

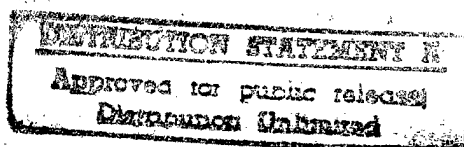
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18 January 1984

# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS



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18 January 1984

## EAST EUROPE REPORT

### ECONOMIC AND INDUSTRIAL AFFAIRS

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CAPRICIOUSNESS IN CONSUMER-SUPPLIER RELATIONS CRITICIZED

Bratislava PRAVDA in Slovak 7 Dec 83 p 3

[Article by Eng Mikulas Kormanik, chairman of the VLK [Committee of People's Control] of ONV [okres national committee] Michalovce: "There Is Too Much Willfulness in Customer-Supplier Relations"]

[Text] The Committee of People's Control of ONV Michalovce recently checked how efficiently the inventory at OSP [okres construction enterprise] Michalovce was being used. The purpose of this check was to determine the causes of the unfavorable trend in inventories and to adopt measures for their more effective utilization. The investigation confirmed that the trend in inventories of OSP was unfavorable during the period surveyed. In 1981, for example, the inventory increased 39 percent above the plan, while the inventory turnover was 50 percent below the plan target. This unfavorable situation in inventory continued also in 1982, when the inventory increased 12 percent above the plan, while the inventory turnover amounted to only 25 percent of the plan target. Naturally, the ineffective inventory trend adversely affected the fulfillment of the output plan. The enterprise fulfilled the output plan by only 94 percent in 1981 and 96.1 percent in 1982.

The ONV Committee of People's Control could not fail to state that the unfavorable development of MTZ [material and technical procurement] and the nonfulfillment of the output plan had been profoundly affected by the unclear customer-supplier relations. In 1981, for example, of the needed and requested 76 contracts on delivery of materials only 35 were signed, while 41 suppliers refused to bind themselves by economic contracts. The situation was similar last year. Of 80 contracts on delivery of materials, only 21 were confirmed, 24 draft agreements were returned unconfirmed and 35 proposals remained without reply.

The situation is essentially unchanged this year. This fact makes it clear that in customer-supplier relations there has been inconsistent observance of decree No 48/80 of SBIRKA which states that contracts must be formulated in clear terms and signed on time.

The investigation also revealed, however, that the limits and types of materials did not cover actual production needs.

In the course of the examination, we spotchecked several types of materials and compared the allocated limits with consumption. As to sheetmetal, for example, the limit covered 47.3 percent of needs, wall material only 34 percent, rolled material 47.7 percent. This year the consumption limit for galvanized sheetmetal is covered 16.4 percent, sectional steel for roofing 30 percent--the supplier Ferona cannot deliver even this quantity.

The inconsistent observance or, to put it more precisely, nonobservance of customer-supplier contracts, the low limits set for certain types of materials and irregular, occasionally interrupted flow of building material supplies results in a large number of unfinished construction projects, undesirable accumulation of inventories which freeze the enterprise financial funds. The construction administration of OSP Michalovce had on the day of check 8,000 current meters of 1/2 galvanized pipes in stock, although its annual consumption is 2,000 current meters only. We found a similar situation at the construction administration of OSP Sobrance, where they had 25,656 meters of 1/2 galvanized pipes in stock, although their annual consumption is 2,000 meters of pipes only. In other words, they had a 12-year supply in stock. At the construction administration of OSP Michalovce, they had a 3-year supply of aluminum slats. In addition they had 1,395 meters of stone cubs in stock which they did not use at all. OSP at Sobrance had 10,725 meters of black pipes for which they had no use either. A similar situation existed with regard to five other types of pipes.

The size of inventory was adversely affected also by materials which have not yet been used in construction, that is, large supplies on the construction sites which exceeded Kcs 2,490,000 as of 31 December 1982.

We spotchecked the observance of limits for some types of materials on the construction projects already completed. We have found that the set limits were often surpassed. In the construction of a cleaning plant and laundry--outside sewage specified consumption was exceeded as follows: of timber by 27.8 cubic meters, of wooden doors by 9 pieces, of centering by 120 pieces and of prefabricated units by 139 pieces. In the construction of the Social Security Institute at Rakovec and Bebravou they exceeded the limit of timber by 49.9 cubic meters and of lime by 288 quintals. It was found that the consumption limits were exceeded by the construction administration at Sobrance in the construction of the civic center at Paseky Sobrance, where the brick limit was exceeded by Kcs 6,999 and the panel limit by Kcs 157.

One fact found in the audit must be judged favorably: in determining financial incentives, the enterprise management applied penalties for noncompliance with the planned size of inventory and inventory turnover. It thus imposed penalties on the responsible workers in the amount of Kcs 42,283 in 1982 and in the amount of Kcs 14,481 in the first half of 1983.

The results of the audit were discussed in detail by VLK ONV, which charged the OSP manager with a number of concrete tasks--among other things to follow up and periodically evaluate the observance of the planned inventory and to demand of the appropriate responsible workers a more demanding approach to the procurement of building materials according to production needs, to

achieve the reduction of the presetn excessive inventory and to sell the unneeded supplies, to improve the specification of limits of material consumption for individual construction projects, and to check on keeping the limits after construction is completed. These and other measures aim at the elimination of subjective causes of ineffective inventory trends and at auditing material consumption within the set limits.

The audit revealed, however, that apart from the subjective causes the ineffective inventory control is due also to the objective causes which are evident primarily in the inconsistent observance of customer-supplier contracts and also in setting too low limits for some types of materials surveyed. These problems, however, cannot be solved by the okres managing organs.

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## SOME PROBLEMS OF ROBOTIZATION OF INDUSTRY DISCUSSED

Bratislava PRAVDA in Slovak 5 Dec 83 p 3

[Article by Helena Psenicova, worker at CPSL okres committee, Presov, and Jan Markovic and Jozef Supsak, editors of PRAVDA: "Let Us Be Increasingly Demanding"]

[Text] It was quite natural that at this year's annual membership meeting of the CPSL ZO [basic organization] at the Research Institute of Metal-Working Industry [VUKOV], at the factory CPSL conference at Industrial Automation Plants [ZPA] Dukla, but also at the okres CPSL conference in Presov and kraj CPSL conference in Kosice there was more talk about robotization than in the past. The East Slovakia kraj and particularly the just mentioned VUKOV Presov and ZPA Dukla significantly participate in research, development, manufacture and employment of industrial robots and manipulators [PRaM] for the production process in the CSSR. The CPCZ is at the head of the struggle for a substantially higher technical and economic standard of production, for a significant increase in social labor productivity and thus also in efficiency of our national economy. As we know, the intensification of economic development lays and will lay increasingly higher demands on the continuous improvement of technological processes, on efficiency and reliability of machinery, on mechanization and automation of production, particularly by PRaM. It is precisely these industrial robots and manipulators which help substantially to intensify production processes, increase labor productivity and also solve societywide problems such as relative labor shortage, liberation of man from dangerous, strenuous, monotonous work and work injurious to health. In other words, robotization is becoming the vehicle and standard of application of scientific and technological achievements.

VUKOV Presov is among those research and development institutes which resort with courage to progressive solutions, are not afraid of creative research and want to bear the burden of responsibility. The first peculiar feature in this instance is that VUKOV has been developing as a research-production unit. The institute program covers the area of research, development, manufacture and employment of industrial robots and manipulators. The research institute of metal-working industry is the leading center of scientific-technological development, executive organ of the state target program 07--Industrial Robots and Manipulators. In the area of research and development, VUKOV has been the chief solver and coordinator of the state task of technological development in this area during the Seventh 5-Year Plan.



For this reason, one of the immediate tasks facing communists in the area of party economic policy was to secure the gradual start of production in the new factory building No 3, beginning 30 June 1983. This meant to put into operation the assembling-testing basis of industrial robots and manipulators. The importance of this step was underlined by the fact that also in this way the start of application of automated technological workshops with PRaM in production processes is to be made.

Accompanied by Eng Milan Damits, CSc, chairman of the CPSL ZO, we are becoming acquainted, for the sake of a better comparison, first with the space which until recently was used both for the development and testing of industrial robots and manipulators, and for the manufacture of prototypes.

"Today in this space," says Comrade Damits, "we are about to finish construction of an independent experimental workshop designed exclusively for the development and testing of prototypes of robots and manipulators and automated workshops with PRaM. In the past, the interests and needs of workers in development, assembly, testing and production often clashed in one place and approximately at the same time. Under the conditions of limited capacity and limited space, preference was given to the priority projects which in the final analysis was to the detriment of an even fulfillment of other important tasks. From now on, the experimental workshop will much better serve only development workers, design engineers and technologists. Here they will be able to test and verify theoretical findings and new proposals practically."

The experimental workshop already serves its purpose. We witnessed the testing of the new manipulator AM 1-T, industrial robot APR 20, new control system for PRaM and other planned outputs.

#### New Plant for Testing and Assembly

This research institute compound is dominated by a huge hall. The combined testing-assembly plant which is already in operation meets better the requirements and demands of the solid basis for development of robotization. New spaces into which the VUKOV workers moved only a few months ago are already full of life. They were just testing basic subassemblies of an automated technological workshop with an industrial robot, completed the line with actual employment of PRaM for working shafts. The plant is equipped with capital assets which will manufacture a verification series of industrial robots and manipulators, some periphery equipment, electronic control systems. The new feature of VUKOV workers' approach lies in the fact that they will not only develop, but also manufacture, assemble and test automated technological workshops and production systems with industrial robots and manipulators. They will introduce such automated workshops on order in the production plants. They have set themselves the task of creating conditions for bigger deliveries.

In addition to the implementation of tasks in research and development, the communists at VUKOV also follow up the implementation of other economic tasks. This was evident also at the membership meeting of the CPSL ZO in October, which among other things discussed the fulfillment of the state plan. During the first 9 months of this year the planned tasks were fulfilled in the

engineering-technical area. At VUKOV they completed 31 of the annual plan of 45 projects of automated technological workshops. In the last quarter of this year they will concentrate on production because they have to manufacture 42 more industrial robots.

Research and development are among the natural activities of a research institute. Also at VUKOV they have verified and time-tested forms and methods of work in this area. However, they are not satisfied with the procedures used so far. They are trying not only to apply the latest scientific and technological achievements in the area of industrial robots, but also to take into consideration the demands and needs of practice, already in the preproduction stages.

"We direct the major part of our creative capacity to the state target-oriented task--adaptive industrial robots and manipulators," says Eng Jan Zan, CSc, deputy manager in charge of research and development." The solution leads to approximately 30 outputs. We have substantially revised the original research work schedule in order to shorten the research-development-manufacture-use cycle. We unfolded a socialist competition, adopted a counterplan and set financial incentives applying both to the collectives and individuals for the completion of the project. And the result? In the case of a control system we shortened development and implementation by 2 years in relation to the coordination plan. ZPA Dukla Presov already started to manufacture control system RS 1-C in series. Likewise, we shortened research and development of AM1-T manipulator and started to manufacture it more than 1 year ahead of schedule. We shall manufacture a verification series of 20 manipulators in our institute already this year."

#### Czechoslovak-Soviet Engineering Office

The resolutions of the okres CPSL conference in Presov and kraj CPSL conference in Kosice assigned to the communists at VUKOV the task of materially and organizationally making sure that the joint Czechoslovak-Soviet design, engineering and technological office ROBOT could start its activity by the end of 1985. In cooperation with the supervisory organs, they should ensure that this office concentrates on working out joint projects of robotized technological complexes which will increase export of PRaM to the USSR and intensify mutual production specialization and cooperation. When this international, orientationally unique project was considered, its underlying idea was that VUKOV had considerable experience in this area which could be used in this project. Significant results achieved by VUKOV and some organizations in the USSR in joint development of manipulators AM 5, MTL 10 and UM 180 spoke in favor of finding new, higher forms of cooperation between the CSSR and USSR. What progress has been made so far in preparations for the establishment of the joint Czechoslovak-Soviet center for the area of industrial robots and manipulators? This is a rather complex project, both as to the formulation of the joint program of activity of interested parties and from the legislative and legal standpoint. The common plan, however, gradually assumes a more concrete form. Our and Soviet experts discussed the draft of the agreement on establishing the common office, its program and activity. In Presov, they have already assigned offices and apartments for accommodation of Soviet specialists. The activity of

the joint center should focus on designing flexible production systems on the basis of robotized technological complexes for machining rotary parts, for flat forming and automation of assembly work, including the delivery of robotized workshop on a contractual basis.

"We are trying," said Comrade Milan Damits, chairman of the CPSL ZO, "To increase the influence of the party organization on the activity of the research institute further. For this purpose we are making use of time-tested forms and methods of party work. Under the conditions of the VUKOV research-production unit, controls and fact-finding activity of the CPSL basic organization concentrate particularly on the periodic evaluation of the implementation of tasks listed in the research and development plan, and on the more rapid application of research results in practice, on the expansion of the implementation basis, on augmenting personnel and financial funding of the institute. We exercise the right of party control in the solution of problems faced by individual institute departments. We ask the economic workers periodically to submit to the committee meetings or membership meetings of the CPSL ZO analyses of activity in this or that area. Naturally, the research institute does not always succeed on the first try. The complexity of problems dealt with gives rise also to difficulties, often of the subjective nature. The party organization examines every more serious shortcoming and tries to correct the situation rapidly. The party influence was exerted in this way, for example, in dealing with the problem of delays in development and manufacture of some functional models, prototypes and verification series."

#### Key Role of Mechanical Engineers

Already at the time of annual membership meetings and conferences the CPSL okres committee tried to establish linkage between research and development planned by VUKOV and engineering enterprises in the okres to which they were bound by the combined socialist pledge. The resolution of the CPSL factory conference at the ZPA Dukla in Presov therefore included two important tasks designed to shorten as much as possible the cycle between development and manufacture of industrial robots and manipulators.

The ZPA workers are not novices in the manufacture of industrial robots. Since 1980 they have had in the program the manufacture of the time-tested industrial robot PR-16. In the resolution passed by the CPSL factory conference in March 1983 they therefore bound themselves to manufacture manipulators of new types-- 10 of AM-5 type and 45 of AM-1 type. The deadline for the implementation of this resolution was 30 November 1983. In the second point of the resolution they set themselves the task of manufacturing control systems RS 1, RS 2, RS 3 and RS1-C. When we asked Eng Anton Seman, member of the CPSL factory committee, who at the same time is in charge of design and development, how they were implementing these resolutions; it was not easy for him to talk about it.

"We have been complying only partly with these points of the resolution dealing with robotization. We have manufactured only two industrial manipulators of the AM 5 type, but not a single one of the AM 1 type. Yet, this is not only our fault. We have no orders for AM 1. Originally their export to the Soviet Union was under consideration, but the prices still have not been agreed upon.

We are fulfilling the plan of control systems' production. To put it more precisely, we manufacture as many of them and in such a set-up as we have orders for."

The question of why these points of the resolution have been complied with only partially is justly asked. Are the communists at ZPA to blame?

#### Only Some Sections of Resolutions Have Been Implemented

He who carefully examines the official records of the meetings of the CPSL factory committee and minutes of membership meetings of the CPSL ZO will find that there has been virtually no meeting which did not deal with the problems of robotization. They carry out this production program under aggravated conditions. At ZPA they have been working in crowded conditions for several years already. In their workshops, there is virtually no space on the floor to step because maximum possible use has been made of every square centimeter. The industrial robot PR-16 and the above-mentioned manipulators and control systems are largely manufactured at the expense of traditional production. Control systems, for example, are manufactured in the workshop designed for production of electronic equipment even at the price of reducing the manufacture of transducers and injection molding presses. People realize that they must manufacture control systems at any price because otherwise the manufacture of robots and manipulators for which they are designed will be brought to a halt not only at ZPA, but also in other associated plants. The party organization, whose chairman is Juraj Ivanco, together with the head of electronic equipment operations, Frantisek Halko, therefore proposed several measures aimed at moving technical offices to another building. Although the technicians have to walk more nowadays, former offices are used for manufacture now. A similar situation prevails in the manufacture of industrial robots and manipulators. They earmarked a workshop for their manufacture which is directly supervised by Eng Pavol Sandor, technical deputy manager. However, they manufacture only the principal mechanical part here. Other components are manufactured in cooperation with other production sectors, but including also the Research Institute of the Metalworking Industry in Presov, because the workshop does not have the necessary mechanical equipment.

#### What Proceeds Slowly, Does Not Run Away?

The solution is seen in the new plant ZPA II. Its construction was supposed to be completed already in 1982. Surface Construction Projects Presov, however, did not meet the deadline. Now a new deadline has been set--31 December 1984. During the last party control days it was stated, however, that even this new deadline is considerably threatened. Surface Construction Projects try to justify the delays by the labor shortage. Yet, the new plant will not manufacture exclusively industrial robots and manipulators, as is erroneously stated in public. It will primarily manufacture electric servo-motors, which are needed in the power sector and chemical industry for control of various types of armatures. Only later on was an addition made to the original project providing for manufacture of robots and manipulators.

"We still have only bare areas designed for production without necessary equipment," says Eng A. Seman. "Our enterprise was supposed to obtain Kcs 80 million to expand production of industrial robots and manipulators. We have received nothing so far. Without special machine tools we will not be able to start manufacture in the future of a larger number of robots, manipulators or control systems, although according to the state goal-oriented program we should be producing robots and manipulators at a value of approximately Kcs 80 million and control systems at a value of Kcs 30 million by 1985."

#### Industrial Distribution System Lacking

ZPA Presov thus finds itself in a situation similar to several of our manufacturers, who on their own initiative started to manufacture sophisticated equipment without the necessary production areas, without design and engineering capacities, but also without the necessary equipment. First robots and manipulators were produced in crowded conditions essentially by hand. They lack equipment and solid material backing needed for series production.

Yet even under these circumstances the CPSL factory committee at ZPA will demand of the communists the fulfillment of the specified tasks in robotization. It is convinced that the existing problems are temporary. In the first place, all demands of customers must be met. Fortunately, there have not been many of them so far. They have got hold only with great difficulty of 8 years for the manufacture of proven industrial robots PR-16 this year, although they managed to manufacture 17 of them in 1981. Although the manufacture of 20 PR-16 robots is planned for the next year, the actual number will depend upon the customers' interest. Unlike cars or other machinery, robots cannot be manufactured for stock. Every robot must be adapted to concrete conditions. As long as the manufacturer does not know these conditions, he cannot manufacture the robot. Nevertheless, they assume a bigger interest in industrial robots and manipulators next year because the price charged to the customer will already be partly subsidized from the state budget. Under the specific conditions of ZPA, this means that the customer will pay only Kcs 395,000 for the PR-16 robot, whose production cost is set at Kcs 550,000 beginning next year. For the manufacturer, that is, ZPA, the condition was stipulated, however, that this subsidy will be granted for the next 5 years only. During this interim period the actual production cost will have to be reduced to Kcs 395,000.

A different situation exists in the manufacture of control systems. There is an increasing interest in them and the communists at ZPA set themselves the task of producing them in the required quantity. The biggest demand is for control systems equipped with microprocessors or microcomputers because they offer better conditions for programming. They are used not only in the PR-16 industrial robot manufactured at ZPA, but also in industrial manipulators made by VIHORLAT at Snina and ZTS plant in Bardejov.

A look at VUKOV and ZPA plants reveals that robotization is not a one-time action, but a rather lengthy and complex process. Although some success has been achieved in research and development of industrial robots and manipulators, there are still problems with the manufacture and employment of PRaM in the

production process. As we could convince ourselves on the spot, the communists at VUKOV and ZPA are at the head of the struggle for the elimination of existing shortcomings and for progress. The party organization at VUKOV Presov is working at the present time on the detailed application of resolutions from the Eighth Plenum of the CPCZ Central Committee and CPSL Central Committee to the concrete conditions of the institute. And at ZPA Presov, the CPSL factory committee intends during the first weeks of next year to evaluate the implementation so far of the resolutions from the CPSL factory conference and to define with more precision the tasks for the next period. The struggle for robotization of the national economy will not be easy. The communists at VUKOV and ZPA want to do everything in their power to speed up this process. They must not remain alone because the development, manufacture and employment of progressive equipment concern us all.

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PARTY OFFICIAL FINDS BUDAPEST INDUSTRY IN POOR SHAPE

Budapest NEPSZABADSAG in Hungarian 14 Dec 83 p 3

Article by Laszlo Bekesi, secretary of the HSWP Committee for Budapest:  
"The Industry of our Capital"

Text The Party Committee for Budapest, acting on the basis of a July 1983 decision of the Central Committee, has analyzed the situation of industry in the capital and designed its most important tasks. This survey took, of course, account of those factors which during the last three decades determined the development of industry in Budapest. The period of fast, extensive-type industrial development in the early 1950s created tens of thousands of new industrial jobs in our capital. Industrial production and the number of workers employed grew by leaps and bounds, starting the fast growth of the capital and contributing to the geographic centralization of the national economy and within it that of industry.

The second significant period of industrial development began at the end of the 1960s and lasted until the mid-1970s. Then the goal was the improvement of the geographic distribution of industry and the faster industrialization of the countryside. The importance of the factories established in Budapest and their share in the overall industrial production decreased to some extent when they moved to subsidiaries in the provinces. While in 1960 the factories of Budapest had supplied two-thirds of the gross volume of industrial output and more than half of the industrial workers were employed in the capital, by 1982 the share of Budapest dropped below 25 percent in both areas.

However, the negative effects of this huge program are still perceptible in the industry of the capital. Among them the most conspicuous is that more than half of the already limited resources for industrial development have been invested in the countryside, preventing the pressing reconstruction and necessary structural changes in the industrial plants of Budapest and blocking the technological modernization of these plants, contributing thereby to the aging of part of the fixed assets.

The third essential factor that shaped the industry of Budapest was the period of great reconstruction that began in the late 1970s and has lasted until now. It includes, among other things, the reconstruction of the clothing, furniture and printing industry, that of the Hungarian Ship and

Crane Factory, the Ganz-Mavag, the United Incandescent and the Hungarian Cable Works. These reconstructions entailed investments of billions of forints, the implementation of which has produced and still produces modern capacities, advanced techniques and technology.

#### Various Influences

The realization of reconstruction investments, however, brought also some less favorable experiences. In most cases procrastination, poor planning and defective organization increased the cost of the investments and reduced the yield of the newly introduced capacities. Lower than planned profit rates and the burden of credits contracted for the projects or state loans have resulted in situations in which some large enterprises, such as United Incandescent, Ganz-Mavag and various units of the former Csepel Works are working with low productivity and are facing losses or lacking reserve funds. Another general experience of ours is that while implementing reconstructions, the development of certain production phases has lagged behind, or the development priorities did not correspond to optimal requirements, and therefore the effective utilization of new capacities is difficult, the quality of the products is not impeccable and their competitiveness is poor.

The industry of the capital has stood also considerably under the influence of past or current governmental development programs. The implementation of the program concerning the production of vehicles introduced new production profiles and made possible the manufacturing of easily exportable products. The program of producing medicines, insecticides and intermediary products contributed to the growth of exports against dollar payment and thereby brought relief to our foreign balance of payments concerns. The computer and eletrotechnical program introduced advanced technology into the industry of the capital. Unfortunately the implementation of the electronic program has been slow because of the scarcity of financial resources. Thus far only one-third of the investments planned by this program have been carried out.

The fifth meaningful factor that influences the development of industry in Budapest is the selective and intensive development program. The correct principles of this program and its most important goals are still valid, yet its results have been thus far rather modest. The enterprise plans based on this program have hardly been implemented because of the large capital requirements, slow productivity increase and the unrealistic need of personnel related to these ventures. At the same time the industrial premises in Budapest are largely obsolete construction and require restoration and, although the situation is different in each plant, there are many machines amortized to zero along with modern production equipment and the kind of machinery that uses our limited manpower resources at a low rate of productivity.

Other strong influences have been exerted upon the industry of the capital by new production units which cropped up during the last couple of years and the number of which is still growing. Among them the subsidiaries of agricultural cooperatives established in Budapest and certain small production units which are functioning in a great variety of organizational forms



are worth mentioning. Their dimensions and share in the macroeconomy are, despite their fast growth at present, not decisive either insofar as the volume of their production or the number of their employees are concerned. Yet they deserve nevertheless our attention. For one thing, these organizations help eliminate the bottlenecks in the capacities, and they also function as partial substitutes for a non-existing background industry. Yet, on the other hand, they siphon away manpower from the industrial enterprises and often they cause tensions because of their inordinately high income possibilities which stand in no relation to their output. At present it is not yet possible to draw unequivocal and final conclusions about these new forms of our macroeconomy. We ought to follow their activities with attention, their achievements should be used for the pursuit of good purposes and their distortions be corrected consequently and urgently.

#### Decreasing Number of Employees

More than 90 percent of the industrial capacities working in the capital form part of the processing industry. Eighty percent of the instruments, 75 percent of the pharmaceuticals, 70 percent of the communication and vacuum technology products, as well as electrical machines and instruments are being manufactured in Budapest.

The industrial cooperatives of the capital are employing 37,000 workers. This 10 percent portion of the total number of industrial workers produces 7 percent of the industrial output of the capital. Industrial and consumer services are the prime features of this production, the per capita output of which has doubled during the last ten years in Budapest.

The industry of Budapest plays a paramount role in the manufacturing of exportable products. Factories established in the capital are producing 50 percent of our ruble area exports and 35 percent of the dollar paid exports. This includes almost half of the non-ruble exports of the processing industry.

The industry of the capital employs currently about 360,000 persons. During the last decade the number of persons employed in industry decreased by 180,000, i.e., roughly by one-third. The trend points toward an acceleration in this decrease. During the first 10 months of 1983, 20,000 workers have quit the industrial enterprises of Budapest. The decline in personnel is particularly relevant in metallurgy, light industry, among the blue-collar workers, in factories which are working in three continuous shifts and in which the conditions of work--for example because of the heat--are more difficult than the average.

Most of those who leave the capital are not the ones less needed in their particular jobs, but the better and more skilled workers and those who are working in more than one shift or in particularly demanding jobs. This per se would not be detrimental to the economy if manpower would move from the areas of low productivity toward more productive ones. However, the trend is just the opposite.

There is no doubt that we need fast and effective measures to halt this trend. It would be of great importance to establish economic regulators which set forth identical demands and identical conditions for all economic units, regardless of their structural buildup, size, branch affiliation and sectoral position. Controls ought to be tightened and sanctions made more effective in all places where illegitimate concessions and incomes which stand in no relation to productivity are eliciting shifts in manpower.

#### Contradictory Situation

The structure of production and the age of the products are enlightening clues to the productivity of industry in Budapest. The industry of the capital produces at present more than 200,000 items. This is too much. The average age of the exported goods of this output is 14 years. One-fifth of the products presently manufactured are more than 20 years old, and only 30 percent can be considered as modern for international standards, these are less than five years old.

The organizational setup of the industrial enterprises in Budapest is inconsistent. For one thing, it is characterized by the scattered location of the plants; the 400 industrial enterprises of the capital are working on 4,300 premises. 1,600 plants have less than 50 workers, in the cooperative industry there are 750 plants with less than 10 workers. Most of these mini-plants, which are often located in cellars, barns, building basements or old stores, are obsolete and their working conditions are poor. Their liquidation is being prevented by the lack of financial resources and interest.

Another characteristic feature of the industrial enterprises in Budapest is their over-centralized management. In many cases the reorganization of excessively centralized enterprises and the creation of independent organizational units would be justified. But this is not the only, let alone the infallible, solution. It is possible to grant greater autonomy to the individual production units also within the large enterprises. Moreover it is feasible to foster intramural interest, to promote incentives and to mobilize the existing reserves without major organizational changes. Progress is very slow in this area. Enterprise managements are often raising obstacles to the development of internal interest and independence rather than helping promote it. We frequently observe that the headquarters of large enterprises fail to grant even a minimum of independence in wage and material management to their individual units. Unfortunately, another general phenomenon is that factory managements are unaware of the profitability and cost-limits of their products, the value judgment of the market, the product and process improving possibilities and the chances of cooperation.

#### Specific Conditions

The requirements of general validity related to industry are well known and, of course, are in force also in Budapest. However it is obvious that the development of industry in the capital is strongly influenced by some specific conditions and tasks inherent to the capital. Improvements in the

productivity of manufacturing require--and the declining number of workers makes it even imperative--the employment of manpower-saving devices, extensive mechanization and in a future perspective the use of industrial robots. A characteristic feature of industry in Budapest is the high concentration of research and development capacities and intellectual resources. These ought to be better exploited also in industrial production. Links between research and production should be strengthened, the pace of introducing new processes should be accelerated, and the situation and professional interest of the people with technical education should be improved.

It would be useful to make fast progress in the areas of communication and vacuum technology, instrument and electronic industry, pharmaceutical products, vehicles, household chemicals, printing and industrial services. However there are also some industrial activities in Budapest which should be phased out. More resolute actions should be taken against those enterprises which cannot meet the requirements. Timely and consequent decisions ought to be made for the establishment of profitable conditions of production and for the suppression of losing ventures.

In order to carry out this inordinately difficult and painful action, we need such a government regulation system which applies objective standards to productivity and imposes rising but equitable standards of compulsory growth to all economic units. Moreover it would be indispensable to create such a political atmosphere and background that supports and promotes action against prolonged uneconomic production forms, stimulates the regrouping and better utilization of the available manpower and financial resources.

The control agencies and party organizations ought to pay particular attention to the settlement of cadre problems in the industrial enterprises. Leadership ability and flexibility to meet growing requirements are those qualities in which no concessions should be made in case of the appointment of enterprise managers. This may often lead to conflicts and makes changes in the cadres necessary. Such changes ought to be carried out with no delay, abiding by the principles of our cadre policy. In the changes of cadres it is useful to apply increasingly the democratic methods of leadership selection, the competitive system of selection and appointments for a determined period of time. In all this the share and controlling role of the collective involved should be increased. At the same time the credibility of good managers must be strengthened, their astute decisions supported and their generous work appreciated.

12312

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## MAIN FEATURES OF INVESTMENT POLICY DESCRIBED

Budapest KOZGAZDASAGI SZEMLE in Hungarian No 11, Nov 83 pp 1292-1296

[Article by Janos Hoos, state secretary, National Planning Office: "Main Features of the Investment Policy in Hungary"]

[Text] Expansion and continuous modernization of the fixed assets inventory, and the expanded regeneration of the fixed assets are indispensable conditions for the lasting and well-founded growth of the economy and for improving the population's living and working conditions. Regeneration of the fixed assets takes place by way of investments, and the results of science and technological growth also may become direct productive forces generally by way of investments. It is therefore understandable that every country treats its investment and development policy as a part of key importance in its economic policy.

