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THE HIDDEN MECHANISMS OF RECENTRALIZATION IN HUNGARY

In 1968 Hungary wished to break away from the practice of controlling enterprise activities by direct instructions. However, in recent years – in spite of declared principles and intentions – a continuously intensifying recentralization process has been observable in economic control activities. The article presents a multitude of examples to demonstrate the mechanisms hidden in the internal system of the economy leading to recentralization. Forces arising from the interaction of ideological, political, economic and organizational factors influence economic control increasingly, thus it chooses, from the alternatives of instructions and incentives, ever more often the former.

The 1968 reform of the system of economic control and management, following the warning sign of constantly reproduced economic difficulties, was based primarily upon the realization that in a country with such an open economy as Hungary, a strongly centralized control acts as a brake on the flexible and efficient functioning of the economy, for a complicated system, as the economy of a country, is impossible to control in all details by means of central instructions. A more successful functioning of the economy was expected from changes of the principles and practice of control, and primarily from a considerably increased enterprise independence. Therefore, efforts were made that in economic control direct instructions should be increasingly replaced by automatisms created through economic regulations and affecting enterprise interests – mainly that in profit –, and the latter should prompt enterprises to an economic behaviour desirable for the national economy.

And yet, surveys drawn up on the occasion of the 10th anniversary of the reform almost unanimously referred – beyond the appreciation of results – to the insufficiency of theoretical and practical changes in control, what is more, to an intensification of centralized methods of economic control, i.e. to the existence of a recentralization process.* They pointed out what we have been finding in recent years to a growing extent, instead of the desired enterprise independence ever more questions are decided by central organs; and direct intervention into the functioning of the economy and of enterprises has become a general practice.

This situation is characterized first of all by innumerable orders, instructions, prescriptions and guidelines issued primarily by sectoral ministries which prescribe in detail the various tasks of enterprises as well as the methods of execution; by direct intervention into enterprise planning in order that the expected success indicators should

*See e.g. [1, 2, 3].

be "produced" (at least on paper); by the proliferation of allocations, quotas and licencing proceedings often suppressing or even neutralizing the automatism of economic regulations; by the general occurrence of exceptions and individual judgements crossing regulations at various points and based upon bargains about supports and levies.

Recentralization has been strengthening continuously for years in Hungary, certainly influenced also by the international economic situation, despite the fact that it is an expressed effort of the party and government organs to maintain and perfect the reformed system of control. It is strengthening even though today several undesirable consequences of centralization are already felt. Beyond the failure to start any definitive changes in economic processes in order to ward off the numerous foreign economic difficulties, the natural phenomena accompanying the dependence of enterprises on central organs have necessarily grown in number. Looking at it only from the side of enterprises: to the extent as resources are growing scarcer with enterprises and are accumulating with the centre, and as "quotas" (import materials, export restrictions, etc) and prescriptions are growing in number, enterprises will turn their attention rather to the control organs and less to market tendencies. Considerable energies are consumed at enterprises by supplying data for the centralizing control, as well as by administration of various affairs and making contacts with the higher authorities. At the same time, enterprises rely on control organs, expect initiative from them, and shift responsibilities unto them for the situations arising.

I cannot prove my assertion numerically (and I am afraid it cannot be proved with figures at all, since it is first of all the suppression of the *qualitative* factors of economic control that ought to be presented), but I do think that *the overall spreading of interventions having the nature of direct instructions does not help to achieve socio-economic aims – contrary to its assumed effects – but rather hinders it.* (One example: import restrictions on the one side, and the obligation of enterprises to the domestic market supply on the other side narrow down the possibility of changing production activities, conserve the given product pattern, prolong the standstills of production and the shortages of supply to consumers.) And, if the centralization process cannot be stopped and reversed, we can expect an intensification of already obvious disadvantageous effects, and even the appearance of new ones, to the extent of further centralization and its necessary concomitant. That is what makes it necessary to try to reveal, what factors lie behind the intensification of centralized management methods, i.e. the undesirable process of recentralization.

In the following I shall try to outline a few such factors and analyse their effects. Since the interrelations involved are much too complicated, the analysis can be but strongly simplified. Besides, I shall deal only, one-sidedly, with a few aspects of control and management, and even with those exclusively from the point of view of the given socio-economic environment and of organization sociology inferring the jointly determined functioning of economic organizations.

