

**Planning in Finland –  
The Beginnings of a Market Economy in Hungary**

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Although Finland has never been regarded as a planned economy in the Soviet style, it is useful to examine what kind of elements of planning there were in the Finnish economy and how extensive they were in the post-war years and especially in the era of President Kekkonen (1956-1981). This is interesting as many post-war Western European economies, impressed by the achievements of the socialist planned economies were applying the idea of a planned economy, as did, for example France by its indicative planning system with four year plans.

The Hungarian experiments with a market economy from 1968 onwards using the scheme of the New Economic Mechanism (NEM)\*, although an exception in the socialist countries as a real experiment, offers at the same time an interesting counterpart to the Finnish attempts to apply planning or rather the systematic development of the national economy as advocated by President Urho Kekkonen himself.

After the Second World War in many Western European countries, as in the United Kingdom and France, the socialisation or rather nationalisation of certain major branches of production and services (coal and steel, traffic and communications, insurance, etc.) was common, partly for ideological rea-

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\* Cf. Varga's article. [Ed. note]

sons and partly in the name of reconstruction. In Finland there were also similar demands and a committee was set up in 1945 to plan it. However, the enthusiasm was over by 1948 and, as a matter of fact, no branch of the economy or company was eventually nationalised. This was partly because of the continuing strict regulation of the economy. Rationing lasted in some form until the mid-1950s, and the price controls in some form until the 1980s. Foreign trade was liberalised only from 1958 on as a reflection of the Finnish membership of the GATT since 1950. This was followed by the Finnish association in the European Free Trade Area (EFTA) in 1961.<sup>1</sup> On the other hand, there was little that could be called “national economic planning” in the original meaning of planning applied in the socialist countries.

An important turning point in the Finnish post-war economy came with the expiration in 1955 of the fixed-term Emergency Powers Act used by the government to control the economy, including prices and wages, since May 1941. This was one of the causes leading to the three week General Strike organised by the Labour Unions, which started on March 1<sup>st</sup>, the very day President Urho Kekkonen started his first period of office.

### **1 Germs of the ideas of national planning**

It has been claimed that the idea of the Soviet-style economic planning was adopted by Lenin from the German war economy during the First World War. The structure of the German war economy was, no doubt, a practical response to the problems of allocation caused by a total war. The same is true for the regulative solutions adopted during the Second World War in Finland, as in the other European belligerent countries, and regulation presupposes planning in advance. But the ideas of a planned or rather a systematically developed national economy had in Finland also other origins, which are worth mentioning.

#### **1.1 Before the Second World War**

The ideas can be traced back to the influence of the ideas of the German Younger Historical School through the *Verein für Sozialpolitik* and its Finnish counterpart *Yhteiskuntataloudellinen*

*yhdistys* (Social-Economic Society) in the 1910s. The German Younger Historical School criticized the English liberal school of economics and emphasized societal planning and social policies aimed at removing social evils by publicly announced objectives. Urban circumstances were considered problematic and rural depopulation was thus to be prevented by improving living conditions in the countryside.

On the basis of these tendencies the first full professor in economics and chief editor of the influential *Yhteiskuntataloudellinen Aikakauskirja* (Social-Economic Journal), J.V. Vennola, wrote in 1916 a programme on how to develop the Finnish national economy. Vennola was later, in 1919-1920 and 1921-1922, the prime minister and several times a minister in the government. In his programme Vennola moved further away from economic liberalism represented by the English school, which had caused many economic and social ills. An ideal for Vennola was an “autonomic state” based on its own resources. This meant reduced dependency on imported grain, land reform and improving the credit conditions for agriculture, which was employing 70-80 per cent of the population and development of forestry. The need for energy was to be solved by building water power stations. The local ores had to be refined as much as possible. The main emphasis was to be laid on the development of the wood, paper and chemical industries and the flour mills. One way to achieve this was customs policies and the improving of the seafaring and good relations with Russia and the Russian markets. A permanent economic central organisation was to co-ordinate the economic policy of the society by annual plans. This advisory body to be established, was supposed to include the representatives of the most important branches of the economy and the economic organisations.<sup>2</sup> The thoughts of Vennola found support in practice in 1928 as the *Taloudellinen suunnitteluneuvosto* (Council for Economic Planning) was established. In 1929 it outlined the principles of economic policies to be followed during the recession of the 1930s.