Basically the Hungarian investment policy is aimed at implementing the regeneration of fixed assets as efficiently as possible by serving to lay down the material and technological foundations for and carrying out the tasks before the national economy.

The sixth five-year national economic plan defines the directions to be followed in the years between 1981-1985. According to this the main economic task is to further strengthen the economic foundation for society's development; and relying on the results of science and technology, on international economic cooperation, and especially on the economic integration of the CEMA member countries, the economic work should become more efficient and the national economy's equilibrium should become restored and fortified.

### Foreign Trade Balance and Investment Policy

Improving the country's foreign trade balance has been given significantly greater emphasis than before in the economic policy as a whole, and thus also in the investment policy.

Repayment and the high interest burdens on loans taken earlier from abroad, and the unfavorable development of the Hungarian economy's exchange rates require that we increase our exports significantly faster than our imports, that the growth rate of the national income significantly exceed the increase in domestic consumption, and that our foreign trade balance operate with a surplus.

The requirement of establishing a foreign trade balance places dual tasks on the investment policy. On the one hand the opportunity to invest is significantly more modest than during the preceding medium range plan period, and on the other hand even with the tighter investment means the process of modernizing the production tools must be accelerated, increased competitiveness and export potential of the Hungarian economy must be promoted. To this end we must improve the efficiency and modernism of the investment process.

The national economy's Sixth Five-Year Plan defines the more immediate tasks of the investment policy--building also upon past experiences of the investment process--as follows:

--(a) Over the medium range plan as a whole as well as in each individual year the extent of planned investments must be in harmony with the economy's accumulating capacity. The Hungarian economy reacts sensitively to even minor deviations from the plan, therefore investments must be prevented from exceeding the extent made possible by the national economic equilibrium. Consideration must be given to processes already in progress, the financial needs of finishing up investments which are already under way at a good rate, the requirements of maintaining profitable activities on a level, and the development attractions of international contracts. It is necessary to provide for the justified financial requirements of developments connected with fulfilling the state's communal responsibilities, and in the infrastructure the conditions for implementing the investments indispensable to the basic supply tasks.

--(b) We wish to develop ratios between the larger and smaller investments based on decisions made by the state and by enterprises, so that the development expenditures which are recovered quickly, or relatively slowly, will place a reasonable burden on the economy. We will increase the ratio of the more rapidly recovered and lower cost investments which serve to modernize production, and in this connection we will decrease somewhat the high expenditure investments which take a long time to recover.

--(c) National economic planning and regulation will permit better than before to implement investment goals based on efficient and rational enterprising. This is helped also by the state's programs and cooperation.

--(d) The development policy emphasizes the developments which serve to increase international competitiveness--if necessary and justified, then even at the cost of decreasing the emphasis on those ideas within the branch which do not primarily serve this goal.

#### More Vigorous Selection in Choosing the Goals

We rank the investment intentions on the basis of the following viewpoints:

--We must develop faster than average those activities where even today we are conducting profitable export, and where these can be expanded over the long range while preserving profitability.

--We are preparing with great circumspection the development of those economic activities which can be made competitive in the near future. However, only those developments will enjoy an advantage which serve to solidify the foreign trade relations, and improve the flexibility of production capacities necessary to follow the demands of the foreign markets.

--We will maintain production and ensure replacement of the fixed assets to the necessary extent (in some cases, even expanding them to a reasonable extent) where the national economy will need the products even over the long range, where the lack of them would fundamentally hinder the operation of the economy, and where they can not be economically obtained from import.

--In the composition of investment expenditures by branch, expenditures will increase for energy management developments with long implementation times which are recovered slowly, but where with the developments which serve to decrease energy consumption the specific energy consumption and the growth rate of energy management investments can be moderated.

In developing the infrastructure we must pay particular attention to those goals which most directly affect the population's living conditions and which represent the most important conditions for production. We are emphasizing the development of health care delivery, the network of elementary schools, and the telephone network. We will continue subway construction, reconstruction of the railway network, and--with more active participation by the population--housing construction.

More efficient utilization of the investment resources at the same time also means preventing waste. With further development of regulation we wish to achieve that the enterprises strive for reasonable savings in the investment process, and that emphasis be placed on frugal solutions.

The implementation time continues to be long for investments in Hungary. With the tools of planning and business management we want to achieve that faster implementation and installation be made possible and forced by decreasing the number of investments simultaneously under implementation. Those who cooperate in the planning and implementation of investments wish to develop such a mechanism of cooperation and responsibility which creates interest in rapid and good quality implementation.

#### Investment Decisions and Financing System

One of the important development policy tasks of the Sixth Five-Year Plan period is to strengthen the role of profitability in choosing investment goals and in selecting ways of implementing them. In all phases of decision-making it is necessary to ensure unity between the natural and profitability goals, which in all cases must be in harmony with the financial feasibilities.

We will implement as major investments by the state, those highly important developments in energetics, basic material production, and the infrastructure which will greatly influence the economy's structure and which we can expect to recover only over a longer period of time. The number of these investments will decrease in comparison with the previous plan period.

Among the goal oriented investments there are some combined development goals which are relatively homogeneous and serve to create and modernize national networks. These developments typify the branches of the infrastructure (building and reconstruction of hospitals, electrical energy network, telephone network, and improvement of the national railway and highway network).

At the productive national investments the requirements of recovery are implemented in such a way that those making the investment will have to pay back--under more favorable conditions than loans--the monies serving to finance the investment.

In the case of investments made by enterprises the development possibility will be determined by their own resources formed according to the normative rules, and by the ability to obtain loans, which depends on them.

State assistance for production oriented investments can be given in only a limited area--for example, to reduce energy consumption--but in each case this is tied to the fulfillment of profitability requirements.

In specific cases the enterprises may also take advantage of state contribution to their developments on the basis of bidding. The enterprise does not have to repay the basic contribution but pays a specific amount of annuity, which is higher than the interest rate, for the sum received for several years. With the basic contribution we wish to promote implementation of the investments primarily of enterprises which are growing dynamically, their activities as well as the planned development are profitable, but which have already committed their financial means (for profitable developments).

The normative requirements of profitability are determined concretely by the monetary system; its interest and responsibility consequences are ensured by the monetary means. By this the responsibility of those is increased who participate in choosing the goals and identifying the ways of reaching them, and in shaping the investment decisions.

The role of bank loans for investment is increasing in implementing the development policy's goals. The basic criterium for authorizing loans is profitability of the developments. But the own contribution requirement will continue to remain in the interest; that is, the enterprises accept risk also with their own resources in implementing the investment. The number and size of credit preferences will decrease, and the restriction of loans to branches will also decrease. Emphasis will be placed on goals which affect several branches, such as for example increasing the exporting ability, or decreasing the specific material and energy consumption. Competition among enterprises will increase to obtain loans, which will also result in more effective attention being given to the profitability viewpoints.

## New Tasks for the Years 1983-1985

The recent time period has proven the listed basic principles and requirements of the Sixth Five-Year Plan time period's investment policy conceptions. But the changes which have occurred in the equilibrium position of the Hungarian economy, the stricter requirement for bringing about equilibrium, and some experiences of the recent time period have also called attention to the need to expand the investment policy concept with new elements.

The foreign trade situation makes it necessary to achieve an even significantly larger foreign trade surplus than had been assumed in the medium range plan. This, as well as the fundamental interest of preserving the standard of living as fully as possible, require us to further decrease our investment projections. This is no small task which I would also like to prove with a few numerical data. In 1982--at comparable prices--we spent 14 percent less on investments than in 1978, and the 1983 plan projected an additional 10 percent decrease in the planned volume. The ratio of net accumulation is decreasing from 28.7 percent in 1978 to 11-11.5 percent in 1983, which is unprecedented in its size in the economic history of the post-liberation [post-World War II] Hungary. The ratio of gross accumulation averaged 32 percent in the 1970s, but remains under 26 percent in the 1983 plan.

The decreasing investment opportunities conceal increased tasks. We must further strengthen in the 1983-1985 time period the selection requirement defined in the investment policy concept. We consider it a basic principle to concentrate the available resources on implementing investments connected with efficient programs which ensure breakthroughs in the technological-economic growth. Not only the increments in the existing funds but also the existing funds as a whole, that is, the existing production funds must be assigned to serve this goal.

We expect that in areas which operate at a loss or with lower efficiency, we will not even be able to replace the used-up fixed assets. We will put into effect stricter requirements against enterprises which have gotten into trouble because of their excessive development activities, and ones which operate at poor efficiencies. The efficiency and profitability requirements will increase.

We will regroup a portion of the resources to implement investments which have come up, or which have received stronger emphasis since the medium range plan was prepared.

The significance of decreasing the national economy's (specific) expenditures has increased. Because of this we will continue with new conditions the earlier already initiated energy management development and rationalization program, and accelerate its implementation. In addition to this we are also making increased efforts to implement the government's program to rationalize material consumption and modernize the technologies. In the production sphere by concentrating the loans and the state subsidy, we are spending a



decisive portion of the development means for this purpose (besides the investments aimed at increasing the exporting ability and to economically replace imports).

Increasing the economy's competitiveness requires that our enterprises spend their development resources on more quickly recovered, less construction intensive developments which eliminate bottlenecks, improve product quality and are lower in volume, and that there be a closer relationship between the results of technological development activity and the investment activity.

In recent years the inventory of unfinished investments has increased significantly and reached 210 billion forints in the socialist sector by the end of 1982. Interests attaching to liberating the dead capital tied up in the unfinished state make it necessary to decrease the inventory of unfinished investments by the end of 1985 to at least the level of the annual expenditures. This can be achieved by better preparation of the investments, speeding up the implementation process, and speeding up the start-ups.

#### Preparations for the Seventh Five-Year Plan

One important task of the investment policy work of the time period between 1983-1985 is to begin during these years the preparation of the Seventh Five-Year Plan's main development directions (which will run from 1986 to 1990) on the basis of the results of our long range planning. Within the framework of the first step of this work:

--we must identify the questions of transition (thus, for example, the determination that can be expected for the end of 1985, the requirement of means needed to continue and finish the investments in the process of implementation at that time);

--we will develop ideas about the fate of investments postponed during the course of the Sixth Five-Year Plan's time period; also,

--form principles concerning the handling of accumulated needs (for example, the replacements); and also

--we must determine the main strategic goals of the development policy for the time period between 1986-1990.

We want to coordinate this work with the evaluation and planning of the financial needs of investments which can begin between 1983-1985, primarily in order to prevent the development of an investment upswing in the first years of the Seventh Five-Year Plan which would exceed the national economy's capabilities.

Successful implementation of the investment policy requirements demands greater responsibility, and more rational economic operation with the existing resources from all participants of the economic life, from the technical and economic professionals working in central administration, in the financial

institutions, and at the enterprises. The guarantee for this is the ability to rejuvenate the economic structure which is seen in planning, in regulation, as well as in the activity of the enterprises. One of the most important goals of the investment policy is to support this rejuvenation process also with its own tools, to help these efforts succeed.

8584

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PURPOSE, DETAILS OF 84 REGULATORS EXPLAINED

Budapest MAGYAR HIRLAP in Hungarian 30 Nov - 8 Dec 83

[Serialized article by Ivan Wiesel: "Regulation as of 1984"]

[30 Nov 83 p 7]

[Text] Incomes and Their Centralization

Adjusting to the changes in the external and domestic conditions of economic activity and to the national economic objectives, economic management modifies each year the rates of the regulators. The modifications that apply as of 1984 will affect enterprise income regulation, agricultural income regulation, the investment process, the management of wages at the enterprises, the price system and, as a new element, personal income taxes.

A twofold purpose can be observed in the modifications: to provide incentives and disincentives for a further intensification of the efforts to restore economic equilibrium; and to enhance the solution of the tasks related to the directions of economic management's long-range development. These parallel efforts in regulation wish to strengthen the harmony between the shorter-term tasks and long-range development.

On this occasion we will review the most important elements of the regulation of enterprise incomes, as contained in Decree of the Council of Ministers No 39/1983 (12 Nov) on the System of Enterprise Income Regulation, and in Ministry of Finance decrees Nos 35, 36 and 37/1983 (12 Nov).

Labor More Expensive

The most essential change in enterprise income regulation is that the rate of the social-security contribution will increase by 10 percentage points. The purpose of this increase is to make direct labor more expensive so as to compel rationalization of personnel management and to stimulate faster technological progress wherever possible. This measure is warranted also by the need to reduce the state budget's net social-security deficit. According to preliminary estimates, in industry the higher social-security contribution will generate 7.5 billion forints of additional revenue in 1984.

The rising costs of direct labor can be expected to have certain price-increasing effects. Because of the price ceilings, in some areas--primarily at the

organizations where services for the population account for a substantial proportion of the organizations' activity--special consideration will be necessary even so; in this context, for example, the price ceilings will have to be reviewed, and major or minor tax concessions might have to be made.

The higher wage costs will foreseeably reduce enterprise profits, which in its turn will curtail the outflow of purchasing power from the enterprises and will enhance also the disinvestment necessary to meet the requirements of equilibrium.

#### Mandatory Reserves Will Cease

Another very essential change in enterprise income regulation is that the system of mandatory reserves will cease as of 1984. From their profit before taxes the enterprise will be able to form a voluntary reserve fund, which they will be able to manage and use without any restrictions.

Under the new system the retained profit in the reserve fund may be used to supplement the incentive funds--again on the basis of the enterprise's decision--by augmenting the profit before taxes. In some cases of course (when making provisions for a loss or for a deficit of the development fund or profit-sharing fund, for example) mandatory regulation of the sequence in which the voluntary reserve fund is to be used is unavoidable. The enterprises may deposit the retained profit of their reserve fund in their current account and use it even during the year. If use of this retained profit during the year affects the enterprise's tax liability (for example, if the reserve is being used to pay profit-sharing or for development), then the estimated general profit tax on the amount spent must be paid simultaneously. Final settlement of the tax liability will occur when the annual profit statement is filed. There is no obligation to replenish the voluntary reserve fund, and its unspent balance may be carried over into the subsequent years.

The enterprises may buy bank bonds for 30 percent of their accumulated earlier [mandatory] reserve funds, and they may transfer 15 percent to the new [voluntary] reserve funds; the rest will be transferred to the state budget. Naturally, the obligation to replenish earlier use of the reserve fund [up to the mandatory level] remains unchanged.

#### Curtailment of Investors' Purchasing Power

The rate at which the investors' purchasing power is being curtailed will increase further in 1984. The 1983 tax on the enterprises' development funds (the blocking of such funds in the case of cooperatives) will be retained in 1984, and in addition there will be a further tax at the same rate, 13 and 10 percent respectively, relative to the tax base. In industry this measure will further reduce investment possibilities by about 6.0 to 7.0 billion forints. The decree allows certain exceptions, especially in the case of enterprises that guarantee the investment's early payback in foreign exchange.

In 1984 there will be modifications also in the system of depreciation that is playing an ever-greater role among the enterprises' sources of financing development. Although the overall depreciation and the rate of its centralization

will remain the same, there will be fewer depreciation schedules, and it will also be possible to use accelerated or delayed depreciation, in accordance with the market's potential. Thus the possibilities of the enterprises will be broader.

#### System of Incentive Funds

The present system of interest rebates will cease. Therefore a new system of preferences will have to be introduced for the individual credit objectives that are of outstanding importance to the national economy. Within the framework of this new system of preferences it will be possible to deduct from the tax base of the profit tax a specified proportion of the interest charged to cost; and the economic organizations concerned will be able to claim as a tax credit, against the otherwise payable general profit tax, a specified proportion of the interest paid from the development fund.

On the whole the system of incentive funds will not change in 1984, and there will be minor modifications only in the use of the cultural and social services fund. The essence of these minor modifications is that the maintenance cost of fixed capital used jointly for social purposes will not have to be borne solely by the owner of the fixed capital; on the basis of a separate agreement, the other users will be able to reimburse all or a part of the maintenance cost. Such reimbursements can be paid directly into the cultural and social services fund. As of 1984, it will be possible to directly supplement the fund also with the wages payable for voluntary work.

Income regulation is modifying to some extent also the profitability of export, subordinating it to the tasks of restoring external economic equilibrium.

[1 Dec 83 p 7]

#### [Text] Narrowing Differences in Agriculture

The modifications of the economic regulators that apply to agriculture are contained in decree of the Council of Ministers No 41/1983 (12 Nov), and in Ministry of Finance decrees Nos 39, 40 and 41/1983 (12 Nov).

For the large-scale farms the main elements of income regulation are changing in the same way as for other enterprises. Thus the higher social-security contributions, the formation of voluntary reserve funds, and the modernization of the system of depreciation (see yesterday's issue of MAGYAR HIRLAP) will increase wage costs in agriculture by about 12 billion forints.

The system of regulation geared to the peculiarities of farm production is striving to provide more incentive for the expansion of competitive export, amidst balanced domestic supply and demand. Within farm production this significantly changes the internal proportions of the profitability of production and differentiates the farms. Consequently the procurement prices and subsidies are being modified within the individual branches of farming.

#### Higher Procurement Prices

There will be above-average increases in the procurement prices of spicate grains and corn, while the premium for growing more grain will be abolished.

The procurement prices of milk and slaughter cattle will be increased in 1984 so as to improve the profitability of the branch. The increase in procurement prices will offset the rise in feed prices in the case of slaughter hogs, but only about a quarter of the rise in feed prices in the case of slaughter poultry in view of the gradually more difficult conditions of marketing. The increase in procurement prices will be about average for vegetables and potatoes, but below average for industrial crops, fruit, and wine grapes. Profitability will develop accordingly, and the farms will be able to improve their profitability by changing their production structure and reducing their costs. Agricultural procurement prices will increase by 4.4 percent on average in 1984. Two factors have influenced the setting and differentiation of the price ratios: the requirements of the world market (marketability), and secure domestic supply.

The higher procurement prices are warranted by the rising costs of farm production in 1984, due to increases in the prices of industrial materials and machinery, and especially to the more and more expensive import. The subsidies and various preferences also are being reduced. As a result of all this, the control of purchasing power is asserting itself increasingly also in agriculture.

With the discontinuation of subsidies, the prices of manufactured fertilizer will increase on average by 16 percent in 1984, and within this the rates of increase will vary by types. The increase in the prices of protein feed will be 8 percent; and of feed grain, 5 percent. The premium for growing more grain, and the price subsidy for motor fuel will be abolished. The cost impact of all this can be estimated at 2.0 billion forints.

#### Complete Exemption

On the large-scale farms the enterprise (or cooperative) development funds that are formed from depreciation and profit will be reduced by an additional 11 percentage points. At state enterprises or state farms this curtailment of resources will be achieved through centralization; and in the cooperative sector, by blocking accounts.

The farms operating under unfavorable natural conditions will be completely exempt from centralization in 1984. Centralization will be differentiated also in case of the drought-stricken farms. In the meat, dairy and sugar sectors of the food industry, an amount equivalent to the installments due in 1984 on the state loans will be exempt from centralization.

There will be no comprehensive changes in the system of aiding farms operating under unfavorable natural conditions. To this category of farms there will be added about 90 farms whose plowland on 31 May 1981 had an average cadastral value of less than 14 Austro-Hungarian gold crowns per cadastral yoke, but up to now their favorable income situation excluded them from the category of farms operating under unfavorable natural conditions. In conjunction with the modernization of the production tax system, the present tax benefits will be provided as price subsidies linked to farm production. Thus the production-tax exemption of the farms operating under unfavorable natural conditions will drop from 70 to 40 percent, and at the same time their base-price subsidies will

increase by 4 to 6 percentage points, reaching 20 percent for farms with the poorest soils. The production-tax exemption of the farms receiving aid for other reasons will drop from 30 to 15 percent, and their special price subsidies will increase accordingly.

Earlier the ancillary industrial and service activities of the large-scale farms received far more favorable tax treatment than in industry. This is no longer warranted because it conflicts with the principle that taxes on identical activity must be the same, without regard for sectoral differences, so that the conditions for competing may be identical.

#### Also With Preferences

As a result of the regulation modifications, the current tax rates will approximate the "sector differential" and the number of tax rates will decline significantly. There is no production tax on production closely related to farming, on agricultural services, on winemaking, poultry processing, canning, etc. that fall under agricultural regulation. Primarily for reasons of production policy the tax rate will remain zero for several activities and services. (For example, the production and marketing of livestock feed and feed supplements, lumber industry basic materials, etc.)

In devising the tax rates, food processing that is based on agricultural raw materials and is not under internal revenue control--for example, meat and milk processing--continues to receive preference. As a result of the present modifications, the tax will generally be lower for the metallurgical, engineering and textile-industry sectors, for the chemical-industry sector that up to now has been discouraged through disincentives, and for certain lumber-industry and construction-industry sectors. The tax will increase in the case of activities that up to now have been taxed preferentially (for example, building-carpentry and furniture-industry products, nonagricultural services, etc.). There will be no significant change in the production tax on mining, food processing, transportation and loading, and on residential construction and installation work for the population.

As of 1984 the refrigeration industry will operate under agriculture's regulators, and the conditions of agricultural income and wage regulation will apply to it.

At the same economic activity, the regulator modifications reduce the large-scale farms' profit and their resources for financing development.

[6 Dec 83 p 7]

#### [Text] Wages and Opportunities

The modifications of enterprise wage regulation are contained in State Office of Wages and Labor Affairs decree No 6/1983 (12 Nov). Council of Ministers decree No 5/1983 (12 Nov) restates the provisions governing as of 1 January 1984 the system of basic wages that is outside the scope of enterprise wage regulation but affects incentives and earnings.

The principles and rates of the regulation of wages and earnings in 1984 are essentially the same as in 1983. But while regulation remains unchanged, there are modifications of a supplementary nature that are significant for the sectors and enterprises concerned.

#### Different Conditions

As of 1 January 1984, for example, the enterprises belonging to the construction industry's sector of planning and designing, and to its sector of organizing, managing and primary contracting of investment projects, will be assigned to the sphere of wage regulation linked to profitability. In view of these two sectors' special situation, and the differences that exist in their ability to generate profit and in their available capital, their applicable profitability indicator will be the profit in relation to five times the wage costs. The system of bonuses for senior managers also will change within this sphere. In a departure from previous practice, the bonuses for senior managers will not be linked to the fulfillment of specific tasks, but will depend on profitability in their case as well.

Departures from the general regulations that exist as statutory provisions in 1983 will be retained also in 1984. For example, tax-credit rates different from the general rate of tax credit that can be claimed on the basis of the profitability indicator apply to housing construction, domestic trade, and also to foreign trade that uses a different profitability indicator to begin with. In comparison with 1983, the coefficients for domestic trade will be higher by about 10 percentage points.

A new provision, however, is that within the sphere of central wage regulation form B the tax-free rate of wage increase will be 3.5 percent in a few sectors. The justification of this modification is that in the sectors concerned--mostly for reasons beyond the enterprises' control--there is essentially no opportunity for wage increases above the centrally guaranteed rate. The economic organizations in this sphere are unable to utilize the other sources of increasing earnings; for example, taxed wage increases from higher profit, higher profit-sharing, etc. (Such areas are coal mining, the mining of other ores and minerals, and the electric power industry.)

In 1984, the meat industry, railroad transport, and that part of the food industry which does not fall under agricultural income regulation will be transferred from their present central wage regulation form A--where the overall rate of tax-free wage increase is 2.2 percent, and the enterprise is able to use tax-free its payroll-budget savings resulting from a reduction of its work force--to central wage regulation form B.

In the systems of wage regulation introduced experimentally in 1983 there will be a few minor changes in 1984 affecting the tax rates. Thus the rates of the progressive tax on earnings will be higher by 3 to 5 percentage points; the rate of the profit tax under central wage regulation form A will be higher by 10 percentage points; and the rate of the income tax under central wage regulation form B will go up 5 percentage points. In 1984 there can be only a modest expansion of the circle of enterprises operating under these two experimental forms of the regulation of earnings.



## Upward Revaluation of Direct Labor

In addition to the two experimental systems of wage regulation, there will begin also another, limited experiment with wage regulation. Its underlying principle is that the enterprise, under a higher (by 20 percentage points) social-security contribution and a less progressive tax schedule, will be entirely free to make decisions regarding wage increases.

While the changes in 1984 are limited, the State Office of Wages and Labor Affairs is working on the long-range development of the regulation of wages and earnings. In the course of this it is striving to make the valuation of resources more realistic, and to raise the value of direct labor commensurately with the performance ratios. These efforts presuppose substantial changes in the present system, and the setting of new coefficients and tax rates. This work is closely intertwined with the general objectives of economic management's further development.

[7 Dec 83 p 7]

### [Text] Wage Rates

The system of basic wages for enterprise workers will change as of 1 January. The regulations now in force specify that the system of basic wages, and the schedules of rates and skills must be reviewed and regulated anew every three years. The purpose of these changes is to let the basic wage system exert constant pressure on the enterprises to develop earnings ratios that are in accord with the objectives of economic policy and, within it, of wage policy.

### Higher Basic Wages

The 1984 modifications affect the system of classification by skills, the system of job classification, and the system of wage rates as well. The most significant changes are in the classification of blue-collar skills. The classification of jobs has not changed. But there are changes in the number of factors that affect working conditions and influence performance; for example, the monotony (the close concentration that the activity requires) that stems from technological development, or especially unfavorable working conditions. For remuneration that is more closely differentiated in accordance with the working conditions, the new system of classification by skills recognizes five grades of working conditions, instead of the four grades at present. Thereby, the number of categories within the system of classification by skills is increasing from 24 + 1 at present to 30 + 1.

Among the white-collar workers, in the system for the classification of managers by skills the number of enterprise categories that express the national economic and sectoral importance of the enterprises is being reduced from four to three, and to the present quantitative indicators used as the basis of classification (personnel, production value, and stock of fixed capital) there is being added the indicator of export sales that expresses also the quality of economic activity.

In the case of executives the present category of technical and economic enterprise consultants is being abolished, but a new classification category is

being introduced that will enable the enterprises to pay substantially higher basic salaries than at present to those of their specialists who are university or college graduates and are doing outstanding work in technical and economic jobs or generally in jobs in the natural and the social sciences that are related to the enterprises' development. To this end the top salary bracket for executives is equivalent to more than 8 years of experience, while from the viewpoint of the lower salary limits the system of classification continues to distinguish five salary grades. These provisions provide the prerequisites for giving higher basic salaries to younger specialists with less experience but with outstanding performance.

Among office workers the educational requirement for certain jobs is only the completion of grade school, while specialized secondary education is required for other jobs. For the educational requirements' differentiated recognition in the basic salaries, under the new system of classification office workers are assigned to two grades. The office workers who have the secondary education required for their jobs, and whose duties are in the nature of the executives' tasks, are to be assigned to grade II. All other office workers belong in grade I.

In the newly devised system of wage rates the upper limits of the wage brackets are about 25 percent higher than at present, while the lower limits are about 10 percent higher. In the course of modifying the wage and salary brackets, above-average increases have been made in the wage and salary brackets of blue-collar workers who are highly skilled and are working under adverse conditions; of college and university graduates working as subordinates in technical, economic and other jobs; and of managers.

The rise of the wage brackets' lower limit was above average even in the categories with the lowest basic wages, because the Council of Ministers has set the minimum wage at 2000 forints as of 1 January 1984.

Time Limit: End of 1984

According to the provisions of the new system of basic wages, the enterprises must complete the new classifications of skills and jobs by 31 December 1984. To aid the enterprises, the branch ministries are to issue collections of classification examples.

For every worker the enterprises must ensure the lower limits of the wage brackets by 31 December 1986, through their own efforts, by using purposefully and in a planned manner their resources for wage increases. Thus the modification of the wage and salary brackets within the basic wage system is not accompanied by central subsidies and is not a general measure of wage policy.

As of 1 January 1984, the 290-forint monthly grant to compensate for earlier price increases will be built into the basic wages.

[8 Dec 83 p 7]

[Text] Personal Income Tax

The mode of levying personal income tax and its rates influence the incentives for various private businesses, intellectuals and artists, and also the amount of the population's purchasing power. New rules and rates for personal income tax become effective as of 1 January 1984. They are contained in Council of Ministers decree No 45/1983 (20 Nov), and Ministry of Finance Decree No 45/1983 (20 Nov).

The present personal income tax system has remained unchanged for more than a decade, while in the economy the opportunities for entrepreneurship have changed considerably, and also the currency has depreciated. The tax system's new regulation has been made necessary also by the fact that the present forms of differentiation no longer meet the requirements of our time, are complicated, and do not provide any incentive for the expansion of economic activity but encourage income-tax evasion.

The changes can be summed up as follows:

- a. The lower limit of taxable income, from over 12,000 to 24,000 forints, is being raised to 20,000 forints, and the tax rate is being reduced from 6 to 2 percent.
- b. The upper limit of taxable income, the portion over 200,000 forints, is being raised to over 600,000 forints, and the maximum tax rate is being reduced from 75 to 65 percent.
- c. Different tax rates for different incomes will cease, and a uniform tax schedule will apply. As of 1984, in a significant proportion of taxing personal income, the principle will be implemented that the tax burden on identical taxable incomes (tax bases) must be the same, regardless of the type of activity.
- d. As of 1984, differentiation of activities may be employed only in determining the tax base.
- e. The present high, prejudicial tax on incomes from selling real estate will cease.
- f. According to the regulations that will be in force as of 1984, incomes from different sources must be lumped together for tax purposes.
- g. The new personal income tax system makes it possible to determine tax liability also on so-called invisible incomes that are not prohibited by law (tips and gratuities).
- h. There is no change in taxing incomes from household plots.

With the listed modifications, the new practice of taxation that will be introduced as of next year will generally make for lower taxes. The state budget's

revenue from personal income tax will probably not be less than now because activities are expanding and the extent of income-tax evasion also might decline.

# Personal Income Tax Schedule (Effective as of 1 January 1984)

Annual taxable income (forints)	Tax (forints) + (percent) x (forints over)		
- 20,000	2 percent		
20,001 - 40,000	400	6	20,000
40,001 - 60,000	1,600	10	40,000
60,001 - 100,000	3,600	20	60,000
100,001 - 200,000	11,600	38	100,000
200,001 - 400,000	49,600	50	200,000
400,001 - 600,000	149,000	60	400,000
600,000 -	269,600	65	600,000

Under the new personal income tax system, wages and earnings from employment are not taxable. Thus there is no change in this respect.

When computing the tax base, the following must be regarded as income: cash received, the consumer price subsidy received on the basis of an agreement, and any benefit given in any form or for any reason to a member of a partnership. The following may be deducted as expenses: materials, wages, operating costs, turnover tax, entertainment expenses not exceeding 0.5 percent of annual income, use of a car for business purposes, and 3000 forints a month per family member helping out in the business.

