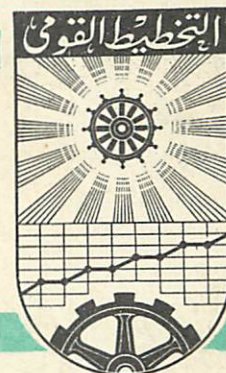


ARAB REPUBLIC OF EGYPT

THE INSTITUTE OF
ATIONAL PLANNING



Handwritten signature in red ink.

Memo. No. 1202

PLANNING IN HUNGARY

BY

Dr TAMAS MORVA

May 1977

The Development of National Planning

The postwar results of the Hungarian economy are closely linked to the development of national planning. The first three-year plan^a guided the reconstruction of the economy; it repaired war damage and regained the prewar level of production, while exceeding former living standards of the population through a new distribution of the national income. The subsequent first five-year plan speeded up industrialization and the collectivization of agriculture.

The wide-ranging nationalization of the means of production not only was a precondition and a basis for national planning, but it also had a feedback effect creating a strong requirement for further government action. The need for establishing priorities and for nationwide coordination of branch production was a logical consequence of the nationalization. The distribution of nationalized resources and the distribution and redistribution of national income also required central decisions and guidelines.

The new situation called for new organizations. In 1947, the National Planning Office was established with the mandate to elaborate national plans and monitor their fulfillment. Later, specialized branch ministries came into being to control and manage nationalized sectors of the economy. Central guidelines assisted the newly established organizations and the management of nationalized enterprises to fulfill their new and complicated tasks.

In the development of national planning in Hungary we can distinguish four main phases:

1. 1947-53, in which the basis of the planned economy was laid down;
2. 1954-56, a period of improvement and correction in the system of national planning;
3. 1957-67, which brought the further extension and deepening of the role of central planning;
4. 1968 onwards, involving the introduction and realization of economic reform.

The first three phases together constitute a period of "extensive" growth. Beginning in 1968 a new orientation towards an "intensive" utilization of all resources of economic and social development has made higher and constantly improved economic efficiency a central economic policy aim.

^aThe list of medium-term plans in Hungary is as follows:

1. Three-year plan: 1947-49. (Started August 1, 1947 and fulfilled in two-and-a-half years by the end of 1949.)
2. First five-year plan: 1950-54.
3. Three-year plan: 1958-60.
4. Second five-year plan: 1961-65.
5. Third five-year plan: 1966-70.
6. Fourth five-year plan: 1971-75.
7. Fifth five-year plan: 1976-80. (In preparation.)

During the period 1955-57, the national economy was directed by annual plans only. The elaboration of a five-year plan for the years 1956-60 started several times, but because of political changes it could not be approved.

At the beginning of the first phase, the national plan was an economic policy tool without a detailed sectoral breakdown. It provided the main directives for the reconstruction of the economy and determined the main proportions in the distribution of resources, but it did not define the ways and means of implementation of the plan. Gradually, however, the emphasis was shifted to annual and even shorter-term plans in which a detailed sectoral elaboration of plan indicators was to be found. The authorities centralized more and more functions in the production and distribution of materials and goods. The difference between planning and operative management of industry disappeared in practice. Incentives in enterprises were directly connected with output plan targets and depended on the fulfillment and overfulfillment of output indicators.

All these changes in the methods of planning and management, when introduced, helped to accelerate the growth rate. But they also contributed, before long, to growing tension in the economy created by the overstrained industrialization targets. Because of these methods, planned proportions of the national economy were damaged, the fulfillment of the aims of the five-year plan was slowed down, and, in some respects, growth stopped. Compared with the speedy rate of growth of industry, agricultural output fluctuated strongly. A great dispersion was to be found in investment, losses and costs in production were high, and on the market there were often scarcities in basic goods and especially in agricultural products. Finally, in 1952, the living standard of the population decreased significantly.