Factors to be considered as determinant can be divided practically into two large groups: external and internal ones.

External factors will be referred to only for the sake of completeness and without attempt at analysis, even though they often get the greater emphasis in discussions and evaluations. The reason is that those who refer to them usually do not distinguish exactly the role of external factors in the *economic problems* of Hungary or in the development of *economic control*.

In the *economic* problems of Hungary a determinant role is played undoubtedly by the inevitable and inexorable *external* process which is called, in a simplified manner, the beginning of a new era in world economy. This expectably long-lasting process, full of unforeseeable conflicts, demands continuous adjustment from national economies. Particularly the medium- or less developed countries poor in primary energies and raw materials have to face hard conditions. Yet I do not consider the pressure of the need for adjustment — i.e. the struggle to overcome the difficulties owing to world market depression, the rise in prices and deteriorating terms of trade — as a factor necessarily strengthening the recentralization of Hungarian economic control. I think, namely, that it is *exactly the need for adjustment that might encourage to take the other way: a greater independence of economic units*, mobilization of economic reserves, and the development of management methods promoting initiatives for economic actions that would improve results.

Of course, the spreading of control based upon direct instructions is affected by external factors, for example, the differences between the economic control system of Hungary and that of other socialist countries. Since most of our *economic* relations are established in the form of *interstate* contracts, agreements and conventions, this involves inevitably *central* instructions and acts toward strengthening central control. This effect is, however, presumably much smaller than it is often presented in explanations for recentralization.

And, though external factors are not negligible, I shall now analyse but *internal ones*. In my opinion, these operate as “hidden mechanisms” *always driving toward centralization, independently of the economic situation or of the intention of those in control*. By hidden mechanisms I mean the interaction of such ideological, political, practical, economic and organizational factors, *whose ensemble has a strong influence on the choice between the two means of control: instructions and incentives*.* I shall underline only two of the intricate and in fact inseparable interrelations: 1. the limited extent to which economic objectives and instruments can be planned; 2. the system of economic organization. I shall use their example to present the functioning of the hidden mechanisms of recentralization. Several of its elements have been described by others as well as by myself. Therefore, even if at a few points I shall have to repeat myself, I shall make an effort to lay emphasis on the less known interrelations.

*Of course, the fulfilment of instructions may also become an interest; this is what Max Weber calls “interest tied to obedience”. Yet the main point of instruction is that it releases action through dependence, while interest replaces mere obedience by economic or other incentives or constraints.

Economic objectives

The basic function of economic control can be formulated in the following: its task is to *indicate* the *concrete*, short and long-term *economic* objectives and tasks corresponding to the socio-political efforts formulated primarily in the ideological-political sphere, and to provide for their fulfilment. We shall point out two characteristics of the objectives that are essential from the aspect of our subject:

a) One characteristic of the *concrete objectives* existing parallel with each other and belonging to a wide range of socio-political efforts is that they are *hierarchically arranged*: to the objective considered as the most important and most comprehensive one a multitude of partial objectives are subordinated. (I agree with Róbert Hoch [4] who explains in detail that one of the most important and permanent socio-political efforts is the raising of the living standards; which is itself only a means and condition of creating the socialist way of life.) The most important efforts are expressed as actual objectives in the targets of the five-year and annual plans, and innumerable sub-objectives are subordinated to each objective, from changing the economic structure to the amount of investments and from housing to personal incomes.

In this way we have to do in fact with a complexity of intertwined *chains of ends and means*; the ends of a lower level serve at the same time *as means* to achieve ends of a higher level.

b) The concrete social objectives (e.g. the yearly growth rate of the economy providing the foundation for the living standards) appear for economic units partly in the form of actual tasks laid down in their own plans (profit plan, sales plan, etc.), and partly in that of general requirements, i.e. expected ways of actions (e.g. the permanent improvement of quality, labour-saving developments, more efficient management, etc.).

Inconsistency of ends

Harmony of the ends and means, on all levels are a basic conditions of the fulfilment of the ends as well as of the expected efforts. Yet an ideal harmony exists only in abstract theories. *In reality, consistency can be but relative in every actual functioning socio-economic system.*

Of course, what is desirable from the point of view of a harmonic development of the economy is that the ends, i.e. the chains of ends and means, should involve the least possible number of contradictions and the least possible sharp ones; sharp contradictions question the feasibility of the objectives. *A certain extent of inconsistency exists, however, necessarily in every functioning economic system.* Therefore, the ensemble of the existing ends can be consistent but in a declared form – as efforts which are in various stages –, but not in reality.