### 1.2 The post Second World War stage

The positive experiences of the rather extensive state-run industrialisation in the interwar period were seen among other things reinforcing the defence capabilities of the country. In the Finnish war economy the influence of the *Sotatalousesikunta* (Staff of War Economy) had until 1944 grown crucial in the allocation of resources.<sup>3</sup> After the war it was in practice replaced by SOTEVA (Delegation for War Reparations Industries) which had the power to regulate the allocation of resources. The very regulative role of the state was also obvious in the post-war systematic settlement of the Karelian evacuees and the veterans.<sup>4</sup>

After the war the left-wing parties, especially the People's Democrats (Communists) wanted to change the government's powers to regulate the war economy in the direction of a planned economy. The right-wing parties advocated deregulation and especially the dismantling of the "hated" rationing system in order to promote a return to the "free market" system. Formally there was no national planning as such, but the regulative system of the *Kansanhuoltoministeriö* (Ministry of Supply) working in keen co-operation with SOTEVA in the distribution of import licenses and especially in the distribution of foreign currency by the Bank of Finland meant economic planning in practice, since the plans for the future had to be set in an order of priority. The positive political climate for state-run industrialisation found support not only from the developments in the new socialist countries in Europe, but also from the United Kingdom, France and Italy.<sup>5</sup>

In 1951 the *Taloudellinen suunnitteluneuvosto* (Council for Economic Planning) was founded, but in practice its mission was reduced to preparing the stabilisation programme of the year 1951 and the Basic Programme for Economic Policies of 1954.

### 1.3 Urho Kekkonen's vision

While the end of the war reparations to the Soviet Union loomed, a discussion was started, as to whether this should be achieved by a reduction in taxation or as a public investment programme advocating industrialisation. Urho Kekkonen, who

acted at that time as the prime minister, was for a rapid industrialisation by “radical means”, as expressed by a leading economist (Bruno Suviranta) of the time.<sup>6</sup> In his book *Onko maallamme malttia vaurastua ?* (Does Our Country Have the Patience to Get Affluent?) in 1952 Kekkonen emphasized the role of forced saving in order to finance the investments needed to industrialise, in particular, Northern Finland.<sup>7</sup> The Soviet model of industrialisation since 1928 and the industrialisation programme of Poland (e.g. Nova Huta) were presented in this connection as positive examples.<sup>8</sup> Kekkonen demonstrated that in 1938 the role of the state had grown bigger in total investments than in 1950.<sup>9</sup> Since agriculture was an economic burden, the settlement of people had to be stopped and agriculture had to deliver a workforce for industry.<sup>10</sup> The industrialisation of Northern Finland was seen as possible only by state investments in the heavy industries and in order to produce the electric energy needed. This was achieved by harnessing the river Kemijoki from 1953 onwards as the works on Oulujoki river were finished.

## **2 Efforts towards systematic planning in Finland**

The period around the General Strike of 1956 was not a time for planned economic growth. The Economic Council (*Talousneuvosto*) of 1957 ended up with nothing, but in 1959 the government set a committee to work out a production programme for the next few years. The committee proposed the establishment of a corporative Economic Council consisting of the representatives of the state and the government and the different main interest groups. In 1962 the new Economic Council was thus established and in 1966 its functions were enacted by law. In 1967 the Economic Council made its proposition on the development of an Incomes Policies. In this manner it was following the tendencies of development in the OECD countries.<sup>11</sup> The efforts to develop the national economy systemically were also reflected in different branches of the economy.