During the first phase the foundations for the planned economy were laid down. The results, however, were overshadowed by the one-sidedness and deficiencies of the development of national planning. The economic policy aim of the next phase (1954-56) was to strengthen the planning of the main proportions of the national economy and to adjust inequalities in development. For that purpose some authority was decentralized: the role of branch ministries and local authorities was partially increased, and the circle of enterprise decisions was also broadened. The methods of national planning and the system of material incentives were also improved. In agriculture, important changes began as the obligatory delivery of products at fixed prices was gradually replaced by purchases of the surplus product at market prices and extension of the role of free market. The entire process, called at that time "the rationalization of national planning," also gave an initial push to discussions on principles and methods of national planning and plan implementation.

"Planned economy" was considered the opposite of "market economy," and it was strongly hoped that the former would harmonize economic growth in the long run. In practice, however, different economic policy aims were sometimes found contradictory and the full realization of plans encountered difficulties. The intention to use more detailed central planning and the increase in the number of physical indicators and balances could not solve the problems. On the contrary, the application of more comprehensive value indicators and decentrali-

zation clearly improved the implementation of basic plan targets. This was the first time in Hungary that discussions faced the problem of how to determine and regulate the relation of central planning and the market. But the discussions which aimed at improving the functioning of a planned economy later elicited proposals departing from it, and a number of economists lost their belief in the basic principles of a planned economy. These problems added heavily to the political crisis which occurred in 1956.

The new Party and government leadership drew conclusions from these developments and discussions in 1957. While the final objective of economic policy remained the building of a socialist society, and industrialization and the collectivization of agriculture were looked upon as the main instruments to achieve this aim, basic changes were carried out in the methods of national planning and management.

The rearrangement was based on the principle of maintaining the leading role of central planning and its directive nature. Medium-term planning was strengthened and annual plans were made on the basis of the well-established medium-term plan. The central role in the management of the economy was assigned to the annual plans, which were supported by a system of material incentives. Planning in value-terms developed, while the list of obligatory indicators in physical terms was radically diminished. The main responsibilities for the fulfillment of the national plan were given to branch ministries, and, in certain respects, to local councils. These authorities had some operational rights and independence in their own field of activity within the broader framework of planned indicators. At the enterprise level, instead of fixing the number of employees and the total sum of wages, a more flexible annual "average wage control"^b system was introduced, and an end-of-year remuneration was paid to all employees up to a maximum of one month's salary depending on the annual increase of enterprise profits. In agriculture, the system of obligatory delivery of products at low fixed prices was abolished and replaced by annual contractual relations between the state organs, on the one hand, and cooperatives and private farmers, on the other.

This system of national planning and management contributed to the political and economic success in the post-1957 period but, in its actual functioning, the stimulating force of the system gradually decreased and several shortcomings came to light.

^bIn the "average wage control" system, ministries and other supervising authorities approved for the enterprises as obligatory plan indicators the annual average wage-level, rather than the total number of workers and employees and the total wage bill. This system gave some flexibility to enterprise managers, who could maneuver with the number of workers and employees and also with wages. However, it adversely affected the growth of labor productivity, because managers kept low-wage workers and employees even when they had no need for them and managers could not pay really high wages to reward exceedingly high performances. In the long run the result was a tendency toward equalization of earnings within each enterprise and a superfluously high employment level in industry as a whole.

In the first part of the sixties, Hungary experienced fluctuations of a somewhat cyclical nature in plan fulfillment, and repeatedly-appearing problems in investment activities and the foreign trade balance. Although the disproportion between industrial and agricultural development decreased as compared with the previous period, it was not yet eliminated. Similarly, the overall equilibrium in the market for both materials and consumer goods improved, but output of technically up-to-date producer goods and high-quality consumer goods often lagged behind the demand, and variety in the supply of materials and goods was still small. Technical progress was not accelerated as expected and the rate of growth of industrial productivity was relatively low. These problems could be attributed to the still too-centralized decisionmaking and to the limited responsibility, authority, and personal initiatives at the enterprise level.