In Hungarian economic practice there exist also several more or less contradictory ends, neutralizing each other, together with short or long-term inconsistencies.* There is a contradiction, for example, between the requirement of greater enterprise independence and the increased extent of central allocation of resources; between the efforts at an abundant domestic supply of goods and the desired improvement of the balance of payments; between extension of training of skilled workers and the efforts at applying more up-to-date technologies requiring first of all semi-skilled labour etc.

Contradictions exist for many reasons. They are often caused by external and unforeseeable circumstances as are for example the international processes. The necessity of adjustment to them may lead to various changes and contradictions between ends and in the chains of ends and means. The situation is similar in case of unexpected internal troubles in the economy (e.g. the warding off of the various consequences of a long-lasting drought may cause contradictions in the original export-import objectives, high fruit and vegetable prices again in the planned wage measures, etc.). Contradictions may arise also from the wrong conceptions and inaccurate assessment of the situation by the economic control agencies. And unforeseen conditions (i.e. the necessity of adjustment to them) as well as an inaccurate assessment of the situation will only strengthen the several inconsistencies existing organically within the system of objectives.

The essential internal inconsistency of ends and of the chains of ends and means arises in fact from the contradiction between the various co-existing demands of society and economy, of individuals and communities, and from the relative scarcity of available means. This cannot be bridged over even with the best planning techniques (at the most on paper). We have already recognized the technical limits of *how far something can be planned*. One of the most important factors stimulating the introduction of the new system of economic control and management was exactly the recognition that in an infinitely intricate system, functioning according to many kinds of and not sufficiently known mechanisms, as the economy, the complexity of the chains of ends and means, the degree of fulfilment of one or another element, and the consequences of their changes slower or faster than expected can be planned but approximately, with more or less inexactness, even with the aid of models and computers. Therefore, planning can undertake — particularly in a few years' perspective — to indicate only the main directions, neglecting minute details. It is, however, even a more important fact than obvious technical constraints that, as we know already today, behind the technical process of planning there are conflicts and reconciliations of interests. That is, "planning" is not simply the process of clearly and rationally arranged algorithms, but that of the assertion of various interests (in everyday usage: the "plan-bargain"). Thus, which of the widely different possible strivings will become declared or real objectives depends itself on the development of interests and power relations, more exactly, on the ability to assert these interests.**

*Internal contradictions are treated e.g. by R. Nyers and M. Tardos [5]

**L. Antal presents in his study [6] realistically the accelerating and widening series of direct interventions in the 1970s.

Because of the limited possibilities of planning lasting or transitory contradictions necessarily exist both "horizontally": between objectives of the same level, and "vertically": within the chains of ends and means. If, however, the chains of ends and means can be planned but to a limited extent, instructions for their implementation should also be used only to a limited extent. Namely, instructions, while trying to resolve the currently felt contradictions, usually produce new ones, and sometimes worse ones than were those they were intended to eliminate. (The already "classical" example: prescription of the wage level may help to control the growth of income, but it is *the same* that hinders the release of superfluous labour from enterprises, and a reasonable labour economy excluding the formation of surplus labour. Or, import restrictions may help to reduce indebtedness, while the same causes troubles in production and, consequently, in exports, etc.)

A direct intervention at one or other point of the chain of ends and means — in itself promising to be even useful — will usually necessitate other interventions and corrections at other points, as has been proved in practice; in this way it leads inevitably to further inconsistency, and to an accelerating rotation of new interventions aimed at resolving them.

When the increasingly obvious contradictions begin to be felt, the political management is usually expected to state its preferences, i.e. to decide, which of the contradictory objectives should be implemented, and at the expense of which other ones. (E.g. the temporary curbing of living standards and investments with a view to improving the balance of payments, etc.). It is then in accordance with current preferences that new measures are brought, and ever more often in the form of instructions.

But why do always instructions come to the foreground and why are exactly these chosen for an instrument? Why do they permeate the system of regulators to such extent that in the end we arrive at a system of "breaking down" the regulations"?