## 2.1 Agriculture

In agriculture the systematic planning was closely connected to the Incomes Policies adopted after 1966. It aimed at securing the income level of individual farmers and this was connected with the objectives to cut the agricultural production in order to reduce heavily subsidized exports.<sup>12</sup>

## 2.2 Forestry

The increased use of raw wood due to the systematic expansion of the forest industries was reflected during the first years of the 1960s in that the annual drain exceeded the estimated annual increment of the growing stock in forests. Thus, in 1962-1975 four major long-term programmes (TEHO, MERA I, II and III) were set up in order to increase the future growing stock of timber. The result was heavily increased artificial regeneration, seedling-stand improvements, forest fertilisation, drainage of swamps and construction of forest roads by subsidies (from 20 to 70 per cent of the costs) and long term cheap loans (20-25 years) granted by the state. The MERA III programme was partly (16 per cent) financed by the World Bank.<sup>13</sup> The annual increment of the growing stock went up from 57 million cubic meters at the end of the 1960s to 75 million cubic meters twenty year later and the increment was expected to be around 90 million m<sup>3</sup> in 2040. The popularity of big forest improvement programmes faded after the MERA III programme: this was partly for ecological reasons and also simply because the work was completed. The long term annual drain also remained at the same level from 1955 to 1995 mainly due to increased imports of timber from the Soviet Union. Thus the *Metsä 2000* (Forest 2000) programme of 1983 did thus not find the necessary support.<sup>14</sup> Before that the *Metsätalousoikeus* (Forestry Economy Committee) of 1981 had outlined the abandonment of the centralised forestry policies and advocated private initiatives instead of the tight control of the authorities in the treatment of the forests. The new line was criticized by the older economists, claiming that there are too many individual forest owners who

were not able and/or who would not use their forests effectively and thus would be in a need of expert control.<sup>15</sup>

### 2.3 Manufacturing

As industrialisation with a strong capital formation necessitated by it was accepted as a national goal, the Industrialisation Committee of 1951 presented the means for an investment programme emphasising the role of the traditional forest industries and the metal industries expanded by the war reparation deliveries.<sup>16</sup> The investment programme for the expansion of the capacity of the forest industry was partly financed by the World Bank (IBRD) until 1962 and partly by the export deposits paid after the 1957 devaluation by the forest industries into the Bank of Finland.

The industrialisation of North Finland advocated by Urho Kekkonen was mainly worked out by allocating resources from annual state budgets for founding state-owned companies to use the resources in North Finland. They also got loans from the Bank of Finland. In this way the state owned companies *Kemijoki Oy* (electricity), *Kemijärvi Oy* (pulp), *Otanmäki Oy* (mining), *Rautaruukki Oy* (1960, steel), were founded and the plants of the former ones (*Veitsiluoto Oy*, (timber, pulp and paper), *Typpi Oy* (fertilizers) and *Outokumpu Oy* (non-iron metals) were expanded. Since 1957 the most important counterbalancing power to Kekkonen was the President of the Bank of Finland (Klaus Waris), who demanded that these projects should be commercially profitable.<sup>17</sup> The starting of oil refinement by *Neste Oy* in 1957 was important for the development of imports from the Soviet Union. The last scheme of state-led industrialisation was the establishment of *Valco Oy* in 1977 to produce television tubes in cooperation with the Japanese *Hitachi*. It, however, was a disaster since neither the engineers nor the workers were able to master the production process. After that the state cautiously began to sell its firms to private companies, starting with the small ones.

