

CONSEIL DE L'ATLANTIQUE NORD
NORTH ATLANTIC COUNCIL

EXEMPLAIRE
COPY

189

Traws
ORIGINAL: ENGLISH
29th June, 1967

NATO CONFIDENTIAL
WORKING PAPER
AC/89-WP/216/1

SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

ECONOMIC REVIEW OF COMMUNIST COUNTRIES:
HUNGARY (2nd Review)

Comments by the United States Delegation on AC/89-WP/216

A. Economic Reform

We, too, believe that it will be a long time before the reform measures are likely to have concrete results. We would point out that it will in any case be extremely difficult to quantify the contribution of reform to economic efficiency and growth and that the main effects of reform are likely to be in improved management.

2. The Hungarians, like the other Eastern Europeans, look forward to retiring the party hacks and people with obsolete skills who still hold down many executive jobs. They hope to replace them with younger men, technically trained and eager to get results. A good many of the reform measures aim specifically at freeing the new managers from red tape so that they can concentrate on the technical and economic objectives of their enterprises. Over time Hungarian management is likely to improve, and outsiders are likely to get some view of the improvement, particularly in the foreign trade sector. Improvement of management is being pushed especially fast in the export industry.

3. We do not share the view that the primary impetus toward economic reform in Hungary was brought on by a decline in growth rates. The dramatic drop in growth rates in East Germany and Czechoslovakia in the early 1960's gave reform-minded advisers a voice in economic policy and led to the much publicised reform programmes in these countries. Hungary, however, has not suffered a sudden decline in growth. The slow pace of study and legislation suggests that originally there was no particular feeling of urgency and the decision to go ahead with reform was motivated chiefly by the realisation that the economy must keep moving.

ARCHIVES-TRADUCTEURS

Le document est en prêt et NATO CONFIDENTIAL

renvoyé au Bureau de Documentation

N° 149

4. The Hungarian reform programme has encountered comparatively little political opposition. Party Secretary Kadar has backed the reforms ever since their conception and the importance that the Hungarian régime now attaches to the reforms was underscored by a major reshuffling of personnel in April 1967 that put top-level economic officials into high government positions.

5. One unusual feature of the Hungarian reform deserves mention. Unlike the Poles, Czechs, East Germans, and Bulgarians, the Hungarians have not concentrated managerial responsibility in industrial monopolies - trusts, combines, or industrial associations, as they are variously called. Instead, the decentralisation of decision-making in Hungary generally involves an increase in the autonomy of individual enterprises. Except for a very few branch-wide amalgamations, responsibility for co-ordinating activity within branches of industry remains at the ministry level. This is more feasible in Hungary than in the larger countries. It is also more feasible in Hungary to increase the responsibility of enterprises, which in general are larger than in the other Eastern European countries as the result of major consolidations a few years ago.

B. Economic Policy and Growth

6. Something could usefully be added about the economic policy of Hungary since the Soviets put Kadar in power in 1956. The Kadar régime has followed a uniformly cautious policy. Of all the Eastern European régimes it has been the most attentive to its economic advisers, as well as the most concerned with keeping the population contented. Specific policies with beneficial effects on the economy include political toleration ("he who is not against us is with us"); strong support for private plots and a variety of share-cropping schemes in agriculture; and prompt response to difficulties both in the domestic economy and in foreign trade. These policies in good part account for the steady growth of the Hungarian economy since 1957; but they also explain the régime's growing concern over its inability since 1964 to provide the population with a continued rise in its standard of living.

7. It would also seem desirable to expand what is said about economic performance in the recent past. It is true that Hungary failed to meet the goals of the Second Five Year Plan (1961-1965). The plan was developed under the influence of the rapid recovery achieved after 1956 and showed some upward bias. Even so, the industrial plan was very nearly fulfilled, and the underfulfillment in agriculture was small by Communist standards.

8. Moreover, Hungary has done quite well in maintaining industrial growth during the 1960's. The rate of growth has tended to decline, but the growth of factor productivity - i.e. of efficiency - has held up reasonably well. The annual growth of factor productivity in industry has averaged a respectable $2\frac{1}{2}\%$ per year since 1961. It has tended to drop, however, and may average below 2% in the late 1960's.

9. The United Kingdom Delegation does not really touch on this question of efficiency. It is noted that labour productivity will be the primary source of growth in the next five-year plan - contributing 80%, according to the Hungarians. But that is merely to say that employment will increase slowly. Most of the growth of output will probably come from investment, an even higher share than in recent years, and the growth both of employment and efficiency will probably contribute less. If Hungarian data are used, it may readily be calculated that the increase in capital assets since 1961 has contributed 44% of the growth in industrial output. Factor productivity ranked second as a source of growth, contributing 34%. The increase in labour inputs contributed only 22%.

C. Foreign Trade

10. In regard to foreign trade, we suggest a fuller evaluation of the potential for expanding Hungary's trade with the West. While expressing hopes for rapid growth, the Hungarians are planning on a slow increase in trade with the West during 1966 to 1970. Published data on trade plans imply that trade with the West is expected to grow only about 30% during the period, whereas total trade is expected to rise by more than 50%. The recent growth of Hungary's trade with the West (in 1965 to 1966) has been slower than that of other Eastern European countries, except Poland. Poland, which faces similar problems, has deliberately held back traditional exports while making new efforts to push sales of manufactures.