The decree provides detailed information on the wide range of benefits that influence the amount of the tax base. For example, if at least 70 percent of his income is derived from working an invention, from the production of energy-conservation or environmental-protection products, or from the production or repair of medical equipment (or products), a private artisan may deduct 30 percent of his tax base, or 40 percent if he is working his own invention. There are separate estimated overhead rates for industrial designers, art restorers, costume and scenery designers, film and stage directors, coreographers, photographers, photoreporters, graphic artists, innovators, inventors, etc.

In the case of artisans whose income is difficult to control--for example, a taxi driver who does not have a meter--the tax authorities may estimate the annual income at between 54,000 and 72,000 forints. The decree contains separate provisions for computing the tax base in the case of operating a unit under a fixed-rate agreement: from the actual income it is necessary to deduct the fixed rate paid, the wages of the unit's employees, the costs directly borne by the unit, the cost of materials according to the inventory, and the turnover tax on sales that has been remitted to the cooperative.

Although the new personal income tax regulations are not linked directly to the modification of the economic regulators for 1984, they clearly express the desire to establish in the economy a general and uniform system of taxing income, which of course will influence the system of distribution, specifically also the price system and the wage system.

## ECONOMIC PERFORMANCE RECORD FOR 1983 DISSECTED

Warsaw PRZEGLAD TECHNICZNY in Polish No 50, 11 Dec 83 pp 8-10

[Article by Assistant Professor Mieczyslaw Rakowski, staff member, Planning Institute]

[Text] As a sequel to a review of the problems of economic strategy and the dilemmas of the 3-year plan I discussed in my earlier articles (PRZEGLAD TECHNICZNY Nos 34, 35, 36) I intend to present and analyze the more important factors determining economic growth in 1983 against the backdrop of the preceding years and draw the ensuing conclusions for the following years. The analysis is based on data taken from the GUS 1983 yearbook, the performance in the first 9 months of 1983, mainly based on the figures published in ZYCIE GOSPODARCZE, and the Planning Commission's projections of 1983 results.

## Industry

After the dramatic fall in the years 1979-1981 and the beginning of 1982, industry's sold production (in fixed 1982 prices) began to grow fast in the second half of 1982, but in 1983 the level of production was stabilized below the level attained in the 4th quarter of 1982. This is illustrated by the table below, in which the average quarterly production in 1982 was taken as 100.

Quarters	I	II	III	IV	Whole year
1982	98.4	100.1	94.5	107.1	100
1983	108.9	106.0	101.5	105.7	105.5*

\* Median value of Planning Commission's estimate.

Whereas in 1982 the production in the fourth quarter amounted to 109 percent of the production in the first quarter of that year, the similar comparison for 1983 will produce the figure of 97 percent. The overall 5.5 percent growth indicator for 1983 can be divided into 8.2 percent for the first three quarters and 1 percent for the last quarter of the year.

A simple extension of this trend into 1984 would not produce an optimistic picture; however, this would be an oversimplified procedure and it is necessary to take a closer look at other factors of industrial production growth.

#### Workforce

The table below compares the growth of manpower resources, labor productivity and wages in industry in 1981 and 1983 (data for the first half of the year) to the 1979 performance which is taken as 100.

	1981	1983
Total employed	99.2	92.4
Hours worked	90.4	95.9
Labor resources in man-hours	89.6	88.6
Sold production	88.4	92.4
Productivity per one man-hour	98.7	104.3
Real wage per one man-hour	118	82

The above figures indicate that the number of hours worked per one person employed in industry, after falling by as much as 10 percent in 1981 in comparison to 1979, increased again in 1983 and was only 4 percent shorter than in 1979 despite the formal introduction of two extra Saturdays off per month.

In the difficult present conditions, when housework and shopping take more time, it is difficult to expect a significant growth of real worktime; in fact, employees' insistence on shortening it should be anticipated.

As regards employment, it is easy to understand the drop and difficult to anticipate an increase if one takes into account the fact that real incomes have fallen by 18 percent and that there are opportunities for earning more, whether in handicrafts, unregistered services or farming. The drop in the employment of highly skilled staff is especially painful.

In these conditions the attainment of higher productivity per one man-hour in 1983 than in 1979 is a remarkable success but it is difficult to expect its further improvement unless the condition of production facilities is improved, better supplies of materials--especially imported ones--are ensured and unless real incomes increase. However, all these assumptions are rather unrealistic in the present situation, as I shall explain later on.

The difficulties with obtaining a further growth of productivity are reflected in the acute shortage of labor, which in itself stems from the above mentioned factors as well as from the faulty operation of the economic reform which, in its present shape, makes it difficult to rationalize the allocation of all productive factors, labor included.

## Imported Production Supplies

While in 1981 industrial production decreased mainly because of the decline in coal extraction, shorter working hours and social conflicts, reduced imports of production supplies were the main reason responsible for the fact that also in 1982 production was lower than in 1980. This reflected a general decline in imports that was caused by a refusal of credits for Poland on the part of capitalist countries.

In these circumstances, export revenues became the only source of financing imports, however, as it did in 1982 and again in 1983, also in the following years, the partial servicing of foreign debts will consume a growing proportion of this revenue.

The fact that in 1982 exports were only 12 percent lower than in 1980, despite the curbs on credits, was first of all the outcome of the return to a high level of coal exports, lower consumption at home and export-oriented investments, and secondly it was owed to the growth of the share of imports of production supplies in overall imports (which were 28 percent down) from 53 percent in 1980 to 66 percent in 1982 at the price of a radical reduction of imports of capital equipment and food and agricultural products. This made it possible to limit the decline of industrial production and of its exports.

Eventually, the import of production supplies (food not included) only dropped from 672 billion zloty (in 1982 c.i.f. prices) in 1980 to 595 billion in 1982, i.e., by as little as 11.5 percent rather than the 28 percent recorded in imports as a whole. In the same period, net industrial production (food not included) decreased from 2,092 to 1,785 billion zloty, i.e., by 15 percent.

The reason why the import of production supplies is regarded as the main factor determining the level of industrial output is that other factors, such as labor resources and the availability of domestic materials showed a smaller drop in the period in question while fixed assets in industry even increased somewhat (but also grew older at the same time).

Proceeding from this assumption, it can be seen that while in 1980 the relationship between net production of industry (food not included) and the imports of production supplies was 2,096 to 672, i.e., 3.11, the reduction of that import by 77 billion zloty caused a 307 billion drop in net production (i.e. 3.99 to 1), which resulted in the drop of the overall relation of net production to import in 1982 to 3 zloty to 1. This can be explained both by the growth of constant costs which cause a drop of net production at a time of a decline of overall total production, and by the change of the structure of production to the advantage of the industries supplying production inputs, in which the share of net production is lower than in consumer-oriented industries.

## The Period of Growth of Output and Imports

The purpose of identifying the period of growth of production and imports is best served by a comparison of the first 8 months of 1982 and 1983. This is justified by the fact that in all the months of 1983 both industrial production

and imports were higher than in the corresponding months of 1982 (whereas already in September 1983 overall imports were lower than in September 1982), especially imports from capitalist countries).

In the period under review the growth of imports depended solely on the growth of exports (less the cost of debt servicing), which in turn was determined in as much as 70 percent by a further growth of the export of fuels and agricultural products.

Alas, the growth of imports (in constant prices) was slower than that of exports as the terms of trade deteriorated, both in relations with socialist and capitalist countries. The import of production supplies for industry kept growing while imports of capital equipment and agricultural goods decreased in absolute terms.

In the end, imports of production supplies for industry (food industry not included) during the first 8 months of 1983 totalled 403 billion zloty (in 1982 prices) compared to 366 billion in the corresponding period of 1982, which means a 10 percent growth.

On the basis of GUS and my own estimates, net production in industry during the first 8 months of 1982 stood at 1,140 billion zloty and in the first 8 months of 1983 at 1,225 billion, i.e. 7.5 percent higher. This would mean that the growth of import of production supplies by 37 billion zloty has resulted in an 85 billion zloty growth of net production, a ratio of 2.3 zloty to a zloty, which was 1.7 times lower than in the period of decline of production.

This should probably be attributed to the further decline in the share of consumer-oriented industries that have a high proportion of net production (contrary to plans, the production of consumer goods only increased by 3 percent during the first 9 months of 1983 in comparison with the first 9 months of 1982), the failure to lower unit consumption of materials (the growth of import of supplies was faster than that of output), the serious deterioration of the condition of production equipment and the emergence of a new limit to production growth, i.e., the shortage of manpower.

The fundamental assumption underlying the policy of such drastic economic policy moves, i.e. increasing export at the expense of domestic consumption and investments and altering the structure of imports to the advantage of production supplies, was the conviction about the possibility of attaining a further growth of exports and, generally speaking, to the unwinding of a growth spiral on the basis of improved utilization of production capacities.

A comparison of the first 8 months of 1982 and 1983 shows that the growth of export by 11 percent (in constant prices) was first and foremost the result of a 29 percent growth of the export of fuels and energy and a 50 percent growth of the export of food and farm produce, whereas the export of manufacturing industries, which could be associated with the aforementioned growth of imports of production supplies, only increased by 4.5 percent overall and by 2.5 percent as regards exports to capitalist countries, while the export of machines to capitalist countries actually decreased in the period in question.



In absolute figures, the export of manufactured goods, in 1982 constant prices, increased by 19 billion zloty but exports to capitalist countries alone increased by just 5 billion, while the import of production supplies increased by 37 billion and 31 billion zloty respectively. The resulting relationship between the growth of export of manufactured goods and of the import of supplies would be 19-37, i.e., 0.51 zloty per zloty overall and 5-31, or 0.16 zloty per zloty as regards export to capitalist countries. These are very low figures indeed and they show that at present the Polish manufacturing industry is not able to increase exports to capitalist countries even if it received increased quantities of imported production supplies.

This is mainly the outcome of the poor quality and performance figures of Polish products (especially products of the engineering industry) and frequently of the complete unprofitability of exports. As it is no longer possible to increase the export of coal and food, mainly because of domestic limitations, it is not surprising that when the manufacturing industry proved unable to increase exports to capitalist countries and it was necessary to meet payment obligations, there emerged a powerful obstacle to the growth of imports that resulted in a stagnation of industrial production in the last quarter of 1983.

As the same factors affecting trade with capitalist countries will operate in 1984, it is difficult to expect any radical improvement. As regards the growth of imports from socialist countries, it will not be significant as far as raw materials are concerned and the development of exchange will especially apply to more balanced exchange of manufactured goods, which may only insignificantly contribute to production growth but should have a positive influence on its efficiency.

### Investments

Investments are the main internal factor capable of dynamizing the economy and social infrastructure. Although investment spending in 1982 fell by 31 percent in comparison with 1980, its relation to the lower national income was still high and amounted to 23 percent in that year. At present, investors compete for the allotment of funds with operating but not fully used plants and is rightly recognized as irrational.

However, the most important thing is that the investment projects that are currently being implemented do not produce and cannot produce the desired effects, whether with regard to quality or quantity.

To begin with, the relation of the value of newly commissioned projects to overall outlays in a given year is very low. It amounts to about 60 percent, while during the height of the building boom of the 1970's it ranged between 70 and 75 percent. This testifies to huge shortages of materials which make it difficult to complete the projects and obtain projected production results.

Secondly, the share of outlays on machinery in the public sector dropped to 30 percent in 1983 while it was as high as 45 percent as recently as 1980; the share of imported machinery in overall machinery purchases dropped from one-third in 1980 to one-sixth now. This means that the part of the outlays which can directly contribute to production growth is very small and it buys mostly outdated equipment.

Third, the outlays on machinery in the whole industry in 1983 are only half as high as the depreciation of the machines already working (counting in constant prices and assuming that the depreciation of machines in industry accounts for three quarters of the overall depreciation figure) whereas the corresponding figure for 1980 was some 120-130 percent. This threatens to bring about a physical depreciation of machinery within as little as a few years. The danger is all the greater as most of new machinery is installed outside those branches which have the most depreciated equipment and which export most, notably the engineering and chemical industries.

Fourth, outlays destined for the development of market-oriented industries are very low and amount to some 10 percent of overall outlays in industry, which means that a major growth of the production of consumer durables is unlikely.

Fifth, the development of public housing construction is also threatened, despite the fact that the number of newly completed apartments increased of late. This is proved by the fact that the number of housing starts in the first 9 months of 1983 amounted to only 60 percent of the number of flats commissioned in that period. This may result in a serious drop of housing construction in 1984.

On the whole, the investment process as it is now is not capable of preventing a physical depreciation of the already operation, relatively modern fixed assets and a widening of the technology gap separating Poland from highly developed countries. Neither does it ensure its rational restructuring and modernization or encourage the growth of export of manufactured goods and of production of consumer goods.

#### Farming

Some growth of crop production was recorded in agriculture in 1983 but it was accompanied by a serious drop in meat production, which is to continue into 1984.

A characteristic of some of the factors affecting that situation in agriculture, embracing a somewhat longer period of time, is given in the table below.

The figures show that crop production (with the exception of fruits, where a giant leap was recorded thanks to Professor Szczepan Pieniazek's efforts and the lack of market restrictions) has stayed at the average level of the years 1971-72 and also of 1979, despite a marked growth of the use of fertilizer, especially between 1971 and 1979; however, too high a proportion of the fertilizer was used by state-owned farms, and not very efficiently at that.

Similarly, the stock of farm animals and meat production as well as procurement in 1983 were back to 1971 level, while urban population increased by 25 percent. This is a sufficient indicator of the slide in this respect, which is going to get even worse in 1984.

	unit	1971-72	1979	1983 estimate
Grain and potato crops in terms of grain	million tons	31.2	29.7	30.8
Sugar production	thousand tons	1,630	1,586	1,780
Fruit crops	thousand tons	1,010	1,790	2,640
Use of fertilizers	thousand tons	2,730	3,570	3,300
Cattle population	million head	11.3	13.0	11.3
Milk	billion liters	15.0	16.5	15.3
Pig population	million tails	16.4	21.2	15.6
Overall meat production, fat included	thousand tons	2,350	3,265	2,400
Pork and poultry production	thousand tons	1,600	2,190	1,500
Use of grain, potato and imported oilseed-cake fodder in terms of grain	million tons	19.5	23.2	18.9
whereof: imported oilseed cake		0.5	1.2	0.3
Procurement of meat and fat	thousand tons	1,695	2,654	1,710
Urban population	million	17.5	20.6	22.0
Rural population	million	9.5	7.9	7.9
House population	million head	2.5	1.9	1.7
No of tractors	million	0.34	0.57	0.73

The production of pork and poultry in 1971-72 and 1983 is shown to be closely related to the availability of grain-derived fodder, potatoes and imported protein-rich feedingstuff. However, compared to 1979, there is a serious discrepancy between the change in the supply of fodder and meat production. While fodder supplies decreased by 18-19 percent, pork and poultry production nose-dived by 32 percent. This can only be explained by a serious deterioration of the quality of fodder resulting from a four-fold decrease in the import of protein-rich fodder. On this basis it is possible to calculate that a relative drop in the import of the fodder by some 700,000 tons and by 12 billion zloty in terms of value resulted in the loss of 300,000 tons of meat worth 66 billion zloty. This was probably one of the worst decisions in foreign trade, and on

top of that it was totally inconsistent with the assumptions of the foreign trade plan which envisaged the import of about one million tons of oilseed cake; it was dictated by the irrational desire to protect the necessary import of grain.

In reality, in Polish conditions the production of meat, import of grain and food production in general can best be protected by increasing the efficiency of livestock raising through importing protein-rich fodder, which has been completely neglected; as a result, Polish agriculture is in a worse position than it was in 1971-72.

The figures given in the table regarding agricultural population and the number of horses indicate that the growth in the number of tractors could merely offset the decline in urban population and the number of horses but it did not produce a growth of farming output. The chief factors that could contribute to a fast growth of food production include an improvement of the quality of fodder, bigger supplies of means of production and better use of mineral and organic fertilizer in state-owned farms.

The decline in meat production in 1983 and 1984 will have a serious impact on Polish economy, affecting the measure of market equilibrium that has already been reached--albeit at a low level--as well as hitting the export of meat and the level of imports of production supplies for industry. It will also lead to undeserved profits for the upper class of farmers and greater inflation.

#### Consumer Market Balance and Inflation

Some signs of a relative narrowing of the inflationary gap could be observed in the first 9 months of 1983. In comparison to the corresponding period of 1982, population's expenditures rose by 34 percent while incomes only increased by 28.6 percent, the difference between incomes and expenditures dropped to 7.3 percent while in 1982 it amounted to 11 percent. This certain step toward balancing incomes and expenditures is not, however, connected with the restoration of equilibrium on many extremely important markets for consumer goods, e.g., clothing or consumer durables, and, as the analysis of the situation in agriculture indicates, the shaky market for meat and sausage is in serious jeopardy.

The relation between stocks in trade and daily sales was at the extremely low level of 50 to 1 both in 1982 and 1983, while in 1970 it was 109 to 1.

Another painful phenomenon is the high rate of inflation, which reached 25 percent, instead of the planned 15 percent, in 1983. As nominal wages also increased by 25 percent in 1983, real incomes are stagnant, which means that the growth of productivity in industry by about 6 percent, achieved largely at the expense of longer working hours, will not be rewarded. As for overall real incomes of the population, the situation is worse: According to official figures, they are going to decrease by about 2 percent in 1983.

The high inflation causes big differences in incomes of individual groups of the population, which do not command the same leverage and the same opportunities

of defending their own interests. As the stagnation of real incomes and wages is to continue into 1984, with more pressure on a further differentiation of wages, their serious growth on account of overtime, and pressure for a real and not only nominal growth of wages related to productivity growth on the part of powerful occupational groups. All of these are factors that encourage inflation. In addition to that there are such economic factors as the inevitable growth of food prices that goes with shortages and the planned drain of the economy in order to obtain a much bigger surplus of exports over imports, the planned growth of depreciation and reduction of subsidies to consumer products.

#### The Plan For 1984

The higher variant of the plan for 1984 envisions an 18 percent growth of imports to capitalist countries (in constant prices) which should make possible a 10 percent growth of imports (combined with a growing burden of debt servicing), the indispensable import of grain and fodder and production supplies that should allow industry to increase output by 5 percent and bigger supplies of liquid fuels.

However, in the light of the assessments presented above these targets do not appear to be realistic. As has been demonstrated, the growth of export to capitalist countries in 1983 and the resulting growth of import of production supplies was first and foremost the outcome of the growth of exports of fuels and food (which is unlikely to be repeated in 1984) combined with a stagnation of exports of manufactured goods and a decline in the export of machines (despite increased foreign content).

As investment processes shall not ensure an essential growth of production capacities, whereas physical depreciation will prevail in the engineering and chemical industries, a growth of export can be attained not through increased sales of manufactured goods but only through considerably bigger exports of raw materials (as investments are to stay at 1983 level), which will not be offset by the much lower planned import of production supplies (even if its structure should improve), especially so as also the planned growth of the volume of import of raw materials from socialist countries is quite low.

In this situation, the draft plan for 1984 does not appear to be very realistic. It testifies to the intention to carry on unrealistic tendencies in economic policy and a kind of reform relying heavily on commands from the top, where the center, still practically omnipotent, is practically the main animator of the economic game.

In the light of the analysis presented above, the main change I would introduce to my earlier observations published in PRZEGLAD TECHNICZNY is a retraction of the suggestion for further cuts in investing in order to obtain a multiplier effect in exports, imports and output of manufacturing industries as this effect in practice no longer exists as far as exports to capitalist countries are concerned.

However, I would place even greater emphasis on other moves I had proposed in the earlier series of articles. In particular, this applies to a different

agrarian policy, a totally different structure of investing and a resulting profound restructuring of economy, a deep demonopolization of organizational structures, a genuine go-ahead for the non-state-owned sectors, to imparting a truly market character to the economic reform, to the predominance of horizontal ties which definitely increase the demand for innovation in economy, with all of it being coupled to the use of indispensable welfare safeguards for those groups of people which might temporarily find themselves in a difficult situation.

It appears worthwhile to contrast the numerous boasts about fast economic growth and the success of the reform with a more objective analysis of the factors characterizing the present condition and probable future development of Poland's economy, treating the latter as a warning prognosis.

CSO: 2600/486

## ADVISORY GROUP ISSUES ITEMIZED CRITIQUE OF 1984 PLAN

Warsaw ZYCIE GOSPODARCZE in Polish No 49, 4 Dec 83 pp 1, 4

[Text] On 25 October the Economic Advisory Council forwarded a preliminary critique of the 1984 Central Annual Plan, a critique endorsed by the Presidium of the Economic Advisory Council, to the Planning Commission and members of the Government Presidium. Some critical observations and reservations were elaborated upon in this document, and certain controversial arguments were also advanced. At a plenary session of the Economic Advisory Council held on 14 November a decision was made to issue a supplementary critique of the 1984 Plan. This critique together with an attachment\* was forwarded to the government. At the same time, a scaled down critique focusing on less crucial problems was forwarded to the Planning Commission. The full text of this document is so long that its publication here is out of the question. In any event, it would not be all that useful to do so, since this document is summarized by the supplementary critique. Apart from some minor abridgements, the text published below is generally consistent with the text of the supplementary critique.

1. The Central Annual Plan [CAP] for 1983, in its diagnostic section, was based on the same assumptions as the National Socio-Economic Plan [NSEP] for 1983-85.

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\*This attachment deals with the problem of increasing the degree to which inputs relative to producer goods distribution and motor vehicle fleet development are mutually complementary. As for the latter, it is stressed that the 30 percent increase in the size of the privately owned motor vehicle fleet during the crisis coupled with a simultaneous decline in deliveries of batteries, tires and gasoline and the continued scarcity of spare parts is tantamount to a situation in which the operating environment of the existing motor vehicle fleet has been allowed to deteriorate so that the size of the fleet can be increased. The attachment also contains some critical observations--which went unheeded--on the draft budget and credit plan for 1984.

The situation is different when it comes to the CAP for 1984. The accumulated experience and the course of socio-economic processes in 1983 require that the NSEP hypotheses be complemented and modified. The CAP proposals for 1984 give rise to many reservation which we present here together with our own counter-proposals.

2. The CAP is a set of decisions and projections compiled within the framework of the NSEP. It rests on an analysis of trends emerging in the economy in the preceding year, on forecasts of future determinants, and in the final version on opinions expressed in the course of public consultation over initial CPA proposals. The CAP constitutes the principal means of ensuring the cohesion of government policies, as well as providing a source of information for enterprises.

Such a nature of the CAP poses a number of problems which should be formulated clearly and unambiguously.

(a) The CAP should not be confined to the mechanically disaggregated NSEP targets. In warranted cases, these targets should be modified.

(b) CPR targets should not be in the nature of quantified directives for enterprises and sectors. The known, and numerous, instances of ministerial pressure on enterprises for an adjustment of their plans to comply with the NSEP targets have no legal grounds. By its very nature such pressure may not be rational and must lead to unnecessary conflicts. The correct means of influencing enterprises include contracts, government orders, provision of information, and economic instruments provided for the CAP.

(c) While not questioning the separate nature of the budget and the credit/finance plans, it must be stated that if the CAP is to perform its functions it should explicitly take into account the financial as well as the physical aspects of the plan. It is impermissible, especially in conditions of deep disequilibrium, that various spheres of financing and various kinds of demand should be treated in an isolated way.

(d) The CAP proposals will play their role in respect to the Sejm, the consulted institutions and the public only when they include a complete set of information, expressed in the form of quantified targets.

3. As far as the sphere of production is concerned, the analysis of past developments and future determinants, included in the proposals, gives rise to many reservations.

In farm production, the generally favorable results of 1983 were accompanied by some adverse developments. The drop in livestock herds will not be compensated for in a short period of time, and crop production may be adversely affected by the 2-year drought. In these circumstances, even a slight increase in farm output will be difficult to achieve, the more so as one can hardly expect a third year in a row of good weather.

An analysis of industrial production in 1983 does not provide a good foundation for projections. The proposals contain only an expected global index of this



year's growth in sold production. This index was overtly underestimated in the initial version, then slightly upgraded in the information published in the press (growth by 5-6 percent), while now it seems to be running at 7 percent. Such changes hardly inspire confidence in the adopted methods of calculation. Besides, the proposals lack an analysis of sold production in quarter-to-quarter terms which shows some slow-down in dynamics.

Material economies are supposed to be an important element of production growth. But they are underestimated in the proposals following the adoption of a downgraded index of industrial production growth. Consequently, the opinion that the material economies are below target is incorrect. Actually, they are almost twice as high, exceeding both the 1983 CAP target and the NSEP figure for this year. Enterprises were making these economies in their own interest, and the impact of the [government] material economies program was infinitesimal. It is not inconceivable that part of the economies were scored by lowering the quality. It is difficult to assume that they will be repeated in 1984 on the same scale and without quality deterioration.

Enterprise expectations provide another signal that must not be taken into account. In 1983, enterprises expected, in global terms, a higher growth-rate of production than the CAP figure and as a rule they were right. At present, these expectations are lower than the CAP proposals.

4. Attention should be drawn to other constraints on growth in 1984. They include a substantial, if not complete exhaustion of the Saturday-work reserves, and the deteriorating state of plant and equipment. The attainment of almost full pre-crisis level of hourly productivity of labor in the production/development group shows that reserves in that field were tapped to such a degree that further tangible effects can only be achieved through better organization and better utilization of working time. Such measures, by their nature, can be developed gradually, bringing results only after some time.

Another major constraints are production-supply imports from payments zone II [convertible currencies]. The expected drop in these imports cannot be offset by the changes in the structure of purchases (reduction of capital-equipment and livestock-feed imports) which have already been made, while the enterprises' capability to adapt shown over the past 2 year (perhaps not without detriment to the quality of production) may no longer increase tangibly. The import prospects, as seen at present, lead to disquieting conclusions. Whether or not the reduced level of production supply imports will affect the 4th-quarter output is open to question, but it certainly will make itself felt in the 1st quarter of 1984.

5. As we mentioned in the 25 October 1983 study [sent to the Planning Commission and the Government Presidium, unpublished], the production forecasts for 1984 should be compiled realistically. While not exaggerating the significance of the issue of projections we consider it important for several reasons:

(a) an overly optimistic production forecast must influence the projection of national income, and consequently inspire too generous decisions on its distribution;

(b) a forecast of high growth in global industrial production, once referred to as "mobilizing," encourages production of final articles, with no regard for the requirements of efficiency, quality and central balances;

(c) plans of industrial production were overfulfilled this and last year, which is no small achievement. Underfulfillment of the 1984 plan may undermine the hardly-won, recent confidence in plan credibility.

While believing that production indices are overestimated, we do not offer any concrete figure in this field--even though participants in the commission's plenary session were speaking about much lower figures than those put forward in the proposals. It is not in our power to compile a sufficient number of balances and make related calculations. The proposals are only an initial document, and we hope that the Planning Commission, in formulating the final version of CAP, will take our comments into consideration, treating them as a warning projection.

6. We believe that irrespective of the index of industrial production growth progress in rational economic management is possible--through higher efficiency, better quality, adjustment of the structure of production to the demand, or through the elimination of bottlenecks in the production-supply chain. In connection with this constraint we can only wait for an improvement in the economic policy--not so much of individual enterprises as of the central economic administration.

As for the operations of enterprises, it can be expected that the income tax reform, although inspiring some reservations, will provide a healthy stimulus as a result of abandonment of progression. We also believe that the revision of the tax relief system--resulting in a reduction of concessions and greater intensity of those considered purposeful--will make it more rational.

We would like to reiterate the Commission's stance on the National Labor Redeployment Fund (PFAZ). In our opinion it should be used exclusively as an instrument of influencing the enterprise-income division between expansion and consumption purposes, and additionally as a tool for the rationalization of inter-sectoral and inter-company wage patterns. As shown by the experiences of recent period, the PFAZ-rate concessions lead to glaring anomalies (e.g. when applied to enterprises in which the dynamics of production are determined by the available equipment and production supplies, rather than higher production effort). The allegedly objectized concessions system is in fact based on discretionary powers, and it favors enterprises with good connections in the administrative apparatus. The linkage between the concessions and the production index make possible manipulation or even abuse.

A very dangerous form of stimulating production is the pressure from above, reflecting lack of confidence in the enterprise and in the economic mechanism. It involves a danger of accounting manipulation and quality deterioration, as well as the wasting of raw materials and the undertaking of inefficient production.

7. There is an astonishingly superficial treatment in the proposals of the investment front, dominated in 1982 and 1983 by continued projects (accounting for 88 percent of the cost-estimate value of projects under way) many of which had been initiated by arbitrary decisions of the 1970's. A large proportion of these projects require huge capital spending and feature long gestation cycles. In current circumstances they clearly have the effect of fueling inflation. Their completion, with the foreseeable level of investment expenditure, would take several years. And even the currently earmarked limited investment funds are set above the level of available production supplies and industrial-construction potential. This will have a direct impact upon the duration of average gestation cycle (which lengthened from 39 months in 1980 to nearly 48 months in 1982) and the quality of construction assembly work. The problem of an overextended investment front will not be solved with the piecemeal measures that have been taken so far.

A full trimming of the investment front and shortening of the project gestation cycle will take a long time to achieve, involving a lot of difficult-to-solve problems: better functioning of the construction sector, provision of complementary material supplies, proper balancing of construction potential, production supplies and finances, and finally the most difficult issue of adjusting the long-term program to present-day realities.

In practice, this means the abandonment of a large number of continued projects, both the central ones and those ceded to enterprises for completion. Past experience shows beyond doubt that the combined cost-estimate value of continued and newly-started investment projects must not surpass the total value of outlays planned for the coming 3 years. Otherwise, various forms of wastefulness will spread, taking the form of monopolistic position of construction/assembly firms, connivance of mismanagement, unavoidable increase in construction prices, higher level of tied-up capital, and uncertainty as to the start-up dates for the newly built projects. Adverse consequences of such developments are greater than, for example, wrong investment choices.

No truly serious revision of the list of continued projects has been made so far. Several reasons are involved, but the most important seems to be the psychological aversion to writing off relatively well advanced investment projects. Some role was also played by the insufficient awareness of the fact that with the realistically expected rate of national income growth a discrete rise in capital spending will not be possible in the years ahead. As a result, the ambitious but illusory investment program, whose lion's share is a leftover from the 1970's, is being continued at the cost of a short-term increase in investments.

The investment problem assumes added importance in connection with the process of growing decapitalization. In the conditions of crisis, this process is understandable and its total reversal in a short time is not feasible. But already now the substantial deterioration of productive potential in industry has an adverse impact on production and productivity and leads to greater raw-material consumption and poorer quality.