On the other hand, the state had traditionally had a dominant role in some branches of production, since only the state had the capital and could take the risks needed. The following table (1) shows the percentage of workers employed in the state dominated enterprises in 1938/1949 in proportion to all workers in the respective branch of industry:

**Table 1.**

<b>Branch of production</b>	<b>1938</b>	<b>1949</b>
Mining	91	95
Metallurgy	2	8
Engineering shops	15	23
Chemical industry	9	16
Wood working	6	10
Paper mills	13	15
Electricity	10	17
Printing	6	6
<b>In total</b>	<b>6</b>	<b>11</b>

Source: Kekkonen, Urho: Onko maallamme varaa vaurastua?, 95

This supports the *Gerschenkron thesis* on the role of the state in the economic growth of late industrialised countries. In addition to the role of the Finnish state as a public owner of the key industries, the municipalities traditionally controlled the production and distribution of electricity, gas and water and the largest traffic companies in the cities according to a law dating from 1895. In addition to this the telephone business, some retailing and banking were traditionally co-operative in their character (table 2). All this decreased the needs in post-war Finland to nationalise these activities. Also the education and health services were from early on dominated by public ownership supported by the state and municipalities.



**Table 2.** The distribution of gross domestic production (GDP) by form of business and branches of production in 1956 and 1975.

Branch of production	Form of business, in per cent							
	1956				1975			
	Pri	Bus	Cop	Pub	Pri	Bus	Cop	Pub
Agriculture	96	1	1	1	98	0	1	1
Forestry	52	30	3	15	53	29	3	14
Manufacturing	6	75	6	12	4	75	5	16
Electricity, water, etc.	0	37	1	52	0	34	0	66
Building	34	28	2	35	39	35	4	21
Traffic and communicat.	16	41	1	41	13	34	4	48
Trade and commerce	22	55	21	1	20	56	23	1
Banking, insurance	–	61	20	19	–	55	25	20
Ownership of dwellings	78	16	1	5	74	19	1	6
Public administration	–	–	–	100	–	–	–	100
Education and health	8	0	11	81	5	0	7	88
Other services	22	20	38	20	17	18	32	33
<b>Total production</b>	<b>30</b>	<b>39</b>	<b>8</b>	<b>23</b>	<b>21</b>	<b>41</b>	<b>8</b>	<b>30</b>

(Pri = Private ownership, Bus = Private companies, Cop = Co-operatives, Pub = Public companies and public enterprises). Source: Suomen talous-historia 2, 517.

#### 2.4 Development of the traffic network

The development of the traffic network is in principle ideal for planning purposes. In the 1950s and in the 1960s the construction of the traffic network was in Finland, however, dependent on the annual unemployment situation and the subjective wishes of the different ministers to get new roads in their constituencies. Kekkonen was very successful in this respect. In 1952 a “North Finland Billion” was allocated for the road construction. Between 1955-1960 all the roads proposed specifically

by Kekkonen himself were build by prisoner workers. They were popularly called "Kekkonen's roads".<sup>18</sup>

In 1955 the Road Committee of 1952 issued a ten-year plan for the development of highways, but the plan was not realized for financial reasons. The Committee had proposed partly foreign financing, but only in 1964-1971 Finland could get three big (15 year and 5½-6 per cent) loans from the World Bank for highway construction. A main condition for the loans was a systematic plan for the use of the money, which presupposed a feasibility study on the traffic conditions in Finland to be made by foreign experts. The study was conducted by a Dutch engineering firm, NEDECON, and the conclusions drawn were about the same as those by the Finnish traffic authorities.<sup>19</sup> Thus, thanks to the demands set by the World Bank, the traffic planning in Finland came to approach the practices already usual in the advanced market economies. A parliamentary traffic committee issued its plan for highways in 1975 with heavy impact in turnpikes. The plan run, however, into difficulties due to the energy crises and it did not became actual again until the mid-1980s.<sup>20</sup>

The State Railways traditionally controlled the rail traffic. The losses and the development of the branch were financed by the annual state budgets. Air traffic was in the hands of the state company, (*Aero Oy*) *Finnair Oy*.