**Interest orientation:
constraints on bringing about an agreement of interests**

From the widely different and declared (occasionally preferred) objectives of the national economy those will be fulfilled which are made obligatory for the communities affected (and where sanctions are applied in case of non-fulfilment), or, which coincide with the group-interests of the communities.*

*In everyday economic usage in Hungary *obligatory* prescriptions are usually identified with direct instructions, and *interest orientation with indirect control asserted through the system of regulators*. I use the expressions in this sense myself, though it is obviously a simplification, since what is obligatory is not necessarily direct, and a number of elements of the system of regulators contain obligatory prescriptions (e.g. the obligations to pay taxes and to build up reserves). In this context, however, I think that the less precise everyday usage is permissible, for what matters is only the distinction between the direct and indirect ways of control and management.

Although an economy can be operated for some time even merely by means of instructions (e.g. war economies, plan directive system), it has become quite obvious that the rigid restrictions act in reality as brakes on efficient functioning. The efficient mode of economic control consists first of all in influencing and orientating interests, and, in this way, in bringing about of automatism based upon agreed interests.

Everyday experience proves that the objectives expressive of the interests of society as a whole are fulfilled even without instructions, if the partial interests of the smaller or larger groups of those affected agree with them (partial in comparison with society as a whole); such may be: industrial location in the country, the continuous raising of enterprise profit, the achievement of full employment, etc. On the other side: typically those objectives are not fulfilled, in which there are no or not fully enough agreed interests between those setting the objectives and those affected. (E.g., in spite of a multitude of measures and orders, no positive result has been achieved with enterprises in eliminating "unemployment on the shop-floor", or in manufacturing cheap products, etc., since in the given situation these are contrary to enterprise interests, and to the already constrained profit incentive.) Such conflicts cannot be eliminated with other methods (persuasions, etc.).

Instruction-like elements come to the foreground in control when and where reconciliation of interests is impossible (e.g. taxation; taxes must be prescribed always and everywhere), or, where the orientation of interests is complicated and difficult. It is generally and characteristically the latter that causes problems.

In a number of fields the possibility of creating interest is rather limited. First of all because intervention into the factors determining the existing interest relations can be but limited; essential factors cannot be changed but at the cost of grave functional disturbances of the economy. (E.g., to make enterprises interested in reducing their staff, one possible way is to change the whole wage-system: to render labour so expensive that it should be worth applying up-to-date technological equipments, etc. All that would have, however, much too far-reaching effects: from changing the price and wage proportions to changing the system of vocational training.)

The conditions for changing the interest relations can be established as a rule but gradually, through continually shaping several factors. Besides, the two different – but only simultaneously utilizable – systems of instruments: the desirable and complex systems of incentives and brakes (in other words: of rewards and sanctions) is also very difficult to establish and co-ordinate. (I use the words "incentive" and "brake" in a very wide sense. I mean thereby, as regards their substance, economic regulators, but I put under the term "incentive" all the advantages and rewards which stimulate those affected for the desirable actions, from granting preferences to the various forms of financial, moral and social recognition; and under the term "brake" I put all the restrictive and coercive measures which hinder actions deviating for or contrary to what is desirable, from loss of favours to financial and moral "penalties" and to legal actions.)

There are two characteristic problems in the practical establishment of the theoretically possible complex interest orientation system: a) selection of the possible instruments and b) the use of these instruments.

a) The *eligible instruments* of interest orientation represent, as a matter of fact, one of the greatest problems in our social system: the method and extent of individual financial incentive in the framework of planned economy.

The increasing of enterprise independence is desirable first of all in order that *initiative* should gain ground, i.e. the search for new possibilities (new markets, new products, new techniques) and the taking of reasonable risks in their interest. Yet initiative and the risks involved need some *incentive*. Professional ambition may act generally as incentive for a few persons, yet in the wide sphere of those taking part in economic actions it has been *throughout personal financial success* that proved to be an effective incentive.

At this point, however, we have arrived at the questions of *social values*. As we know, personal financial success is one of the determining elements in the system of values of capitalist societies. This is the accepted indicator of success, the socially sanctioned measure of *individual* and as such, it is the primary basis of social recognition and prestige, of adherence to a certain social group and of the way of life expressive of this adherence. Therefore, the effort at financial success functions as a *general individual interest-orientating incentive*, and is *in itself* a sufficient motive power of enterprising, efforts at efficiency, and risk-taking, all counting as virtues in the sphere of economy. That is why, among other reasons, the capitalist state can content itself with interventions into the main processes instead of into details; it has to create "only" the financial incentive for the preferred objectives, (i.e. *the same* incentive which constantly functions in the whole economy.) But *the same* incentive involves also other things: permanent social tensions arising from economic inequality, the distressing accompanying phenomena which are borne with such great difficulty by every society recognized for its advanced economic results.