11. Possible reasons for the conservative, or even pessimistic, 1966 to 1970 plan deserve mention:

1. The problem of finding suitable exports with which to pay for desired imports. Hungary's ability to increase agricultural exports is declining, and Hungarian manufactures have not yet reached a stage where they sell readily in the West.

2. Apparent difficulties in balancing payments in convertible currency. Hungary has had trouble both in meeting export targets and in controlling imports.

3. Discriminatory trade practices by Western countries. The Hungarians have cited these as obstacles to increasing trade. Do they work a greater hardship on Hungary than on other Communist countries?

Attention also ought to be directed to the following questions:

1. How eager is the Hungarian régime to increase trade with the West? What does it especially want to buy?

2. Which Hungarian lines of production have the best chance of becoming competitive on Western markets?

3. On the basis of experience with other Eastern European countries, will the economic reforms substantially facilitate trade with the West?

4. What would be the political advantages of stimulating Hungary's Western trade? Could concessions be exacted from Hungary in exchange for easing of Western restrictions? Would increased contacts provide an opportunity to extend Western influence and reduce, even slightly, Hungarian dependence on the USSR?

D. Comments and Suggestions on Specific Paragraphs

Paragraph 4. The targets for 1966 to 1970 are less than the rates achieved during the Second Five Year Plan, not just "modest and realistic". Implicit in the plan figures in table 2 is a decline in the growth of productivity of labour and of capital. There are grounds for pessimism.

Paragraph 8, page 3, line 3, delete: "into large industrial combines". See last paragraph under "Economic Reform".

Paragraph 23. Delays in the Soviet plan rather than economic reform proposals seem to have been responsible for the late adoption of the Hungarian and other Eastern European Five Year Plans.

Paragraph 24. "National Income is to... of 19 to 21%", compared to the 25% increase actually achieved during the Second Five Year Plan (addition underscored). The reader would want to know what the 19 to 21% is "relatively low".

Paragraph 26. Agricultural growth was slow in the Second Five Year Plan in spite of a tremendous investment effort. We suggest the following change: "Substantial improvements in performance were anticipated but the average increase in gross output did not exceed 2% a year, half what was planned", in spite of a doubling of investment compared to the previous five year period (addition underscored).

Paragraph 31. The tightness of the Hungarian labour supply - especially in certain categories - should be stressed.

Paragraph 36. Third line from the end: suggest most or almost all in place of many.

Paragraph 38. Second line: Change it to this trade.

Paragraph 39. Insert after trade: with the non-NATO group.

Paragraphs 38, 39, 40. 70% in paragraph 38 plus 25% in paragraph 39 plus 9% in paragraph 40 equals 104%.

Paragraph 42. First sentence: Suggest "more than half" or "well over half" in place of "about half". The actual figure is 57%.

Lines 9 and 10: Suggest adding the fact that Hungarian imports of Western industrial equipment are more important to Hungary than is indicated by the value figures alone, because they are of particular kinds or qualities not available within the Soviet-Eastern European market.

Paragraph 43. Last sentence: Suggest omitting "therefore" and also substituting more than one-third for a significant proportion.

Paragraph 44. Second sentence: Hungary has set up bilateral commissions for economic, scientific, and technical co-operation with all of the CEMA countries.

Paragraph 45. It is not really accurate to speak of CEMA specialisation plans or of allotments to member countries. CEMA makes recommendations that may or may not be accepted by the countries concerned and may or may not be adhered to even if accepted. It would be more satisfactory - since a discussion of CEMA peculiarities is hardly appropriate here - simply to say that Hungary has accepted various CEMA recommendations for production specialisation. Intermetall is not an iron-smelting organization. It is an international organization for co-ordinating the production mainly of rolled goods. It does not, itself, produce anything, and the products with which it is concerned are well beyond the

smelting stage. It would perhaps be interesting in this paragraph to expand a little on the USSR-Hungarian bauxite-aluminum agreement and to mention Hungarian participation in joint enterprises with other countries, such as the Hungarian-Polish Heldex enterprise and the Agromas and Intransmas enterprises that are jointly operated by Hungary and Bulgaria.

Paragraph 48. It is not made clear in this paragraph whether Hungary is purchasing or selling the licenses in the examples mentioned.

Paragraph 49. The Product column needs some amplification. It is not clear in all cases whether Hungary is purchasing a product, a process, a production plant, or a service.

Paragraph 50. First sentence: The statement surely could be more positive - Hungary will continue to be dependent... Last sentence: True but misleading. Except with Rumania, total trade was greater. The figures reflect the Hungarian drive to export more and import less, not a general reduction in trade with Eastern Europe or a particular effort to increase trade with the West at the expense of Eastern European trade.

Paragraph 51. Line 9, last word: Suggest cover or finance in place of offset. Offset suggests that the expansion of imports would take place first, without regard to whether exports were saleable on the world market. This is a possibility, but it does not seem likely.

OTAN/NATO,
Paris, (16e).