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JPRS-EEI-84-043

12 April 1984

East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

DISTRIBUTION STATEMENT A
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12 April 1984

EAST EUROPE REPORT

ECONOMIC AND INDUSTRIAL AFFAIRS

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ACCELERATION OF ECONOMIC INTENSIFICATION PROCESS URGED

Bratislava PRAVDA in Slovak 3 Feb 84 p 1

[Editorial: "Let Us Increase the Intensification Rate"]

[Text] As the statistical data published this week revealed, the Czechoslovak national economy, despite the complex international situation and discriminatory measures of the capitalist states, developed in accordance with the intentions of our economic policy last year. Its development gained momentum, production efficiency and quality of work increased, our indebtedness in freely convertible currencies further decreased, and so on. Naturally, positive results were also fully reflected in our living standard, in the consolidation of the population's social security.

Indeed, one can say without exaggeration that, in view of the existing external and internal conditions, we achieved very good results in many sectors of our economy last year. Naturally, there is not the slightest reason for them to obscure our vision, for us to draw the conclusion in connection with last year that "generally speaking, it was good." Well, it was and it was not...the good could have been even better. The report of the Federal Office of Statistics unequivocally states: "The results of our common effort were still impaired by some shortcomings which were reflected particularly in the intensification of the reproduction process, in the application of scientific and technological achievements, in the effectiveness of foreign trade, in meeting construction deadlines, in the utilization of capital assets and in inventory management."

Similar statements are also contained in the report of the Slovak Office of Statistics. However, one cannot ignore the fact that the causes of these shortcomings lie in the level of organization and management. It is gratifying, for example, that Czechoslovak industrial production was 0.9 points higher than the state plan had called for, and that the gross production indicator was thus surpassed by Kcs 6 billion. On the other hand, however, there was an unfavorable development in inventories, which in industry increased by Kcs 4 billion, while the state plan had anticipated their reduction by Kcs 0.7 billion. This indicates that some responsible economic workers still do not pay proper attention to inventory control during the entire reproduction process and that others' efforts are not crowned with the desirable effect. This is true also of the excessive inventories of finished products, which are always a sign of enterprise mismanagement. If the products are not sold reasonably quickly and remain in the

warehouse for an extended period, it is rather late to think of how they should be sold. This must be considered much earlier, already in the preproduction stages, when the technical-economic parameters of every product are built in to determine its quality, its useful properties, efficiency...

In other words, this requires making full use of research and development. This is not to say that this requirement was not met last year. For example, new products accounted for 17.3 percent of the entire production volume of Czechoslovak industrial sectors, while the ration of products of high technical-economic standard in the total value of new products increased 3.8 points in comparison with 1982. We also achieved positive results in the SSR economy where, for example, the ratio of products of the first quality grade in the total value of products with verified quality increased by 25.3 percent. Statistics provided us with a multitude of additional data which show the immense contribution of science and technology to making production processes more efficient. The increase in quality and efficiency resulting from the application of research and development undoubtedly is a positive feature of last year's development. However, even these and other data must be examined from the standpoint of our needs and possibilities, in other words, very thoroughly. With reference to the very strict but realistic criteria it is necessary to quote the following report of the Federal Office of Statistics: "Despite the positive results achieved last year, however, the influence of research and development on increasing the number of innovations, improvement of quality and useful properties of products and on the rationalization of production processes still does not meet the needs of intensive development."

In other words, the acceleration of the rate of research and development requires us to fulfill more decidedly the resolutions of the Eighth Plenum of the CPCZ Central Committee and of the September meeting of the CPSL Central Committee.

This is the principal road to an increase not only of quality and efficiency, but also of labor productivity. It is true that according to the statistics we also registered some increase in labor productivity in industry and construction not only in comparison with 1982, but also in comparison with last year's plan. However, in this instance we also did not make use of all possibilities --not only with regard to the labor productivity increase resulting from the application of scientific and technological achievements. Let us consider, for example, the use of work time by industrial workers. Both statistical reports stated that due to the higher sickness rate its effective use declined in comparison with 1982. At first glance this looks like an objective fact. However, we have pointed out many times in the past that work time was not used effectively and that there were many reserves in this area. If its use declined because of absenteeism caused by illness, this means that we did not make a consistent effort to uncover and use already long-known reserves and shortcomings; that there was no substantial improvement in material and technical procurement of individual workplaces, plants, enterprises; that organization and management have not improved everywhere and evenly; and that work discipline has not reached the desirable level. Naturally, we have in mind not only blue-collar workers, but also foremen, heads of shops and other supervisory personnel. After all, it is precisely those who organize and control work who have considerable possibilities

of affecting the use of blue-collar workers' work time and thus in the final analysis also the labor productivity increase.