## **2.5 The state budgets**

The years 1948-1966 were in Finland characterised by different kinds of short term coalition governments, which lasted less than one year on average. The Peoples' Democrats (Communist Party) was permanently left in opposition. But in the years 1966-1982 the Popular Front Governments or governments formed by the Agrarian Party, Social Democrats and Peoples' Democrats were typical. The political change in 1966 was also reflected in economic planning.

Since 1966 the Economic Department of the Ministry of Finance started to make 4-year plans for budget planning. Thus for the years 1966-1969 a basic budget was prepared. It was,

however, more like a summary on the expected expenditures of different branches of the state economy than a total plan for the state economy.

The first Medium Term Economic Plans (*KTS*) were prepared by separate ministries for the years 1968-1972, as instructed by the Ministry of Finance in 1967. They were supposed to consist of a plan of action and calculations on incomes and expenditures. The plans for 1968-1972 were considerably late, and so the *KTS-plans* for the years 1969-1973 expired. Since 1973 the changes caused by the oil crises, instability of currencies and inflation invalidated the requisites for planning.

The net saving of the government economy was considerable from the 1950s to the 1980s although there were difficult cash deficit crises during recessions (1958, 1967, 1976). Thus, in practice the financial planning of the government economy did not succeed. From the point of view of Keynesian theory the budget policy was reinforcing the economic cycles and not smoothing them off.<sup>21</sup> This was due to the fact that separate ministries were eager to present large-scale development schemes from their field of operations in the common optimism of building a welfare society. These plans did also find support in the Parliament as the resources to realise them seemed to be there. In order to master the parliamentary race for new societal schemes the use of parliamentary committees to outline the development was strengthened. This tended to emphasize corporatism in making political decisions.

The Finnish ambitions for long-term public budgets reflected the developments in the other Nordic countries, aiming at creating welfare states according to the ideas of the Social Democratic parties, especially by long term planning of the public expenditures. These efforts were spiced with demands for “economic democracy” in the private sector by increasing the worker’s participation. The centralised planning system of the public economy, however, failed due to the political limits to it, the cyclical reasons since 1975 and problems of total coordination.<sup>22</sup>

## **2.6 The local level**

The needs for a planned economic development on the local level were reflected by the creation of voluntary regional planning organs. The first organs were started in the 1940s and at the beginning of the 1960s the whole land was covered. The 1960s and the beginning of the 1970s was the golden age of regional planning, with promising perspectives for the development of industries, especially manufacturing, but also tourism, the traffic network, educational facilities up to university level, etc. Most of these plans, aimed at lobbying the state authorities and politicians to allocate money from the state budget to the region in question, did not result in anything. The money to implement them was just not there especially after the mid-1970s with the energy crises.

## **3 The Hungarian aims for markets<sup>23</sup>**

The main economic policies in immediate post-war Hungary included the stabilisation of the currency, changes in the nature of rural land-holdings and the beginning of nationalisation. The era of balanced economic development represented by the three-year plan (1947-1949) aimed at bringing the economy up to pre-war levels came to an end with the five-year plan of 1950-1954. Its Soviet (Stalinist) model of industrialisation, based mainly on heavy industries in a small country lacking the raw materials (ores and fuels) needed, was one of the causes of the uprising in 1956. The critics of the Soviet model of industrialisation with extensive centralisation, emphasis on extensive growth, rigidities in the planning mechanism, incentive problems and the continuing problem of poor productivity and inadequate adoption of technical advances forced the Communist Party to adopt the New Economic Mechanism (NEM) in 1966 with effect from 1968 in order to promote efficiency.

It is true that already in the 1950s some efforts had been made to effect a liberalisation of the Stalinist bureaucratic and administrative framework of economic planning. In 1953, after the death of Stalin, the guidance and control on enterprises, previously exercised by ministerial industrial boards, was

turned over to newly organised trusts operated to maximise profits, with the component enterprises defraying the expenses. In 1957, for example, individual enterprises were relieved of the obligation to submit monthly and quarterly plans for the approval of higher authorities. In 1964 industry was made to pay capital charges to the state on fixed and circulating capital in their possession. Ideologically these interests in fact were justified because capital is nothing else than materialised labour, and as such should be rationally distributed.