In the Hungarian economy it has been also undoubtedly material incentive that has proved to be so far the most efficient (as is shown by the general demand for higher wages and incomes, the profit motive, the bonus system, etc.). Other incentives, such as the various forms of moral recognition (decorations, titles); and social recognition (making an example of somebody) have much less incentive power.

The question is, whether we should dare go on, and how far, in material incentives. Don't we have already groups of people with extremely high incomes offending to the public opinion, while the permanently difficult situation of some other social groups — pensioners, and those with low incomes — is still a concern for society.* Does the economic result achievable through greater material incentives not endanger *social values*, further intensifying social inequalities and tensions arising therefrom? The question is fully justified, and raises far-reaching further problems: the socialist model of the

*It is remarkable what K. Szikra, Mrs. Falus has to say on the subject. [7]

way of life, etc., the contents of which have by far not yet been clarified. In our opinion, the dilemma behind a decision for or against the interest-orientating incentives is that in Hungary, quite understandably, no such intensive and general incentive – similar to efforts at financial success – can be asserted as in a capitalist economy, but we have not yet found the desirable extent of material incentive, or, instead of its exclusiveness, methods of other incentives of similar efficiency, such as the modes of moral incentive or job satisfaction.

In the Hungarian economy individual financial incentive cannot be separated from the collective methods of incentives. The problems of collective (enterprise) incentives are known (conflicts between enterprise objectives, and those of the national economy, the limited profit incentive of enterprises, the constraints in utilizing enterprise profit, etc.). The desirable solution has not yet been found. Since the methods of either the individual or the collective material incentive do not thus adequately orientate interests towards a more efficient functioning of the economy, the lack of agreement of interests leads inevitably toward the “simpler” solution and results, instead of looking for incentives, in decisions on instructions. Yet, while fear from the incentive of the capitalist economy (and, together with it, from the strengthening of market elements in the economy) is justified, awareness of the danger of control through instructions is much less related to the effects, though we know from our own experience that it leads to disturbances of the economy, to smaller results and, finally, to the frustration of social objectives.

b) The further problems of the incentive instruments and of brakes so far used are concerned with the mode of application. The majority of the general problems are well known.

Part of the interest-orientating instruments used in Hungary today do not orientate enough (not even the financial incentives), because in the regulators burdened with too many compromises even at the start, and with a view to improving their real or assumed deficiencies, corrections are too frequent, and so are amendments of earlier incentives (e.g. in export-import activities), and even contrary interventions are made before they could exert their effect at all. (The practice of the past ten years offers ample illustration. One typical example may be the curbing of investment activities, then their encouragement. Investment activities were curbed when, under the effect of an earlier regulation, the progress already reached a stage of slowing down. Owing to the new effect, it was braked to such extent that stimulation became necessary, which was again followed by the need to slow down. Similar examples are provided in agriculture: by the fast changing incentives of sugar beet production and livestock-breeding.) And, though interventions are made – or postponed e.g. the “letting in” of the multiplier effects of the world market price explosion of 1973–74 – with the best of intentions, the apparent illogicality and meticulousness of the changes hinder enterprises in formulating a consistent enterprise policy.

The judgement of *enterprise activities* represents a special problem. In qualifying enterprises and managers, i.e. in their rewards and penalties depending thereupon there is too much of the accidental. It was typical of earlier times that “expectations” towards