Last year brought many positive results in Czechoslovak industry, agriculture, construction, transportation and other sectors of our national economy. They are all the more valuable because they were achieved under unprecedented complex conditions and despite very strict criteria. Everybody understands that -- to put it simply -- it is not easy to pay off debts and yet enjoy a decent living standard. There are very few states that dare do so because it is a complex, difficult road which particularly at the beginning calls for a considerable amount of understanding and patience on the part of all working people. It unquestionably also calls for better and more effective work performance. Last year, however, fully confirmed that the road upon which we had embarked was correct and that we can reach our goal without major harm, provided, of course, that we accelerate the intensification process, uncompromisingly eliminate all shortcomings which unnecessarily impair our work. While many of them have been known for a long time attention to others was drawn by the Ninth Plenum of the CPCZ Central Committee, while some of them were uncovered from statistical reports. It is up to individual ministries, VHJ's [economic production units] and enterprises, and their economic managers to review, creatively and with the necessary dose of criticism and self-criticism and in close cooperation with the party organizations, all principal areas of the economy. In the first place, however, work and technological discipline must be enforced, the quality of products and of all work must be improved, efficiency and export competitiveness must be increased, research and development must be accelerated and applied on a larger scale without delay and, last but not least, socialist economic integration, including particularly specialization and cooperation with the Soviet Union, must be intensified.

There are several reasons for this. The principal one is that in order to cope successfully with this year's tasks and to satisfy societywide needs and interests better, it is necessary to build on last year's good foundation, to develop all positive elements and experiences further; on the other hand, however, it is necessary to learn from unnecessary mistakes and to eliminate all shortcomings. At the present time there are two occasions for a thorough evaluation of management in every enterprise and for an in-depth analysis of all positive and negative phenomena. The first is the analyses of economic activity which are discussed in enterprises every year, or which will be discussed. The second occasion is the meetings of party members which are taking place now. However, if the analyses and party meetings are to live up to expectations, they must be prepared by the largest possible number of experts and communists, and sufficient possibilities and room must be offered at these meetings for the discussion of all well-founded and creative comments of the rank-and-file. It will be even more important to reflect all these conclusions in the concrete work of implementing the challenging tasks of this year's state plan.

10501
CSO: 2400/265

JANUARY 1984 ECONOMIC RESULTS SUMMARIZED

Prague HOSPODARSKE NOVINY in Czech 24 Feb 84 p 2

[Commentary by Dr Engr Vaclav Cap, science candidate, Federal Statistical Office: "January 1984"]

[Text] The growth rates achieved in January 1984 in industrial production and eventually also in the output of construction indicate a significant acceleration of the economy in comparison with January of last year. In January of this year, industrial production was 6.7 percent higher than a year ago, and the output of construction was up by 2.4 percent. Fulfillment of the schedule for the procurement of farm products was likewise favorable in January. In foreign trade the January start again shows that the enterprises are ready to fulfill their export tasks. While the structure of supply in domestic trade remained satisfactory, also the retail turnover rose.

It would be premature to judge fulfillment throughout the entire year on the basis of a single month's results when a number of sectors are of a seasonal nature. However, fulfillment during the past three years of the objectives of the economic and social policy adopted by the 16th CPCZ Congress, as spelled out in the specific objectives of the 7th Five-Year Plan, indicates that the necessary conditions are being created for further planned development.

First of all, during the first three years of the 7th Five-Year Plan the economy coped with the fact that factors of extensive growth are not available, and that this problem cannot be resolved through foreign trade. In recent years, the economy has been influenced by the effects that have been worsening since the mid-1970's and are associated with the foreign-exchange intensity of ensuring the fuel and power balance and the importation of raw materials and supplies.

It will be necessary to step up also this year, and at a faster rate, the intensification of the national economy, especially in enhancing the value of fuel, electricity, metals and other raw materials, and in their conservation.

During the first three years of the 7th Five-Year Plan, according to preliminary data, national income rose by 2.4 percent (gross national income, by 4 percent). At the same time, this entire rise occurred in 1983. In 1981 and 1982, the economy's adjustment, particularly to the reduced import volume of liquid fuels and certain other raw materials, and the effect, for example, of

the crop failures in 1981 caused national income to essentially stagnate. (But gross national income rose moderately even the first two years.)

National income in the first three years of the 7th Five-Year Plan was higher than its domestic spending. This made it possible to offset the unfavorable development of export and import prices, and also to reduce foreign indebtedness. Maintenance of the population's attained living standard (after a moderate decline in 1982, personal consumption again rose in 1983 and exceeded the 1980 level by 1.4 percent; and public consumption of goods and services increased over 1980 by roughly 12 percent) made it necessary to exert exceptional pressure on the efficiency of capital construction and on the use of inventories, and in general on reducing accumulation as a proportion of spent national income.