Against this background we want to express serious reservations about the recent tendency towards sacrificing projects of enterprises in favor of central projects. Speaking about enterprise projects we refer to new capital undertakings aimed primarily at modernization and replacement. Economic characteristics of these projects are highly positive, including higher share of spending on equipment as compared with the expenditures of construction operations, short gestation cycles, and low level of tied-up capital. The enterprise projects are sometimes criticized for the alleged petrification of the existing, undesired structure of production potential. While such instances may happen here and there, this theory cannot be proved in respect to the totality of [enterprise] spending. As a matter of fact, the ossification of old structures, including old projects, is taking place in the other group of investments. This is the reason why we believe the enterprise projects should be granted protection and why we express most serious reservations about such an interpretation of the tight-money policy which would take away investment resources from enterprises. This tendency derives from the illusion that we will best spend the available means by concentrating them in the center. We do not hesitate to say that the central bodies are not prepared for this sort of large scale operations.

The proposals speak of the necessity of structural changes; mixing, incidentally, the notion of changes in the structure of productive potential with changes in the structure of current production. The latter depends primarily on the provision of production supplies, which the former is just a cloak for very modest plans in the field, at least for several years ahead.

While not scrapping the demand for a new survey of the list of investment projects (which, however, cannot be made overnight), we consider it correct that for the period of present NSEP [1983-1985] highest priority should be given those real-investment operations which are to be completed within 2 years from their beginning. There would be some individually-named exceptions--to prevent sacrificing the near future in favor of the more distant times. Under this principle, enterprises would be given a free hand in launching new projects financed by themselves, with the provision that projects designed to substantially increase the scope of production would be subject to bank control.

8. The question of economic equilibrium can be discussed in its three aspects: efficiency of economic management, "tight money" financing, and a balanced supply of money and goods (linked to the wage and price policy).

The problem of efficiency seems to be the most important. But it is also most difficult to be discussed summarily, as it involves the efficiency of foreign trade, capital spending and many other matters. We are going to confine this discussion to progress, or regression, in efficiency in the economy as a whole and in its individual segments. The CAP proposals speak only of raw material economies while not discussing from this angle the efficiency of investment processes. In foreign trade, the room for maneuver is limited because of the necessity of forcing exports of even low efficiency. So in practice the major problem boils down to that of regulation. This commission has often expressed fears about the tendency towards multiplying regulations, and concessions in particular, which carries a danger of over-regulation of the control process. In many cases, the decisions on new regulations were taken with no prior simulation analysis, bringing about more harm than good. It is to be hoped that

the review of concessions and the principle of inscribing their numerical value into CAP will upgrade the quality of regulatory instruments.

Many doubts are also aroused by the manner in which the otherwise correct principle of tight-money financing is put into practice. There is, for example, a tendency to price rigidity which may simply lead to the transformation of overt inflation into a deferred one. The disadvantage of the former, as compared with the movement of prices, is that after a period of freeze a time of drastic price hikes is bound to come. No work has so far been taken to solve the difficult problem of setting sectoral ceilings in prices, and instead a concept of simple price freeze is propounded. Leaving aside the adverse economic effects, this would mean an abandonment of the goal of passing part of responsibility for price rises from the government onto the producers. Acting in the same direction is the failure to raise retail food prices in the wake of increases in the farm-procurement prices. As for the rationing of raw materials, we hope that the system of government orders will produce better results than the operational programs, provided that the error of overextension will not be repeated.

The problem of tight-money financing also involves the question of taxation. The proposed bill on income tax provides for two welcome changes of great significance--the abandonment of progression and the rejection of processing costs as the basis for tax computation. However, serious reservations are aroused by the manner in which the present, chaotic system of enterprise taxation is being replaced with a uniform linear tax. To begin with, some category of enterprises, and by no means the richest ones, would face a year-on-year increase in income tax--and a consequent drop in distributed profit--of up to 50 percent and 33 percent respectively. Assuming that enterprises earmark some 70 percent of profit for the development fund (which is supported by experience) and that it will be difficult for them to cut down on welfare expenses and bonuses, this means that in extreme cases the means earmarked for expansion may be almost halved.

The best performance of the policy of tight-money financing is scored in the field of bank credits. But here, too, some objections can be formulated. The increase in the base rate of interest could have been higher, there is no justification for concessionary rates (which lead to an administrative rationing of credit rather than reduction of demand for it), and it seems that in pursuing the policy of tight-money financing the banks should avoid taking over-rigorous stance.

9. As far as the consumer market equilibrium is concerned, no major progress has been made, despite an increase in farm and industrial output. It can be noticed when analyzing the inflationary overhang, which incidentally is lacking in the proposals (where at the same time the notion of inflationary gap is replaced with one of commodity gap).

We are employing here one of possible methods of estimating the inflationary overhang. (Each method is questionable but computations based on the same method may be instructive). In the period since December 1982 the rate of inflationary overhang--understood as its ratio to expenditures on the purchase of goods and services--decreased by almost a quarter. But it seems that this

rate is beginning to rise again, and probably has exceeded the level of the end of 1982. It is true that the immediate danger of shopping lines has diminished--as a result of different distribution of the overhang (higher share of better-off groups, and negative savings in the lowest-income group), satisfactory supply of rationed articles, and better supply of some unrationed items--but it can be feared that an increased output in some product groups will be immediately absorbed by the wealthiest consumer groups. The need for more efficient anti-inflation measures than those provided for in the proposals is unquestionable. This can be achieved only by the expansion of the anti-inflationary policy--now confined to a wage and price policy--to cover other fields as well, such as rationalization of investments, budgetary economies, credits to the population, level of farm incomes and social benefits.

But even with a broader range of measures, the wages and prices will remain a pivotal issue. We do not share the often expressed views exaggerating the inflation-fueling role of price movements, although the wages, which account for a half of the population's incomes, are naturally an important factor. As a more detailed study into the prices and incomes policy is now under way, we cannot say at present whether or not the 17 percent index of pay increase is realistic. But we believe the motive behind putting this figure into the proposals was that it should exceed the cost-of-living index. Recourse to these two values (which, incidentally, lead to simplified conclusions, as reflecting the annual averages) constitutes a sort of wage movements indexation against the movements of the cost-of-living figure. What is most important from the standpoint of public acceptance is the increase in wages and prices against their levels at the end of 1983. It would be much better if, taking account of this, the proposals spoke of an 8 percent increase in prices over the year and--instead of average increase in wages--of probable pay changes in individual sectors (including higher growth-rates for those sectors, especially the budget-financed ones, where pay increases had been particularly low and where the ratio of sectoral to national average should be improved). The national average not only speaks little but, still worse, it happens to be understood as a uniform target, making individual enterprises expect precisely such level of wage increase.

10. As far as the retail prices are concerned, irrespective of what was subjected to public consultation and what was already signaled to the public (e.g. rents), the general decisions should cover the entirety of the price rise program, together with its timetable--not just one segment. The separation of food from the entirety of retail-price matters must perforce delay other pricing decisions--in order to avoid fierce public resistance. For this reason the Consultative Economic Council elaborated an alternative set of proposals on price increases, covering some industrial articles and providing for a postponement of price rises for some foodstuffs. These proposals influenced in only a small measure Variant I B [of official price rise proposals] which is closest to our idea although clearly more drastic. In our proposals, we were guided by the following assumptions:

--high increases in several items and widespread increases covering many product groups should not be announced simultaneously,

--protein consumption should be shifted from meat to milk,

--the ratio of vegetable oils to butter [in consumption] should be increased.

Production of animal proteins supplied in milk requires much less feed than the production of meat proteins. The social cost of vegetable oils and their import content are much lower than those of butter. These considerations should not only influence the current prices rise decisions but also map out a long-term direction of price changes.

As for the policy of industrial-article prices, our proposals are aimed at:

--putting the burden of price increases on the shoulders of better-off groups of the population (in contrast to food price rises which irrespective of what kind of compensation is involved always hit the lowest-income groups),

--putting the burden on the shoulders of those groups of the population who evade paying taxes on incomes (e.g. profiteering incomes),

--increasing the number of sectoral equilibria, by combining growth in deliveries with price increases (in view of the impossibility of restoring the general market equilibrium).

A hypothetical broader program of price and wage increases should be accompanied by a timetable covering the whole year. The practice so far consisted in massive price rises at the beginning of a year, or at best after the first half-year, which were followed in the second half by pressure of higher wages and clamp-down on price movements. As a result, price decisions were again postponed till the beginning of a new year, meaning a repetition of the mechanism of unharmonized movements of prices and wages.

Warsaw, November 1983

CSO; 2600/482

INCREASED FOREIGN INVESTMENT URGED TO BOOST HARD CURRENCY EARNINGS

Warsaw ZYCIE GOSPODARCZE in Polish No 47, 20 Nov 83 p 11

[Article by Aleksander Jung]

[Text] In negotiations with creditors on debt rescheduling, the debtor countries are submitting for consideration various possible scenarios, often elaborated in cooperation with the former. In this respect, Poland has to carry out negotiations in a much more complicated situation.

The rate of industrial production and national income can be accelerated by boosting labor productivity on the one hand and on the other by solving the debt problem, to be tied to the inflow of new financial resources to the economy. The depth of changes in this field in 1980-83 is illustrated by the following figures: while Poland's 1980 export and import from payments zone II [convertible currency markets] run at around \$8 billion each, the respective values for 1983 are estimated at \$6.0-6.5 billion and \$4.5-4.8 [figures illegible in the original text]. These values are expressed at current prices, which means that in physical terms the situation is deteriorating, especially in manufacturing industries.

Are there any ways of boosting our foreign trade and thus revitalizing the economy other than refinancing? One method is no doubt the reorientation towards closer cooperation with socialist countries. In this article, however, I would like to focus on our economic relations--trade and finance in particular--with the Western partners, that is the creditor countries and the banks. These partners have been accounting--and potentially still are--for 30-40 percent of Poland's foreign trade, as well as providing the source of technology and industrial and consumer supplies. And their markets put the competitiveness of our products to the real test.

Poland's position as a debtor differs from that of less developed countries (for example, Romania and Yugoslavia fall into this group). Being a socialist country, classed as economically developed, Poland enjoys no preferential treatment and no trading privileges in relations with the West's major organizations and markets (OECD, EEC, USA). On the contrary, we are suffering from limitations and protectionist measures, and have to pay higher interest. Nor does Poland belong to the International Monetary Fund which plays the role of an expert lending its name to member countries' recovery programs.



This state of affairs--without precedent among the already classic negotiations on debt deferment or refinancing--requires that financial, trade and industrial matters be combined into one whole, the more so as revenues from the export of goods constitute the dominant item in the country's balance of payments.

Prospects for the repayment of annual tranches and the attached terms will differ depending on whether the exports are worth \$8-9 billion a year or \$6 billion a year. The same is true of the prospects for the repayment of the entire debt. But it will not be possible to raise exports substantially without sufficient imports of industrial supplies, and consequently without the desired level and quality of industrial output. Still worse, the status quo--with its tendency to self-perpetuation--could result in the decapitalization of costly investment projects and in the deepening of our relative technological and civilizational backwardness. Our share in Western markets is infinitesimal, so the room for maneuver is large and the recession is by no means the major obstacle.

The negotiations with Poland in 1980-1981 were conducted in conditions of relative stability of the international financial system. But the danger of its collapse that emerged in 1982-1983 against the background of virtual insolvency of Argentina, Brazil, Mexico (with the combined \$200 million in foreign debt at that time) and other countries had the effect of dramatically changing the procedures involved. Rescue operations of unprecedented extent, coordinated by the IMF and involving governments, banks and international financial institutions, come to the fore.

The problem of Polish debt, too, requires a comprehensive approach and necessitates a departure, along Latin American lines, from separate talks with banks, governments and financial institutions. In future negotiations, the creditors might consider the lowering of interest rate (e.g. by applying preferential interest rates to new repayments), accept closer linkage between the repayment of part of debt and imports enabling expansion of export production, ease our access to their markets, grant more tangible commercial concessions (at least for the period of debt repayment) and finally make their equalization clauses [kaluzule egalitacyjne] more flexible thus permitting greater extent of financial/commercial industrial operations with individual partners. Such agreements would be valid for many years. During that period we should retain as large room for maneuver as possible, which after all is also in the interest of most of the creditors.

It would be bad for all those concerned if unrealistic commitments were accepted, meaning in practice a mere postponement of the real problem. Haste in negotiations seems to be neither necessary nor purposeful. Just as the "umbrella" theory proved futile so it is now commonly known that no one--be it a government or a bank--will ever risk putting a major debtor in a state of default.

In the light of the above mentioned Latin American developments the magnitude of the Polish debt problem has diminished. A durable and efficient solution is in the interest of all parties concerned, not just the banks. For example, it would be hard to imagine today a refinancing agreement without guarantees from Western creditors that the Polish application to enter the IMF and the

World Bank will be accepted. It would be equally difficult to agree on new repayment commitments to U.S. authorities or banks in a situation where the abrogation of the most favored nation treatment prevents us from earning dollars on exports to the U.S. It would be a different matter if other Western partners, e.g. the EEC, agreed to increase their imports from Poland accordingly, thus compensating for what we are losing in the U.S. market.

The period in which we were drawing credits--after the first oil price shock--was marked by relatively stable exchange rates and calmer situation in the money markets. But following the changes which evolved in the world in that area, the equalization clauses--coupled with the absence of new inflows to Poland--make it harder for us to take advantage from that fact. As a debtor, Poland is in a rather specific situation and would be justified in demanding diversified, customized solutions from the creditors--assuming, of course, that it would be itself prepared to go off the beaten track. After all, the rules of the game and the terms set so far by the West in refinancing agreements with developing nations may not necessarily stand the test in the case of Poland.

Time will come when the creditors, too, will show interest in negotiations. A global and real program of financial/commercial negotiations, based on our capabilities and other countries' experiences, could then be instrumental in making the talks more concrete. It would be dangerous if the negotiations were to be conducted in an accounting/financial fashion--as if leaving aside the years' long constraints and interdependencies between economic life, production and exports. This aspect has already been pointed out by several authors (Gruzewski, Rydygier).

By saying that we expect the creditors to show flexibility and go off the beaten track, and that we ourselves should be prepared to do the same, I have in mind a number of steps that could be taken by the Polish side. There are both weaker and stronger points here. Some branches could be helped by the state while some others could be assisted by external partners. A clear-cut delineation of these areas, and the customization and diversification of the rules of the game could bring about quicker effects than the waiting for a global solution. Following are a number of possible options, which incidentally complement each other.

Coming to the fore is the financing of export production in selected sectors by the foreign commercial/industrial partners concerned.

Under this arrangement, the foreign partner would ensure the purchase of, or would himself purchase, raw materials, components, and even machinery (which is tantamount to crediting) and then would receive selected products, sell them in international markets, collect payment, write off his import-finance contribution, and return the rest to us. Some partners propose that this surplus be shared and a portion of it be used to accelerate the repayment of our debts to them. So this arrangement offers on the one hand the possibility of better utilization of the productive potential and export growth without the need of contributing our own foreign exchange resources, and on the other it sometimes poses the problem of collisions over representation, quotas and quicker repayment. But such a transaction would be impossible if agreements with creditors

banned its conclusion with a single partner and--through the equalization clauses--provided for consultations with all partners concerned. Naturally, the transactions in question would cover long time spans and their value would run into the millions.

A solution is needed to the problem of coordinating, ensuring supplies to, and assessing the profitability of counter-trade and industrial-cooperation transactions--including the long-term ones--in such a way as to reconcile the interests of the many foreign partners and the Polish state.

An inflow of foreign exchange resources in the form of free foreign assistance to selected economic entities (private farming, crafts) would also be welcome. It would be instrumental in setting in motion and modernizing the farm-servicing industries, as well as improving the market supply and yielding export effects. But the free foreign assistance to selected economic entities should serve the general stimulation of Poland's economy rather than replacing the mechanisms of financing Polish imports (to be provided by creditors).

Drawing on Hungarian, Yugoslav and our own experiences, we should consider anew the concept of production-oriented mixed companies in selected areas, leasing, creation of duty-free zones, granting of temporary concessions and issuing of bonds by some economic entities (with physically-denominated guarantees), etc.

A solution to these problems would mean the acceptance of foreign investment in Poland--and on a scale much greater than that of Polonian companies. Leaving dogmatic questions and extreme egalitarian arguments aside, this would make it possible in some areas (selected by ourselves) to share risk, pass some of the production-supply duties to foreign partners, introduce new technology and organization of work, ensure higher productivity, higher exports and inflow of foreign exchange on account of capital transfers, set in motion "controlled" competition, etc. While not exaggerating the importance of these forms, they could speed up production, technological change and export in at least some areas. And again, the credit/finance mechanisms involved would be impossible without agreement and understanding on the part of the creditors (including the question of access to markets). According to this writer's estimates, the mechanisms in question, if fully introduced, would produce growth in exports by \$0.5-1.0 billion a year.

We could propose to our partners the export of some less marketable products and services under long-term agreements in exchange for taking their interests into account in our import policy or earmarking part of the revenues for the repayment of the principal or interest fees to them on preferential terms.

Also reconsidered should be the linking of a portion of repayment of selected economic entities in Poland.

In view of the state guarantees granted the creditors of Bank Handlowy, there is not much room today for this option. But in domestic terms, the problem is still open. Part of the foreign debt could be assigned to selected economic entities (which after all would comply with the assumptions of reform); their duties in this respect would be strictly defined; and at the same time they

would be given a chance of quicker repayment and reduction of the interest burden. Such solid industrial partners could count on greater interest in cooperation on the part of foreign partners, transfer of technology and inflow of foreign investment resources--in other words, more rapid expansion and export.

And finally, an attempt can be made at converting a proportion, or the entirety, of debt to the banks into a long-term loan carrying fixed interests and a single repayment date. There is demand for this sort of investment in the international financial market. Such an arrangement would require clear-cut physical guarantees of repayment but, given the current financial-market realities, it could be instrumental in quickly cushioning a portion of debt to the banks, with all its short-term benefits.

The fixed interest, of preferential nature, would be paid before all other commitments. This could result in an earlier settlement of liabilities to the banks, which--with the market rate of interest of 12-13 percent at present--constitute the greatest burden. There is a segment of the financial market which deals with long-term investments guaranteeing steady returns (insurance societies, pension funds, foundations, etc). Normally, it responds to state and municipal bonds or shares of big companies. But every rule has an exception. With a steady, guaranteed interest, the return oscillates between 8 percent and 10 percent. The key issue here consists naturally in the guarantee of repayment. The guarantee for the principal should no doubt be set in physical terms while in the case of interest it could be a cession of part of revenues from the export of selected goods.

The discussed variant is complex, difficult and perhaps unfeasible for the time being, but it could become a subject of analyses and discussions with the creditors. The banks could be asked either to join the operation and take part in a relevant consortium or to offer their outstandings for sale at their present real value. Such an operation, leaving a large proportion of current export revenues at the disposal of the economy, would at the same time constitute a long-term obligation to use the money in a correct way and to produce increased effects with its help. It would require acceptance from the creditors.

The reason why I mention these instruments of economic policy while discussing conditions of refinancing negotiations is that these issues--if we opt for them--must be put forward and discussed with the creditors together with other conditions. They could not be introduced into practice if not provided for in relevant agreements.

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TASK FORCE DETAILS TRADE SANCTION LOSSES TO ECONOMY

Warsaw RZECZPOSPOLITA in Polish 9 Dec 83 pp 4, 5

[Report by a National Economy Institute team headed by Prof Stanislaw Polaczek]

[Text] The fall of Polish imports from capitalist countries by 31.5 percent in 1981 and by 24.6 percent in 1982 (against the preceding year, at constant prices) resulted in a steep decline in overall imports and national income. While in 1980 the hard currency import content in every million zlotys of the produced national income amounted to \$4,600, in 1981 it stood at a mere \$2,700 and in 1982 (against the national income counted in 1981 prices) it was \$2,100 (or a mere \$940 at current prices).

The direct cause of the fall of imports, in conditions when they were financed chiefly by credit, was the abrupt curtailment of new credits for Poland by Western countries, overlapping with the Polish economy's decreased capability of exporting to capitalist markets.<sup>1</sup>

The steep fall of imports resulted in high losses for the economy, reflected both in macro-economic proportions and in enterprise performance.

In each case, the calculation of losses is not free from methodological difficulties. For this reason, Part I of this report discusses the methodological aspects of calculation.

Presented in Part II are the estimates of losses the Polish economy suffered in consequence of drastic import cutbacks in 1981, 1982 and 1983. The calculation is made only in macroeconomic terms (materials on enterprise losses are not available to the institute). It takes into account the actual levels of import cutbacks, irrespective of their causes. This sort of aggregate calculation is based on the commonly acknowledged fact of functional interdependence between the import volume and the size of national income. It presents losses in the form of the loss of national income induced by imports cutbacks. This makes it possible to avoid a mistake of multiple calculation of the same losses, which would be made if they were computed with reference to global production or sold production. It should be emphasized that this calculation embraces all the losses in production, transport, distribution etc, as well as those referred to as immeasurable.

Part III is an attempt at assessing that part of losses which can be ascribed to politically motivated steps taken by Western countries such as credit limitations, bans on so-called strategic exports to Poland, direct and indirect measures aimed at hampering the export of Polish goods, etc. In particular, this part of losses includes those generated as a result of Western restrictions, or sanctions, imposed on Poland after the declaration of martial law on 13 December 1981. This calculation carries a high risk of error, and by its nature must be treated only as an approximated estimate.

In practice, it is not possible to ascertain whether e.g. a refusal to grant concrete credit came as a result of political sanctions or lack of confidence in the client's solvency. Far reaching simplification is therefore assumed in the calculation where losses incurred in 1982 and 1983 are treated as induced by politically motivated sanctions, while the 1981 losses are considered to be caused by economically motivated restrictions. With this assumption, the economic consequences of the West's political measures in 1982-1983 are no doubt overestimated, while at the same time they are totally excluded in respect to the year 1981 when they no doubt were also taking place.

In the light of these explanations, the figures presented in this report should be treated with great caution, and the assumptions taken in the calculation should always be borne in mind.

#### I. Methodology of Calculation

The calculation of losses can be made at the level of an enterprise, an economic sector, and the economy as a whole. There are also such effects of import cut-backs which are very hard--or even entirely impossible--to assess. Presented below are problems of calculation at the macroeconomic, sectoral and enterprise level, as well as problems of immeasurable losses.

##### I.1. Macroeconomic Calculation

The losses suffered by the national economy as a result of reduced imports are reflected in a fall of national income. The latter's dependence on the former is widely drawn upon in economic models and is expressed by the coefficient of national-income elasticity of imports. In the years 1960-1975 this coefficient ran in Poland at about 1.5, which means that a 1 percent growth in national income was accompanied by an average 1.5 percent rise in imports. In the post-1978 conditions of declining national income and imports, this relation underwent considerable vacillations but in the 4-year period of 1978-1982 was still above 1.0, running at about 1.2 (national income dropped by 26 percent while imports dived by 32 percent). The knowledge of national-income elasticity of import is instrumental in assessing the direct losses of national income. A fall in imports influences a drop in national income in a short time, and its consequences can be assessed with relative accuracy. But it also exerts indirect influence in the long run--through decreasing accumulation. This secondary impact should be borne in mind, although its consequences do not seem susceptible to computation (which would require a complicated analysis of losses over a hypothetical lifetime of projects which were not built).

The same method of flexibility of import coefficient can be used to determine the fragmentary losses caused by the reduction of a portion of imports rather than their entirety. For example, after determining the extent of Polish export decline caused by the suspension by the U.S. of the most favoured nation (MFN) treatment, one can assess in the next phase of calculation the loss of national income resulting from the necessity of corresponding reduction of imports. Poland's losses suffered on account of the abrogation of MFN treatment are considerable. They are illustrated, for example by increase in customs duties on Polish exports to the U.S. which went up on the average by: 30 percent for machine tools, 25 percent for bearings, 40 percent for tools, 35 percent for sewing machines. The MFN cancellation has caused or will cause a drop in the export of many Polish goods as well as deterioration in export profitability. According to estimates of the Central Statistical Office (GUS), it may produce a decline in Polish exports to the U.S. market at between \$70 million and \$80 million a year. The abrogation of MFN status also generates long-term losses, which cannot be estimated. For example, it blocks the access of credits granted by the Export-Import Bank and thus broadens the range of credit restrictions.

#### I.2. Calculation of Losses at Enterprise And Sectoral Level

Losses incurred by enterprises as a result of import cutbacks can be assessed in various ways.

The losses on account of unsupplied production inputs, unmade consumer goods, or capital equipment shortages can be presented as:

- loss of the value of production or exports,
- loss of net production,
- loss of profit.

Losses of this kind can be ascertained only by means of questioning the enterprises. The multi-pronged approach to the notion of losses requires that the questions be carefully prepared, since otherwise the obtained information would not be uniform, and as a result not reliable.

In view of the difficulties with ascertaining credible and comparable data on losses it is desirable, especially in the first stage of research, that:

- research be confined to a small group of large enterprises which suffered the most tangible losses and which should be treated as exemplary "case studies,"
- the separate nature of various kinds of losses be taken account of (it is impermissible that various kinds of losses be added up, e.g. loss of export of one enterprise with a fall in profit of another),
- the fall of profit or increase in enterprise balance-sheet losses be considered the most reliable measure.

Unlike the balance of enterprises, initial losses have been calculated on the scale of some branches (fields) of the economy. For example, various studies and the press have reported on the losses suffered in the result of the suspension by the U.S. Government of the Polish rights to fish in American territorial waters (causing a fall in fishing output), the suspension of Polish aviation rights on the United States territory (causing a decline in earnings of the Lot Polish Airlines, not mentioning the cost and discomfort for Lot passengers), limitation of foreign tourist travel to Poland (causing a drop in income from tourism). There have also been losses (not estimated so far) in connection with the blockade of loading and re-loading of Polish ships in the ports of Western countries (which produced losses as a result of changes in shipping routes, delivery delays and increased port fees).

In compiling this sort of calculations, the same principles should be observed as those proposed for enterprise-level analyses. For example, one must not add up losses of account of lower fish catches, lower deliveries of fish to the domestic market, and lower supplies of fishmeal for livestock-feed purposes, since the fisheries-linked losses would then be counted several times.

It should also be stressed that all kinds of losses computed in microeconomic calculations are included in the sum total of losses assessed in macroeconomic calculation, and as such the two should not be added up.

### I.3. Immeasurable Losses

There are many steps of various kind taken by Western governments and the United States Government in particular which have the effect of reducing mutual turnover--but to a degree which is difficult or impossible to assess. Accordingly, the resulting losses are impossible to assess and as such can be described as immeasurable.

Such immeasurable losses, often of great weight, include those caused by:

--general deterioration of political climate in the world, increasing the risks involved in trade between East and West,

--intensive propaganda conducted by the West, which distorts the face of reality and has an adverse bearing on trade relations abroad, heightening the atmosphere of uncertainty and distrust,

--curtailment of scientific and technical cooperation with Poland, including the hampering of student exchange, U.S. suspension of funding for scientific research in Poland, the blocking of an agreement on scientific cooperation with the United States financed by the Maria Sklodowska-Curie fund,

--blockade of Poland's re-entry into the International Monetary Fund and the World Bank.

Some effects of the above-mentioned measures can be estimated. For example, the delaying of Poland's re-entry to the IMF and the World Bank makes it impossible in some cases to take advantage of preferential interest rates on



credits or to take part in some international biddings by tender which are important for Polish exports. As such, these steps qualify for inclusion in the group of credit restrictions. But some of their other consequences cannot be assessed at all.

## II. Calculation of Macroeconomic Losses Suffered At National Level as A Result of Import Cutbacks

When confining the calculation to short-term consequences, which means leaving out the effects of curtailment of investment processes, it could be expected that the 14 percent decline in imports<sup>2</sup> (with the elasticity of import at 1.5) would be accompanied by a 9 percent drop in national income. But the actual figure was only 5.5 percent.

This was probably a result of adjusting processes which had the effect of cutting down the consumption of imported inputs in the economy. If the real decline in national income were equal to or lower than the rate of decline estimated on the basis of elasticity of import index, then the whole downfall in national income could be ascribed, as first approximation, to the drop in imports.

This sort of calculation gives rise to serious doubts. Can the 1.5 index of national-income elasticity of imports--empirically ascertained in conditions of growing national income--be applied at a period of declining national income? We nevertheless kept the index unchanged, because the 4-year period of decrease in national income was too short to provide a basis for elasticity estimation. It should also be noted that if this index were lowered to 1.2 (or its actual level in 1978-1982), the losses of national income would accordingly be higher than the figures given below.

With the national-income decline of 12.0 percent in 1981 and 5.5 percent in two successive years is a minimum estimate. In reality, the import constraints rendered impossible an increase in national income which could always be expected in normal conditions. Assessing this lost increase at 3 percent, the added loss of national income would be:

--zł 73 billion (\$1.4 billion) in 1981,

--zł 151 billion (\$1.8 billion) in 1982.

Altogether, these losses can be assessed at some \$12.2 billion in the years 1981-1982.

According to the Central Annual Plan for 1983, this year's increase in national income stands at 2.5 percent. Assuming, just as in the case of previous years, that with no import cutbacks it would stand at 3 percent, the difference of 0.5 percent is treated here as the loss of national income in 1983. Against the 1982 figure, this represents zł 24 billion, or \$0.3 billion.<sup>4</sup>

The total losses of national income can thus be assessed as follows (as against the previous year):

--\$7.1 billion in 1981 (with the drop in national income of 12 percent),

--\$5.1 billion in 1982 (5.5 percent drop in national income),

--\$0.3 billion (2.5 percent increase in national income).

Together, it makes \$12.5 billion.

The decline in total imports in 1981 and 1982 came as a result of a dramatic downfall in purchases from capitalist countries, which in turn, as shown by Table 1, was caused by large-scale and rapid reduction of credits granted Poland.

Table 1

Imports and utilization of credits in 1979-1983

	Percentage change in imports as against the previous year, at constant prices		Utilization of credits from capitalist countries, in billion dollars
	Total	Of which imports from capitalist countries	
1979	- 1.2	- 4.5	8.4
1980	- 1.9	- 7.2	8.7
1981	-16.9	-31.5	4.9
1982	-15.6	-24.6	1.5
1983 (plan)	+ 4.2	+12.6	0.6

For two reasons, the loss of imports from capitalist countries could not be offset on a broader scale by purchases from socialist countries. First, not all goods previously bought in capitalist countries are available in the markets of socialist countries. And secondly, even if they were available, an increase in imports might encounter the barrier of quite rigid framework of long-term bilateral trade agreements.

This calculation may arouse reservations based on a reasoning that the drop in national income may be caused by factors other than import cutbacks, and in particular by fall in employment (mainly in 1982, as a result of early retirement and broader rights to child-care leaves) and reduction of working time (especially in 1981, following the announcement of new work-free Saturdays). To support these reservations, it can be added that the time actually worked in production sectors outside agriculture dropped by 13.7 percent in 1981 and by 8.5 percent in 1982 (as against the previous year).