enterprises changed too frequently. Now it was employment, then export activities and then again the plan fulfilment of the volume of output that superior authorities considered to be of "primary importance" and demanded of enterprises; today a dozen of equally important expectations exist from stocks to the schedule of deliveries. Of course, expectations cannot be given once and for all and their changes do not depend on the calendar year. The change – though dependent upon the tasks following from the economic processes – is based primarily on the opinion of those on the control level: what is judged to be the "most important" thing at the moment. Besides, in judging enterprise activities, numerically measurable expectations and subjective judgements mix in a particular way. This is to a certain extent inevitable, for it is difficult to judge the fulfilment of the many kinds of simultaneously existing expectations and to appreciate the satisfaction of the various requirements, even in themselves, while it is almost impossible to do that in their complexity (e.g., by how much efficiency has grown). Therefore, judgement is usually narrowed down to one or another expectation considered to be the "most timely", or, reducing the sphere even more, to those numerically measurable. This method – very similar to the practice of the plan directive system – allows free scope to subjectivity, i.e. to judgements depending on the bargaining position and motivated by personal sympathy or antipathy. While enterprises formally receive recognition or penalty according to the monetary satisfaction of the frequently changing "important" expectations, rewards and penalties depend, in fact, usually on the bargaining position of the enterprise (its ability to assert its interests).*

However, the existence of expectations towards enterprises, the judgement of fulfilments, and the possibilities of rewarding and penalising are only *symptoms* of the situation in which it is *not* the *expectations of the economy* that enterprises perceive and it is not *the economy* that qualifies their activities, but there is an "intermediary" superior authority coming in between the economy and the enterprise: the sectoral ministry which is to know "*ex officio*" everything better about economic process than do enterprises. This leads us, however, over to the problems of the organizational system, which will be treated in the next section.

Finally, on the subject of interest-orientation, we must add that the selection and application of instruments stimulating or braking the various social actions want a special care in socialist economy, owing to the particular features of its social organization and economic system. For it is exactly the weight of the task and in case of lacking agreement of interests *the difficulties of reconciling interests* that involve one of the hidden mechanisms of recentralizations: the taking of administrative measures guaranteeing the desired actions, and efforts at control through instructions. Yet the means selected have their consequences. All of them entail also non-desirable effects.

*My earlier article discussed the matter in greater detail. [8]

The organizational system of economic control

The factors deriving from the given organizational system of economic control and leading to centralization will be analyzed from two aspects: first those originating in the sub- and superordination relations of the organizational system and then those attributable to partial interests.

Relations of sub- and superordination

Since I have explained my position concerning the organizational system in several papers [8, 9], here I shall sum up only the main elements necessary for understanding.

Today's hierarchical organizational system of the Hungarian economy was established at the time in a manner exaggerating the necessary and possible extent of planned economy; in accordance with the requirements of a strictly centralized management, conceived as most rationally functioning and comprising all economic processes. Theoretically, it was meant to achieve that instructions determining the operation of the economy should be conveyed through clearly defined channels from central organs to enterprises and possible feedbacks should go upwards along the same lines.

The basic scheme of the organizational system has remained practically unchanged to this day, though it underwent several formal changes of more or less importance during past decades.

The organizational system of hierarchical structure can be considered – in an over-simplified scheme – as having three levels.* The upper level is that of the highest party- and state organs (Central Committee, the Council of Ministers) and their specialized *executive apparatuses* functioning in the form of corporations and committees. At the second level there are – though not “equal in rank” – the National Planning Office, the functional and sectoral ministries, as well as other national organs and supreme authorities. At the third and lowest level of the organizational hierarchy are the enterprises. (The scheme could be improved in many different ways, yet our subject wants only a rough sketch of the hierarchy.)

For us the most important characteristic of the hierarchy is that *it expresses dependence, i.e. relations of sub- and superordination.*** Since those on the lower level are obliged to carry out the instructions of the superiors, centralization, i.e. an arbitrary extent of centralized control is inherent in the organizational system. This is not changed by the circumstance that – exactly with a view to the efficient management conceived – enterprises at the lowest level are concentrated into fewer units now, and in this way,

*In this form the scheme has been taken from the article [10] by M. Tardos.

**The essential features of the organizational system as a “model” of Hungarian economic mechanism in which enterprise activity is determined by sub- and superordination were described in detail by J. Kornai [11] almost twenty-five years ago.

getting into a monopolistic position, they have grown increasingly capable of asserting their own interests, forcing control organs into bargains.

The 1968 reform of economic control and management in Hungary brought a fundamental change in the functioning of the organizational system: with the elimination of plan directives direct instruction-like relationships ceased to exist between sub- and superordinated units. Yet the organizational system was left intact, even though the necessity of its changing did arise at the time. In the end, for various reasons, and hoping that the reform can be successful even without changing the organizational system, no important changes were made in it. This is one of the reasons, why – though in a changed form – dependence appeared again between sectoral ministries and the enterprises belonging to them.