Following the Party Directives, and under the leadership of the Party's central committee, a critical evaluation of the national planning and management system was organized in 1965. A large number of proposals were discussed and a program for change was elaborated, leading to the economic reform introduced in 1968.

Basic Principles of the Reform

The building of a socialist society entered into a new phase: industrialization started to bear fruit; a new generation of workers, managers and intellectuals had grown up; in agriculture a few years had passed since the completion of collectivization and the greater part of the cooperatives had successfully started their activities. A turn towards intensive utilization of all resources and efficiency in all economic activities was needed more than ever.

The central idea of the economic reform [3] was to combine national planning and market relations on the basis of socialist ownership of the means of production. The question of how to regulate interrelations between central planning and the market was raised anew and new answers were elaborated. At this point, however, a few theoretical explanations are needed.

First, to avoid misunderstanding, we refer to the notion "on the basis of socialist ownership of the means of production," which thesis excluded a return to a private economy. The share of the private sector was at that time already marginal in our economy and no significant increase of this share was intended or carried out in the reform. The idea was to rearrange certain basic relations within the socialist sector.

Second, we exclude also the notion that the reform abandoned the basic ideas of national planning and management, although it incorporated some important changes in economics developed in the discussions of the last ten to fifteen years. "Planned economy" was treated as a certain unity of two different elements: central planning and management of the economy as a whole, on one side, and market relations among enterprises and other parts of the economy, on the other. Contradictions between these two elements have not been denied, but the feasibility of unity built on these controversial elements has been asserted.

National planning and the management of the economy based upon the plans determine consciously and over the long term the growth of the economy in planned economies. Overall development of a market economy is the spontaneous result of the play of market forces which depend nowadays not only on an enormous quantity of decisions taken by private firms and individuals but also on the activities of important organized actors of the economy such as state organs, trade unions, etc. There is no convergence between these two different economic systems—their basic difference rests upon the different ownership of the means of production—but certain common elements cannot and should not be denied.

Central planning and economic policy measures, which after World War II were generally applied in most of the developed market economies, illustrate that a certain kind of unification of these two contradictory elements can exist and function. The inclusion of the new elements improved the functioning of these economies but did not change their basic nature. In market economies central planning and state policy measures assist the functioning of the private economy in order to conciliate tensions and avoid larger fluctuations and recession.

In the case of planned economies the role of market relations is the main point at issue. Central decisions reflecting overall social interests should determine decisions taken at the branch, local, and enterprise levels. But there are many ways in which overall directives can be transmitted to the lower level. An oversimplified concept and a mechanical practice in the breakdown of national plan indicators into branch, local authority, and enterprise plan indicators caused many difficulties and losses in the development of planned economies in the past.

Experience has proved in all socialist countries that nationalization of the means of production and collectivization of private farms in agriculture do not abolish market relations in the economy. Money, prices, costs, finance, supply and demand not only are formal instruments of central management but they represent market dependencies. Market laws play an important role in the economy. More precisely, the influence of the market is not limited to distribution or relations between state and collective farms, or to private consumption, or to foreign trade. Rather, market relations have a significant effect within the state sector itself.^c

Market relations based on socialist ownership of the means of production and the laws governing these relations need not conflict with socialist tendencies, nor do they themselves assist the development of a socialist economy. Past economy policy tended to limit market relations and abolish them as soon as possible. That intention resulted in an incomplete use of the means available to central planning and management, and also caused conflict and inefficiency.

^cWe refer, for example, to the discussion of whether means of production are market goods in the socialist economy. This theory has received general acceptance in recent years.

Reform principles in 1968 accepted for the long term the existence of market relations in socialism [4] and regulated the interconnections between planning and market relations according to the following principles:

1. National plans should determine economic growth in the economy as a whole and should enjoy primacy over market tendencies or, in other words, plans should guide and influence the development of the market.
2. As a precondition for the above thesis, planning should take into account market relations, in general not directly opposing market tendencies but guiding and influencing their development by means and methods which are in harmony with the nature of market relations.
3. Plans should give leeway for movements in the fulfillment of plans including feedback effects of market forces. Intervention should occur only where the national interest or basic allocations made by the plans are threatened.

