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Kasvio, Antti, Makó, Csaba, McDaid, Michael (eds.):

Work and Social Innovations in Europe

**Proceedings of a Finnish-Hungarian Seminar in Helsinki,
September 11th-13th 1990**

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**ECONOMIC CHANGES AND THE CRISIS OF THE EMPLOYMENT SYSTEM
(The price of an unrealized innovation)**

Introduction

The central topic of the symposium can be elaborated from markedly differing and only loosely interrelated points of view. Among the different potential approaches priority should perhaps be given to the task of specifying the theoretical concepts and models. Genuine intellectual efforts are required to be able to answer such challenging questions as, for example, what innovation really is, how social groups with different interests enter the process of innovation and what kind of values are attached to the agents of innovation in the various organizations of work. In spite of all this I do not try to raise and solve these theoretical problems. Instead, I would first like to define the basic concepts and then I wish to demonstrate, relying both on historical and sociological facts, that the changes in work-process can be accomplished only at a tremendous social cost if the mechanisms, guiding and supporting the processes of innovation do not function. At the level of employment the absence of institutions conducive to innovation leads to a collapse of the labour market and to a distortion of the occupational structure. And the grave employment problems which result may produce conflicts which threaten social stability.

I define the concept of innovation as a complexity of changes, creating new rules of social behaviour, new praxes, new values, new ways for interpreting and evaluating social reality, in a word, that is a new social system of rela-

tions. Innovation is a complex process and this is the very fact that makes it different from the concept of change.

I admit that this definition can be and certainly will be debated. I shall apply it as a working concept, and so its value will be determined by the extent to which it can render help in interpreting and elaborating the (empirical) facts.

As a starting point, however, not only the working concept of innovation should be defined. We have to refer - at least briefly - to those social and historical phenomena which prove the validity of our hypothesis. According to this assumption, innovation as a dynamic process has never been the "normal" course for the institutional system in Hungarian society. Moreover, the institutional system, which had been in existence for almost 40 years, definitely hindered the process of complex renewal.

A year ago the above statement would have been formulated as: "has been in existence"... but today perhaps we can already use the past tense. The change in the grammatical tense is due to the fact that the politically relevant groups in Hungarian society have come to realize the absence of innovation in the previous social and economic order (in the so-called socialism), in other words they have realized that this social form can not be renewed and transformed. It is owing to this realization that the radical transformation of the political and administrative institutions, the economic system, the legal system, industry and agriculture has begun.

The question may be posed whether the changes, going on in present-day Hungary, are not themselves proof of the ability of Hungarian society to innovate. Is the capacity for innovation not hidden in the social relations, institutions and ranks of the decision-makers? My answer is negative. The transformation of Hungarian society has begun only under the pressure of external forces. Among these I would enumerate only some of the most important ones: the

debt crisis, the catastrophic balance of foreign trade, the monetary crisis, which resulted in a disruption of normal economic relations within the country (payments, orders, credits, etc.), pauperism and the increasing scarcity of jobs. One can justly emphasize: Hungarian society has again yielded only to a fundamentally "external" need to adjust to the new circumstances. The necessity of implementing changes does not derive primarily from a quiet process of evolution. All this, of course, does not mean that during the forty years of "state socialism" no events and social processes took place, which, in close connection with the external challenges, could have become significant elements or even catalysts in a long-term process of innovation. It should not be forgotten, however, that in such cases we are the witnesses of changes (and not of innovations) and often of patterns, that have been declared "deviant", and which lurk behind the facade of legitimate institutions and, moreover, for which people are frequently punished and persecuted. These patterns and values can not always be converted into the sphere of "legal existence" without conflicts even if they have contributed to a new type of development. (For example the emerging elements of the market economy have been built into the institutions of the planned economy, guided by principles fundamentally opposed to those of the market economy.)

I would like to demonstrate these ideas by analysing two social situations. One of them is the attempt to industrialize Hungary and build a Stalinist (socialist) structure of society (and later to demolish this structure), while the second is the crisis of the labour market at the end of the Eighties.

The organization of work and ways of utilizing labour force under conditions of "absolute" centralization

The period of creating the system

After the communist party takeover in 1949 the formation of Soviet-type economic organizations was launched at great speed. The large state enterprises, especially those in heavy industry, mining and energy-utilization, which were particularly favoured and supported by the political leadership, seemed to be ideal places for the application of the Soviet model. Work began on building up those institutions and organizations in the economy which had been assigned a fundamental role in directing the over-centralized and militarized processes of production. Thus the Central Office for Planning and the Office for Reserve Labour Force were given important roles in regulating the economic (and political) system together with the secret police, the party organizations or the trade unions, which were compelled to serve the state.