But two kinds of counter-arguments can also be adduced. Generally, it is often assumed in model-oriented reasoning that there is a logical although unavoidably much simplified pattern of interdependencies, and attention is focused on the strongest of them.

Such a strong interdependence no doubt exists between imports and national income. The fact that the reasoning is based on this interdependence does not mean that other causes of decline in national income (e.g. overinvestment) are left out.

As for the concrete cases of drop in employment and shorter working time, it may be noted that there is a far-reaching interdependence between these two factors and a decrease in imports. The demands for work-free Saturdays in 1981 were backed by the argument of shortage of production supplies (especially imported ones), while in 1982 the early retirement scheme was introduced in response to fears of mass unemployment to be caused by the same difficulties with production supplies. In both cases, the arguments involved were wrong. There is no doubt that--with the actual level of imports in 1981 and 1982--the level of national income would have been higher if it had not been for the broader scope of work-free Saturdays, early retirement and broader rights to child-care leaves. But it is also true that these measures were set in motion--whether rationally or not--as a result of import cutbacks. Therefore, the drop in production in industries with even low import content in output can also be attributed to these cutbacks.

Nevertheless, the adopted method of calculation, which draws on a one-factor model, results by its very nature in overestimation of the factor in question (in this case imports). This error appears in all models of this kind, including those which draw on e.g. investments or labor productivity<sup>5</sup> as the principal casual factor. Which model comes closer to reality is an open question. While assuming in this report that the solution based on imports is of particularly high value because of the intensity and rapidness of the casual relationship, it should be emphasized that the obtained results concerning losses that can be attributed to import cutback are over-estimated. As a result of the adopted way of reasoning, these losses are identified in this report with the total value of national income losses in successive years.

### III. Assessment of Losses On Account of Import Cutbacks Caused by Politically Motivated Restrictions

Restrictions in the financial sphere, consisting in the withdrawal by Western governments of credits or credit guarantees, were the major although by no means the only cause of the reduction of imports in 1982 and 1983.

The decline in imports was both a source and an effect of the crisis. This means that it was fueled by all the factors which generated economic crisis in Poland. Hence the great difficulties encountered in analyzing the impact of individual factors upon the drop in imports, among them the factor of credit restrictions.

The latter exerted tangible influence upon the decline in imports already in 1981. At that time they were motivated by foreign borrowers' low assessment of Poland's credit-worthiness, especially after the March 1981 suspension of Polish debt repayment.

But new credit (and other) restrictions imposed in 1982 can be attributed primarily to political motivations, initiated by the United States following the declaration of martial law in Poland on 13 December 1981.

Taking the above-said into account, as well as the objective difficulties with a separate evaluation of the consequences of restrictions motivated by economic and political considerations, the following simplifying assumption has been made: that the fall in imports in 1981 was caused exclusively by restrictions stemming from economic motivation, while the declines in imports in 1982 and 1983 were caused exclusively by restrictions stemming from political motivations. In reality, the fall in imports throughout the entire 1981-1983 period should be attributed to Western actions stemming from both kinds of motivation. Therefore the adopted assumptions undoubtedly lead to an overstatement of the losses which were brought about by politically motivated measures during 1982-1983, and at the same time to unjustified total omission of such losses suffered during 1981.

Nevertheless, as a result of the adopted simplifying assumption, the approximate analysis of losses induced by politically motivated decisions totally excludes the loss of national income in 1981, focusing only on national income losses in 1982 and 1983.

Earlier in this report, the losses sustained in those years against the preceding year were estimated at \$5.1 billion for 1982 and \$0.3 billion for 1983. But in a situation where the losses of 1983 came on top of the much greater losses of the preceding year, the calculation of losses sustained during both years should be conducted against 1981 as the base year. In this way one arrives at a cumulative calculation of losses which during the 2 years amounted to \$10.5 billion.

Table 2

Estimated Losses in National Income in 1982-1983 (in billion U.S. \$)

	As against the previous year	Cumulative
1982	5.1	5.1
1983	0.3	5.4
Total	5.4	10.5

Reservations can be expressed about the assumption adopted in this calculation, to the effect that in the absence of restrictions the national income would have increased at a rate of 3 percent a year. It can be noted that if this hypothetical rate were reduced to 2 percent or 1 percent a year then the cumulative loss estimate would have to be pruned by respectively \$1.3 billion and \$2.6 billion.

The imposition of credit restrictions by Western countries contravened the provisions of agreements on economic cooperation concluded with them by Poland. It was also incompatible with the agreement on debt restructuring, signed with the Paris Club in the fall of 1981. In it, the creditor countries stated they would not restrict Poland in drawing new credits. At the same time the chairman of the Paris Club called on the creditor countries to provide Poland with credit facilities indispensable for overcoming the country's payments difficulties.

Of particularly discriminatory nature were the bans on issuing guarantees for credit sales to Poland by state insurance institutions, announced by Western countries in 1982. Normally, exporters can avail themselves of such guarantees upon concluding contracts with foreign customers.

As the interest-bearing commercial credits constituted in 1981-1982 almost the exclusive form of loans obtained by Poland, the consequences of such bans can be easily identified.

One such restriction is the U.S. Government decision not to renew guarantees extended by the Export-Import Bank on export credits for the Polish Government.

Also known are instances of cancellation of guarantees by governments already after they were promised (e.g. the refusal by the U.S. Government to extend guarantees that were agreed upon early in December 1981) or when they were in the final stages of negotiations (e.g. the French credit negotiated in November 1981 which was to be finalized during a planned visit to Poland by the French prime minister, which however failed to materialize).

Worthy of attention is the timing of these hostile steps taken by Western states against Poland. The year 1979 was the first year of decline in Poland's national income, which gathered momentum in subsequent years. The restrictions of December 1981 were thus applied against a country which for 3 years had been waging a dramatic struggle to recover from an economic crisis. They obviously contributed to deepening and prolonging the recessionary phenomena.

The 1982 drop in imports was most notable in the field of capital equipment. However, after the great reduction of this import in the preceding years, no major changes emerged in the structure of purchases from payments zone II [convertible currencies].

The drop in imports from capitalist countries (payments zone II) was partly offset in 1982 by increased production-supply and consumer-good purchases from socialist countries (payments zone I). This compensation played an important role in the field of consumer goods, but it was much more modest in production supplies.

Import cutbacks in 1982 were particularly drastic in relations with the U.S. The more than 80 percent drop in purchases from that country came as a result of rapid reduction of grain imports, partly shifted to Canada.

Table 3

## Imports According to Form of Utilization

Import for the purpose of:	Changes in 1982 as against 1981 (in %)			Structure of imports from payments zone II (%)		
	Total	Payments zone I	Payments zone II	1981	1982	Jan-May 1983
Investment	-43	-38	-51	9.9	6.4	6.1 79.7
Production supply	- 8	+ 6	-21	76.5	79.1	
Consumer supply	- 3	+16	-19	13.6	14.5	14.2

Table 4

## Poland's Imports From Some Capitalist Countries in 1981-1983

	1980 (in million exchange zloty)	1981 previous year - 100	1982 previous year - 100	Jan-Sept 1983 (Jan-Sept 1982 = 100)
Total	25,890	70.4	73.6	106.1
West Germany	3,934	73.8	87.1	111.2
France	2,443	79.0	75.9	52.2
U.S.A.	2,351	104.5	18.7	129.9
Britain	2,031	64.8	86.5	115.4
Austria	1,747	58.4	71.1	116.6
Italy	1,173	68.7	72.3	111.2
Canada	835	98.0	126.7	9.9
Holland	665	74.2	88.9	128.7

Imports from other countries in 1982 decreased too. There were several instances of import growth but they were caused by some peculiarities of current situation. In the case of Canada, for example, this was the existence of grain surpluses.

While the 1981 fall in imports (by \$3.1 billion) concentrated in areas of major importance for the state of industrial supplies--including products of the engineering and electric sector (decline by \$0.9 billion), fuels and energy (\$0.8 billion), chemicals (\$0.6 billion) and metallurgical products (\$0.5 billion)--its 1982 pattern was entirely different. With the overall fall of \$1.6 billion, the steepest decline was reported in food and farm produce (\$1.1 billion) and products of the engineering and electric sector (\$0.4 billion).

Table 5

Poland's Imports From Capitalist Countries in 1981-1983, by Product Group

	1980 (in million U.S.\$)	1981	1982	1983 (plan)
		previous year = 100		
Total	8,477	70.4	73.6	103.9
Fuels and energy	1,005	31.5	72.6	244.1
Products of industries:				
--engineering and electric	1,760	61.4	71.6	99.0
--metallurgical	855	42.5	112.6	88.4
--chemical	1,548	62.7	113.9	96.3
--wood/paper	153	48.1	79.9	108.8
--light	429	68.1	71.6	156.8
--food-processing	840	144.6	50.6	66.8
--agriculture	1,581	94.2	57.3	

The drastic reduction of grain imports in 1982 was caused by the abrogation of grain credits, but it was also the result of a conscious decision by the government to cut back on grain purchases in order to secure the supply of badly needed raw and intermediate materials for industrial production.

#### IV. Final Notes

The losses can be attributed in the most part to politically-motivated credit restrictions. The order of magnitude of those losses has been confirmed by a separate statistical calculation.

Two facts need be emphasized in particular:

--the timing of imposition of the restrictions in 1981, i.e. towards the end of the third consecutive year of crisis and dramatic struggle of Poland to overcome it,

--the unexpectedness of the restrictions, which, adding to the earlier fall in imports during 1981, considerably aggravated and prolonged the economic crisis.

It must also be stressed that the restrictions and their sudden imposition were incompatible with the letter and the spirit of agreements on economic cooperation concluded with Western countries.

Poland's losses suffered as a result of actions taken by the Western states, and partly also due to the particular situation which shaped up in the world

credit market (growing interest rates), give grounds for postulating changes in the West's economic policy toward Poland. We mean changes which would aim at lowering the huge and historically unprecedented (in such a scale) burden of interest on credits, securing easier terms of interest on credits, rescheduling the repayment of credits to cover long periods, and the creation of other conditions necessary for mutually advantageous trade.

The following rational arguments come to mind at this juncture: Poland's economy is marked by a high marginal productivity of import content, especially when it takes the form of production supplies, and a high import vulnerability. The cuts in imports forced upon Poland have been hampering many lines of production and are responsible for the fact that some factories have been running at 50 percent to 60 percent of capacity.

Economic upturn depends on a correct level and correct policy of imports as well as on processes making such imports possible. While acknowledging this, one must at the same time beware of excessive optimism. The imposition of trade restrictions contributed to a rapid collapse of turnover. But a possible removal of the restrictions will not trigger a similarly rapid increase in turnover, leading instead to its gradual reconstruction.

Nonetheless, the restoration of a rational scale of production-supply imports which would make it possible to enhance capacity utilization in industry and the country's export capability is an indispensable condition for lessening Poland's indebtedness. Therefore, a credit policy encouraging such changes cannot be indifferent to the creditors, the more so as Polish debt is an element of a wider global problem, involving a new regulation of matters of international trade including new forms of financing economic development.

#### FOOTNOTES

1. It is estimated that this export capacity dropped by 33 percent in 1981 and 35 percent in 1982. The fall in export capacity is understood as a difference between the hypothetical value of exports in a given year estimated from a long-term trend and the value actually obtained.
2. The rate of import fall is given in respect to total imports, not only imports from capitalist countries. This, however, does not change the fact that so calculated decline is almost entirely a result of reduction of imports from capitalist countries.
3. The level of national income is assumed at z1 2,600 billion in 1981 and z1 4,753 billion in 1982 (at current prices), and the exchange rates are as follows: in 1981, exchange z1 3.36 to the dollar and z1 15.25 to the exchange zloty, which makes z1 51.26 to the dollar; in 1982, z1 84.82 to the dollar.
4. An approximate exchange rate of z1 90 to the dollar is assumed for 1983.



5. For example, the productivity of labor is assumed as the principal casual factor in the work "Changes In Labor Productivity, Real Wages and Consumption in the Polish Economy," by S. Felburg, W. Polc and J. Tobler, where it is concluded that the main factor behind crisis in Poland is the decline in labor productivity rather than shortage of production supplies.

CSO: 2600/483

NATIONAL BANK CHIEF ADDRESSES SEJM ON CREDIT, INCOMES POLICIES

Warsaw TRYBUNA LUDU in Polish 6 Dec 83 p 4

[Summary of National Bank of Poland President Stanislaw Majewski's speech at the 5 December Sejm session]

[Text] In compliance with the banking law, I am submitting to the Sejm the Council of Ministers-approved credit plan for 1984, together with the balance sheet of the population's money incomes and expenditures and guidelines for the banks' monetary/credit policy in 1984.

The banks' credit policy was based on an analysis of enterprises' credit worthiness, but it had too little impact upon changes in the structure of production and improvement in efficiency. In conditions of persisting disequilibrium, almost all enterprises are profitable. All too often, however, the profitability was an outcome of product-line manipulations rather than progress in economic efficiency.

Despite the steep progression, also in respect to wages, and the second half-year's slow-down in the rate of price increases--a result of the government decision to temporarily freeze production-supply prices and of more stringent bank credit policy--the growth in economic units' incomes, and consequently in employee wages, continues to be generated in large measure by factors other than improved efficiency, cost reduction, higher productivity or lower material content in production. Increase in hourly productivity of labor is wasted by the very low utilization of working time, now at some 34 hours a week. Against this background, the increase in enterprise incomes was often caused by negative adjustment to the mechanism of reform, or in other words by the "circumvention" of reform.

I must self-critically confess that the bank credit policy was not implemented in a sufficiently rigorous and efficient manner. It is true that the target volume of credit was exceeded only insignificantly and that the supply of cash money will surpass the plan target by only zl 33 billion (or 4 percent of the year-end level which is going to be zl 760 billion), but this was attained in different conditions than those expected a year ago during work on the plan.

The banks refused credits and proceeded to exact payment from some enterprises which did not have sufficient credit worthiness and which as a result of wasteful management did not guarantee credit repayment, but such cases were few and far between.

Many enterprises, including several large industrial, transport and construction units, are now granted conditional credits, after producing programs on financial recovery. If these programs fail to bear fruit, the procedures provided for in the law on financial recovery of state enterprise and its bankruptcy will be invoked. The banks repeatedly warned their clients about consequences of mismanagement. In such cases, the banks will use all their powers, and no connivance can be expected from them. Already now, many enterprises became candidates for reorganization proceedings or even for liquidation. But not infrequently they are provided with finance in various forms and from various [non-banking] sources, which prolongs their existence as well as vitiating the banking system's policy of tight money.

But an overwhelming majority of enterprises enjoy favorable financial situation--coupled with a simultaneous poor situation of the state. The latter is reflected, among other manifestations, in the deficit of state budget which in large measure is generated by inflation-fueling subsidies to deficit-ridden production.

While noting progress in the restructuring of investment and production--reflected in the concentration of resources on the production of industrial inputs for agriculture, expansion of the domestic raw-material base and housing construction--it should also be stressed that the investment front is still overextended and that progress in the field is absolutely unsatisfactory.

The level of capital spending set in the Central Annual Plan is expected to be topped by z1 160 billion. At the same time investments are marked by erroneous and inflation-fueling structure. As a result, this year's increase in consumer good production from newly installed capacity will reach slightly more than z1 40 billion.

The prime reason why restructuring efforts did not produce the expected effects is that the economy has to shoulder a heavy burden of projects started in the past and still uncompleted. At the end of last year, as much as 88 percent of capital spending was absorbed by continued investment projects, while new undertakings claimed only 12 percent. This pattern was changed only insignificantly this year. In industry, only 10 percent of investment outlays are now earmarked for the expansion of consumer production. This is a highly unfavorable proportion.

In order to ensure more rapid growth in consumer and export production in future, the banks--proceeding from the guidelines on money/credit policy--are going to use the instrument of preferential treatment in their credit policy. In particular, the banks intend to consolidate the tight-money policy. To this end, in compliance with the provisions of the credit plan submitted to the Chamber, "the banks, in granting credits for warranted requirements, will seek the maximum commitment of enterprises' own resources to the financing of economic activities, thus preventing the emergence of financial excess which would permit an increase in consumption funds not justified by higher productivity of labor."

The banks will refuse credit to enterprises that operate inefficiently and do not report progress in reducing production costs, increasing output or improving the quality of products and services.

In respect to the private sector in- and outside agriculture, the credit policy will favor projects serving the expansion of farm production (especially under state-farmer contracts) through better utilization of land and development of domestic feed base, and the expansion of farm-supplying crafts and services. If the preferential treatment of these operations is to live up to expectations, its scope must not be increased.

The bank credit policy, supported by other instruments of the state's financial policy, will prove more efficient if it is really a tight-money policy. To serve this goal, the interest rate on newly granted credits--development credit to finance growth in constant requirements and credit for newly started investment projects--will be raised in 1984 from 9 percent to 12 percent. This rate will not be increased in respect to credits granted agricultural, food-industry and food-trade units.

The tight-money policy also requires an increased interest rate on credits granted private economic units and individuals (with the exception of housing credits). To this end and in accordance with the Sejm-adopted anti-inflation program, the National Bank of Poland will set the interest rate at a level which in principle will not be lower than the average rate on saving deposits (now approaching 8.5 percent). This will translate into an increase in credit interest rates by two percentage points on average. But at the same time many kinds of credits, especially those extended to private farmers, will be granted on preferential terms.

Great concern is aroused by the still insufficient increase in consumer and export production. While socialized industry's sold production is expected to increase this year by 7 percent, the growth in consumer production will be not higher than 4 percent. In view of such developments, the reduction of inflation and of market imbalance to the levels set in the Central Annual Plan for this year, proved impossible.

The planned level of the population's money incomes was topped by 12 percent, or z1 470 billion. This figure splits into z1 200 billion in excess of the planned level of the wage fund, z1 117 billion in farmer earnings from produce delivery to socialized procurement agencies, and z1 57 billion in incomes of the non-farm private sector.

This resulted in higher than planned inflationary increase in prices on the one hand and on the other in the maintenance of general market disequilibrium. The consequent inflationary gap will total z1 100 billion this year. But it should not be forgotten that last year's growth in the supply of money which had no equivalent in commodities approached z1 200 billion. Mention should also be made of the attainment of equilibrium in some segments of the market.

The draft balance sheet of the population's money incomes and expenditures for 1984 calls for the balancing of the flow of demand generated by current incomes

with the flow of consumer goods supply--with the expected increase in retail prices by 15-16 percent. This can be achieved if the CAP targets concerning the delivery of consumer goods and services are met and if the planned dynamics of the population's global money incomes is not exceeded.

The supply of cash money is to grow by z1 130 billion, or z1 11 billion less than this year's growth. The principal condition for the attainment of global equilibrium between the flow of demand generated by current incomes of the population and the flow of supply--and for the curbing of inflation--will be higher-than-planned increase in the supply of consumer goods. The increase set in the Central Annual Plan will still be insufficient from the discussed point of view. Therefore the banks will give priority to supporting all efficient undertakings aimed at real increase in the consumer market supply.

Wage discipline must be tightened, and in particular pay raises must be closer linked to increase in labor productivity, that is to the growth of production and services.

It should be stressed that the implementation of these very difficult tasks will in itself be insufficient to balance the monetary/consumer-market situation.

We enter the year 1984 with the legacy of unsatisfied demand, referred to as the inflationary overhang. In view of the improvement in the food market observed this year, this unmet demand is mostly for industrially-made articles.

If next year's inflation is kept within the planned limit of 15-16 percent, this will mean major progress in its combatting. In 1982 inflation was running at 100 percent and this year at 23 percent. Such a reduction in the rate of inflation within 1 year is a task requiring great effort in all segments of the national economy. Its attainment would contribute to a substantial slow-down in the pace of currency depreciation and to effective protection of its purchasing power. In such case, the rate of inflation would equal today's highest level of interest on the population's bank-deposited long-term savings--which would preserve this part of the population's money reserves from purchasing-power deterioration.

In accordance with the priorities set in the National Socio-Economic Plan, there will be a tangible increase in the size of credits financing house construction projects--both socialized (rise by z1 90 billion) and private (by z1 30 billion). Operating and investment credits for private farmers will grow by z1 13 billion.

The banks' capability of providing credits for newly started investment projects will be very limited next year.

The major source of financing their credit operations are the resources of socialized economic units kept in bank accounts. We expect their level to rise next year by z1 200 billion, or 16 percent--up to z1 1,395 billion. Another source is provided by the means deposited by the population and private economic units in saving accounts of the PKO bank and cooperative banks. They are plan-

ned to increase in 1984 by z1 130 billion, or 12 percent--up to z1 1,200 billion. Our underlying principle is that the banks, in pursuing the monetary/credit policy goals, should adjust the level of extended credit to the size of means accumulated in bank accounts. But still the credit plan will show a deficit now expected to reach z1 27 billion, which is lower than this year's figure.[...]

CSO: 2600/480

MORE EFFECTIVE CHANNELING OF CAPITAL INVESTMENT FUNDS URGED

Warsaw ZYCIE GOSPODARCZE in Polish No 48, 27 Nov 83 pp 6-7

[Article by Teresa Gornicka]

[Text] A short time ago, the investment front was accused of preparing the ground for the economy's eventual collapse. Today we are facing the question if investment is going to play an equally unglorious role in the period of extricating the economy from its crisis.

No one in his senses deluded himself that old investment practices can be skipped easily. Halting investment projects now underway is naturally a difficult move, in which various barriers, including psychological, have to be overcome. But the whopping 30 percent slump in national income early in the 1980's dispelled whatever doubts there may still have been about such a move being inevitable. This was reaffirmed by a cool assessment of reality in the course of work on the 3-year plan [1983-85]. This plan provides for investment spending not to exceed 1,000 billion zloty annually (at 1982 prices) till 1985. At comparable prices, this implies a nearly 50 percent drop in investment spending compared to the 1978 level.

The only way of adapting the economy to these limited possibilities within a short time was by cutting down the high level of capital required for the completion of continued investment projects [zaangazowanie], which in 1980 claimed 3,000 billion zloty (at 1982 prices). While this painful move was being made there was an opportunity to pick from the old practices whatever helped to adjust the physical structure of investment to changed needs and goals determining all actions designed to lift the economy from its crisis.

That much should be said about the starting-point for investment efforts during the past 2 years and about the scenario for controlling investment developments which was worked out at the time.

The Burden Of The Past

Let me right away make it clear that this scenario diverged from reality, even though decisions to forsake or halt investment projects were made several times during those 2 years. First such decisions were made in 1981 when some barely started projects were abandoned and about 1,600 projects were halted until their

purpose and use could be definitively decided. Attempts to get the situation under control were also made in 1982. Halted projects were then classed into several groups--some were to be abandoned for good, others were to be resumed immediately, and others still were to be resumed after their future intended functions were reconsidered. Besides, there was a group of investments earmarked for being incorporated in the plan only after 1985. However, these decisions made no real change in the original state of affairs. Capital required for project completion in 1982 proved to have been considerably higher than in 1980.

In 1983, the matter was taken up once more. In result of a centrally controlled investment project review, another several hundred projects needing a total of 600 billion zloty to complete were abandoned. Yet some of the previously halted projects, which will claim another 150 billion zloty to finish, were okayed for resumption.

Once again, effects proved far behind hopes. Toward the end of 1983, completion requirements are estimated at more than 3,400 billion zloty. But there is more to this. Apart from the projects reviewed already there are 11 metallurgical projects for which final decisions about their continuation or resumption have yet to be made. Quite frequently, too, costs of continued undertakings were presented in their old, non-updated versions.

How did investment projects commenced in 1981 and 1982 contribute to this high level of capital requirements? Investment projects started in 1981 amount to 450 million and those in 1982 to 680 million zloty. While projects handed over during these years compensated for the increased level of capital requirements for project completion [zaangazowanie], no major conclusions should be drawn from this fact. Even if these two respective capital values are weighed against each other at comparable prices, then the GUS [Central Statistical Office] estimate of 100 billion zloty in favor of handed over projects cannot really brighten up the general picture.

There are no grounds to expect that at least such a relation can be recorded for this year. In the first half, new projects were started of a cost-estimate value of 283.4 billion zloty. Project advancement in terms of material effects are so far unpromising, above all in the group of big projects strongly affecting present capital requirements figures.

Without all those decisions to abandon, halt or defer projects started in the past, the situation would now probably be much worse, with the economy having to bear an estimated 1,000 billion zloty in extra burden. However, consoling oneself with the likelihood that a bad situation could have been worse is putting up a smokescreen to hide the defeat the economy actually suffered. The final outcome will strongly be affected by rising investment costs. This has two basic sources. One is the rapidly rising price of building and assembly works, which account for 63 percent of total costs in general-building firms. An equally alarming tendency which manifested itself in updating the plan's material components is the ubiquitous practice of expanding a project's material scope by investors. While updating construction costs of the Huta Katowice's coke plant, for instance, its investor estimated funds necessary to complete the projects to be seven times as high as originally planned.



This is an extreme example, yet it is indicative of the persistent mode of thinking which amounts to skim as much funds for one's own branch. At the high degree of aggregation of statistical data it is obviously hard to say to what extent this was a general tendency and to what it can be justified by the incompleteness of original project drafts or by actual increases in building and assembly work prices.

#### Deconcentration

It is estimated that at the present structure of the investment plan ventures with completion periods longer than 4 years account for some 60 percent of all projects. As for centrally controlled projects, they are now the biggest item of investment spending, although there are only 62 of them at present. They are all projects with long gestation periods and display poor advancement levels [zaawansowanie], estimated at some 30 percent. Their share in the overall level of capital requirements for completion is estimated at some 33 percent. Besides, the group of continued projects includes 51 big ventures sponsored by enterprises which were previously classed as central investment projects, which also have long gestation periods. So, the present "investment debt," or started projects now underway, is expected to end no sooner than in 1987.

This calculus, which is anything but optimistic anyway, is additionally weakened by the unrealistic assumption that gestation periods will be shortened in the nearest years, despite practical experience to the contrary. In 1975, mean gestation period was 30.3 months. By 1980, it grew to 39.2 months, and in 1982 to 48 months. These GUS data, which were compiled under conditions of comparable investment structure, clearly show the deepening relaxation of project completion discipline.

To complete the picture, let me add that while in 1975 some 37.2 percent of all investment projects failed to meet planned schedules, in 1980 the corresponding figure was 60.7 percent, and last year even 70 percent. This year's observations indicate this anomaly persists. Although in the first half the industrial construction branch surpassed planned spending targets, the physical plan which is measured by the cost-estimate value of completed projects was fulfilled in no more than 22 percent.

So it is unrealistic to hope that the economy can gradually rid itself of this quantitatively excessive investment drag to finally reach that safe point at which everything, including gestation periods, at long last returns to normal. To exact discipline in keeping to completion schedules, the government has decided to introduce its own orders for certain central investment projects. This has been enthusiastically hailed by investors and contractors alike because governmental orders guarantee full supplies of materials and components for production. There has recently been a huge cry for embracing various other vital ventures by governmental orders can indeed be regarded as an effective mode of putting some order into the problem of completion periods. However, governmental orders can alleviate the situation in a small segment only. Besides, they will anyway not embrace most central investments, big enterprise projects, ventures sponsored by local administration agencies, enterprises and cooperatives, nor some other projects, completion of which will have to be further deferred because of production material shortages.

The situation cannot be solved even by imposing tight controls barring any major investment undertakings from being incorporated into plans for the next 2 years. Of course, every new project can only deteriorate the situation further.

By its nature, investment expenditure has an inflationary effect. Every invested zloty feeds new money to the market. The longer the completion period, the greater the amount of money let into the market without proportionate coverage in goods. For this reason at least you can say now that investments which are necessarily doomed to advance slowly will strongly boost inflation.

#### No Transmission

The same recrimination can be made against investments for a second time when you regard them from the vantage point of physical structure. You will find no transmission gear between Poland's troubles with inflation and the role investment can play in stalling it. The point is there are no funds for developing industries which might turn out goods necessary to cover our worthless zloty in this dramatic discrepancy between hopes and possibilities. This contention is fully justified by the sectoral structure of capital requirements for project completion.

Of the total level of capital requirements in industry, 48 percent is taken by fuel-and-energy sector, 11 percent by the metallurgical industry, 19 percent by the engineering industries, 8.8 percent by the chemical industry, 2.8 percent by the mineral industry, 1.9 percent by the timber-and-paper industry, 6.2 percent by the food sector, and only 2 percent by the textile-and-footwear industries.

More detailed analyses fully confirm the charge that investments have turned away from consumer goods production. As much as 90 percent of all capital requirements goes to undertakings connected with the development of producer goods production. Consequently, wages fed into the market by the investment mechanism will in the future find only very poor coverage in production made possible by these investment projects.

At present, there is virtually no room for maneuver in the area of investment. The only conceivable way toward some alleviation of the plight is perhaps by concentrating funds on still fewer projects, which means that projects inherited from the past should further be limited. This is the only way by which the economy can disassociate itself from the dispersal, slowdown and the entire inertness which, under existing conditions, is otherwise intractable.

Furthermore, Poland faces the enormous problem of productive capital's continuous ageing and depreciation, especially in manufacturing branches, a problem which for the time being has been put aside for revolution in the future. Poland cannot afford any significant development or modernization undertakings in these industries, and ambitious plans for restructuring the economy through investment have to be deferred. This naturally imparts greater significance to minor enterprise investments. The economic reform has built into the enterprise management system a self-defense mechanism against excessive capital

depreciation. Specifically, this is the function of what is called development fund, which is composed of part of enterprise profits and depreciation write-offs, which is used among other things for financing investment ventures. Most enterprises have their own funds. According to the National Bank of Poland, only 200 of the 9,000 big enterprises in Poland have failed to create such a fund.

By the end of this year, an estimated 800 billion zloty is expected to accrue on the development fund in all. This is much above the total enterprise-sponsored investment funds provided for in the draft 1984 Central Annual Plan. This has even sparked some nervousness, which is not fully justified because this fund is assigned not to investment alone but also to financing current operations, to pay off previous credits etc. Nonetheless, the question arises to what extent this investment money flow may jeopardize the much-desired investment balance.

Since investment belongs to the sphere of distribution, it is obviously inadmissible to allow the situation to get out of control. This is not to say, though, that general balance can be totally effected by imposing tight controls in the area of enterprise projects have recently been financed from enterprises' own funds. Funds earmarked in the credit plan go in nearly 90 percent for financing big projects removed from the group of central investments. It has also been common knowledge for a long time now that minor enterprise investment projects used to be among most effective and efficiently completed. They often yield economies quickly, and often they allow enterprises to keep going on. Any arbitrary controls restraining enterprise freedom to make such decisions are bound to produce more harm than benefit. The rule to abide by in this case is: first, do no harm [primum non noceve].