The revival of the formally changed but practically old control practice is proved daily by innumerable phenomena. In the old system of directives enterprises had to draw up reports on the progress of plans, the size of stocks, supply data on wages and staff, etc, at regular intervals. *The same* indicators are today asked for by most of the ministries, though not with the old regularity but by letter, telephone or telex, according to the “urgency” of the information. Sectoral ministries implementing instructions and meeting expectations themselves take an active part in preparing the enterprise plan: they state their expectations as regards exports, stocks, and profit, etc: they allocate “quotas”; they permit and prohibit; they issue instructions as well as “guiding principles” (e.g. for the development of enterprise organizational work, information on the future need for various machines, proportion of the non-manual staff), and, as supreme authorities in the owner’s right, they reserve for themselves the right of decision in a number of questions (e.g. in investment activities). The ministries intervene in the distribution of most of the resources to be allotted to enterprises, and their opinion is decisive – unless the enterprise has good connexions at levels superior to the ministry. All that – together with the other spheres of action of the ministry, such as the right of appointment and dismissal of managers and other higher enterprise executives – puts the enterprises into such a position of dependence which, together with other factors, hampers the development of the desirable enterprise independence.

Partial interests of the organizational system

As every organization, the organizations at the different levels of the control and management hierarchy have a wide range of deviating and agreeing interests. At this point I shall concern myself only with the partial interest of the organizational system i.e. its interests *in maintaining* the given management system.

The *phenomenon* shown by everyday experience is e.g. that the sphere of intervention of sectoral ministries in Hungary is today at least as wide as it was under the plan directive system. One of their strongest supporting pillars is, however, the fact that – beside their own interests – their wide-scope and intensive functioning is today also in

the interest of the higher control level and of the enterprises. For the higher level their existence facilitates to a certain extent — just as earlier — control, survey, implementation of economic actions started at the top, and assessment of the effects of interventions. And there we are again at the accelerating “spiral”: the greater the number of interventions, the more the higher level control agency wants survey and information for corrections which are again interventions. And the sectoral ministries having direct contact with enterprises are suited for promptly collecting data to offer a comprehensive view and for promptly transmitting requirements. And though it is in the fundamental interest of enterprises to become independent of the ministries, in the given situation the enterprises themselves need the existence of the sectoral ministry — to the extent the centrally controlled allotments and resources available only through the ministry are proliferating. (Import quotas, export credits, investment funds, wage corrections, etc.). While enterprise interests are in sharp contrast with the interests of ministries in many respects, as for the acquisition of resources, their interests are perfectly identical. And enterprises are sure that ministries do their best in order that the enterprises of the sector receive the maximum available amount from the central resources.

Beyond that, organizations consist of people, and the interests of the members of the organization. (Of course, the interests of the organization express primarily those of the ruling group i.e. of the executives.) As in every organization, it is in the interest also of the people working in the organizations of economic control that the organization (as their basis of existence) shall survive; and it is also in their interest that the weight, role, social importance, power and decision sphere of the organization shall increase. This is at the same time a condition of their growing financial and social recognition. It is in their interest that the organization should have a smoothly running administration, stable systems in relations of internal activities and information, more exactly, their change in one direction: to expand the spheres of authority. Therefore, the interests of *every* unit at the control levels of the organization — thus integrated into a *common* interest — are working against breaking up the organizational structure. With a change as could be brought about e.g. by cutting out the sectoral ministries the established systems of activities and relations would disintegrate. In the remaining organizations a number of activities would have to be carried on in a different way, which might perhaps necessitate other kinds of abilities and knowledge, etc. Such change would personally affect the members of the given organizations; therefore, maintenance of the *status quo* is among the basic group interests in every unit of the control levels. (The existence of the common interest is not changed by the fact that every organization has, at the same time, its own particular interests, different from and sometimes clashing with those of other organizations. It is the particular interest of a sectoral ministry — clashing with that of other ministries — that the weight of its own sector in the economy should be increased and, with this in view, the production capacity of the sector should be expanded and modernized, and the necessary central resources acquired. The possibility of asserting such endeavour — which is related primarily to the problems of the interest asserting ability of those at the highest control level, not discussed at this place — decides to a great

extent the formulation of economic objectives, the proportionate or disproportionate development of sectors; but it does not weaken the interests shared in maintaining the control system.)