The radical changes in the economy have followed external political and military patterns. For example, the norms and regulations of work and the relations of dependence bore a remarkable resemblance to those of the military organizations. The allocation of resources and requisites of production, taking into consideration the interests of the power elite, occurred on the basis of political priorities. The intercourse and relations among different groups of workers and leaders of the factories were strictly formalized: they were shaped according to principles of organizational hierarchy. All kinds of co-operation which were not considered legal and prescribed, or at least tolerable, were prohibited and/or punished.

The behaviour of workers was guided by norms and regulations, which were not related to the inner logic of production and which often had to be protected by political and

police measures. Decisions reached in high political circles regulated mobility within the given organizational unit, the prospects of promotion, the rights and possibilities of professional training and the level of wages as well.

One of the system's neuralgic points was the management of manpower. As a result of the distribution of land, accomplished in 1945, the proportion of those employed in agriculture (in relation to all the employed persons of the country) amounted almost to 50 per cent. The main labour reserves of the developing industry remained in agriculture. Those employed in agriculture were forcibly compelled to go into industry and to work in the mines and in the iron- and steelworks. During that time communist politics devastated agriculture by organizing co-operatives, and by frustrating the willingness of peasants to produce (often by relying on police terror) and, as a consequence, it would have been almost impossible for the peasants' remaining in the villages to have done anything about it. So the peasants set out to build blast-furnaces, ironworks and to mine coal and ores, in short, they started out on the road to becoming industrial workers. The regime forced them to become industrial workers by a great number of violent means. So penal sanctions were to be applied for example against those who left their jobs in industry, who didn't meet the requirements of industrial work, or who changed jobs in order to get better wages or better conditions of work. Workers were punished, if they did not enter into the spirit of socialist emulation or if they did not do their best, as was expected by the political leadership.

In this Orwellian world of violence and compulsion one could not even dream of creating institutions of labour market. The labour market was abolished partly because of ideology (e.g. its hostility towards the market, especially towards the labour market), partly because of the so called "socialist" structure of production. The systems of produc-

tion and the way of appropriating its products left no room for any bargains in the labour market. The way of appropriating products also contrasted bargaining in the labour market. The organizations providing for labour turnover as well as for the macro- and micro-levels of the management of manpower were shaped according to the logic of administrative direction. Centrally determined target-figures and the decisions of central organizations (Office for Planning) secured the manpower for constructions and the same decisions regulated the quantity and quality of the labour force in factories and plants.

The first phase of industrialization can be characterized in respect of the employment situation as follows:

- a centralized distribution of the conditions of production, including manpower;
- regulation of labour utilization by political and administrative means;
- abolition of labour markets and guidance of inner labour markets by external political priorities;
- the strategies of labour force utilization were closely related to the general principles of developing the economy;
- administrative regulation of the labour force resulted in grave problems for large sections of society. Potential conflicts were subdued by applying police terror.
- no legitimate bargaining positions or independent protection of the interests of participants in the work-processes or of their groups and coalitions crystallized.

The attempt to demolish the system

After the death of Stalin some Hungarian communist politicians - not least in response to growing social unrest - tried to make ropes of sand: to reform the given social and political system. The inability of the system to function

normally was already indicated in the early phase of the "socialist" order by statistical facts as well: the standard of living in 1953 reached just 75 per cent of the 1948 level, and agricultural production diminished drastically. Famine and misery reduced the tolerance of workers who had been forced to work in large state enterprises.

The reform, launched hesitatingly in 1953, was primarily expected to transform the macro-processes of the economy. Prodigal and inefficient investments were suspended, capital was infused again into light industry, and the agricultural co-operatives, formed on the model of the Stalinist "kolhoz", were guaranteed the right to dissolve themselves. Besides a number of decrees, aimed at easing the political terror, attempts were made to create the conditions for a free utilization of labour, and, moreover, certain measures which favoured improvements in wages and working conditions even provided incentives to increase the financial interest of employees.

Besides easing political violence the results of this reform-attempt were dramatic. Some sections of society, primarily the peasants, at first welcomed the changes, but the continued existence of the institutions of the economic and political system and the unaltered logic of social reproduction, brought about new conflicts. To a certain extent, these conflicts ran counter to the newly initiated reforms as well. So for example the decision-makers responsible for employment policy wanted to realize the necessary reduction of the labour-force in heavy industry with the same means and methods as were used in recruiting the workers. Another example is that they tried to redirect the redundant labour force (particularly the rural women who sought work in the capital) into the villages by administrative measures, falling under the jurisdiction of the police (For example by withdrawing one's residence permit.). The system of centralised orders remained in force and did not differ greatly from the earlier practice, the utilization of

labour in the enterprises was regulated centrally. Thus all those workers were sacked who had figured in the central plans for dismissal.