The next few months are going to write an epilogue to this murky presentation of the investment sector. The jam on this crucial highway of the economy cannot be tolerated for too long. Trying to stubbornly push it forward would be the worst thing to do. Under the economy's present limited investment capacity, investment spending is bound to be inefficacious as an instrument for lifting the economy out of its crisis. But investment projects can painfully harm the economy if they are handled ineptly.

CSO: 2600/490

## FINANCIAL HEALTH OF PUBLIC-SECTOR INDUSTRIES ANALYZED THROUGH THIRD QUARTER

Warsaw ZYCIE GOSPODARCZE in Polish No 50, 11 Dec 83 p 9

[Text] Enterprises' financial results after three quarters of 1983 reflect both continuation and various sorts of evolution in trends seen in the field after the first quarter and the first half of the year. Not all evolutions are sufficiently clear from highly aggregated data in sectoral or sub-sectoral breakdown. Therefore, an attempt is made in this article to group enterprises according to other criteria, e.g. the level of financial results.

## Diversification

As shown by the GUS-supplied table, the total amount of financial accumulation in socialized enterprises reached after three quarters of 1983 z1 1,242.2 billion, a 30.1 percent increase on the corresponding figure of last year. It may be recalled that at mid-year, the 1983 figure was z1 829.2 billion, or 43.3 percent more than in the first half of 1982. This reflects some slow-down in the dynamics of financial accumulation, coming as a result of both lower production growth indices in the third quarter (as against the first half of the year) and the freeze on contractual prices [originally planned to be freely negotiated between parties to a contract]. The discussed development is also indicated by the increase in the ratio of total costs to sales in socialized enterprises--from 90.1 percent in the first quarter of 90.6 percent in the first half of the year and 90.7 percent in three quarters.

There was a slight change in the structure of financial accumulation according to its place of origin. After three quarters, industry accounted for 70 percent of total accumulation (against 75 percent in the first half of 1983), construction for 9 percent (8.6 percent), domestic retail trade for 5.9 percent (5.8 percent), production-supply trade for 5.6 percent (5.2 percent) and foreign trade for 9.6 percent (8.9 percent).

In the sector of industry, the highest financial accumulation after three quarters was reported by the spirits industry--z1 279.7 billion, or 54 percent more than in the same period of 1982. Next came the refinery industry (z1 105.4 billion, a 39.6 percent increase), followed by textiles (z1 77.4 billion, increase by 13.3 percent), automobiles (z1 53.4 billion, increase by 27.7 percent), brewing (z1 30.6 billion, increase by 72.9 percent), and electronics (z1 24.2 billion, increase by 32.2 percent).

Financial Performance of Socialized Enterprises in Three Quarters of 1983

Item	Sales	Financial accumulation and its distribution								Cost index <sup>2</sup>	Profitability index <sup>3</sup>
		Total	Taxation Total	Sales tax	Budgetary grants		Financial performance <sup>1</sup>	Profit Income tax	taxation PFAZ		
					Total	Subsidies					
in billion z1										in %	
1	2	3	4	5	6	7	8	9	10	11	12
Socialized enterprises, total <sup>4</sup>	a/ 10,413.8 b/ 13,305.4	955.1 1,242.2	581.3 827.6	436.5 694.0	582.8 614.5	419.9 470.4	956.6 1,029.2	567.6 531.7	9.32 28.81	90.8 90.7	48.9 31.5
of which: Industry	a/ 4,537.0 b/ 5,653.0	695.0 881.8	369.0 561.3	347.1 555.3	289.7 301.9	241.5 280.5	615.7 622.4	392.8 345.1	4.21 17.11	84.0 84.3	47.6 37.5
of which: coal	a/ 254.7 b/ 333.6	-45.9 -54.1	1.5 0.0	0.0 0.0	70.0 70.1	47.6 70.1	22.7 16.0	1.5 0.3	0.49 0.00	117.9 116.1	9.5 5.2
fuels	a/ 336.0 b/ 356.1	86.3 115.4	66.7 83.0	52.7 82.9	16.0 4.3	2.9 4.3	35.3 36.6	28.7 28.1	0.05 0.22	74.3 67.6	127.9 110.4
steel	a/ 281.6 b/ 253.9	2.5 16.4	0.8 1.0	0.8 1.0	21.4 11.8	21.1 11.7	23.0 27.2	13.3 14.5	0.15 1.25	98.9 95.3	29.3 28.4
machinery	a/ 354.3 b/ 422.9	70.5 76.0	5.2 4.5	3.2 4.4	1.3 2.5	0.0 0.0	66.6 74.0	44.2 38.2	0.67 2.43	80.0 82.1	56.8 49.0
precision	a/ 52.5 b/ 60.9	14.4 14.3	0.7 0.8	0.6 0.8	0.0 0.2	0.0 -	13.7 13.6	9.7 9.3	0.14 0.65	72.5 76.2	75.9 60.5
means of transport	a/ 354.7 b/ 418.9	76.2 89.7	18.8 30.7	18.0 30.6	2.2 7.8	0.5 0.5	59.6 66.8	40.6 39.4	0.58 3.35	78.8 78.9	63.4 56.2
chemical	a/ 396.6 b/ 487.2	65.6 72.9	9.5 14.0	9.5 13.8	15.7 13.7	14.9 11.3	71.8 72.5	50.6 44.7	0.40 1.12	83.3 85.0	77.6 59.9
construction materials	a/ 126.5 b/ 165.4	20.4 24.1	3.3 4.1	1.5 2.0	3.8 3.0	2.9 2.5	20.8 22.9	12.7 12.7	0.20 0.54	83.8 85.3	40.0 31.7
textile	a/ 258.6 b/ 334.7	68.3 77.4	29.6 43.0	29.6 42.7	0.4 0.6	0.3 0.5	39.2 35.0	26.4 20.3	0.13 0.55	73.4 76.8	57.7 40.6
garments	a/ 93.7 b/ 127.3	10.7 15.0	0.6 0.6	0.5 0.6	2.0 0.1	0.0 0.0	12.1 14.6	6.1 6.9	0.11 0.52	88.7 88.3	45.1 38.0
food-processing	a/ 978.3 b/ 1,291.1	136.5 233.2	201.6 322.7	200.3 320.6	145.1 170.6	142.3 168.6	80.0 80.4	51.8 44.7	0.37 1.41	85.1 81.5	47.5 41.7
construction	a/ 684.0 b/ 920.2	91.2 111.5	0.4 0.5	0.4 0.5	0.3 0.4	0.3 0.0	91.1 111.4	49.0 51.0	1.14 1.64	86.4 87.7	27.4 23.2
rail transport	a/ 95.3 b/ 133.7	-36.3 -28.9	- 0.0	- 0.0	44.4 64.5	44.4 64.5	8.1 35.6	1.2 5.2	0.01 0.07	139.3 122.7	10.3 30.4
road transport	a/ 117.2 b/ 175.2	- 7.9 15.5	0.1 0.2	0.1 0.2	33.3 11.9	33.3 11.9	25.3 27.2	12.7 12.2	0.23 1.10	197.1 91.5	31.6 27.6
domestic retail trade	a/ 2,128.1 b/ 3,018.5	61.2 73.3	9.5 16.7	6.8 7.6	18.9 8.3	12.3 6.8	69.6 64.9	3.9 28.0	1.92 1.91	97.4 87.8	28.1 19.6
foreign trade	a/ 1,137.0 b/ 1,261.4	91.9 119.0	158.8 191.4	40.9 76.0	103.8 113.1	-1.4 -0.0	37.0 48.8	25.5 27.2	0.28 0.48	92.1 90.7	68.8 60.2

a/ Jan-Sep 1982, b/ Jan-Sep 1983

1. balance of losses and profits
2. ratio of all enterprise costs to sales
3. ratio of the financial result to processing costs
4. without PGR state farms, RSP farm cooperatives and farm circles

Source: Central Statistical Office (CUB)

The highest level of negative financial accumulation persists in the coal industry and in the food-processing branches working on subsidized farm produce. In the coal industry, the negative financial accumulation reached minus z1 54.1 billion after three quarters, as against minus z1 36.1 billion after the first half of the year, and minus z1 24.7 billion after the first quarter. Last year, the respective figures were: minus z1 29.0 billion, and minus z1 8.4 billion. The highest excess of total costs over the value of sales is seen in coal mining. In lignite mines, the negative financial accumulation stood at minus 2.9 billion, against minus z1 3.7 billion at mid-year and a positive number in the first quarter. All this indicates that the negative financial accumulation in the mining industry as a whole will approach z1 80 billion this year, against z1 64.7 billion in 1982 and z1 85 billion in 1981 (prior to the coal price increase of January 1982).

Among the food-processing branches, the lowest accumulation is seen in the dairy, milling and meat industries. In the dairy industry, the negative financial accumulation was minus z1 61.3 billion after three quarters of 1983, against minus z1 50.3 billion in the same period of last year. In the first half of 1983 the figure was minus z1 40.6 billion, and in the first half of 1982 minus z1 37.3 billion. This year, the negative financial accumulation in the dairy industry is expected to equal that of the coal industry--around minus z1 80 billion, against minus z1 65.5 billion last year, and minus z1 103.5 billion in 1981 (prior to the February 1982 increase in prices of basic food-stuffs).

A still greater downfall was reported in the milling industry, where the negative financial accumulation went down to minus z1 43.4 billion in the three quarters of 1983, from minus z1 21.1 billion in the same period of last year. This was influenced by the July 1983 increase in state procurement prices for crops. In the first half of 1983, the negative financial accumulation in the milling industry was minus z1 18 billion (against minus z1 15.4 billion in the same period of 1982), while the figure for the whole year 1983 may reach minus z1 60-70 billion--more than twice as low as in 1982 and more than thrice as low as in 1981, when it stood at minus z1 19.1 billion.

Following the procurement price increase of last July, there was also a change in the negative financial accumulation in the meat industry--from minus z1 10.4 billion after the first half of the year to minus z1 22.5 billion after three quarters. But last year the respective figures were minus z1 26.1 billion after two quarters and minus z1 28.8 billion probably approach minus z1 35 million, against minus z1 108 billion in 1981.

As for other socialized sectors of the economy, mention must be made of the continuing negative accumulation in rail transport (minus z1 28.9 billion after three quarters, against minus z1 36.3 billion in the same period of 1982, and minus z1 29.7 billion in the first half of 1983), in the sector of municipal services and housing resource management (minus z1 26.2 billion against minus z1 29.3 billion in the same period of 1982) and in the non-material municipal services (minus z1 36.2 billion, against minus z1 25.9 billion in three quarters of 1982).

The financial accumulation differentials throughout the socialized economy appear not only among sectors and branches of industry, but also among enterprises within these sectors and branches. The amount of z1 1,242.2 billion in positive financial accumulation after three quarters constitutes a balance of plus z1 1,746 billion generated in a majority of enterprises and minus z1 503.8 billion generated in a not-so-small number of 2,387 economic units (15 percent of the total number). The latter were mostly in the following sectors: housing resource management, non-material municipal services, industry, municipal services, and domestic trade. After the first half of the year, negative financial accumulation was reported in 2,505 economic units (17.1 percent of the total number of surveyed units).

#### Budget and Enterprises

The high financial accumulation is accompanied by continuing increase in its taxation, mostly in the form of sales tax. The amount of sales tax totaled z1 694 billion after three quarters of 1983, or 59 percent (z1 258 billion) more than in three quarters of 1982. The figure for the first half of 1983 was z1 448.5 billion, 69.7 percent up on the corresponding previous year's level. The sales tax dynamics reflects increase in both prices and production of taxed commodities. The ratio of sales tax to the value of sales was 5.2 percent after three quarters of 1983, against 4.2 percent in three quarters of 1982 and 5.1 percent in the first half of 1983.

The highest share in sales tax generation is claimed by industry (z1 555.3 billion, or 80 percent of the total), and especially by its following branches: spirits (z1 271.3 billion), refinery (z1 82.9 billion), textiles (z1 42.7 billion), automotive (z1 26.3 billion) and brewing (z1 25 billion). Outside industry, relatively high sales tax is collected in domestic trade (z1 57 billion) and foreign trade (z1 76 billion).

In step with increasing taxation, there was a parallel increase in grants from the state budget. Their main component are subsidies which totaled z1 470.4 billion after three quarters of 1983 (a 12 percent, or z1 50.6 billion increase on the corresponding 1982 figure). The highest level of subsidies is absorbed by industry (z1 280.5 billion, or 16.1 percent more than in the same period of last year). Within the sector of industry, the highest subsidies were channelled to its following branches: dairy (z1 72 billion, a 27.2 percent increase), milling (z1 51.1 billion, increase by 68.9 percent) and coal (z1 62.8 billion, increase by 31.9 percent). In the meat industry, subsidies totaled z1 30.2 billion, which is less than last year's z1 30.7 billion. In other sectors, subsidies were extended to municipal services (z1 45.5 billion; including z1 30.2 billion in urban services, against z1 28.2 billion last year) and to the non-material municipal services and housing resource management (z1 38.7 billion; including z1 38.2 billion to housing resource management, as against z1 27.5 billion last year).

The financial result [wynik finansowy] of socialized enterprises, or the balance of their profits and losses, comprises as is known the financial accumulation less the contributions to the budgetary plus the budgetary grants. After three quarters of 1983, the balance of socialized enterprises' profits and losses

stood at z1 1,029.2 billion, or z1 72.6 billion (7.6 percent) more than in the same period of 1982. The balance comes as a result of the combined profit of z1 1,176.0 billion profit scored by 14,230 enterprises and the combined loss of z1 146.8 billion incurred by the remaining 282 enterprises.

The overall financial result figure splits into z1 622.5 billion generated in industry (1.1 percent more than in three quarters of 1982), z1 111.3 billion in construction (22.2 percent more), z1 90.2 billion in transport and communications (63.2 percent more), z1 64.9 billion in domestic consumer-good trade (7.0 percent less), z1 40.8 billion in foreign trade (10.2 percent more) and z1 36.0 billion in domestic production-supply trade (2.3 percent more).

The highest positive financial result within the sector of industry was scored by its following branches: food processing (z1 81.1 billion, or 1.4 percent more than last year), chemicals (z1 72.5 billion, increase by 1.0 percent), machinery (z1 73.9 billion, increase by 11.0 percent) and means of transport (z1 66.8 billion, increase by 12.1 percent).

Characteristically, the higher financial result--as compared with last year--was taxed with lower sales tax (z1 531.7 billion, or 6.3 percent less than last year). On the other hand, contributions to the National Labor Redeployment Fund (PFAZ), which totaled z1 28.8 billion, were 209.7 percent above the corresponding previous year's level. As a result, the amount of profit left at enterprises for distribution amounted after three quarters to z1 468.7 billion, or z1 89.0 billion (23.5 percent) more than in 1982.

The combined taxation of the socialized enterprises for the state budget totaled z1 1,480.3 billion, or 26.1 percent more as compared with the same period of 1982, splitting into z1 694.0 billion in sales tax, z1 531.7 billion in income tax, z1 188.4 billion in payroll tax, and z1 28.8 billion in PFAZ contributions. As compared with the first half of 1983, the total taxation of socialized enterprises rose by z1 484.3 billion. The figure for the whole year 1983 can thus be expected to approach z1 2 trillion, as against z1 1.8 trillion provided for in the budget law for 1983.

However, the progress in collecting the Sejm-imposed amount of budgetary revenues can hardly be a cause for jubilation--for at least three reasons. First, most revenues are connected with the higher-than-planned increase in sales tax and in retail prices, which breeds pressure for wage and nominal-income rises without equivalent in real increase in consumer goods supplies. Secondly, the increased budgetary revenues do not come as a result of improved structure or efficiency of production. As such, they cannot justify any increase in budgetary expenditures, especially if these expenditures were to boost the population's current purchasing power. And thirdly, it cannot be forgotten that the increased budgetary revenues were generated, among other factors, by the artificial lowering of enterprise costs, caused by the maintenance of relatively too low official prices for fuels, energy and production supplies, including the centrally distributed imports.

A question also arises as to the causes of some slow-down in the corporate income tax dynamics after three quarters, as compared with previous periods.



Speaking generally, there were three of them: (1) increase in processing costs, leading to a drop in the so-called net profitability index [rentownosc netto], or the ratio of profit to processing costs, and consequently to lower rate of progression, (2) narrowing of inter-enterprise differentials in net profitability indices, which also influenced a fall in budgetary contributions connected with the progressive rate of sales tax, and (3) concessions.

There are as yet insufficient statistical data to assess the impact of the third factor. But the influence of the first one is evident. The ratio of profit to processing costs in socialized enterprises taken as whole stood at 31.5 percent, as against 48.9 percent after three quarters of 1982, 37.2 percent in the whole year 1982, 33.7 percent after the first quarter of 1983 and 31.6 percent after the first half of 1983. The major factor behind the drop in the discussed ratio was quicker increase in processing costs as compared with increase in financial result (balance of profits and losses).

The impact of the second factor--lower inter-enterprise differentials in net profitability--is also tangible. Out of the 2,374 state-industry enterprises in which the discussed index was positive after three quarters, 791 (33.3 percent) units reported it at more than 50 percent. At mid-1983 there were 890 (37.6 percent) such units out of the total of 2,361. In the machinery industry, which accounted for most of these units, their number dropped from 156 to 142, in the electrical and electronics industry the decline was from 74 to 52, in the precision industry from 30 to 28, in the means of transport industry from 50 to 49, in the textile industry from 94 to 68, and in the leather industry from 26 to 22.

Interestingly despite the persisting negative financial accumulation in many areas, and despite huge subsidies, the number of loss-making enterprises continues to decline. After three quarters of 1983, there were only five of them in state industry (against 15 at mid-year) and five in construction (the same as in mid-year).

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OFFICIAL QUESTIONS FAIRNESS, DIVIDENDS OF CONTINUED DEBT SERVICING

Warsaw ZYCIE GOSPODARCZE in Polish No 50, 11 Dec 83 p 15

[Article by Stanislaw Dlugosz, undersecretary of state, Planning Commission of the Council of Ministers]

[Text] Before committing ourselves to any complete concept of solving the problem of Poland's debt to the West we must consider possible consequences of the likeliest scenario of developments both in world economy as a whole and in relations of debtor countries, such as Poland, with advanced capitalist countries.

1. The overall economic situation of the nonsocialist world is unpropitious. Even some Western experts believe the boom of which there are signs now, and which is being given great publicity in the United States, will not carry over to West [European] countries. Chances for a new economic expansion in Third World countries, which are heavily indebted, are regarded as nonexistent. So, great caution in forecasts is advisable. A new decline in the coming years of what is anyway a fairly weak growth trend must not be ruled out.

The diagnose given in a CIES [Inter-American Economic and Social Council] report adopted at the September 1983 Special Conference on External Debts in Caracas, a diagnose which the United States has accepted, applies to the case of Poland as well. It says that factors exacerbating problems resulting from external debt are chiefly in the area of foreign relations. Deteriorating terms of trade, stronger protectionism, high interest rates in real terms, which is due to colossal budget deficits of advanced industrial countries (including the United States) abrupt termination of (private and governmental) capital shipments--all these are factors beyond a debtor country's control and thus make debt problems yet more difficult to resolve.

This seems to justify the following three general conclusions.

\* Polish goods, in particular highly-processed products, will have it hard to get marketed in advanced Western countries. The rising wave of protectionism (e.g. the concept of a common industrial policy now pondered by the EEC) is one indication of this. The American ban on advanced technology exports as part of U.S. restrictions may prove another obstacle put up by Western governments. This has two consequences for Poland; on the one hand, weakened cooper-

ation ties will curb Polish industry's ability to penetrate Western markets, and, on the other, Polish goods will be less competitive there. With a view to effectively adapting itself to the new situation following the imposition of Western sanctions, Poland can count on the following advantages:

--Poland's need of Western imports, which amount to \$4-5 billion yearly, can, if skilfully patterned in its geographic and assortment structures, make Poland quite an attractive market for Western sellers under present payment conditions, especially since Polish imports are settled mostly in cash. Poland is perhaps no less attractive a market to foreign sellers now than it was in the 1970's;

--Comecon countries, realizing the West's restrictive attitudes, launched (after the Budapest 1982 36th CMEA session) and stepped up (after the Berlin 1983 37th CMEA session) wide-ranging actions toward tightening cooperation in the domains of scientific research and technological progress. Over the next 5-year plan period, these actions will produce palpable effects;

--Comecon countries have started seeking ways of curbing current dependence on Western technology imports by 1985 and on a structural solution of this problem within the framework of coordination of 1986-90 economic plans. Polish experiences, such as cooperation in bus production (with Hungary), in electronic and electrical engineering industries (with Czechoslovakia) and in the metallurgical industry (with the Soviet Union), show that rapid progress on this road is feasible.

\* The Western world's credit and finance crisis, which burdens primarily Third World countries, will not subside despite the great recent operations designed to reschedule Third World debts. In not too remote a future, Western creditors may have to agree to the debts accrued so far being paid off over a very long period, and may feel compelled to accept deals providing for lower costs of long-term rescheduling operations (say, charging constant interest rates on debts, accepting lump reductions of debts etc).

\* One external factor specifically affecting Poland's economic development is the set of restrictions the West introduced after 13 December 1983. The purpose of these restrictions was, and is, to enforce upon the Polish economy certain factors which would destabilize [Poland's] actions taken to get the crisis under control. The circumstance that Poland's adaptive actions have proved effective--as proved by the 1983 performance and by the realistic provisions of the 1984 plan--in no way relieves the United States or other Western countries of their responsibility for losses they have brought upon Poland.

Having said this, one wonders if debtor countries would be well advised to be in a hurry in trying to strike rescheduling deals with creditors.

2. Due to the crisis, Poland has dramatically cut its exports to advanced capitalist countries. As is remembered, exports (at current prices) amounted to the following sums (billion dollars): 7.1 in 1979, 8.2 in 1980, 5.8 in 1981, and 5.7 in 1982. Some \$6 billion is expected as export revenue this year. The [official] assumption is that Poland will again reach its export revenue apex of 1979-80 by 1985 or 1986, although this is admittedly a very stretched assumption.

3. Apart from these general-economic external constraints, the specific configuration of internal factors (nor will before the end of 1985) makes any sudden spectacular expansion of exports virtually impossible. These internal factors include the following:

--the poor quality of some Polish highly-processed goods, which is due to a general decline in production discipline and, on the other hand, to drastic import cuts;

--in view of the West's reluctance to normalize its financial and credit cooperation with Poland, Poland may be facing a long period of being painfully short of financial assets (both in cash and in possibilities for new credits under preferential terms). Due to this, imports from advanced capitalist countries may stay at a low level for a long time. This is how imports value changed in recent years (billion dollars): 8.6 in 1979, 8.9 in 1980, 5.9 in 1981 and 4.2 in 1982. The 1983 imports value is expected to reach some \$4.4 billion. It should be assumed that the credit blockade of Poland by the West will, apart from losses it incurred for the Polish economy in 1982-83, compel Poland to embark on costly adaptation programs in the nearest years, which will be a time of liquidating the 1982 and 1983 changes in imports structure (specifically, import cuts on grain and feed as well as enormous reductions in imports of machinery and equipment) which will probably persist in the coming years have actually exhausted whatever reserves there were for structural change in imports from capitalist countries;

--one factor encumbering what are called linkage operations (imports for revenue from exports) may be the now weakened cooperation ties between Polish producers and their Western partners and the latter's obvious wariness not to get involved in any closer ties of such type in the future. This arises from a general deterioration of climate for this kind of higher forms of economic cooperation, which in turn is due to the West's restrictive decisions;

--it may also be impossible to significantly increase quantities of fuels or energy for export, because if output levels of before the crisis are recaptured then even the quantities of fuels or energy now released for exports may have to be cut;

--the most significant of all internal factors likely to affect attempts to increase exports to advanced capitalist countries is that no rapid or intensive investment projects are now feasible in the Polish economy, among others those designed to bring about a significant increase in exports of highly-processed goods. Even if the next 5-year plan (1986-90) imparts a strong export orientation to Polish industry, no major effects are likely to emerge before the final phase of that plan period. Nor should it be expected that any "joint ventures" with Western partners will help Poland ensure inflow of any significant capital during the next few years.

From the above considerations follow these realistic indications for cooperation with advanced capitalist countries:

--economic cooperation with countries of the socialist community should be stepped up as strongly as possible;

--the government plan for expanding economic cooperation with Third World countries should be rigorously implemented;

--forecasts and plans for exports to advanced capitalist countries should be based on realistic assessments;

--funds for import financing should be spent as judiciously as possible;

--convertible currency funds earmarked for servicing Poland's foreign debt should be minimized [sic] over the next 5-7 years;

--debt problems should be settled in an all-embracing manner; specifically, drawn-out debt servicing periods (according to new, realistic terms concerning principal payoff and interest rates) should be negotiated in connection with the matter of indemnities for losses incurred by the West's deliberate and intentional moves in the form of restrictions, and the West should be called upon to create preferential conditions of access of Polish goods to Western markets (lifting quotas, customs dues cuts, stopping discriminatory practices, abandoning protectionist measures etc).

In a realistic approach, linking the servicing of the debt extended to a dozen-odd years with revenue Poland can get from exports of goods and services will be seen as the sole effective way of solving the debt problem to the satisfaction of all parties concerned. The method of "bleeding" a debtor country of its convertible currency resources the West has so far been relying upon is pointless. "Currency bleeding" is a term adequately describing a situation in which servicing an external debt considerably exceeds the sums a country can get in the form of new credits. Thereby it devours a considerable part of a debtor country's exports revenue while also painfully curbing its import potential and thus gross national product. This is exactly what happened to Poland's balance of payments in 1982 and 1983.

4. The steady decline in national income from 1979 through to 1982 led (among others, because of the restrictions) in 1982 to so a drastic drop that, considering the parallel huge slump of consumption levels in the same year, the Polish economy simply could take no more in the way of decline in national income or consumption (say, in keeping with IMF's typical demands). The process of economic stabilization must not be hampered. Such decisions, which Western financiers are likely to call for, would be tantamount to invalidating all endeavors, from the 1983 plan fulfillment onwards, geared to halting the decline of national income and putting the economy back onto its feet.

It is against this background that we should consider proposals by Western bankers and finance administrators who, in pursuit of political goals rather than normal financial cooperation, not only want access to information on the course and tendencies of developments in Poland but also tell us to resort to various obsolete, classical capitalist methods of economic management.

5. Under pressure from Washington, Western countries have imparted a political dimension to the Polish debt problem. Contrary to all previous agreements with Poland, they now regard it as an instrument for unbridled political interference.

The blocking of credits for Poland which was imposed right after 13 December 1981, and is maintained up to this day, has had the following consequences for Poland:

--Poland's possibilities for utilizing credits were abruptly reduced, especially in 1982 and 1983, and it cannot be ruled out that in 1984 or even in 1985 possibilities for getting new credits will be still more limited than they were in 1983;

--Poland was denied the right to utilize the credit channels open to it in 1981;

--normalization of finance relations was rejected, which found expression both in breaking off talks on rescheduling the Polish debt and in pressing Poland for payments in convertible currency.

The West's refusal to normalize credit and finance cooperation with Poland is the fundamental token of a discriminatory treatment of Poland in comparison with other heavily indebted countries.

The above-presented drastic picture of the blockade becomes still more glaring if one realizes that, despite the enormous effort on the part of Polish society and Poland's national economy to curb the foreign debt, the overall size of the latter continues to rise. This great effort shows that Poland is regaining credibility as a debtor which, although immersed in economic difficulties, is set to meet its considerable rescheduled liabilities. These latter, in fact, are but part of a common bid to make good the mistakes all sides committed when they contracted and granted the credits. This effort on the part of the debtor will remain socially and economically meaningful only if it is met with proper understanding on the part of the creditor. Such an understanding must emanate from the principle of coresponsibility (which nobody now disputes) of debtors and creditors alike for the worldwide problem of indebtedness toward the richest countries, a debt which during the 1970's helped the latter to partly alleviate their difficulties resulting from excessive employment rates in the engineering, metallurgical and chemical industries, from the necessity to restructure the shipbuilding industry etc by stimulating production for exports.

Consequently, whatever doubts one may have about conditions for servicing foreign debts, everybody must ask himself the following two questions:

\* Is it right and beneficial for debtor countries' long-term economic and social interests to continue debt servicing under discriminatory conditions?

\* Can the entire contingent of Western creditors expect the economies they are torpedoing (to paraphrase a NEWSWEEK title) to be able--and willing--to take unilateral obligations upon themselves?

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PLANNING, STATISTICS SCHOOL STAFFERS DIAGNOSE REFORM DILEMMAS

Warsaw POLITYKA in Polish No 47, 19 Nov 83 pp 1, 5

[Article by Wojciech Huebner, PhD, and Assistant Professor Dariusz Rosati, staff researchers in the Foreign Trade Department of the Main School of Planning and Statistics]

[Text] Let us look at the dilemmas of the current economic policy that the central authorities are confronted with and that are in the focus of the debates of the Council of Ministers and the discussions in the press and on television. They are the dilemmas which hamper the introduction of the reform and which have to be solved if the crisis is to be overcome.

Most of these dilemmas appeared already during the discussions on the reform proposals after August 1980. However, it turns out that next to real dilemmas there are also artificial ones, false antinomies, myths of allegedly antagonistic choices, created over the years by incompetent propagandists as the case may be. There are also trivial dilemmas in which the superiority of one solution over the other is obvious.

A classic case of the false dilemma is the one concerning the motivational system. An efficient motivation is a precondition of productive effort and of innovation, and without these it is hard to dream of affluence. This meaning of motivation has been and still is juxtaposed to the slogan of egalitarianism presented as an element of social consciousness. Hence the clash between the proponents of the need to introduce a powerful system of incentives stimulating efficient work in the form of a marked differentiation of wages and bonuses and those who argue for leveling off the structure of incomes for social reasons.

Who is right, then: those who maintain that, given the present economic realities the attainment of higher efficiency has to be tied to the introduction of strong stimuli, mainly financial ones, or those who have been pointing to the necessity of a principled implementation of the principles of just division of fruits of labors by the socialist state and the implementation of broad welfare programs embracing individual groups of people?

The artificial nature of the dilemma becomes evident when it is realized that unless there is powerful motivation, there will soon be no more fruits to divide. So there really is no choice. After all, socialism promises the just

distribution of increasingly plentiful goods. A powerful motivational system and differentiation of incomes in proportion to the input (not the time) of labor is the precondition of overcoming the deadlock of empty storeshelves. We must first produce a lot in order to be able to divide it in a just manner later, and not the other way round.

