Engineering total	126	122	119	117	119	126	106	105	Total constructions mécaniques
Building materials industry	128	102	120	100	122	106	106	103	Matériaux de construction
Chemical industry	144	137	124	123	125	132	116	111	Chimie
Heavy industry total	125	118	120	112	121	122	104	103	Total industrie lourde
Heavy industry ex. mining	127	122	120	117	120	126	106	105	Industrie lourde excepté extraction
Wood processing industry	115	115	116	115	116	126	99	100	Transformation du bois
Paper industry	144	107	126	99	121	105	117	107	Papier
Printing	119	129	119	118	118	129	100	110	Imprimerie
Textile industry	121	96	116	100	114	107	105	96	Textile
Leather, fur, shoe industry	123	113	110	112	112	124	113	102	Cuirs, peaux, chaussures
Textile clothing industry	128	114	107	106	115	110	119	108	Vêtements de coton
Handicrafts + home crafts	146	131	124	144	117	125	119	90	Artisanat
Light industry total	125	109	112	110	115	117	110	99	Total industrie légère
Other industry	117	157	115	132	119	145	101	119	Autres industries
Soc. Ind. Ex. food pro. ind.	124	117	118	113	119	122	106	103	Secteur étatisé excepté industrie alimentaire
Food processing industry	113	112	114	103	111	112	100	110	Industrie alimentaire
Soc. Ind. total	122	116	116	112	118	120	105	104	Total secteur étatisé

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TABLE C
TABLEAU C

INDUSTRIAL PRODUCTIVITY IN STATE AND COOPERATIVE INDUSTRY SINCE 1968 (1968 = 100)

PRODUCTIVITE DE L'INDUSTRIE ETATISEE ET COOPERATIVE DEPUIS 1968 (1968 = 100)

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TABLE C - TABLEAU C

INDUSTRIAL PRODUCTIVITY IN STATE AND COOPERATIVE INDUSTRY SINCE 1968
PRODUCTIVITE DE L'INDUSTRIE ETATISEE ET COOPERATIVE DEPUIS 1968

(1968 = 100)

BRANCH	PRODUCTION INDEX INDICE DU RENDEMENT						BRANCHE D'ACTIVITE
	PER ONE EMPLOYEE INDIVIDUEL			PER MAN HOUR HORAIRE			
	1969	1970	1971	1969	1970	1971	
	A. STATE INDUSTRY INDUSTRIE ETATISEE						
Heavy industry	100	107	113	106	114	121	Industrie lourde
of which : Engineering	100	108	116	107	116	125	dont : Constructions mécaniques
Chemical industry	100	112	122	105	119	131	Chimie
Light industry	97	103	108	103	110	116	Industrie légère
of which : Textile industry	93	97	99	98	103	107	dont : Textiles
Textile clothing industry	89	94	95	92	99	101	Vêtements textiles
Printing	104	106	115	111	115	127	Imprimerie
Food processing industry	98	99	102	104	107	112	Industrie alimentaire
of which : Preserving industry	103	107	113	110	117	122	dont . Conserverie
Other industries	119	127	144	127	138	156	Autres industries
State industry total	99	106	111	106	113	120	Total industrie étatisée
	B. COOPERATIVE INDUSTRY INDUSTRIE COOPERATIVE						
Heavy industry	102	112	128	107	120	137	Industrie lourde
of which : Engineering	102	112	126	108	120	136	dont : Constructions mécaniques
Chemical industry	105	119	150	107	123	152	Chimie
Light industry	105	119	127	106	118	125	Industrie légère
of which : Textile industry	103	114	118	110	124	130	dont : Textile
Textile clothing industry	107	119	118	109	122	121	Vêtements textile
Food processing industry	93	110	154	81	96	132	Industrie alimentaire
Other industries	103	111	119	111	120	130	Autres industries
Cooperative industry total	105	118	130	107	119	130	Total industrie coopérative

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TABLE D
TABLEAU D

PROPORTION OF INDUSTRIAL OUTPUT GOING TO EXTERNAL TRADE 1965-1972

PROPORTION DE LA PRODUCTION INDUSTRIELLE AFFECTEE AU COMMERCE EXTERIEUR DE 1965 A 1972

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TABLE D - TABLEAU D

PROPORTION OF INDUSTRIAL OUTPUT GOING TO EXTERNAL TRADE 1965-1972 (PERCENTAGE)
PROPORTION DE LA PRODUCTION INDUSTRIELLE AFFECTEE AU COMMERCE EXTERIEUR DE 1965 A 1972 (EN POURCENTAGE)