Not only did the employment system of that time lack any kind of unemployment benefit, but it was also unable to provide work for those who were declared redundant. By 1955-1956 the level of unemployment had become considerable, especially in respect of women. It appears from documents that clashes took place almost every day in the rooms of the labour office, set up to co-ordinate the management of manpower and that mass demonstrations had to be suppressed by police force. The abolition of the industrial structure created by industrialization led to almost as much social unrest as its creation. This phenomenon can also be explained by the fact that the workers who were forced to take up jobs in factories were compelled once again to return to the villages, subsisting on a ruined, exploited agriculture. Earlier, large sections of industrial workers had been honoured (as "heroes of the socialist labour"; for example furnacemen, miners, etc.), but following the reform a sudden turn in ideology deprived them of any status. Those affected were compelled to undergo vocational training, but even these attempts usually ended in failure.

The dominant trends were clearly manifest at the beginning of the Fifties. A new programme of economic development was launched, with the objective of guiding the Hungarian economy towards a new course by adapting foreign patterns to domestic needs. When this programme proved to be a fiasco and the need to modify the course of development arose, all the institutions of employment policy collapsed. This in turn led to the kinds of social conflicts which the power elite had always been afraid of. Its effect was to continuously postpone the launching of economic reform-processes in order to avoid having to face conflicts derived from unemployment and the dynamics of the labour market.

This early attempt at reform poses the question as to whether the institutions of Hungarian society are adequate (and if they were, to what extent they were) to cope with those social, human and organizational conflicts that are the results of changes in the organization of work, of a transformation of the model. The negative answer was supported by sharpening social conflicts, by responses to these conflicts (they are unacceptable for us), by the reinstated police terror and by renewal of the efforts at centralization.

The lesson of the Eighties: no chances to continue

The results of research carried out in the Fifties cannot be adapted for the Seventies or the Eighties. The logic of the political and economic system, however, remained basically unchanged even after the early efforts to industrialize had been abandoned. As a consequence, statements concerning the model as a complex of social processes can be considered as valid in analysing the history of the following decades, too. So those social processes, which enforced the radical attempt at innovation at the end of the Eighties, can be characterized both by change as well as by permanence.

The reforms, initiated following the death of Stalin, were halted in the period of the "restoration" after the defeat of the 1956 revolution. Hungarian politics in the Sixties were characterized - not least because of a cautious "destalinization" in the Soviet Union - by constant attempts at reforms. (Or merely changes?) Thus, using the slogans of "socialist market economy" the enterprises were given limited independence, central bureaucracy was cut down, and the distribution of the means of production was gradually decentralized. New mechanisms of the labour market were devised, giving rise to new ways and methods of distributing and utilizing the labour force. These new forms and methods of

labour-utilization, however, did not legalize the labour market as a system of institutions. The creation of a genuine labour market was hindered by ideological, political and economic factors. The changes could not explode that notion according to which the labour force under socialism is not a commodity, and in connection with this there were no changes in the practice of distributing the products. The actors of the Industrial Relations system, those free organizations which took it upon themselves to protect the interests of the employees and the employers, could not be reconciled with the institutions of a "socialist" political system either.

Up to now there have been no institutions to organize bargaining systems and the processes of work at the macro-social levels. However, two other levels of the labour market, the "internal" labour market and the "regional" labour market have always been present. Both of these systems fit well in the economic and social structure, having been directed more or less successfully up to the middle of the Eighties. Having manifested itself by the Eighties the crisis of the economic and social structure crushed the subsystems of the labour market. One could also say that a distortion of the institutions has itself become a significant factor in deepening the crisis of the system as a whole as well as contributing to its final collapse.

The "internal" labour market, however, was formed in large state enterprises, which were in the limelight during industrialization and the subsequent creation of a new industrial structure. The large state enterprises enjoyed priority not only in development projects and investment plans, but their leaders, at the head of strategic pressure-groups, could take part in deciding the basic trends of the Hungarian economy. As a result of political bargains concluded between leaders of large enterprises and the political elite, the organizations of large enterprises were guaranteed certain degree of a relative autonomy. This lim-

ited autonomy also included a right to regulate the utilization of the labour force. That is why we can speak of the formation of a special form of "internal" labour market.