The main consequences of the adoption of these principles fall within the field of plan implementation and methods of central management of the economy. The introduction of a regulator system taking into account market relations, instead of a direct disaggregation of plan targets to enterprises, was the most striking feature of the reform. It had, however, also important consequences in other fields.

The reform established new relations between central supervising authorities and enterprises. The apparatus of central authorities was rationalized and significantly decreased, while the responsibility and competence of local councils and mainly of enterprises were broadened. The role of material incentives increased, and profitability of enterprises was placed in the center of the system of incentives.

In various branches, first of all in agriculture, special reform measures were elaborated and applied, taking into account their particular features. The agricultural reform was based on a systematic and gradual increase in contractual state prices and the related rise in profitability. The autonomy and competence of cooperatives were broadened and strengthened.

Main Features of the Regulator System

Conception of planning. The adoption of the above principles had three main consequences for the conception of planning:

First, functions of national planning and enterprise planning were reformulated, separating enterprise from national planning and stimulating the development of their respective patterns.

Second, an interconnected system of national plans of different length was adopted, and a strong impetus was given to starting systematic work on the preparation of a long-term plan and to increasing the role of medium-term (five-year) plans in plan implementation. This gradual shift from annual plans to

a greater rôle for five-year and long-term plans is also a characteristic feature of the reform. This change has had many repercussions.

Third, a new task was included among the functions of national planning: the coordination of basic effects and basic elements of the regulator system. Because of the more active role assigned to prices and financial means, their planning and coordination have also gained importance.

National plans form the basis for central management. It is an important function of the plans to transmit the economic policy aims from the overall social level to central management of the economy and, therefore, national plans are of a directive nature at this level. They are obligatory for the government and its agencies (ministries and similar authorities) in their economic activities. This principle has been maintained during the economic reform of 1968 but with fundamental changes in its interpretation and implementation.

Previously the compulsory character of central plans was extended to the plans of all economic units (enterprises, local councils, etc.). Enterprises received from their supervising authorities (ministries) annually and quarterly a smaller or greater number of so-called plan indicators, setting targets to be attained or limiting the use of one or another factor of production (output and export targets, the supply of certain materials, the average wage level, investment targets and financial resources, etc.). These plan indicators were derived by ministries from the national plan, and the attainment of the plan indicators either as minimum or as maximum targets was obligatory for enterprises and limited their activities to a greater or lesser extent.

One of the most important changes made by the economic reform of 1968 was the abolishment of the central fixing of enterprise plan indicators. Under the new system of economic management, ministries may not systematically give comprehensive plan targets to enterprises, and their direct intervention—according to the reform regulations—is limited to exceptional circumstances.^d Instead the central management relies upon a system of economic regulators. Consequently, the new management is based on two principles: first, the obligatory nature of national plans at the governmental level and, second, respect for the autonomy of the enterprise. The managers of enterprises are assumed to be sufficiently competent and fully responsible for making the correct decisions.

Enterprise responsibility and authority. In consequence of nationalization, the main part^e of the means of production has been put in the hands of the same

^dProblems in this area will be mentioned in the evaluation of results and problems of further development in the "Conclusions" section below.

^eAn important part of the means of production is owned by cooperatives, and about 23 percent of the net national product was produced by the cooperatives in 1972. Cooperatives, however, have a special status. In this short description we deal only with problems of state-owned enterprises, especially industrial enterprises, and branch peculiarities are neglected.

owner: society as represented by the state. This does not mean, however, that state-owned means of production could have been directed as a single technical-economic unit, without organizing a relatively large number of enterprises. The social division of labor; the extremely wide variety of products, technologies, machines and equipment; the historical background, size, and nature of investments; geographical distribution; the capabilities and costs of everyday organization and administration of work; and many other factors determine the enterprise structure of an economy. It is a very complex scientific problem to find a good (or even further an "optimal") structure, and this is far from being solved satisfactorily, either in theory or in practice. But the reform in Hungary made only minor corrections in the given structure. Instead, it took over the enterprise system resulting from the last general reorganization in 1962-63. The reform decentralized responsibility and authority to enterprises, despite awareness of the high degree of administrative concentration.