### **3.1 The New Economic Mechanism**

The introduction of the New Economic Mechanism (NEM) substantially reduced central government intervention in the economy at the enterprise level. NEM was the only somewhat successful economic policy reform introduced on the basis of reform initiatives widely discussed at that time in the Socialist countries. In the Soviet Union the ministerial system of planning was back again in autumn 1965 replacing the *sovnarkhoz* (regional) system. Economic efficiency was debated under the title of “libermanism”, which in 1967 eventually led in the Soviet Union to the so called Kosygin reform emphasising the role of profits and capital charges in allocation. In Czechoslovakia the more wide economic reforms ended with the intervention of the Soviet troops in 1968.

The objective of NEM was to combine the central direction of relatively few key variables with local responsibility for the remaining decisions. The NEM thus made the enterprises independent economic units with the right to determine the structure of their production and sales. Instead of the previous detailed and intricate plans, only broad guidelines were provided for enterprises to follow. Enterprises were thus given latitude in determining their own production mix on the basis of their preferences with respect to quality, styling and pricing. The enterprises also got the right to establish direct contacts with foreign firms, conclude contracts and engage in independent foreign trade activities. To facilitate this shift, price flexibility was

introduced so that some domestic prices could respond to changes in foreign currency prices. This implied a genuine economic (as opposed to accounting) function for the exchange rate in a socialist planned economy.

A modified market economy was thus permitted in which enterprises could react to consumer preferences on the basis of their resources. The central planning authorities, however, were able to exercise control over enterprise production through the use of economic levers designed to induce co-operation by making it more profitable to produce certain items. Profits were to be used as an indicator of success, and above all, the utilisation of profits by the enterprise to finance decentralized investment. The administrative control was to be replaced by “economic regulators”.

### **3.2 The ideological and regulatory constraints of the NEM**

But as all major macroeconomic decisions concerning economic development, investment and consumption remained in the hands of the state, enterprises and individuals soon discovered that indirect regulation (implemented by the planners, the banking system and state agencies) and especially severe price and wages controls, exercised by the state provided severe constraints on the functions of the markets. This was also rather easy, since Hungary had in 1970 only 812 industrial enterprises with an average of seven plants each. There were no intermediate-level industrial authorities, which meant that planners could talk to enterprises rather easily (in a kind of oligopolist industrial structure). The enterprises, on the other hand, tended to expand their investments unnecessarily and had little incentive to develop effective exports or substitutes for imports.

Since there were no corresponding political reforms, the NEM came into conflict with ideological and political issues, with Soviet influence and vested domestic interests, and was thus watered down. Job security and the income distribution system, which did not distinguish between the competent and incompetent enterprises and/or workers, continued to inhibit the increase in labour productivity. This was combined with

limited tolerance of unemployment and inflation and problems in the mobility of the labor force.

Unfortunately abrupt changes in world oil prices since 1973 turned the terms of trade with both the Western and the *CMEA* countries severely against Hungary. The reflections of the rise of oil prices, as a consequence, made it necessary to connect external and internal prices on a permanent basis. In practice this led, combined with Soviet political pressure, to the reversal of the NEM, which until then had produced a good economic performance for Hungary. Domestic prices became less meaningful as indirect taxes and subsidies were introduced and the control over enterprise financial behaviour was strengthened. Economic performance was declined and foreign debt was accumulated, which entailed measures to control the trade imbalance and emphasising the equilibrium in the domestic economy. From 1980 to 1982, in the years of the second oil crisis and of a recession in the western economies, the rate of economic growth averaged only one percent.