This "internal" labour market functioned as a genuine labour market. It constantly strove to influence the bargaining positions as well as the representation and protection of various interests, the wages of different labour-groups as well as their performance. In the "internal" labour market peculiar forms and patterns of training and teaching evolved, such forms that were solely characteristic of the organizations in question. The "internal" labour market regulated labour turnover on the basis of participation in organizational power and the ability to enforce various interests within the organization. The rules and methods of filling vacancies and of the taking up of organizational posts were also standardized. The labour markets of large enterprises were closely connected to patterns of inequality, inherent in the economic system and also connected with the various patterns of life-style. This is well demonstrated by the fact that the "peripheral" group in the "internal" labour markets was composed mainly of persons coming from the "handicapped groups" of society.

One precondition for the smooth and effective functioning of the "internal" labour market is the stability of the model of economic and social reproduction. As this model itself is a product of an industrial and economic structure that has its roots in the post-Stalinist regime, its existence and fate, as well as its potential success, is closely related to the fates of this economic and political system.

The "regional" labour markets were built on territorial divisions of Hungarian society, on inequalities of industrial development and on the territorial distribution of large state enterprises enjoying monopoly positions. One fourth of all employed persons consisted of commuters, and in the Seventies and Eighties the number of those, who could

return home from their work-place only once a week or month also rose. The structure of Hungarian industry was reflected precisely in the territorial division of the labour market. In some regions of the country the structure of employment displayed monocultural features and was characterized by the predominance of a given branch of heavy industry. The invariably unilateral approach of development strategies did not offer any possibility to change this situation.

The economic history of the Eighties is a history of deepening crisis. Economic and sociological research was absolutely clear in its prognosis: Hungarian society was to face a serious crisis, affecting its very foundations. The growing number of symptoms of imminent crisis, however, was not regarded as providing convincing proof of this crisis by the leaders of the regime, so they constantly delayed the decisions which would have been necessary to counterbalance its effects. This delaying tactic was of course no mere chance. To admit the crisis would have meant an acknowledgement of the failure of "socialism", pursued for 40 years, the failure of changes that were called "reforms". The accumulating signs of crisis were to be seen and felt primarily in relations of employment and in the labour markets. Nothing happened yet, the communist politics still prevailed, the authorities still cracked down on demonstrators and dissenters, when the new term (a rather unfamiliar term) "unemployment" appeared.

Unemployment as a new "phenomenon" is at the same time signalling the beginning a new age. It has, however, concealed the essence of the crisis, the total failure of the whole economic and employment policies pursued up to this time. This failure, which is identical with the collapse of the employment policy, has produced two significant consequences. One of them is the passion of those who have been fired owing to the deepening economic crisis and whose emotions have only been intensified by the agents of the over-

thrown regime. The second consequence consists of a potential merger of unemployed workers with the marginalized strata, in short, it consists of the formation of a "dual society".

As it has become impossible to direct the economy in the way, that prevailed up to the end of the Eighties, all those institutions, which were historically connected with the "socialist" economic model structures and systems of behaviour have lost their rationale. The labour market had also collapsed by the end of the Eighties.

A phase in the history of "internal" labour markets has thus come to an end. The crisis of the organization of production in large enterprises and a disintegration of the latter has crushed - not least because of the economic recession - even those groups which were earlier organized in the labour markets of the large enterprises. That group of the labour force which occupied a peripheral position in the internal labour markets (semi-skilled, unskilled, women workers) has become definitely marginalized, and this stratum has no real chance to improve its prospects because of the weaknesses of social policy and of a lack of any developed unemployment benefit systems. However, changes in internal labour markets also threaten those highly qualified groups within the labour force, that up to now have enjoyed a privileged position, better wages and more favourable conditions of work, because these are related to place and time, to a strategy of economic development, which was defined by political priorities and which as such has been devalued by the crisis of the model. An outward flow of workers from the internal labour markets towards outer markets has begun, but the backwardness of the outer labour markets and their low level of institutionalization has led to a rapid deterioration in these workers' social position, to the point of their being effectively "declassed".

The crisis and collapse of the employment structure can be seen especially clearly in the case of those groups of

the labour force which have been forced out of the internal labour market. (For example in the case of women, the young, the newly employed, the administrative employees of the bureaucratic organizations, etc.) The crises of the labour markets and the tensions of employment also affect those groups which have managed to keep their jobs up to now. For them the necessity to adapt to the transformation of the economic system and to keep pace with higher and higher requirements creates significant difficulties.

The consequences of this policy, the pressure it generates to choose, greatly resembles the social effects of the first, hesitant reform attempts of the Fifties. The radicalism of economic changes, the overwhelming and urgent need to change has appeared again in a rough and visible form in respect of the labour force and employment practice.