This can only be achieved if the stimulating action transcends the threshold of sensitivity, i.e. when it is sufficiently strong; this is true at every level, from the worker to minister. A bigger number of less powerful incentives only increase in inflationary pressure without producing the desired effects. The reform envisages the creation of aggressive motivational instruments--in fact this is one of the cornerstones of the reform. It is true that such mechanisms may lead to the emergence of a structure of income that . . . the traditional understanding of just division, but then the situation in which Polish economy has found itself is quite untraditional, too. The understanding of the essence of just division would lead to putting in motion new development forces and it is compatible with the ethic contained in the mottos "from everyone according to his abilities" and "to everyone according to his labors." Those who produce more and bring greater benefits to society, should also receive more. The conception of a welfare state should be rationalized, in line with the principle that the best protection is efficient and fruitful production satisfying the growing needs of society.

Other, secondary dilemmas also crop up on the sidelines of the motivation dilemma. One of them concerns the role of enterprise in the reformed socialist economy. It appears that it is still not clear how the workforce and the management should perceive the main aim of an enterprise: is it the satisfaction of social needs, the production of goods or services specified by the authorities, or simply the generation of profit? At a time when the reform is being introduced, there may be only one answer to this question: the enterprise is to earn money by adjusting its output to social needs. Contrary to appearances, such a solution is not at all at odds with the system principles or the objective laws of economics, least of all with common sense. The imprecise definition of responsibility and lack of clearly specified limits of power have always been the major weaknesses of Poland's economy. For this reason the central authorities used to interfere with detailed production plans of enterprises while enterprise managers had to be concerned with matters of national significance. The results were easy to predict. It must be clearly said that the enterprise cannot be responsible for inflation, market equilibrium or the country's balance of payments, or for pensions, kindergartens, etc. The socialist state has specialized institutions at its disposal, which can deal with selected matters of the welfare policy, whereas it is the duty of the enterprise to work efficiently, which, in the reformed economic system, simply amounts to the maximization of the financial results. It is no use objecting to the terseness of this statement or roll out ideological guns to defend the thesis about the multiple functions of the socialist enterprise. No arguments of this kind would outweigh the fundamental assertion that in the long run the superiority of a socio-economic system is determined in the domain of economics. Material conditions of existence are the decisive criterion of the effectiveness of a given system.



The domination of the "profit-and-efficiency" function may not of course be carried to an extreme in the capitalist fashion. It does not allow enterprise managers to totally ignore social considerations. The fulfillment of this requirement should be furthered both by a proper personnel policy and the activity of political parties within the enterprise.

In order not to create an illusory image of the simplicity of the problems discussed, we wish to emphasize that we are fully aware of the considerable reluctance of society to accept major wage differentials and the amount of emotions that the subject invariably evokes. This may be caused by the fact that singularly high incomes could in principle be observed on the sidelines of economy (e.g., in the private sector Polish companies) which the public interpreted as signs of inconsistency in the government's welfare policy. A major role was also played by inept propaganda which for decades was intended to instill a distorted vision of social justice in all Poles, who have come to expect definite benefits for all from the socialist state, irrespective of what one does, how much and how he did it. Social acceptance of a definite range of pay differentials is indispensable for raising the country from the crisis.

Profound and genuine participation of society in running the economy is absolutely essential for the reform to succeed. The society must have the sense of being able to express its views on fundamental economic questions, as well as having genuine say on decisions that affect in a vital measure its working and living conditions. It should also be able to monitor the implementation of the adopted decisions through public control bodies.

Over the last 3 years, a lot of prejudice and misunderstandings arose over the question of self-government. Some people regarded self-government as an ersatz of legal opposition, opposing it automatically state authorities and tuning it to one wavelength only--that of all-out negation. Others perceived it as the Trojan horse of counter-revolution and regarded self-governance as a relic of anarcho-syndicalistic tendencies within the working class movement; they were ready to accept it only on the condition that it was also tuned in to one frequency, that of total affirmation.

The essence of self-government has little to do with either of these views and it would be a good idea to free it from labels dictated by short-term interests and false interpretations. We treat self-government both as the indispensable element of the Polish road to socialism, a mechanism releasing public initiative, a lever of labor productivity and efficiency of economic processes that can satisfy the profoundly human need of every worker to co-decide and share responsibility.

There can be no alternative to socialization. The socialist shape of the reform that is being introduced must stem from its self-governing character. Any restrictions of a political nature that result from the not quite yet stable current situation in Poland must be of an interim nature and must not blur up the ultimate prospect; the authorities' undertakings in this respect should be more vigorous.

There has been a lot of discussion over the contradiction between the economic necessity of raising prices, which for the most part do not balance demand with supply, and the public expectations of stable prices and a level of real incomes adjusted to the level of prices. Sometimes this dilemma is construed as the necessity to choose between inflation and rationing, between market equilibrium combined with galloping prices and wages and market imbalance and shortages of goods accompanied by relatively stable prices and incomes.

Exploiting their dominant position on the market, enterprises are pushing up prices, which ensures them high profits without forcing them to raise efficiency. The government responds by trying to ensure the so-called just prices. The result is a restriction of the enterprises' freedom to set their own prices and a broadening of the list of official prices. There has also been directive interference in the area of costs and profits; recently, for example, costs have been divided into justified and unjustifiable and profits into deserved and undeserved ones. Altogether this leads to the emergence of the threat of efficiency-oriented mechanisms of the reform being replaced by traditional tools of the command-and quota system: prices cease to function as prices, costs do not determine profitability, the currency's exchange rate does not influence efficiency and pay stops being the reward for work and becomes a benefit awarded by the state.

Does the threat of inflation really justify the increasingly frequent departures from the principles of the reform?

Inflation is the outcome of structural disproportions existing in Poland's economy and the growth of prices is merely one of its many manifestations. Other symptoms include the shortages of goods, a booming black market, profiteering, queuing and rationing. It is necessary to eliminate the general imbalance rather than one of its symptoms. The prices are growing because supply does not match demand. But controls on prices are not going to remedy these shortages.

When the reform was launched, prices began to change, whereas up till 1982 they were stable. In accordance with the fundamental laws of economics, they will tend to grow until the moment when they reach the level at which demand equals supply. Any administrative interference limiting this movement of prices will delay for some time the growth of a price but also lead to instant shortages of the commodity in question and the need to introduce some form of rationing, with all the negative consequences that go with it. Inflation will by no means disappear, only it will be manifested in a different form. Instead of prices, the queues shall grow.

The present growth of prices should not be feared too much--in most cases it is a sign of their adjustment to the current level of demand and supply after many years of being kept at an artificially low level. This is an outcome of the changed principles of operation of the economy rather than a sign of a sudden upsetting of this operation. Let us note that in capitalist countries inflation is connected with the growth of prices at a time of market equilibrium whereas in Poland this equilibrium has not been reached yet. Therefore it is wrong to oppose any growth of prices, regardless of its causes and circumstances.

It would be illusory to expect enterprises to stop raising prices when they can reap economic advantages by doing so. Enterprises are run according to the laws of economics and according to their vested interests they operate within the framework provided by the system of management. The charges against them to the effect that they are responsible for inflation are absurd. Inflation is the result of the general proportions on which a single enterprise cannot exert any influence. Instead, the enterprise seeks to achieve its goals to a maximum extent within the binding system. If this system gives it an opportunity to raise prices and, more important, does not force it to lower costs, then it is the system, not the enterprises, that is to blame.

The insufficient awareness of these interdependencies was, in our opinion, reflected in the government anti-inflation program. Based on deeply justified premises, this program had important social and political aims. However, the diagnosis of the situation contained therein was marred by flaws in the analysis of the real causes of inflation while its executive provisions reflected an excessive amount of wishful thinking.

The first flaw of the program was that it was announced at an ill-chosen moment, i.e., before even a semblance of order was introduced in the structure of prices. Further price rises are inevitable, partly because the first stage of the rises did not yet ensure a restoration of equilibrium on the elementary markets and partly because earnings rose faster than expected. The anti-inflation program should have only been embarked upon after the introduction of the necessary price changes.

The second fault, it seems, was the definite confusion of the sources of inflation with its external symptoms; as a result, the program focuses on the growth of prices and incomes rather than on increasing supply and raising efficiency.

Finally, the third shortcoming consists in the fact that the program is permeated with faith in the effects of various kinds of commands and bans; as a result, it becomes a tool of administrative interference into the reformed pattern of economic relations between enterprises and consumers. From this point of view, the program clearly contradicts the nature of the reform.

It would be wrong to look to a solution of the prices and inflation dilemma solely through an interference in pricing; likewise, it is impossible to solve it through drastic deflationary measures, such as a redenomination of the currency (which has never been contemplated) or huge overnight price hikes. The only solution is a continuous, but steadily diminishing and fully controlled movement of prices and a slower growth of incomes, until the time that equilibrium is reached. This growth would be the yardstick of the gradual lowering of inflation conceived as the gap between supply and demand, rather than a symptom of an unwinding inflation spiral, as some people fear.

Polish economy is condemned to accept a certain measure of price inflation which would be another face of the current, hidden "queue and prices" inflation. Without price changes, lasting equilibrium is only a dream; meanwhile, this equilibrium was one of the reasons why the reform was launched in the first place. However, in order to be palatable to society, it must be accompanied by

some income rises, whose total must be lower than the total impact of price changes. The differences in the raises awarded to individual groups and classes of society would of course be governed by the principles of the state welfare policy.

In this context it is easy to point to an important side benefit of the solution envisaging a growth of prices and incomes. Unlike the plan to stabilize prices and incomes at the present level, it makes it possible to restore proper price-to-cost relationship in production and on the market, while leaving welfare priorities to be taken care of by instruments that are far more suited to this purpose than prices, namely direct subsidizing of consumption.

Naturally, we deem it indispensable to retain a certain range of official prices for an interim period; it should be restricted to a selected group of goods and services, but on the condition that these prices are relieved of the duty to serve as the most important tools of the state welfare policy.

The requirement of high efficiency is juxtaposed to the fundamental principle of socialism, i.e., the universal right to work. In our opinion, this juxtaposition is unjustified.

The need to carry out a thorough reconstruction of the structure of Poland's economy is generally accepted. The present structure is characterized by the still high unit consumption of materials, energy and imported components. The commonly used manufacturing processes do not ensure a sufficient degree of competitiveness of Polish products on foreign markets. There exist serious disproportions between the developments of individual branches and within these branches. The change of the structure of production is going to entail serious shifts in employment as well as fixed assets. Some kinds of production must be limited or discontinued altogether while the production of other goods should be developed at a much faster pace.

Those enterprises which do not produce the expected benefits for the national economy shall be subjected to recovery procedures and if these fail, they will be liquidated. It must be strongly emphasized that this is not a pathological phenomenon of any kind but a sound process of desirable change of the structure of the economy. Bankruptcy is simply a sign that the efficiency-oriented mechanism is working the way it should. Let us add that the only criterion according to which an enterprise can be declared socially useless is the criterion of economic efficiency applied as a generally binding rule. Possible exceptions to this rule may concern socially justified cases (cooperatives employing disabled people, enterprises engaging in military or other strategic production, etc).

It appears that so far the approach to these problems has been tainted by the traditional attitude toward unemployment and bankruptcy as phenomena of a highly negative social meaning and ones that are inseparably connected with capitalism. However, in Polish conditions, the liquidation of an enterprise that is run at a loss need not mean a loss of employment, let alone of the means of subsistence, of the employees. The socialist state is able to provide incomparably more job offers than a capitalist one; it may also offset the negative effects of the movement of employees to other enterprise.

It should also be realized that the insolvency of an enterprise extremely rarely means its physical liquidation; in most cases only the kind of production is changed, which does not involve mass layoffs.

It is therefore necessary to abandon the tendency to look at the change of the structure of economy in terms of unemployment and bankruptcies. It is not heretical for a socialist state to have a strong mechanism governing the selection and utilization of the workforce and productive assets in line with the principles of efficiency and public interest. This could also have a positive impact on a change in the attitude toward work so that it be treated as a source of living and social prestige rather than--as is the case so far--as a source of a "wage benefit" everybody has come to expect from the state.

This list of dilemmas could be much longer. We are leaving aside a very important one which concerns foreign trade; it is going to be dealt with in a separate article.

An analysis of the problems mentioned so far leads to the conclusion that in reality, these dilemmas boil down to the following choice: is it better to consistently carry on the reform in the original shape or to yield to various short- and long-term pressures and tensions and suspend the operation of some of its mechanisms, or eliminate them altogether, in the hope of attaining a tangible improvement of the difficult present situation.

In our times, this alternative is the supreme dilemma: it will determine whether the reform will be ultimately implemented or not.

There are no middle-of-the-road options. It is impossible to have some reform and some command-and-quota system. The secret of the success of the reform consists in a clear-cut settlement of all the problems at the same time as fragmentary changes would not make a qualitative breakthrough possible. The experience of earlier reform endeavors, whether from the 1950's, 1960's or 1970's should be sufficient proof and a warning in this respect.

The solving of this supreme dilemma amounts to the choice of a system of managing the national economy. This is the time to answer the following question: are really able to renounce the use of commands in management and the rationing that goes hand in hand with it (with the exception of a strictly defined minimum of cases) or are we only able to make declarations to this effect?

There has been so much criticism of the command system in recent years that there is no need to go through it again at this point. It is much more important, it appears, to identify the factors which are responsible for the fact that this fundamental dilemma of the reform remains as topical as ever and which, despite public criticism, persistently keep alive command-and-quota reflexes, openly or covertly limiting the operation of economic mechanisms.

There is a host of examples of a rapid revival of traditional methods, to mention the interpretation of the idea of the operational program--conceived as a protection of selected areas of economy--as the common system of central management, the reappearance of industry boards in the guise of manufacturers'

associations, the recent introduction of the requirement of the approval of the local employment office for each labor hire contract, the increasingly strict rationing of foreign exchange and application of compensatory accounts in foreign trade or the endless administrative interference into prices and costs.

These trends pose a great threat to the reform, all the more so as they are accompanied by the illusion that these administrative decisions are of a corrective nature only and do not infringe on any of the principal mechanisms of the reform.

What is really happening is just the opposite: the corrections to the system already apply to too big a proportion of the economic system and have largely nullified the positive efficiency-oriented phenomena which appeared in 1982. If the tendency to solve problems as they appear with the help of administrative methods keeps intensifying, the danger of a full neutralization of the reform is quite real. The principal source of this kind of danger is the still unreformed structure of the central economic administration which is dominated by narrow interests of individual branches and ministries and which displays a bureaucratic attitude to the economic reform. This administration has a natural tendency to use direct methods of management (commands and limits) which makes it difficult for enterprises to attain real autonomy and delays the achievement of the economic results that would follow from it. The reemergency of the intermediate level of management leads to the transformation of manufacturers' associations and major enterprises into organizations displaying powerful monopolistic traits; the result is the division of markets, atrophy of creative attitudes, and lowering of quality requirements. Bureaucracy, which is an inseparable companion of the command-and-quota system, continues to flourish; the widely applied rationing is especially conducive to its growth.

The features of the central economic administration are well known. In its present shape--which by the way, became perpetuated back in the 1950's--it has a natural propensity to use the traditional methods of work, even though individual office workers may be advocates of economic reform. Besides, it is difficult to expect the central administration to limit its powers of its own accord, let alone push it to the limits of self-elimination. Can this administration, therefore, be expected to implement a reform whose essence consists in giving autonomy to enterprises and seriously limiting the role of the central bodies?

It appears that a change of the structure of the central administration and a revision of the scope of its powers is a prerequisite of the efficiency of the whole reform.

However, the old inert patterns are gradually gaining a powerful new ally, namely, the growing dissatisfaction of part of society and critical views of the effects of the reform. Launched amid widespread enthusiasm, after almost 2 years the reform is beginning to disillusion and irritate various people. Increasingly often one can come across views questioning the purposefulness of the reform and urging that the economy be "put in order" through other methods. There are also those who maintain that the reform has only produced several price rises and rationing. The reform has been attacked both by the diehard political opposition and, increasingly openly, by conservative elements within

the administration. The most disturbing thing is that working class communities also display skepticism about the reform.

The reasons for this should be looked for among the general conditions of introduction of the reform; it is difficult for the ordinary citizen to sift the effects of the crisis from the outcome of the reform. The task is made none the easier by the economic propaganda, which tends to exaggerate the expectations connected with the reform while at the same time disseminating oversimplified diagnoses of complex economic phenomena.

It is a matter of utmost importance to perceive the necessity of solving the dilemmas listed above as early as possible. The delaying of the decisive moves threatens to bring about an atrophy of the reform, a situation in which people shall keep speaking and writing about the reform while only tiny bits of it will remain operational in the economy.

We are deeply convinced that there can be only one solution to the supreme dilemma, the "to-be-or-not-to-be" of the reform, and that this answer is "to be." History will not accept and economy will not tolerate an answer in the negative.

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CSO: 2600/491

MINISTER RATES HEALTH OF COAL INDUSTRY

Warsaw ZYCIE WARSZAWY in Polish 3-4 Dec 83 pp 1, 2

[Interview with Minister Czeslaw Piotrowski by Slawomir Popowski]

[Excerpts] For the past 2 years the economy has had no problems with coal. No one in industry can give coal shortage as an excuse for poor performance. What are the underlying causes of this success, and what problems remain to be solved for the present trend to be consolidated? These questions were discussed by Gen Czeslaw Piotrowski, minister of mining and power industry, in an interview with a PAP reporter. Following is an extract from his answers:

--There is every indication that this year's plan of coal output will be fulfilled. A total of 190 million tons is to be produced, of which 35 million will be exported. The output could be still higher were it not for transport difficulties.

--There is enough coal because the miners work well, because production is going on at a regular pace, and finally because we are now free of conflicts and turmoil that marked the second half of 1980 and 1981.

--Reforming in mining is being introduced, but if it is to produce effects, the specific features of the sector must be taken into consideration. In a situation where coal is sold at official prices, it is not possible for mines to become self-financing. As a result of this and because of the diversified costs of production, central balancing of coal, and the necessity of supplying sufficient quantities to various customers, the mining sector had to be treated differently.

--Mining is now the only industry with the shiftwork coefficient of 2.8, or twice as high as in other branches.

--An average miner works three shifts, 46 hours a week, also on those Saturdays which are work-free in other industries. Saturday work accounts for around a sixth of total output--30 million tons a year, or almost as much as we export. For technical reasons, and because of transport difficulties, it is not possible to produce in 5 days a week the same quantity as is now produced 6 days a week.



--The opinion about overproduction of coal is not correct. This year, not a single ton was produced above the figure provided for in the plan and in central balances. We did put aside more coal for the purpose of increasing the inventories, but there were several reasons of this: first, last year's winter was milder than expected; secondly, the expert plan was underfulfilled; and thirdly, it should be remembered that our economy is still working below capacity.

--We got used to a situation where there are no reserves in the economy. This state of affairs must be changed. Other European countries stockpile as a rule 3 months' reserves of coal. The problem for today is not an excess of coal, but rather a shortage of sufficient storage capacity. The Council of Ministers' decision to expand the coal storage potential and to create a 6 million ton state reserve is correct. New storage depots will be built, among other locations, at sea ports.

--Our trouble in the years ahead will not be what to do with surplus coal but rather how to keep the level of reserves unchanged. There are no chances till 1985 for an output higher than 190-192 million tons, and even this can be achieved only on condition of Saturday work.

If we want to keep the present level of output, a new coal mine will have to be completed every year. Several mines are now in the stage of construction, but the greatest problems is that no new project has been started since 1981. In this situation, unless relevant decisions are made, we can have troubles with coal in 1990-1995.

With the official price of coal lower than its production costs, the subsidies to mining are on the increase. They grew from z1 66 billion last year to z1 88 billion in 1983, and are expected at z1 137 billion in 1984. This rapid increase is almost exclusively a result of rising prices of machinery and various kinds of services rendered to the mining industry by other sectors of the economy. The impact of miner wages is infinitesimal.

--The mining industry now faces a dilemma: whether to subsidize coal as before and take away unwarranted profits from industrial customers or to raise prices dramatically and risk a situation where after a year we will find ourselves in the same place but only at a higher pitch of inflation. A sense of measure must be shown in solving this dilemma.

--The most urgent problems now facing the mining industry are: the adoption of a program on the expansion of the country's fuel/energy base which should provide the basis for all development plans throughout the economy, and the development of safe processes which would enable the winning of deep, steep and thin beds. A very important problem for Silesia is the reduction of environmental degradation--a task which will require huge spending.

--The last issue has to do with the miners' safety and welfare. The work of the miners' safety and welfare. The work of the miners is most arduous, and for this they should receive proper compensation. Also, the problem of Saturday work in mining should be solved by the end of 1985.

CSO: 2600/478

DRAWBACKS OF COMPULSORY JOB PLACEMENT CITED

Warsaw ZYCIE GOSPODARCZE in Polish No 46, 13 Nov 83 p 7

[Article by Pawel Karpinski]

[Text] The law on special legal regulation in the period of overcoming the crisis authorizes the government to reimpose the obligation of seeking jobs through compulsory labor exchanges. The instrument can be applied in respect to chosen occupational groups, sectors of the economy, and regions. This aspect is worth mentioning as it reflects the law-makers' desire for the authorization to be invoked selectively rather than automatically and universally. The government invoked it in respect to a part of the country, where labor exchanges are now obligatory.

Past Experiences Should Be Remembered

The motive behind the discussed provision was the need to ensure manpower transfers to areas of special socioeconomic importance in which labor shortage poses a barrier to production growth. It was also assumed that the compulsory exchanges would be introduced only after it becomes absolutely certain that the reformed economic mechanisms do not rationalize employment in the economy and that they work so slowly as to threaten the implementation of major socioeconomic goals (e.g. consumer market production of basic importance to the population).

The formulation of these "restricting" conditions was no accident. It was prompted by the vast experiences with compulsory labor exchanges, both at home and abroad.

These experiences permit one to draw three major conclusions.

First, administrative forms of manpower management do not stimulate in the least the processes of employment rationalization.

Second, the administrative manpower management does not contribute to increasing the supply of labor; on the contrary, as every form of administrative distribution it brings about pushed-up demand and hoarding of surpluses.

Third, the compulsory labor exchanges can be instrumental in channelling labor to concrete enterprises, or at best concrete sectors, only if two obvious conditions are met: (a) the segments of the triad region-occupation-enterprise in which this instrument is applied should be delineated with great accuracy, and (b) the instrument should be highly selective, since the broader its application the lesser its efficacy.

This shows the elementary condition for the compulsory exchanges instrument to bear fruit--a correct diagnosis of the course of real processes going on in the economy (which incidentally is also true of other instruments of both direct and indirect control). So let us attempt to put forward such a diagnosis by answering the question: how was the manpower management situation developing before the imposition of compulsory labor exchanges, and what prompted this imposition?

To begin with, the number of those opting for early retirement in the period of 2 years (mid-1981 to the end of June 1983) totaled 551,200. More than 60 percent of them were factory workers--often highly skilled, and filling the traditionally undermanned posts. The loss of these employees, on such a scale and in so short a period, could not be offset overnight by new recruitment or higher labor productivity. By its very nature the adjusting process is developing slowly, and as a result the shortage of labor may become an objective barrier to production in some sectors or some enterprises.

This indeed was the case, judging by the situation in the labor market, especially last year. The number of vacancies was exceptionally high, exceeding periodically the 250,000 level. Nearly 90 percent of the demand was for factory workers. There are grounds to believe that this was a structural demand, caused by the discrete loss of factory labor. In such case, logic would require one to assume that to this extent the demand will stay for a longer period of time, irrespective of the instruments chosen to influence the labor market. In other words, a number of skilled workers has dropped out of the economically active population, and this can't be helped.

But there are equal grounds for another hypothesis, stating that part of last year's demand for labor was induced by the application of erroneous systemic arrangements and economic mechanisms, stemming from incorrect diagnosis.

Two of these arrangements were of particularly great importance. The first was the principle of levying FAZ taxation on the increase in average pay, which generated strong pressure for the employment of new workers, especially those low skilled and low paid. The other was the Council of Ministers' executive order 186/82 which by easing the principles of FAZ taxation consolidated the tendency induced by the application of the erroneous mechanism. Echoes of these two arrangements can be heard in the labor market still this year.

The economic mechanisms introduced this year (including the change in the FAZ formula) were expected by specialists--rather unanimously--to stimulate gradual rationalization of enterprise employment, and especially a reduction of its level (or a reduction of demand for labor). The mechanisms, worked out during a prolonged discussion and after time-consuming analyses, were finally adopted, also by the Economic Reform Commission. They were believed to produce effects not earlier than the second half of the year.

## What Really Happened

But it was already in the first half of the year that unquestionably positive trends emerged in the manpower field. Labor productivity increased in the 6 months by 9.8 percent against the same period of 1982. There was also improvement in the utilization of the nominal working time. In the key industries, the nominal working time per factory worker rose 7.3 hours over that period, while the number of the actually worked hours in the regular working time increased by as many as 17.2. It is important that these figures were not caused by a discrete change but came as a result of a tendency developing since the beginning of the year. In successive months, the number of actually worked hours in regular working time was higher than in the same months of the previous year by 2.12, 2.75, 0.92, 2.81, 1.26 and 1.05 (January through June).

This positive trend continued in later months. Altogether, after 8 months (data in this field come with substantial delay), labor productivity in industry rose by 10.2 percent, the nominal time in key industries per industrial worker by 9.46 hours, and the number of hours actually worked in the regular working time by 22.32 hours.

The difference between the increases in actually worked time and the nominal time was 14.86 hours. In large measure, this was the outcome of lower sick-leave abstention which ran at 6.5 percent in the first 8 months (the number of unworked hours in the regular working time dropped by 8.1 percent, including a 33.9 percent decline in downtime).

Let's try to analyze the problem in greater detail by studying the following tables. The first one shows the dynamics of vacancies reported in individual months, as against the same month of the previous year. The other presents increases in the number of vacancies in individual months of this and last year as against the January of the year in question.

Table 1

	Jan	Feb	March	April	May	June	July	Aug
<u>1982</u> <u>1983</u> -	230.4	182.4	143.8	118.8	112.8	112.8	102.0	120.5

Table 2

	Jan	Feb	March	April	May	June	July	Aug
1982	100.0	116.6	147.8	190.6	210.6	233.3	256.8	215.1
1983	100.0	92.3	92.3	98.3	103.1	113.4	112.5	117.4

The tables, I believe, permit one to draw a conclusion that the January-July period was marked by decreasing vacancies dynamics. This is all the more important as the industrial production was increasing--by 6.5 percent and 7.5 percent in respectively the 2d and 3d quarters (as against the same periods of last year).

Could it be that the hue and cry raised by enterprises and the reaction to it were premature or that other motives were involved? Accurate calculations, taking into account the structural aspect of the problem and the "deviation" from the positive trend in August, would be purposeful.

But the list of positive developments taking place before the imposition of compulsory labor exchanges is not yet finished. In June 1983, for the first time in 16 months, an increase was recorded in the number of registered job seekers. Following the 10-year high of 42,000 in February 1982, their number began to drop monthly down to 5,600 in May 1983. But in June 1983, the figure was 6,600, rising to 6,800 in July, 7,900 in August, and 8,100 in September.

#### The Goal And The Method

Naturally, these welcome trends were accompanied in some enterprises, especially in the textile, garments and other light industries, by persistent shortages of labor, posing a barrier to production growth. It was precisely the goal of circumventing this barrier that the obligation to seek job through compulsory labor exchanges was supposed to serve. As is known, the compulsory exchanges cover 15 voivodships (enterprises located in that area turn out 60 percent of the domestic industrial output, and employ 58 percent of the socialized-sector workforce--ZG note).

Against this background an understandable question arises: does the method of applying the compulsory exchanges instrument (both as regards its scope and forms) guarantee the attainment of the goal it was supposed to serve, namely such an allocation of labor resources which would suit the real requirements? Even with the best intentions one can hardly find arguments for an answer in the positive. On the contrary, there are grounds to expect that the imposition of compulsory labor exchanges may result in:

--reversing the welcome trends in the employment field that emerged in the first half of the year,

--petrifying incorrect structures of enterprise employment,

--reducing the enterprises' interest in measures aimed at employment rationalization.

Regrettably, the welcome trends showed some slow-down in August (see the tables). To what extent this is a reaction to compulsory labor exchanges is hard to tell at present, after so short a period. But it is worth recalling that the government-approved directions of changes in the FAZ taxation system (primarily the exclusion from the FAZ base of those wage payments upon which FAZ contributions were levied in the preceding year) may neutralize the adverse consequences of the compulsory use of labor exchanges.

The further course of processes in the field of enterprise employment will depend, in large measure, on the attitude of the administration, namely on how the ordinance on compulsory labor exchanges will be implemented. The administration is thus entrusted with great responsibility. Will it rise to the occasion? Is it prepared to face new, difficult tasks?

In answering this question, one cannot overlook the attempts [by enterprises] to extract from relevant bodies the guarantees of manpower inflow at a level ensuring a quantitative increase in production (with stagnated efficiency). Not infrequently, these pressures are propped up with the argument of so-called important social goals.

Next to the group of enterprises confident in their clout and opting for compulsory labor exchanges, there is another group--not so small and growing--where employment rationalizing measures are being introduced. But the latter's behavior shows signs of protective instincts whenever the center resorts to administrative methods. In other words, the decision to apply compulsory labor exchanges on a large scale will not help overcome the so-called employment barrier where it really exists, but it may turn positive tendencies into an efficiency barrier.

#### Make Haste Slowly

It is often claimed--especailly in circles close to the Ministry of Labor, Wages and Social Affairs--that the reform has failed to stimulate employment rationalization, which is said to be corroborated by shortages in the labor market. But this opinion is wrong on at least three counts. First, the processes of employment rationalization is going on in concrete enterprises--not in the labor market. And the enterprises recorded a perceptible increase in labor productivity this year--by 1.5 percent in the first 9 months against the same period of 1979 which was the best year in this respect.

Secondly, the shortages in some segments of the labor market were caused by early retirement, or a sort of natural loss which cannot be offset in short time by any mechanism, whether direct or indirect.

And thirdly, the better utilization of the nominal working time proves that the reform does stimulate positive changes in the labor management field. Considering the unfavorable conditions (including unstable rules of the game), these are by no means slow changes.

Whoever knows and remembers these realities and interdependencies and claims that nothing good has developed in the employment area must be indeed very impervious to facts.

CSO: 2600/489

FLAWED HOUSING POLICIES ANALYZED

Warsaw PRZEGLAD TECHNICZNY in Polish No 43, 23 Oct 83 pp 16-18

[Article by Marek Chmielewski]

[Text] "If Poland's housing situation were to depend on how many recovery programs have been designed, this nation would certainly enjoy a housing comfort matched by few others. But since even the best declarations cannot add even a single dwelling to existing resources, the situation is as it is, namely very bad. Worse still, instead of improving, the housing situation has been further deteriorating, which makes it a crucial, if not the most important, social problem of Poland."