Primarily industry and agriculture contributed to the rise of national income. In comparison with 1980, the level of industrial production in 1983 was higher by 6.4 percent; and the level of farm production, by 4.1 percent. On the other hand, the volume of output in construction (after the curtailment of capital construction in 1981 and 1982, and despite its rise in 1983) dropped by 3.6 percent. All three branches fulfilled their planned output, but not entirely in its planned structure. The 1984 plan again specifies that the structural changes leading to higher efficiency must continue; they will be based particularly on the faster growth of production in engineering and the manufacturing branches that use domestic raw material, on the decline of production in the energy-intensive branches, and on the slower growth of the sectors that are dependent on imported raw materials and supplies. In accordance with the planned objectives, the engineering enterprises set high production rates already in January 1984. In comparison with January 1983, production was higher by 8.3 percent in heavy engineering, by 17.5 percent in general engineering, and by 13.9 percent in the electrotechnical industry. On the other hand, production increased by 2.3 percent in metallurgy, by 4.2 percent in the chemical industry and petroleum refining, and by 3.3 percent in the building materials industry. Light industry made a good start in 1984 with a 5.6-percent increase in production in January over the same month of last year; and the wood-processing industry, with a 7.5-percent increase.

The fastest rise in production in 1981-1983 was in engineering. Production in heavy engineering in 1983 increased over 1980 by 9 percent; in general engineering, by 13.5 percent; and in the electrotechnical industry, by 23.7 percent. While the production plans in engineering were fulfilled overall, the planned directions of use were not observed entirely. The wood-processing industry did not attain its planned growth in 1980 through 1983, and its production increased by 8.6 percent. Light industry's output increased by 5.4 percent, essentially in accordance with the plan. Metallurgy increased its output by 1.6 percent, although it should have reduced it by 1 percent in three years. Output in the chemical industry likewise increased faster than planned. In both of these energy- and import-intensive industries, overfulfillment was influenced by the requirements of foreign trade. Emphasis remains also in 1984 on allocating production in the desired directions. The January results are in accord with this requirement for the time being. Deliveries for export, domestic trade, and investments rose at a faster rate than what the annual plan calls for.

Basic Indicators of National Economy's Development in January 1984.
Increases Over Comparable 1983 Period (in percent)

| | <u>Jan</u> | <u>State plan</u> ¹ |
|--|------------|--------------------------------|
| Centrally Administered Industries deliveries for: | | |
| - investments, at wholesale prices | 1.5 | . |
| - domestic trade | | |
| at wholesale prices | 3.7 | 2.0 |
| at retail prices | 4.2 | 3.1 |
| - export to socialist countries | | |
| at wholesale prices | 11.4 | 6.1 |
| at f.o.b. prices | 14.8 | . |
| - export to nonsocialist countries | | |
| at wholesale prices | 17.1 | 3.5 |
| at f.o.b. prices | 18.7 | . |
| - other sales for productive consumption and operations, at wholesale prices | 3.8 | . |
| volume of industrial production- | 6.7 | 2.9 |
| average number of employees | 0.6 | 0.8 |
| labor productivity based on industrial production | 6.0 | 2.1 |
| Construction | | |
| construction work performed with own personnel | 2.4 | 1.6 |
| average number of employees | -0.1 | 0.3 |
| labor productivity based on construction work | 2.5 | 1.3 |
| housing units delivered by contracting enterprises | 2.0 | -4.8 |
| Procurement | | |
| slaughter animals (including poultry) | 12.3 | -2.1 ² |
| milk | 4.7 | -4.7 ² |
| eggs | 13.2 | -3.9 ² |
| Retail Turnover | | |
| main trade systems | 2.6 | 1.7 ^{2,3} |
| Foreign Trade ⁴ | | |
| export to socialist countries | 8.7 | 8.9 |
| export to nonsocialist countries | 36.5 | 4.6 |
| import from socialist countries | 5.6 | 10.7 |
| import from nonsocialist countries | -4.7 | 3.2 |
| Personal Incomes | 1.1 | 1.6 |
| of which income from wages | 0.5 | 1.1 |
| Actual Cash Expenditures | 3.6 | 2.0 |

1. Compared with expected results.

2. Compared with actual results.

3. All trade systems.

4. Data on actual results refer to total transactions. The state plan (in distinction from total transactions) does not include unplanned transactions within the framework of cooperation, unplanned reexport, swaps, tie-in sales, etc.

In construction, the results in January of this year prove that the construction process can be made more even. The seasonal decline was conspicuously smaller than in 1982 or 1983. In 1984, however, it will still be necessary to channel construction capacity to key projects and to reinforce the completion of the projects.