The resemblance is not a product of chance. During the forty years of its existence the employment system has been working neither effectively nor flexibly. Moreover, the fear of employees (and their organizations) and the desire to avoid severe social conflicts led the political leadership to grant pseudo-concessions instead of genuine far-reaching and radical reforms. This is why it never affected the institutions, designed to regulate "full employment", it never re-evaluated the "tested" practice of utilizing the labour force. Instead it relied on external sources and credits to finance the "rise" of living standards (i.e. it financed consumption without economic achievement), and did not initiate any reforms that would have affected the very foundations of society. The consequences of the absence of innovations have been: an accumulation of tensions in employment and a collapse of the whole employment system. In an innovative social and economic structure, which can renew itself in all respects, the price to be paid would be (or would have been) lower. The price of unrealized innovation, however, could still be diminished by creating the practice and institutions of an active labour market policy (ALMP).

Chances of an Active Labour-Market Policy in Hungary

Western European experiences during the 1980's proved that the institutions, solutions and practices of an active labour market policy could handle the structural tensions of employment and regulate flexibly the market for labour. Without explaining in details the practice of an ALMP (which is well-known, anyhow) I would like to focus only on its essential components, on those which have special relevance in the Hungarian context.

There has been a significant shift in respect of the potential sectors and partners of an ALMP. The state has come to accept as a social necessity the evolution of a fully-fledged trade-union movement, the creation of political democracy and the organization of the institutions of the labour market. Legal regulations are being prepared which are destined to specify the norms, the rights and obligations of potential partners in the bargaining processes of the labour market. However, to retain viability and effectiveness, a course of development is necessary, the preconditions for which have yet to be created. These conditions rest on the innovation of society, the economy and politics.

The centralized state apparatus has been split into a number of highly hierarchical and independent bureaucracies. The ALMP can neither be reconciled neither with the centralized system of institutions nor with the bureaucratic courses of behaviour and methods. The ALMP offers a wide scope for action by the local and regional actors of the labour market and requires the congruency of institutional solutions. These conditions demand a co-ordination of the institutionalized technical solutions, precise legal regulations, and, to realize all this, a firm political intention on the part of the government is indispensable. Consequently, an ALMP will be successful only if a genuinely legitimate government is created, which will build the insti-

tutional system of an ALMP democratically, under open public supervision.

Another key factor of the success of an ALMP is constituted by the co-operation of the social partners. The patterns of co-operation and solidarity have been almost absent from the Hungarian political culture during previous decades, and the social tensions, intensified by the emerging crisis, threaten even the existing level of tolerance and co-operation.

The institutions of an ALMP require that those processes of Hungarian society which have been dominant up to now in the fields of vocational training, social policy, various systems of benefits, financial and insurance institutions should be analysed, re-evaluated and even transformed in accordance with an ALMP. In order to realise the complex changes and to build a new system of institutions one needs better professional skills, new values and also new types of behaviour. So for example the practice and approach of financial policy, based primarily up to now on the extraction and redistribution, will, in all probability, not correspond to the requirements of the future. Cosmetic changes in the model are no longer sufficient; a genuine innovation of state management is now indispensable.

Flexibility is another major problem for an ALMP. It concerns not only the given system of institutions, but also those norms and values, the sources of which are comprised by an economic system lacking and even penalizing flexibility. As for the institutional solutions, flexibility can be secured only if there is a background which provides for stability. In this case, the services of the labour market (for example the provision of information), the different financial and non-financial benefits (representing basic guarantees for ones existence) provide stability of social status for a labour force willing to learn new skills. Consequently we have no other alternative than to promote innovation in human behaviour and action, particularly in

respect of work motivation and value systems, since the existing "socialism" has imbued society with the concepts of stability and permanence and has glorified the values of some trades: miners, foundrymen the utility of which is taken for granted once for all.

In fact, today only the main elements of a strategy for creating an ALMP can be outlined. The formation of an ALMP is a long process, and genuine innovation in employment can be expected to occur only by effecting the necessary changes until the whole process is successfully completed. And in our view the converse of this statement is also true: it is only the rapid, flexible and efficient utilization of labour force that can result in the launching of innovative processes within the organizations of work, and in so doing give a decisive impetus to the Hungarian economy that is trying to emerge out of the present deadlock.

Concluding remarks

On finishing this study we should like to emphasize again that this brief account of the historical processes is far from being complete. We have omitted such significant topics as the so-called "second economy" and the labour market, and an analysis of those experiences which originate in new ways of utilizing labour power within the factories is also absent.

Our only objective has been to demonstrate those basic historical, sociological and employment processes of the past, that still have a powerful influence over the future of Hungarian society, and which, furthermore, may help us to understand the hoped-for acceleration of innovation.