As state organs and state enterprises are considered basically to represent the same interests, it is a practical question to determine functions on different levels. Before the reform, rights of supervising authorities were not defined exactly and therefore they enjoyed a great freedom in their activities, whereas enterprises had a relatively limited "operational economic autonomy." The reform limited the role of supervising authorities to the following basic functions:

1. foundation, separation or integration, liquidation of enterprises, and definitions of their field of activity;
2. appointment and discharge of the leaders of enterprises and supervision of their activities; and
3. annual auditing and evaluation of enterprise activities.

These functions are carried out on behalf of the state by branch ministries in the case of larger enterprises of national importance, and by local councils in the case of smaller enterprises. Outside the above functions, state organs shape the economic regulator system which determines the basic orientation, economic possibilities, and limitations of enterprise activities. Continuous intervention and a take-over of decisions and responsibilities of enterprises were prohibited in the new regulations for supervising authorities. The right to intervene by direct instruction was maintained only for exceptional cases and situations.

The reform enlarged enterprise autonomy by different means:

1. in a legal sense, giving all rights to and placing all responsibilities on the director (manager)^f of the enterprise—not only charging him with continuous

^fThe personal responsibility of the director (manager)—a basic principle of enterprise management in Hungary—was and still remains unchanged. Directors are assisted in their work, of course, by a group of managers but, in the end, decisions are, and should be, taken by directors personally.

- implementation of the enterprise's plan and the organization of its work, but also entitling him to approve all enterprise plans and programs; and
2. in an economic sense, by decentralizing a large part of financial resources which make possible, in normal economic circumstances, not only the maintenance of the initial production level but also, to a certain extent, an extension of it.

According to the regulations, for a large expansion of production all enterprises can apply for bank credits or state loans. A bargaining process about credit terms has been established, and enterprises can relinquish an investment if they cannot accept the conditions of the bank credit or loan. In practice, however, the bargaining possibilities are limited as, generally, enterprise demand for investments is high and financial resources are limited. On the other hand, it is still correct to say that enterprises are not obligated to make one or another investment, so basic responsibility for investments does rest with them. In a few exceptional cases—in the establishment of new enterprises and in very large investments mentioned individually in national plans—central investment decisions are taken and enterprises are responsible only for the fulfillment of the programs. In the case of existing enterprises, these decisions are discussed with enterprise leaders in advance.

During the preparation of the reform a few suggestions were made to introduce a system of enterprise self-management in the economy. In Hungary self-management is the basic principle for the status of cooperatives, but state enterprises are supposed to be integral parts of the unified social property. These proposals, therefore, were refused both from a theoretical point of view and on the basis of the examination of practical experiences of self-management.

Price formation and regulation. The reform of prices had been prepared for a long period. Price formation in the fifties made large differences between the levels of producer and consumer prices. Consumer prices often differed greatly from total production and turnover costs, and as a result a large part of budget income came from the indirect turnover tax (e.g., in 1956, 53 percent of state revenues were from this source).[5] Also, the agricultural procurement price level was much below the retail price level.

The price reform of 1968 was based on the idea of unifying the price system both concerning price formation principles and also, as far as possible, in price levels. It was thought that a unified price-building system would exert the same stimulating effects on different enterprises, would put them under the control of equal circumstances, and would, therefore, both assist a clearer evaluation of costs and profitability at the central level and serve the development of market relations at the enterprise level.

New prices were introduced in industry and trade on January 1, 1968. In agriculture, their introduction started with certain changes in 1966 but successive steps were foreseen to achieve the goals completely. Preparatory

calculations were carried out with a large price model as early as the middle of the sixties, and nearly one year before their introduction most price lists were discussed and gradually finalized. This process made it possible to put all preparatory calculations of the reform on the basis of new prices.