All that means that the organizational system cannot be expected to propose its own reform or break-up: this would be opposed to its own interests. A change can be initiated and decided only by an external force i.e. the superior political power.

What can we do in the given situation? Can the well-established processes be stopped, and is further centralization preventible? In the given conditions, is it possible to assert the original objectives of the reform of economic control and management based on enterprise interests and independence? Even a rough description of the complicated interrelations shows that measures based upon a very resolute and uniform principled conception are needed to stop and reverse the already intensified processes and to eliminate or only to neutralize the factors affecting recentralization. As a matter of fact, the delicate balance of the combination of planned economy and market elements (which has not even been brought about yet) is always likely to swing back more easily toward control through instructions. The well-founded worry about the market elements – or rather about the intensification of their undesirable social effects – take us into the same direction. Besides, centralization and control through instructions will always be the easier way to take and the control apparatus will always have enough arguments to justify the necessity of direct intervention.

But, in order that we can have a chance at all to assert the original conceptions of the reform serving a more efficient management, and to avoid the well-known dangers of both centralization and of the undesirable socio-economic consequences of market economy, the situation necessitates well-considered and resolute changes, at least where action is possible.

Today we know to what extent the spheres of action are delimited, and possible steps jointly determined. For example, the opinion is widely spread – I share it myself – that the transformation of the organizational structure of economic control is one of the necessary conditions of a fundamental change in control *methods*, of the elimination of instructions resulting from dependence and thereby of the transformation of the interpretation, functions, and spheres of actions of both the “lower” and the “upper” levels. The loosening up of the hierarchical sub- and super-ordination of sectoral ministries and enterprises would at the same time eliminate one of the permanent threats of centralization, and the lack of the “direct superior” could be a pledge for enterprise independence.

However, lest the transformation of the organizational system should lead to grave troubles in the economy, elimination of the affected organizations is not enough – even if implemented with the greatest care and only gradually. A number of other conditions must change at the same time, from the role of economy-wide plans to price and profitability relations affecting enterprise intentions, and from marking out the spheres of economic regulators to accepting their effects.

All this renders timely again the clarification of a number of old and much discussed social problems of the Hungarian economy: e.g. the questions of enterprise,

income proportions, the protection of interests of the workers, and the representation of interests of the workers, and the representation of interest of communities — all full of contradictions and affecting the basic values of society. Certainly, we cannot answer them from one day to the next, yet, instead of circumventing them we must try to assess the conditions of changes together with the desirable and undesirable effects. This is a common task of practical experts and scientists. A methodical creation of conditions depends, naturally, now and in the future on decisions jointly shaping economic and social relations.

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СКРЫТЫЕ МЕХАНИЗМЫ РЕЦЕНТРАЛИЗАЦИИ В ВЕНГРИИ

Т. ЛАКИ

Как известно, в Венгрии в 1968 г. была изменена прежняя практика управления экономикой, основанная на непосредственно определяющих деятельность предприятий директивах. Однако за прошедшие годы — несмотря на декларируемые принципы и намерения — в управлении экономикой все более усиливается тенденция к рецентрализации.

В статье на множестве взятых из хозяйственной практики примеров показываются скрытые во внутренней системе экономики и ведущие к рецентрализации механизмы. Порождаемые взаимодейст-

ствием идеологических, политических, экономических и организационных факторов силы вынуждают руководство экономикой из двух видов средств управления — директив и заинтересованности предприятий — все чаще выбирать директивы.

Одна из главных причин выдвигания на первый план директивных методов управления состоит в том, что до сих пор не удалось найти соответствующих способов стимулирования, заинтересованности предприятий и правильно пользоваться такими стимулами. Поэтому, когда нужно разрешить неизбежно возникающие большие или меньшие противоречия между различными общественно-экономическими целями, то руководящие органы за отсутствием нужных стимулов прибегают к приказным методам управления. Проводить такие предписания в жизнь позволяет сохранившаяся организационная структура, созданная для задач директивного управления, включая отраслевые министерства, интересы которых связаны с сохранением прежней практики управления.

Большинство факторов, вызывающих рецентрализацию, нельзя упразднить по желанию. Остановка и поворот этого процесса требуют постепенных, целенаправленных изменений.