When I wrote the above words in this journal a year ago, asking in the title, "When Is a Housing Boom to Come?", I was certain of at least two things. First, I was sure housing can fall no deeper because it seemed to have hit the bottom at the turn of 1981 to 1982. Second, a radical turnabout in both building and housing policy seemed to be just around the corner.

The "Deputies' Rebellion" Next Phase

These two beliefs were founded on the government's frequent assurances that housing is a top concern, which was later specified in the government's "Programmatic Guidelines for Housing Development till 1990 including Amendments of Some Housing Policy Rules."

This book, which presented no less than a long-term governmental program for resolving the housing problem, was vehemently criticized by different professional communities, among them by architects and city planners, throughout the preparatory phase preceding its June 1982 final approval by the government.

"This illusory program and the fictitious guarantees for implementation it promises will deprive Poles facing homelessness of the only assets they still have, namely initiative, enterprising spirit, and a sense of responsibility for their own and their nation's future." This is how the Board of the Polish Architects' Association [SARP] concluded its official position on the government program on 11 September 1982. These words SARP's deep disenchantment with both the general way the government proposes to resolve the housing problem and its specific provisions. These latter include matters as fundamental

as restructuring the building sector in order to break once and for all state-owned building's monopoly position and to acknowledge the role and place local self-government should have in this domain.

SARP also dissented on the question of what had brought about the crisis in housing, which of course implied different practical rules for the new housing policy till 1990.

I recall these SARP fears because life has confirmed them. The fact is that the depression in housing and municipal services lingers on and housing quality keeps deteriorating. Deputy Zbigniew Zielinski, who presides over the Sejm's Construction and Building Materials Industry Committee, is doubtful about Polish builders' ability to commission even 100,000 dwellings for use in 1984.

No, this is no mistake, I really do mean the year 1984, forecasts for which are not taken out of the air but are based on statistical reports on buildings completed up to the shell phase and on technically prepared building sites available. In either case, the situation can be described as catastrophic. Set on recording the best effects this year, state-owned building firms have neglected work on getting buildings up to the shell phase. So, there are too few shells of buildings which could be finished and turned over to dwellers in 1984.

Deputy voivods responsible for building in their regions describe the shortage of technically fit sites for future housing estates as tragical. "Despite our awareness that the shortage of prepared building sites will soon become an unbeatable barrier, hardly anything is being done about it; not only haven't we moved ahead, but we even fell further back. Our housing development plans don't tally with programs for urban technical infrastructure development," says the Olsztyn deputy voivod Mr Baranowski.

Nor have housing block repairs and modernization become any better and remain at what a pertinent Sejm Commission says is an alarmingly low level. If you add to this the significant drop in turning over to users ancillary buildings, which are to house all kinds of municipal services, you will get a really depressing picture of housing's actual situation. This picture should moreover be supplemented with a statistically recorded deficit of 2.4 million dwellings and consistently extending waiting periods for dwellings, which in many cities now exceed 15 years.

Latest news about the current situation indicates that housing's slide is continuing, and more rapidly than other economic sectors. To judge by the present output level, Poland's building sector is back in the mid-1960's.

#### No Grounds For Great Hopes

As the slump continues, the Construction Ministry is making unmistakably optimistic noises. The ministry has taken new courage from a GUS [General Statistical Office] report for the first half.

While July was not the most propitious month for housing estate builders, August brought a certain recovery. In all, says GUS, 72,700 dwellings were commissioned



for use in January through to August, or 63 percent of the 1983 Central Annual Plan [CAP].

These effects might indeed be recognized as promising were it not for a few facts even kids are aware of. Above all, the belief that socialized building's annual plan is being implemented smoothly is typical self-deception. Indeed, state-owned building firms turned over 9,000-odd dwellings more than last year, chiefly to housing cooperatives. But recall what kind of year 1982 was, a most disastrous one for a long time up to then. Not even the very modest plans the government and the Sejm endorsed for that year both in the socialized and the private sectors were fulfilled.

The other circumstance to be mentioned is assessing the state of Poland's housing sector is planning's duality. Yes, there are two basically different plans for anticipated dwelling completion figures. One such plan I have discussed before; the other is called voivodship program because it is drawn up at voivodship level. Voivodship programs are everywhere more in touch with real demand than the central plan. If the 1983 CAP provides for 105-115,000 dwellings to be completed (this span, incidentally, is a planning rarity, to put it mildly), the voivodship housing programs add up to nearly 140,000 dwelling units.

But this latter dwelling unit number, which is recorded in its constituent parts in People's Council decisions and well known to local populations, amounts to what is a minimum program. Actual demand is higher, much higher. But implementation of voivodship plans in the first 8 months of 1983 was only 52.7 percent, making annual plan target fulfillment a very remote prospect. By saying which I am not trying to articulate just my own conjectures but am quoting deputy voivods complaining at various occasions about barriers to building.

#### Deep Ditch

For many years now there has been repeated talk about what is called infrastructure gap, meaning and deepening shortage of technically prepared building sites in towns as well as of all infrastructural facilities, primarily energy mains, heat-conveyance, water-supply and sewage networks, as well as transport facilities. These shortages constitute an extremely powerful, very palpable barrier now.

Ms Teresa Nitkiewicz, an engineer who leads a building industry team affiliated to the Commission for Economic Reform, is also head of a big specialized Warsaw firm called Inzynieria. For this reason her opinion on just how deep that infrastructural gap is, and whence it derives, is certainly worth heeding to. Nitkiewicz believes chances for narrowing this gap--or at least for upholding it at its present, disastrously low level--are extremely slim. This has very prosaic causes. At present, not even those modest investment assets which are available are put to use for beefing up the technical infrastructure. Although engineering firms earmark considerable funds for development, this money cannot be used for machinery or equipment or for electric tools, simply because domestic producers have stopped producing such equipment while hard currency for imports is desperately short.

Investment funds are scarce too, and therefore no new infrastructure development project will be started in Warsaw in 1983-84. Nitkiewicz argues this will simply result in reducing effective dwelling completion by some 3,000 units below the 1986 plan target, by more than 5,000 in 1987, and by as many as 7,500 units in 1988.

All this is going to happen in Warsaw, a city with desperate demand both for new homes and for technical infrastructure facilities, especially for technically prepared building sites. I fully share the view propounded by the authors of an expert opinion drawn up for a Polish Academy of Sciences [PAN] socio-economic forecast committee called "Poland 2000." Namely, "it is an urgent necessity to compile a credible estimate of demand, and of outstanding plan fulfillment, in the area of infrastructure. Depending on the scale of these needs, Poland should shape its investment policy and develop its construction potential."

Let me now point out what the authors of this very penetrating and sensible forecast put forward as a working hypothesis; even if most of the building sector's productive potential were now engaged in endeavors taken to fill the infrastructure gap (which is not the case), it would take a dozen-odd years to neutralize adverse consequences of negligence in infrastructure development and repairs (for, repairs are the next big problem in housing resources maintenance and even in whole municipal service networks). "Supposing this working hypothesis will be confirmed, then all present development programs must be supplied with big question marks, even if the building industry proves able to overcome its crisis and to regain its former efficiency level."

#### In The Old Circle

This last sentence gives one a lot to ponder, as do other forecasts made in this PAN study, as abbreviated version of which we [PRZEGLAD TECHNICZNY] published half a year ago. In my view it is outrageous that authors of two government-sponsored (ministerial) documents chose to ignore what outstanding experts had to say on the subjects, first, of housing policy, and, second, of housing's present status and prospects for development.

These two documents (which will perhaps be submitted as a single one) are now to be endorsed by the government before it submits them to the Sejm for discussion at a plenary sitting devoted to Poland's housing plight. The call for such a special sitting was made by the Sejm's Construction and Building Materials Commission 2 years ago. The Administration, Local Affairs and Environment Commission later backed this initiative.

This of course was just one of the demands Sejm deputies addressed to the Council of Ministers chairman in their October 1981 memorandum. It sharp and justified criticism of what had brought about Poland's housing crisis in combination with radical solutions in the sphere of building economics and organization as well as in the entire sphere of housing made this deputies' memorandum a very significant document indeed.

At the time, I wrote in this journal about a "deputies' rebellion" and about hopes arising from the circumstance that the Polish parliament had taken the initiative on the housing problem into its own hands. Spurred by the deputies' steady interest and goading, the government drew up its own program for housing construction and policy implementation and prepared various documents specifying this program, such as those for basic building materials production in 1982-90 or for reducing building's material- and energy-consumption rates and improving heat insulation of dwelling buildings. Also, it was on the deputies' urgings that the Construction and Building Materials Ministry came up with a long-term program for improving home-building quality and heating facilities for the next several years.

The deputies were closely watching the implementation of housing construction plans, surveying whatever progress was made every few months and submitting demands to the government and other central administration agencies. Alas, all these endeavors must be said to have proven rather ineffective. Programs devised in ministerial corridors, mostly by the same people who also authored programs at a time the building sector was only beginning to head toward disaster--such programs by themselves have brought no relief.

#### Eschewing the Reform

Linking building's (especially housing's) current shape to national economy's generally unedifying condition is justified. However, it is also in this economic sector, which has perhaps been hurt by the crisis most painfully of all, that you will notice enormous resistance to the reform. This was confirmed during a plenary Sejm debate, but of course the test of life is the ultimate criterion.

The continuing monopoly position of state-owned building firms, central material allocation, foundation of building boards and abandonment of decentralization which manifested itself in subordinating all general-building firms to voivods, nonfunctioning economic mechanisms--none of these are conditions ensuring what deputies and citizens alike have been looking forward to, namely authentic renewal. If nothing else then the piteous effects of builders' work suffices to answer the question, just what is going on in the area of housing construction?

The way the authors of the two documents, which are intended as a basis for future Sejm discussion, have decided to tread does not appear to be their best choice. The basic provisions and proposals miss the point of the deputies' 2-year-old. Memorandum to the prime minister, say outstanding authorities on the subject, including the PAN forecast authors, representatives of the Polish Architects' Association and the Polish City-Planners' Association, or Professor Adam Andrzejewski who sits on the [Sejm's] Socio-Economic Council.

One cannot help feeling that the two ministerial documents present exactly the kind of provisions which can solve nothing. Instead of unveiling bitter truths, the documents contain ornamental phrasings which play down the danger of what at basis is a dramatic situation. The picture they provide of technical preparation of future building sites, of technical infrastructure in general, and of

production-material supplies, is obscure. Inconsistency in reform implementation and in observing the reform's generally binding rules finds expression in the old yearning after a stronger position of the Construction and Building Materials Minister.

Give the construction minister more power! This is what advocates of stringent controls on building and investment processes are now demanding. They delude themselves that this is the proper remedy against the building and housing crisis. The absurd thing about this is that these people loudly declare themselves as firm believers in the reform now under way.

Hold It For A While, Perhaps?

The housing problem in Poland urgently needs a solution. There can be no doubt about this. Yet, none of the ways applied to solve the problem has proven itself in practice. Whether this was due to Poland's overall crisis and policies pursued to overcome it or because of external factors is hard to say. Repeating old patterns, flaunting empty slogans, obscuring building's real situation, desperate attempts to save the previous command-and-quota system and to preserve old organizational structures--all these lead to nowhere. This at least is certain.

I fully share the view expressed in the PAN forecast that "the pessimistic assessment of the housing program indicates it is necessary to change the methods (completely) (underlining mine). The key to solving the problem is above all in correct rules for housing and building policies, reasonable land-use policy and correct credit policy."

On top of this, I am firmly certain--and the PAN study has confirmed me in this belief--that the factors determining housing construction's development can be rehabilitated even with the new available economic potential. The only thing to do is to lay down the course toward the goal. Yet, in my view, the present status of preparations for the Sejm's debate on the housing problem lags far behind public expectations.

CSO: 2600/479

HOUSING CONSTRUCTION INDUSTRY TERMED ECONOMY'S 'CINDERELLA'

Warsaw POLITYKA in Polish No 49, 3 Dec 83 pp 1, 4

[Article by Juliusz Gorynski, deputy chairman of Polish Academy of Sciences Research and Forecast Commission "Poland 2000"]

[Text] I confess I am bored having to peruse new housing programs the Ministry of Administration, Local Affairs and the Environment [AGTios], now renamed Ministry of Administration and Town and Country Planning [AiGP], has laboriously kept producing.

I confess I turn off my TV set and my radio when government minister, enterprise directors, chairmen of cooperatives big and small, start expounding their ideas about how to fulfill housing construction plans or even to exceed them--by several thousand, several hundred or just several dwellings.

I confess I was irritated when it was proclaimed [early 1970's] that prefabricated element factories would solve the housing problem in Poland once and for all, and when any dissent on this point was deplored by officials and journal editors as a sacrilege. I am no less irritated now, as prefabricated element factories start being denounced as the sole cause of Poland's housing plight and as some people begin pondering their total scrapping or turning them into concrete curbstone factories instead.

I candidly confess all this, and do so with a sense of deep embarrassment. After all, ever since my youth I have regarded myself as a specialist in housing problems and devoted many years of my long life professionally working in this area. I also used to encourage my younger colleagues to engage in studying housing needs and ways to meet them. But now I am fed up with their hours and hours of learned debates. I confess this as my most grievous fault.

I appreciate ministers' concern, economic managers' good intentions and researchers' perseverance in exploring the matter. But, don't they see that in the face of the housing debacle, which has been particularly painful for the young, it is necessary to skip stereotypes, futile declarations of goodwill in our actions and illusions of accuracy in planning? Don't they see they must now take a new, unorthodox approach which should be as bold as the debacle is deep and which should be broad enough to take account of all factors likely to help allay the situation?

I have no intention of disparaging research in housing problems. But let our eager researchers finally stop wasting their time trying to impart more and more accuracy to useless data. Let them stop trying to do the job of politicians. Instead, politicians should be show the grotesque effects of decisions they make. Social and financial effects of decisions regulating the sale of dwellings are one such case researchers could expose. Perhaps such a cost-benefit assessment could make politicians think again before pushing through the now pondered sale of state-held land, a move which is allegedly to feed state coffers with considerable funds?

Saying all this I do not want to entrench myself in a position of a grumbling old man who knows better. I want to unfold an idea for an all--embracing approach to the housing problem. Let me start with housing needs, that is, with the actual size of the debacle. A few data will do, even in a very rough approximation, because this makes them easier to remember them.

In 1980, Poland had 10 million dwellings. There were 115 households per 100 dwellings. This of course immediately points to a shortage of 1.5 million dwellings. The gap further widened this year, among others in connection with new marriages, which totaled some 300,000.

Some 180,000 new dwellings were turned over to users, 120,000 below the number of newly founded families. By the year's end, the shortage will have grown to some 1.62 million units. The rest is debatable, ranging probably between 100,000 and 300,000 dwellings. That much about resources and deficits. Now let us take a look back a few years.

Double? Not Enough!

Late in 1970, Poland's housing resources totaled some 8.3 million dwellings. It follows that within the ensuing 12 years they increased by 1.7 million units. This points to a mean annual net increment [after deducting resource depletion] of some 170,000. During the same 12 years, the household-per-dwelling index remained at 115 throughout. So, during those allegedly propitious years, when housing was incessantly touted as a top priority, not a single step was taken toward reducing the housing shortage. To bridge that gap during those 12 years, Poland should have more than doubled its housing construction effort.

By now, however, not even that requirement to double the housing construction rate will do. It is to be realized that, to judge by the number of buildings commissioned for use in 1982, Poland is back in 1970.

The conclusion is simple indeed; if we want to talk seriously about solving Poland's housing slump, then construction of new dwellings should be doubled; if we really want to improve the situation by the end of the century, still more ambitious plans should be put into effect (to say nothing of acute shortages in social services and municipal infrastructure, or of the appalling, and growing, delay in necessary repairs).

Faced with these figures, I am left rather unmoved by discussions of possibilities for increasing next year's plan target by a dozen-odd thousand dwellings.

You may charge me with being indifferent to the problem, but I will go even further--I wouldn't regard it as a disaster if the construction minister proposed to reduce the next two or three annual plan targets by the same number of dwellings which he is now promising to add in excess of the plan. I would welcome such a reduction provided the funds gained thereby would go for projects which in 3 or 4 years from now would bear fruit in the form of an obvious increase in the number of dwellings commissioned for use. The minister in charge of housing-resource management should not lag behind in initiative, either. He might, for instance, declare his determination to offset this temporary decrease in new dwellings by providing an appropriate number of new units out of the existing resources, say by streamlining the system of swapping apartments, speeding up overhauls and modernization etc. I do wish, though, he did not confine himself to calling for adaptations of cellars or attics or for adding new storeys to existing homes, because these magical remedies have by now been compromised enough.

This finally gets me to the heart of my appeal--let us stop exciting ourselves with increasingly perfect programming of ends and let us sit down to a serious programming, and collection, of means for housing-construction policy and economy.

#### I Am Tired Of Repeating

The basic barrier on the way toward increasing construction of dwellings (but not only of dwellings) is the too low level of building materials output. Most building materials are in too short supply for present, very modest construction plans to be fulfilled. Neither the desperate efforts to save the central-allocation [of materials] system nor exhortations for more economy in the use of materials nor convulsive emergency building materials re-allocations nor the otherwise just war against leaks of materials into private building firms can really improve the situation. Moreover, building materials production is dispersed among a host of autonomous producers, ranging from giants such as the metallurgical, engineering or chemical industries through to dwarfs such as gmina cooperatives or individual private producers. The construction and building materials minister, the nominal coordinator of all these producers, has no possibility of any effectively coordination. Of necessity he reconciles himself to tending his own garden, in which not even half of all the materials building needs is produced.

How to crush this barrier? In the 1970's, investment was believed to be the only effective ram. When funds for investment ran out, parliamentary bills and administrative ordinances have come to be regarded as a last resort. On top of this, you have those investment-free methods such as "hidden reserves," "restructuring" and such like. Each such method will have to be used, but, hopefully, with sense and along some consistent line. Somebody will have to take care of putting this plan into practice. He must be every perseverant in this as well as resigned to the fact that no brilliant or early success is in store for him. A shortage of technically prepared building sites which have a proper legal status and fit well into town-and-country plans is a next big barrier. In this respect, magical faith in the effectiveness of legislative regulations prevails. True, certain still binding legal absurdities, such as

unjudicious handling of the otherwise justified demand to protect farmland areas or the negligible land-use fees private as well as state or cooperative users have to pay, might well be cancelled. Local authorities, in order to take proper care of the land in their trust, need funds, but above all they need to be more aggressive and enterprising in drawing up geodetical and building plans for roads and infrastructure networks. This, again, means several years of intensive work.

Barrier number three is the institutional and organizational system of housing construction and housing economy. I am tired of repeating to the young generation that during the period of socialist Poland's existence all possible organizational patterns were applied one after another, instead of learning from our own experiences and retaining what was good in them. At present we are once more in a phase of reanimating the institution of investor, which earlier was reduced to nothing in a premeditated series of moves. I just wonder if the general drift of development in the event this reanimation bid proves successful will be toward centralization or decentralization?

Or, should we this time perhaps try a solution applied in most countries, which consists essentially in making local self-government bodies the prime master of housing construction policy and economy?

If so, then it must be supplied with appropriate means of action, of course. Maybe the new law, despite its weaknesses, will allow this? Self-government bodies' own prep time for taking such a responsibility upon themselves will be 2 or 3 years.

Several more minor barriers may be listed, but let us return to the real problem, which is, what should be done for the housing sector to finally cease--despite repeated official protestations to the contrary--being the perpetual Cinderella of Poland's national economy? How to make it into a fully autonomous, active economic sector rather than something like a welfare institution in a socialized version, or like a reserve [of materials for] of private builders busy erecting their family houses?

#### Partitioned

What's the snag, then? Why not do this right now? In my view, this is hindered by the far-reaching fragmentation or, more precisely, the partitioning of housing economy among many holders who act independently of one another and, worse still, fence their plots with high ramparts to underline their departmental and specialized autonomy. This partitioning runs vertically through all levels, from the top down to the gmina level, and this bars any comprehensive rehabilitation of this economic sector which renders its services to every single citizen, and which, by the fixed capital value, follows industry and agriculture as the third biggest owner of national property. By the way, the housing sector is the country's biggest single employer, because 10 million housewives work in it, compared to the five million people holding jobs in the industry and agriculture sectors.

Here are the biggest partitions of the housing sector:



- resource management (including registration, exploitation and repairs),
- dwelling allotment (publicly-held dwellings, dwelling allotment and swapping, control of dwelling use),
- building new dwellings,
- building "ancillary" facilities, that is, various service centers and infrastructure facilities.

Each of these segments pursues its own parochial financial interests and jealously protects itself against mutual flows between them. So there is no way for funds initially earmarked for investment to be funneled for repairs, or for building a kindergarten with money assigned to dwelling construction, even though everybody backs such an idea.

I do not want to dwell upon further and minor such partitions, which exist inside each of these chief segments (such as the division into "public," co-operative, factory-owned or privately-held dwellings in the resource-management partition). Nor do I intend to criticize the multiplicity of factors involved, because pluralism in this area is certainly a desirable factor. What I do resent is the narrow specialization of their activities.

As I see it, the chief barrier which forestalls recognizing housing as one economic entirety is the lack of a unified finance system. Such a system is the only true reflexion of this sector's economic functioning because it would make the circulation, collection and allocation of funds for housing purposes more transparent. It is no coincidence that in many countries, banks or other finance institutions were created to finance housing economy (occasionally even to finance municipal services). These are by no means charity institutions but economic organizations, which issue their own bonds and conduct active credit policies. This has proved to be no obstacle even in the richest countries for state to give subsidies to some sections of housing economy. The general tendency is to lift subsidies for dwelling construction or maintenance costs and to introduce indirect subsidizing instead, say in the form of dwelling-cost compensations paid as additions to wages or pensions for people in the lowest income brackets or for families with many children. This helps the housing system itself to remain financially sound and rids it of its bad reputé of being something in the way of a charity activity.

#### Active Repentance

This brings me to my final conclusion. If it is certain that housing construction in Poland is facing lean years, then let us not make a pretense of doing something to achieve desired ends, but instead let us tidy up the sphere of housing and collect the means which are indispensable to destroy barriers on the road toward satisfying housing needs and gradually curbing the shortage of dwellings. This, alas, will be impossible as long as the present partitioning of the housing sphere into uncoordinated segments persists, that is, as long as there is no central agency in charge of an integral housing and construction policy while local self-government bodies are deprived of means needed to pursue independent land-use, construction and housing policies.

Another conclusion is that in these upcoming lean years let us give a chance to the countryside. Let us make it a kind of partial relief for the hard housing situation in towns, while also enabling people living in villages to help themselves. The primary ways to do this include improving the social infrastructure in villages, ensuring better supplies of centrally produced building materials, and giving palpable, not merely verbal, support to small-scale building-materials producers and private building firms. Cost the state would have to bear for this may prove to be amazingly low, and may boost private initiative in the countryside. As a consequence, migration from the countryside to towns may fall or temporarily even cease, because living standards in villages will improve remarkably. The funds needed for this would then be utilized more productively than if they were to be spent on financing the dozen-odd thousand dwellings in towns which it will be very hard to provide.

These are what I suggest should be topics of discussion over the housing problem. If such a discussion indeed unfolds, then I will be willing to turn up again at scholarly seminars concerning this problem--in a token show of active repentance.

CSO: 2600/481

DECREE ON PAYMENTS IN INVESTMENT PROJECTS

Bucharest BULETINUL OFICIAL in Romanian Part I No 79, 18 Oct 83 pp 1-2

/Decree of the State Council on Some Measures for Speeding up the Payments in the Field of Investments/

/Text/ The State Council of the Socialist Republic of Romania decrees:

Article 1. The investment recipients are obligated to make the investment expenditures for the doing of work, the performance of services and the purchase of technological equipment and other materials only on the basis of the economic contracts concluded, in compliance with the legally approved technical and economic documentation and supply lists, within the framework of the provisions in the sole national plan for economic and social development.

The economic contracts concluded are adapted annually, in correspondence with the investment-spacing and equipment-delivery timetables, in accordance with the improvements made by means of the plan and the income and expense budget for the respective year.

Article 2. The investment recipients cannot make expenditures and the building-assembly and design units and the suppliers cannot begin the work and the deliveries, respectively, before the banking bodies have decided on the legality of these expenditures, except for the cases in which it is stipulated otherwise by means of the legal provisions.

Within 3 days after receiving the notification of the financing banks regarding the opening of the financing, the investment recipients are obligated to inform the builders, suppliers and designers about the provision of the terms of payment, so that they can proceed to do the work, to perform the services and to deliver the technological equipment and other materials for which they concluded contracts.

Article 3. In concluding the contracts and in executing them, the investment recipients, the building-assembly units, the suppliers and the designers have the obligation to verify and to ensure the existence of all the conditions provided by law for carrying out the investment work on time and well and for paying for it on the legal dates.

Article 4. The building-assembly units are responsible for starting and doing the contracted work on the dates set, in compliance with the investment-spacing timetable, and for the quality stipulated in the technical and economic documentation.

The suppliers of technological equipment and other materials are responsible for delivering them on the dates set in the contracts on the basis of the equipment-delivery timetables and at the prescribed qualitative parameters.

The recipients are responsible for correlating the delivery dates in the contracts with those in the equipment-installation timetables, in order to avoid stocks of equipment beyond the plan provisions.

Article 5. With a view to meeting all payment obligations on the dates provided by law, the investment recipients will analyze the solvency at the start of each month and will take steps to completely achieve the resources meant for financing the investments provided in the income and expense budgets.

Article 6. For financing the work that is done by the building-assembly units, the investment recipients provide to the building-assembly units, under the conditions of the present decree, at the start of each month, interest-free monetary advances up to the level of the volume of the work that is done in the respective month, in accordance with the plan.

The monetary advances are provided by the investment recipients through the units of the financing banks and under their control.

The regularization of the monthly advance provided is done in relation to the work done, after the expiration of the month, through the payment for the work achieved beyond the plan provisions of the respective month or through the transfer of the difference between the advance provided and the volume actually achieved to the account for the advance owed for the next month.

In the situation in which an advance is no longer owed in the next month, the refunding by the builders and the collection by the investment recipients, respectively, of the difference in the advance are done, with priority, before any payment obligations.

In the situation in which the contracted work was not turned over on schedule through the fault of the construction organization, the investment recipients are entitled to no longer provide advances to the builders in question, with the work being paid for in proportion to its being done.

Article 7. For the investment projects for which the making of technological tests is provided, the investment recipients will withhold from the builders, as a guarantee, 2 percent of the value of the building-assembly work for each object or part of an object finished and turned over in accordance with the legal provisions.

Within 3 days after the conclusion of the technological tests and of the eventual work established on the occasion of the performance of the preliminary

acceptance of the building-assembly work and of the technological tests that are in the charge of the builders, the investment recipients are obligated to present to the bank the documents for paying the sums withheld. After the passage of this period, the building-assembly units are entitled to immediately request the payment of the sums withheld.

Article 8. The financing banks can grant to the building-assembly units loans for the current needs for circulating funds, for the replenishment of the necessities connected with covering the uncollected guarantees, and for other needs, under the conditions provided by law.

Article 9. In the case in which, during the year, the resources for financing the investments are not achieved at the level of the provisions in the income and expense budgets, the investment-receiving enterprises and the centrals and equivalent units, as the case may be, have the obligation to request loans for taking their place.

The banks can grant current loans for periods that cannot exceed 12 months from the date of granting the loan.

The loans not repaid on schedule are paid back in the year following the one in which they have the repayment date, with priority, from the central's or equivalent unit's own fund for economic development, from the fund for housing construction and other investments with a social character or from its own fund for investments, as the case may be.

Article 10. The financial and banking bodies will exercise strict, systematic and prompt control regarding the provision of the resources by the investment recipients, centrals and equivalent units, ministries and other central and local bodies and regarding the making of the payments for the products delivered, the work done and the services performed and will take the steps needed for speeding up the payments between the socialist units.

Article 11. The State Planning Committee and the Ministry of Finance, on the basis of the proposals of the plan titulars, will submit for approval the changes that result from the application of the present decree in the sole national plan for economic and social development and in the volume and structure of the state budget.

Article 12. Any provisions contrary to the provisions of the present decree are repealed.

Nicolae Ceausescu,  
Chairman  
of the Socialist Republic of Romania

Bucharest, 13 October 1983.  
No 384.

12105  
CS0: 2700/80

RENTAL CONTRACTS FOR HOUSING EXTENDED

Bucharest BULETINUL OFICIAL in Romanian Part I No 79, 18 Oct 83 pp 2-3

/Decree of the State Council on the Extension of the Rental Contracts for the Floorspace with the Purpose of Housing, up to 1 January 1988/

/Text/ The State Council of the Socialist Republic of Romania decrees:

Article 1. The rental contracts regarding the floorspace with the purpose of housing, regardless of owner, existing on the date of 1 January 1983, are extended by law until 1 January 1988.

Article 2. The tenants have the duty to properly use and maintain the dwelling that they have, to provide and maintain the state of cleanliness of the apartments and buildings, to secure the normal operation of the installations of the building and to regularly pay the legal rent.

The tenants have the obligation to perform on their own account the repair and replacement of all objects and installations within and outside the structure damaged as a result of their improper use.

With a view to the maintenance of the operating condition and the good keeping and sanitation of the dwelling, the tenants will periodically do the work of maintaining the interior finishings and all objects and installations associated with the building.

Article 3. The committees of the tenants associations have the obligation to check out the way in which the association's members, holders of the contracts for renting the dwellings in the state housing supply, use and maintain the floorspace rented.

In the case when they find that damage was caused to the dwelling by tenants, the committees of the tenants associations will act to get them to eliminate it, and if the tenants do not take corrective steps, they will notify the unit that has the dwelling under its administration, with a view to the taking of the legal steps against the culprits.

Article 4. The executive committees of the county people's councils and of that of the municipality of Bucharest will take steps so that the enterprises

that administer the state housing supply exercise control and take action regarding the fulfillment by tenants of the contractual obligations concerning the maintenance and repair of the dwellings and the keeping of the installations in good operating condition, with a view to the prevention of any damage to the state housing supply.

Article 5. The Committee for Problems of the People's Councils and the Ministry of Finance will guide, assist and oversee the executive committees of the county people's councils and of that of the municipality of Bucharest in the fulfillment of the provisions of the present decree.

Article 6. Decree No 13/1978, published in BULETINUL OFICIAL, No 8, 7 February 1978, is repealed.

Nicolae Ceausescu,  
Chairman  
of the Socialist Republic of Romania

Bucharest, 14 October 1983.  
No 386.

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CSO: 2700/80

END