The basic function of prices was defined by reform principles as to orient and stimulate producers and consumers in their economic decisions. The price system was meant to promote rational utilization of economic resources, the adaptation of production to demand, the spreading of up-to-date technologies and products, and the formation of an economical consumption pattern, as well as equilibrium between supply and demand.

In price-building, the following three main factors were taken into account at all levels:

1. costs of production and trade;
2. the influence of the market in expressing substitution effects and supply and demand relations: and
3. state preferences derived from the economic policy aims and the national plan.

In all phases of production and trade costs had to cover material inputs, wages and salaries, depreciation of fixed assets and centralized revenues of the state. The two main forms of centralized revenues were: a 5 percent uniform charge (like an interest rate) on all productive fixed and working capital and a total 25 percent charge on all wages and salaries. Above costs, prices had to make it possible for enterprises to achieve a certain amount of profit. State preferences, substitution effects, and supply and demand of different products were supposed to influence the profit rates of branches and mainly of different kinds of products.

The principles could be applied only with certain corrections in the different branches of the economy. Existing price relations, foreign trade prices, the given consumer price level and product-mix, and other factors influenced the determination of prices in the various branches, and many additional rules and changes were needed. The first approach was to keep the initial profitability level relatively low. In practice, however, profits included in the initial prices of the reform were 6.5 percent of the total value of assets in industry.[6]

The compromises and, mainly, the higher initial profitability decreased the stimulating force of the reform and within a short time caused high profitabilities and large differences to develop, often not directly related to the true economic performance of the enterprise. The changes in the price system proved to be of only limited help in improving central guidance of the economy and facilitating direct comparisons of results in different branches and enterprises.

Initial production prices were calculated with the condition that the overall

consumer price level should be maintained and only small changes could be made in relative consumer prices. Price lists were elaborated as fully as previously in order to obtain initial calculated prices, but not all prices were issued, because the reform was also connected with new price regulations. Three basic forms of prices were introduced:

1. fixed prices;
2. officially regulated prices, including a wide range of different methods ranging from maximum prices, which functioned in practice nearly as fixed prices; through so-called guiding prices for a product-group, with more scope for declines in individual product prices; to the regulation of price-building methods, leaving enterprises to form individual prices on the basis of their own calculations;
3. free prices without central prescriptions, to be determined in contracts between enterprises, set for certain consumer goods by domestic trade enterprises, or developed in the free market.

Table 9-2 shows the relative importance of the different price categories in household expenditures, as planned for 1968.

In the sphere of production, the prices of raw materials and certain typical intermediate products were mostly fixed or maximum, while in other manufacturing industries the share of loosely regulated or free prices was very high, on the assumption that prices of materials, on the one hand, and consumer prices and related interests of trade enterprises, on the other, would impede a rapid general increase in producer prices.

The introduction of the price reform—as a part of the general preparations—was supported by preventive measures: state reserves and stocks of basic

Table 9-2. Hungary: Relative Importance of Different Price Categories in Household Expenditures (percentage of sales planned for 1968)

<i>Product Group</i>	<i>Price category</i>			
	<i>Fixed</i>	<i>Maximum</i>	<i>Loosely regulated</i>	<i>Free</i>
Foodstuffs	31	29	27	13
Clothing	—	21	54	25
Construction materials	20	70	—	10
Fuels	100	—	—	—
Miscellaneous industrial articles	7	50	22	21
Total retail sales	20	30	27	23

Source: Reform of the Economic Mechanism in Hungary, ed. István Friss (Budapest: Akadémiai Kiadó, 1969), p. 151.

materials and of most important consumer goods were increased; the balance between the purchasing power of the population and the supply of consumer goods was improved; and during the first two-three years the consumer price level did not increase more than the foreseen annual 1-2 percent. Later, however, the annual rate of increase rose somewhat, reaching 3.5 percent in 1973, but still remained relatively low.