INDUSTRY	1965	1966	1967	1968	1969	1970	1971	1972	INDUSTRIE
Mining	6.0	6.5	6.6	6.6.	6.6	6.6	NA	NA	Extraction
Metallurgy	21.0	20.8	19.2	14.8	20.9	23.4	21.4	25.1	Métallurgie
Machine & machine building	23.9	23.4	22.5	18.1	20.2	20.9	20.9	23.7	Machines & construction de machines
Vehicle production	34.2	36.3	36.2	38.3	40.5	40.5	38.6	43.4	Fabrication de véhicules
Electric machines - appliances	12.3	14.5	14.0	10.9	15.0	16.8	19.0	23.1	Machines et appareils électriques
Telecommunications - vacuum engineering	38.2	38.0	36.4	47.3	47.9	44.4	48.7	50.0	Télécommunications et industrie du vide
Precision engineering	36.6	26.6	37.4	38.6	46.4	45.6	47.7	51.1	Mécanique de précision
Iron + metal mass products	15.9	17.6	16.6	17.1	18.8	17.1	19.5	21.8	Produits ferreux + métalliques
Engineering total	26.8	27.8	26.9	27.5	29.8	29.5	30.1	33.7	Total constructions mécaniques
Building materials industry	9.4	8.8	7.1	7.0	10.2	8.3	9.6	11.2	Matériaux de construction
Chemical industry	17.2	18.6	19.3	22.1	21.9	20.9	20.2	22.3	Chimie
Light industry total	19.1	20.2	19.9	18.7	20.2	18.7	20.3	22.6	Total industrie légère
of which : Textile industry	20.1	21.8	20.4	20.3	22.9	19.9	21.1	24.2	dont : Textile
Leather, Fur, Shoe industry	24.7	25.5	27.8	29.2	34.5	31.7	33.9	36.4	Cuirs, peaux, chaussures
Textile clothing industry	22.6	25.9	25.6	24.7	25.1	25.1	30.7	36.1	Vêtements textiles
Food processing industry	16.1	17.2	17.5	16.4	16.5	16.5	17.6	17.9	Industrie alimentaire
Socialist industry total	18.3	19.2	18.9	18.7	20.4	20.2	20.8	23.1	Total industrie étatisée

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TABLE E
TABLEAU E

MARKETING DEVELOPMENTS IN STATE AND COOPERATIVE INDUSTRY SINCE 1968(1968 = 100)

EVOLUTION DE LA COMMERCIALISATION DANS L'INDUSTRIE ETATISEE ET COOPERATIVE DEPUIS 1968 (1968 = 100)

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TABLE E - TABLEAU E

MARKETING DEVELOPMENTS IN STATE AND COOPERATIVE INDUSTRY SINCE 1968
EVOLUTION DE LA COMMERCIALISATION DANS L'INDUSTRIE ETATISEE ET COOPERATIVE DEPUIS 1968

(1968 = 100)

BRANCH	TOTAL MARKETING	1969 DONT OF WHICH: WHOLESALE + RETAIL GROS et DETAIL	1969 DONT OF WHICH: FOREIGN TRADE COMMERCE EXTERIEUR	TOTAL MARKETING	1970 DONT OF WHICH: WHOLESALE + RETAIL GROS ET DETAIL	1970 DONT OF WHICH: FOREIGN TRADE COMMERCE EXTERIEUR	TOTAL MARKETING	1971 DONT OF WHICH: WHOLESALE + RETAIL GROS et DETAIL	1971 DONT OF WHICH: FOREIGN TRADE COMMERCE EXTERIEUR	BRANCHE D'ACTIVITE
				A. STATE INDUSTRY / INDUSTRIE ETATISEE						
Heavy industry	103	103	113	112	120	123	120	121	132	Industrie lourde
of which : Engineering	102	101	110	111	127	119	119	126	131	dont : Constructions mécaniques
Building materials industry	97	91	147	105	106	129	107	108	152	Matériaux de construction
Chemical industry	108	113	105	118	115	110	131	126	119	Chimie
Light industry	101	105	116	108	124	111	111	121	123	Industrie légère
of which : Textile industry	99	124	116	106	144	108	106	136	114	dont : Textile
Textile clothing ind.	98	91	108	110	108	117	115	104	147	Vêtements textiles
Leather, fur, shoe ind.	102	88	124	110	103	124	110	97	133	Cuirs, peaux, chaussures
Food processing industry	105	108	108	109	116	112	113	123	134	Industrie alimentaire
Other industries	128	167	135	143	196	133	157	248	149	Autres industries
State industry total	104	107	112	111	120	119	117	124	129	Total industrie étatisée
				B. COOPERATIVE INDUSTRY / INDUSTRIE COOPERATIVE						
Heavy industry	112	107	116	134	132	138	150	117	161	Industrie légère
of which : Engineering	113	106	119	135	135	139	150	120	163	dont : Constructions mécaniques
Building materials industry	110	96	119	130	106	117	130	104	144	Matériaux de construction
Chemical industry	112	110	84	130	122	120	160	107	141	Chimie
Light industry	102	105	86	116	131	103	122	130	120	Industrie légère
of which : Textile industry	110	115	51	123	127	60	120	115	89	dont : Textile
Textile clothing ind.	104	101	79	120	128	106	122	121	124	Vêtements textile
Leather, fur, shoe ind.	103	110	103	119	141	108	125	144	121	Cuirs, peaux, chaussures
Food processing industry	154	160	245	228	218	798	291	297	199	Industrie alimentaire
Other industries	117	116	94	140	126	109	165	126	136	Autres industries
Cooperative industry total	108	108	95	126	132	113	138	129	133	Total industrie coopérative