### **3.3 Reversions of the 1980s**

In the early 1980s the role of prices as regulators in the system was again increased. In order to make it possible for the enterprises to compare the domestic and foreign prices, the multiple exchange rates were abandoned in 1982. Economic reforms introduced in 1984 and 1985 were aimed at increasing the efficiency of state enterprises and effectively combining market and plan mechanisms in a manner consistent with central priorities. A compulsory reserve fund, introduced in 1968, was eliminated. The reserve fund had been a prescribed percentage on after-tax profit and as a result the disposable enterprise income was reduced. From now on the reserves held were based on the decisions of individual enterprise managers. The state enterprises could now also issue bonds to be sold to the general public. Since 1985 the director and management staffs of small and medium-sized state enterprise were selected by the workers, who were also given the right to recall them. Earlier they

had been chosen by the Communist Party and/or by the appropriate industrial ministry.

In large state enterprises enterprise councils composed of the elected representatives were introduced. The enterprise council was responsible for the election of the managing director, it approved the company's annual budgets, strategic plans and other major resource allocations, mergers and acquisitions and financial statements etc. The state was, however, able to exercise some control over an enterprise through the appropriate branch within the Ministry of Industry. The reforms made since 1988, however, are a different story.

The rules to form a co-operative were quite liberal and they were in widespread use in agriculture. Production quotas were, however, to be fulfilled, but private plots of land were permitted. The private production of food was thus quite extensive.

Hungary thus attempted to develop a market-socialist system, to some extent following the ideas of Oscar Lange on market socialism. This gave it some lead to the other socialist countries in reforming the system further as the socialist economic system collapsed in 1989-1991.

#### **4 Conclusions**

In the immediate post-war years the challenge of socialism was taken up also in the capitalist countries, mainly as an ideology. These ideas were thus initiated as nationalisation or by developing strong state-owned enterprises as a kind of substitute for nationalization. On the other hand, the support of state owned enterprises can be traced back to the ideas of nationalism or even national-socialism, in which the development of national heavy industries had an important practical role already in the 1920s.

These influences are seen in the ideas of President Urho Kekkonen regarding the means of the developing of the Finnish economy at the beginning of the 1950s. The founding of state-owned large enterprises was started in Finland already in the 1920s and was continued until the 1970s. At first this policy was supported by the idea of a strong national state. After the



Second World War the founding of state enterprises was supported mainly by the leftist parties as a means of reinforcing the role of state in the economy and/or as a means of regional policy. During the 1970s the enterprises became to such an extent knowledge intensive instead of the earlier capital intensity, that the direct possibilities of state venturing were run out.

The attraction of socialism and nationalisation faded during the 1950s, but in the 1960s the achievements of socialism made the capitalist countries, even the big enterprises, interested in the possibilities offered by medium and long term planning as a specific tool to achieve good economic results. In the Nordic countries the possibilities of planning especially the development of the public sector were seen as optimistic.

In the socialist countries, on the other hand, there was an increased interest to combine the market information given by prices to the implementation of the plans. These developments were both a cause of and an inspiration to the theories of convergence discussed especially by the New Left in the west and to theories of market socialism in the east.

It seems that in Finland the regulation of prices and of the foreign trade together with the active founding of state owned enterprises was a surrogate for systematic economic planning until the end of the 1950s. In Hungary these were effectively used to dilute the ideas of the New Market Mechanism advocated by its liberal supporters in the 1960s.

The price distortions caused by the abrupt rise in oil and energy prices in 1973 and again in 1979, however, restored the ideas of applied planning in Finland, as in general in the west, and dreams of market socialism in Hungary, in the previous models of economic policies. It is difficult to say whether the ideas of NEM were a prelude of the entire collapse of the economic system of planned socialism at the end of the 1980s.