The price reform, although it successfully supported the reform as a whole and brought improvements as compared to the past, could not completely fulfill the aims and hopes that were attached to it. An analysis of the circumstances and reasons which caused the results in this field to fall behind expectations would, however, go far beyond the limits of this study.

Enterprise income regulations. The price system and enterprise income and other financial regulators are closely related. Prices should make it possible to self-finance production, not only on the previous level but also with some expansion of output. In the new system subsidies are not generally assumed.

Enterprise costs include important elements of budget revenues. A part of the depreciation of fixed assets is centralized; and the charge on productive assets and wage taxes and social insurance contributions are obligatory payments to the budget. At the same time, they orient enterprises to economize on different factors of production.

A central idea of the new system was that income regulations and material incentives should be based upon the interest of enterprises in the total sum of profit. In contrast to the 1957-68 period—when primarily the fulfillment of annual plan indicators oriented and measured the performance of enterprises, and the increase of profitability had a complementary role—in the reform, profit came to be the main guideline and measure of enterprise activity. The relation between annual plan indicators and profit changed. Previously, profitability was only one of the main indicators, the evolution which strongly depended on resources provided by central decisions and expressed by other plan indicators. In the broadened enterprise autonomy since 1968, the intention to increase profits has influenced enterprise activities strongly. As the total sum of profit depends directly on costs and the sale of commodities on the market, feedback effects of the market on economic development have manifested themselves to a much greater extent than before.

Profits earned by enterprises are taxed and their use is regulated by several central rules. These rules are important guarantees of national planning and management for balanced growth and they also influence significantly the interests of enterprises. Although stimulating both the enterprise as a whole and its workers and employees individually, the regulations have some inconvenient side-effects as well. Thus, these rules, though remaining stable in some basic elements, have undergone many modifications since 1968.

Profits of enterprises are divided into two main parts—allocations to the

"development fund" and the "sharing fund"—according to the proportions between total assets and the wage bill, with the latter multiplied by a so-called wage multiplier ranging from 2 to 7 in the main branches of the economy, but generally taken as 3. The purpose of this division is to provide adequate funds for personal material incentives while taking into account the balance between the purchasing power of the population and the supply of consumer goods. The rules of distribution of enterprise profits into the two parts thus are determined in accordance with the proportions of accumulation and consumption in national income.

The part of the profit which is calculated in proportion to the *assets* is taxed linearly; generally, 60 percent should be paid to the budget. The remainder goes into the enterprise development fund, along with the portion of depreciation allowances retained by the enterprise. This fund is the source for enterprise investments and repayment of bank credits.

The second part of the profit, formed in proportion to a multiple of the *wage bill*, is taxed progressively. The tax rate is differentiated in bands and rises from 40 to 70 percent depending on the band proportion to the wage bill. Transfers from the sharing fund to the development fund are allowed, but the reverse change is prohibited. From the sharing fund, enterprises are entitled both to increase wages and to pay annual bonuses. The introduction of the sharing fund was the main stimulating force of the new incentive system, but the system was very sensitive to different rules regulating the use of the fund. Although wage increases above a certain level coming from the fund were again taxed progressively, the close link between profits and wage increases gave rise to unhealthy inequalities between enterprises. Low-profit enterprises could neither pay good bonuses nor increase wages, and their relative backwardness could only grow over time. Therefore, in recent years, although basic principles were maintained, the regulations were made more flexible.

Enterprises are also obliged to form a reserve fund related, according to central rules, to both the development and the sharing fund. The reserve fund provides security against risks and is regulated to level out annual profit fluctuations and their effects on funds.

THE CURRENT SYSTEM OF NATIONAL PLANNING

Planning Agencies

The organizational framework of central planning and the division of labor in central planning agencies have been determined by reform decisions and partly up-dated in the Act of National Economic Planning passed by the parliament in 1972.[7] The act also embodies the principles of national planning and was used in preparing this part of the chapter.

The directives of the long-term plan are discussed by the National Assembly,