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CHART F

GRAPHIQUE F

AVERAGE MONTHLY EARNINGS OF WORKERS AND EMPLOYEES IN SOCIALIST SECTOR BY BRANCHES

GAINS MENSUELS MOYENS DES OUVRIERS ET EMPLOYES DU SECTEUR ETATISE, PAR BRANCHE D'ACTIVITE

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CHART F - GRAPHIQUE F

AVERAGE MONTHLY EARNINGS OF WORKERS AND EMPLOYEES IN SOCIALIST SECTOR BY BRANCHES

GAINS MENSUELS MOYENS DES OUVRIERS ET EMPLOYES DU SECTEUR ETATISE, PAR BRANCHE D'ACTIVITE

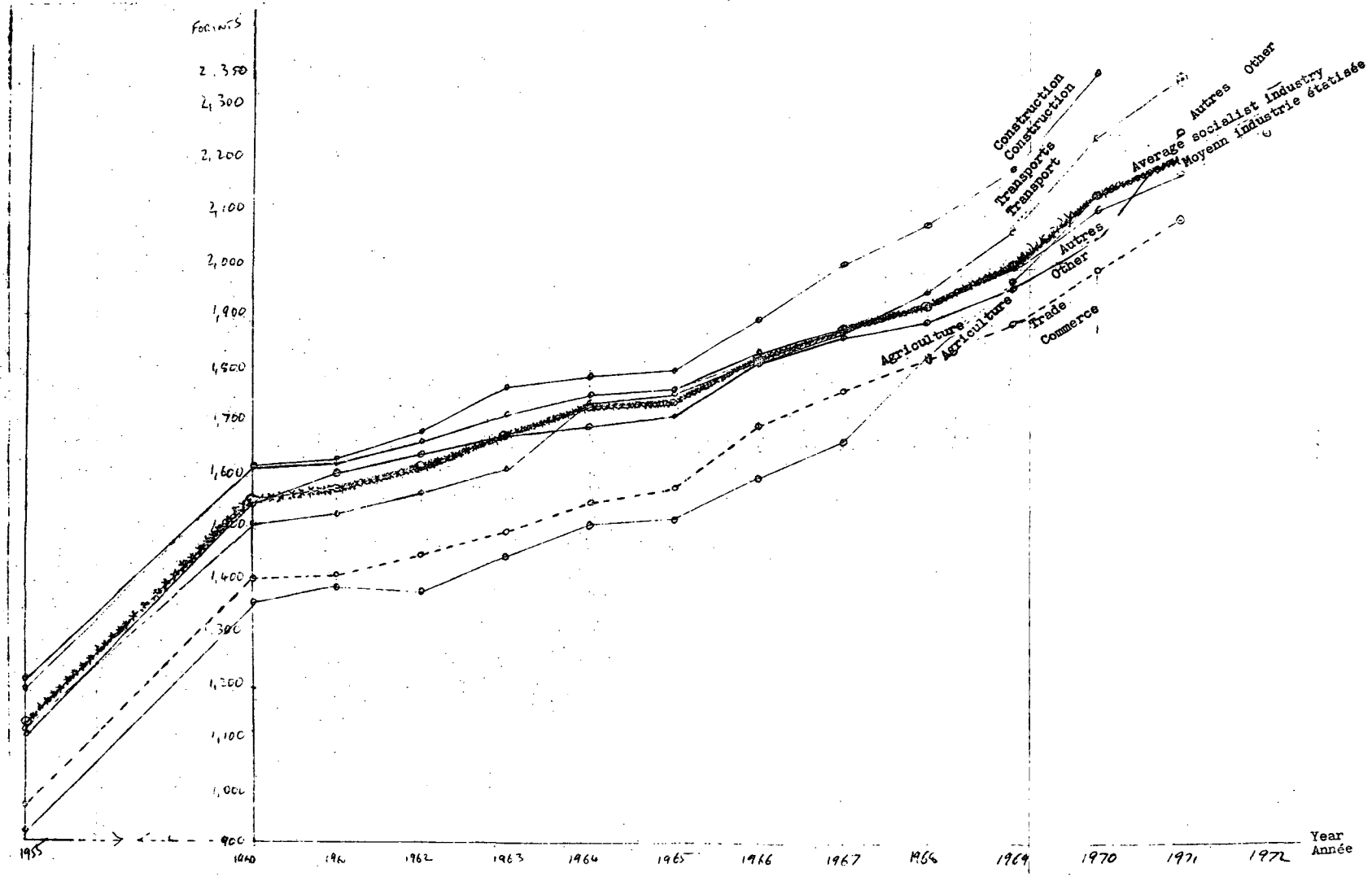

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TABLE G
TABLEAU G

AVERAGE MONTHLY EARNINGS OF WORKERS AND EMPLOYEES IN STATE AND COOPERATIVE INDUSTRIES BY SECTOR

GAINS MENSUELS MOYENS DES OUVRIERS ET EMPLOYES DES INDUSTRIES ETATISEES ET COOPERATIVES, PAR SECTEUR

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TABLE G - TABLEAU G

AVERAGE MONTHLY EARNINGS OF WORKERS AND EMPLOYEES IN STATE AND COOPERATIVE INDUSTRIES BY SECTOR
GAINS MENSUELS MOYENS DES OUVRIERS ET EMPLOYES DES INDUSTRIES ETATISEES ET COOPERATIVES, PAR SECTEUR

SECTEUR - SECTOR	1955	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
INDUSTRY - INDUSTRIE														
A. State - Etatisée	1,217	1,617	1,630	1,669	1,722	1,759	1,767	1,846	1,896	1,937	2,009	2,115	2,197	2,297
B. Coop. - Coopérative	1,110	1,525	1,498	1,525	1,592	1,623	1,625	1,683	1,712	1,732	1,803	1,898	1,953	2,045
Socialist - Socialiste	1,209	1,609	1,619	1,657	1,712	1,748	1,756	1,833	1,880	1,919	1,990	2,093	2,172	2,270
CONSTRUCTION - CONSTRUCTION														
A. State - Etatisée	1,195	1,610	1,628	1,677	1,775	1,790	1,810	1,907	2,018	2,107	2,198	2,341		