## NOTES

- <sup>1</sup> Pihkala, Erkki, "Political economy of the Finnish postwar economy", 1945–1952, *Scandinavian Economic History Review*, 3/1999, 35-36 and 46.
- <sup>2</sup> Vennola, J. H., *Kansantalouspoliittisia tehtäviä nykyhetkellä*. [The tasks of economic policies at the moment]. Helsinki 1916. The problems caused by the ongoing war were not reflected in this writing.
- <sup>3</sup> The Finnish War economy has been dealt with in Pihkala, Erkki, "War Consumption and Financing in Finland in the Second World War". In *The Sinews of War. Essays on the Economic History of World War II*. Ed. by Geoffrey T. Mills and Hugh Rockoff. Iowa State University Press. Ames 1993. A corresponding article for Hungary in the same book is Csöppus, István, "The Hungarian Economy in World War II".
- <sup>4</sup> Pihkala 1999, 32-33 and 36-37.
- <sup>5</sup> *Ibid.*, 40-41 and 47.
- <sup>6</sup> Pekkarinen, Jukka, Vartiainen, Juhana, Väisänen, Jarmo, Åkerholm, Johnny, "Suomalainen finanssipolitiikka ja kysynnän säätely". In *Sata vuotta suomalaista kansantaloustiedettä. Kansantaloudellinen yhdistys 1884-1984*. Vammala 1984, 220-223.
- <sup>7</sup> Kekkonen, Urho, *Onko maallamme malttia vaurastua?* Helsinki 1952, esp. 97-128.
- <sup>8</sup> *Ibid.*, 61-65 and 81-82.
- <sup>9</sup> *Ibid.*, 31-33.
- <sup>10</sup> *Ibid.*, 47-49.
- <sup>11</sup> Komiteamietintö [Committee Report] 1967:B1 and Ollonqvist, Pekka, *Metsäpolitiikka ja sen tekijät. Pitkä linja 1928-1997 (1998)*, 122. The term "Incomes Policy" was first used by the OECD in 1962.
- <sup>12</sup> Pihkala, Erkki, "Maa- ja metsätalouden uusi asema" [New state of agriculture and forestry], 392-396. In *Suomen taloushistoria 2 [Economic History of Finland 2]*, Helsinki 1982, 392-396.
- <sup>13</sup> Ollonqvist 1998, 164-167.
- <sup>14</sup> *Ibid.*, 212-215.
- <sup>15</sup> *Ibid.*, 278-279 and *Metsätalouskomitean osamietintö II [Committee Report]*, 1981:67.
- <sup>16</sup> Komitean mietintö [Committee Report] 1951:12.
- <sup>17</sup> Ollonqvist 1998, 120.
- <sup>18</sup> Levä, Kimmo, "Poliitikot ja tiepolitiikka". In *Pikeä, hikeä ja autoja. Tiet, liikenne ja yhteiskunta 1945-2005*. Toim. Masonen, Jaakko & Hänninen, Mauno. Helsinki 1995, 63.
- <sup>19</sup> Nenonen, Marko, "Tienrakennuksen ja työllisyyspolitiikan yhteiselo päättyy". In *Pikeä, hikeä ja autoja*, 156-157.

<sup>20</sup> Levä, Kimmo, "Valtakunnansuunnittelusta yhteiskuntasuunnitteluun".  
In Pikeä, hikeä ja autoja, 205-207.

<sup>21</sup> Pekkarinen, Vartiainen, Väisänen, Åkerholm, 1984, 211 and 245.

<sup>22</sup> See for example Christoffersen, Henrik, Danmarks økonomiske historie  
efter 1960. Gylling, Narayana Press 1999, 126-136.

<sup>23</sup> The Hungarian economic reforms towards the market economy are  
here dealt with on the information available in some textbooks on com-  
parative economic systems. They are Schnitzer, Martin C., Comparative  
Economic Systems, Cincinnati, Ohio 1991, 311-312; Gregory, Paul R.  
and Stuart, Robert C., Comparative Economic Systems. Second Edition,  
Boston 1985, 380-387. See also Schnitzer, Martin C. and Nordyke, James  
W., Comparative Economic Systems, Cincinnati, Ohio 1983, 271-272.