

### **Hardening of the budget constraint in the post-socialist countries**

*János Kornai*

The budget constraint has not hardened to equal degrees in the various post-socialist countries. In some of them, a great deal has been done in this respect, while in others there has been hardly any change from the initial state. This study surveys the typical manifestations of softness of the budget constraint, such as state subsidies, soft taxation, non-performing loans, the accumulation of trade arrears between firms, and the build-up of wage arrears.

Softness of the budget constraint is caused by several factors that tend to act in combination. Thus retention of state ownership helps to preserve the soft budget-constraint syndrome, while privatization encourages the budget constraint to harden, although it does not form a sufficient condition for it to happen. Purposeful development of the requisite political, legal and economic conditions is also required.

It was widely maintained at the outset of the post-socialist transition that the 'Holy Trinity' of liberalization, privatization and stabilization would suffice to produce an efficient market economy. Since then, it has become clear that hardening the budget constraint needs to be given equal priority with these. Otherwise, the effects of privatization will fall short of expectations, as they have in Russia, for example.

### **The post-Soviet economic system in Russia: industrial feudalism?**

*Richard E. Ericson*

The Russian economic system at the end of the 20th century is a complex and occasionally incomprehensible subject of research. Russia has been undergoing for a decade a transformation that is painful in every way. It began with the radical 'reform' of Gorbachev's perestroika and continued with the various stages of the 'market-transformation process' under Yeltsin. Although a few people claim that Russian already has an albeit imperfect 'market-economic' system, the process is not completed yet. The alterations so far have destroyed the Soviet 'command economy', but they have not created a coherent market-economic system. What is emerging cannot be seen in any sense as a modern market economy. On the other hand, it is not a continuation of the modern rival to this, a bureaucratically directed economy of the Soviet type. In fact, it possesses several structural and operative features that suggest it is re-creating the economic system of an earlier, pre-industrial period: medieval feudalism.

**Micro credit extension on a market footing. Encouragement of businesses through institutional development***László Kállay*

The long-term development of small businesses can be aided by programmes to improve competitiveness and income-generating capabilities. Non-recurring access to funds or short-term provision of cheap funds does not usually have the desired result. Programmes based on these do not find their target groups. They simply distort competition and have only a weak effect of reviving the economy. The growth prospects of micro businesses are impeded by the failure of the traditional commercial banking sector to fund them. Present lending practice is not suitable for assessing, extending and monitoring a large number of small loans. The techniques of extending micro credits differ in several respects from the classic methods of the commercial banks. They include solutions to handling efficiently the well-known problems with such loans (small loan size, low or non-existent collateral, risks that are hard to assess). Micro credit extension will become an efficient means of stimulating the economy if there is a reform of the institutions and instruments concerned, taking into account the international experiences of last 15–20 years.

**East-Central European trade. Economic cooperation with the neighbouring small countries***Tamás Réti*

Regional trade fell back sharply when the change of economic system began, but began to develop again with the establishment of CEFTA and the expansion of the South-East European markets. The structure of Hungarian trade with neighbouring countries displays several differences from trade with the EU. Agricultural products, raw materials, fuels and manufactures account for greater shares, while machinery and equipment embodying more developed technology have a smaller share. Trade relations in the region are decided increasingly by the transnational corporations, which divide their production among several countries and are interested primarily in regional expansion. The strengthening divergence has a negative effect on cooperation, by increasing protectionism.

**National income-policy agreements. The past and the potential future***Lajos Héthy*

Participants in the Interest-Conciliation Council (now the National Labour Council and the Economic Council) have long sought a comprehensive transformation of the taxation and contributions system. This might improve the conditions for businesses and reduce operating costs, which would in turn better employment prospects, in other words, strengthen the positions of the employees (and the trade-union leaders) as well. The institutional framework for such a reform, which would call for the inclusion of those concerned and with an interest in the process, could be provided, for instance, by the transformed institutions of national interest reconciliation (the National Labour Council and Economic Council). So an advance would be made not by eliminating income-policy negotiations and agreements, but by designating a real place and functions for these. Whether this happens depends again on the political intentions and interests of the government.