B. Coop. - Coopérative		1,623	1,577	1,620	1,672	1,715	1,713	1,807	1,861	1,903	2,001	2,112	2,233	2,336
Socialist - Socialiste	1,193	1,611	1,624	1,672	1,763	1,779	1,794	1,881	1,990	2,031	2,128	2,773	2,342	2,452
AGRICULTURE - AGRICULTURE														
A. State - Etatisée	922	1,357	1,383	1,371	1,446	1,501	1,511	1,590	1,657	1,822	1,966	2,133	2,199	
B. Coop. - Coopérative														
Socialist - Socialiste														
TRANS + COMS - TRANSPORTS ET TELECOMMUNICATIONS														
A. State - Etatisée	1,112	1,502	1,520	1,559	1,604	1,737	1,749	1,815	1,872	1,946	2,057	2,235	2,345	
B. Coop. - Coopérative	1,112	1,750	1,784	1,788	1,787	1,825	1,845	1,986	2,124	2,215	2,423	2,650	2,887	
Socialist - Socialiste	1,112	1,503	1,520	1,560	1,605	1,738	1,749	1,816	1,873	1,947	2,058	2,237	2,348	
TRADE - COMMERCE														
A. State - Etatisée	1,000	1,418	1,421	1,451	1,489	1,543	1,572	1,696	1,752	1,817	1,878	1,970	2,063	
B. Coop. - Coopérative	900	1,357	1,366	1,432	1,482	1,550	1,564	1,676	1,762	1,806	1,893	2,032	2,132	
Socialist - Socialiste	973	1,401	1,406	1,447	1,487	1,545	1,567	1,690	1,755	1,814	1,882	1,987	2,084	
OTHER - AUTRES *														
Socialist - Socialiste	1,102	1,541	1,601	1,639	1,664	1,689	1,707	1,819	1,856	1,889	1,953	2,048	2,250	
TOTAL - TOTAL														
A. State - Etatisée	1,141	1,575	1,599	1,638	1,702	1,757	1,766	1,856	1,915	1,928	2,012	2,139	2,212	
B. Coop. - Coopérative												2,046	2,106	
Socialist - Socialiste	1,125	1,547	1,568	1,607	1,670	1,725	1,731	1,817	1,875	1,915	1,998	2,129	2,201	

* State administration, cultural, health, etc. establishments
Administrations, établissements culturels, sanitaires et autres de l'Etat