Resolution of the disproportions between crop production and livestock production remains the basic task in agriculture. We have been unable to master this task in 1981 through 1983. In comparison with 1980, livestock production increased by 6.9 percent in 1983; and crop production, by 2.1 percent. Because not even 1983, with the exception of the grain harvest, has been successful in this respect, the farms must strictly maintain their planned livestock population and use feed efficiently. In January of 1984, the farms delivered 16,600 tons more livestock than the same month last year, also 20 million liters more milk, and 30 million more eggs. Overall, the schedule of deliveries for January was fulfilled and overfulfilled.

In foreign trade the January results followed the trend of preceding years: the intensification of cooperation and of the international division of labor with the socialist countries, and a surplus in our balance of trade with non-socialist countries. While overall export rose by 17 percent in comparison with January of last year, export to socialist countries increased by 8.7 percent; and to nonsocialist countries, by 36.5 percent. This rapid growth was influenced by the exceptionally low level of export in January of last year. Overall import increased by 2.4 percent, including a 5.6-percent increase of import from socialist countries and a moderate decline of import from nonsocialist countries. In spite of this, neither export nor import came close to the prorated monthly fulfillment of the 1984 plan.

Faster growth of the retail turnover reflected the relatively good supply of domestic trade and higher personal incomes (personal incomes in 1983 rose by 3 percent over 1982 and were 10.2 percent higher than in 1980). The increased demand was at department stores and in stores selling industrial consumer goods. Currency circulation increased by 0.8 billion korunas, reaching 50.1 billion at the end of January. The net inflow of deposits was 2.2 billion korunas, giving total deposits of 194.1 billion at the end of January.

1014
CSO: 2400/279

LAGGING DEVELOPMENT OF SERVICES CRITICIZED

Prague HOSPODARSKE NOVINY in Czech 3 Feb 84 pp 1, 5

[Article by Eng Josef Jung, CSR minister of the interior: "Our Debt Has Still Not Been Paid Off"]

[Text] Almost 2 years have passed since the Eighth Plenum of the CPCZ Central Committee, which was devoted to the tasks of national committees after the 16th CPCZ Congress. It is therefore proper to determine soberly what use we made of this period, where we advanced and in particular to analyze critically where and why we have moved slowly or lagged behind our needs in some instances.

In a brief summary of this interim period we can state that a number of legislative, organizational, institutional and methodological measures created conditions for the further promotion of socialist democracy in the activity of national committees, for improving their structure, organization and management. Of particular importance in this respect are the two amendments to the law on national committees and the pertinent enabling legislation as well as the regulation of national committees' jurisdiction in promoting the comprehensive economic and social development of their territorial districts and satisfaction of citizens' needs. In this category unquestionably falls the area which we are accustomed to describe as services paid for by the population, with which alone I want to deal in this article.

It is proper to point out in this context that the CSSR Government by its resolution No 55/1982 approved the principles of a more effective procedure and promotion of a more flexible expansion of services. The governments of both republics made similar decisions. The main groups of problems became the subject of deliberations of national committees--from the kraj to the municipal and local national committees. However, a fundamental qualitative turnabout has not yet taken place as yet. Desirable changes are not carried out at the rate anticipated by us. Moreover, their implementation considerably varies among individual localities, towns and areas.

The question therefore poses itself of why this has been so, since a number of obstacles which appeared as a brake to a more flexible expansion of services have already been removed. Some causes are to be found in the 1950's and 1960's, when the construction of the material-technical basis of services

was not adequately financed from public funds. We must remind ourselves in this context, however, that in order to satisfy the most important needs of the population it was then necessary to build and develop, on a priority basis, industry, construction and also agriculture. There was not enough money or enough production capacity which would have enabled us to carry out more quickly the repair and gradual replacement of the obsolete, inadequately maintained network of services which consisted of hundreds of poorly equipped shops, small hucksters' stores, temporary workplaces and warehouses inherited from the petit bourgeoisie. Under such conditions it was difficult to work, and it was not possible to maintain the necessary labor force.

Only gradually, depending upon the improvements in the development of the national economy, were increasingly larger funds invested in the area of services every year to finance the most urgent projects, modernization and expansion of their basis. Particularly after the 15th CPCZ Congress, considerable progress was made in every kraj, and we can also say in every okres, in towns and the countryside. Many improvements have been made in the service network, but more of them could have been made if more effective use had been made of the existing possibilities.

However, everything cannot be blamed on the past, on the inertia of the development so far because there has already been enough time to control it properly. But a more rapid expansion of services is closely related to the entire complex of our economy, to its state and possibilities. Since a number of workers were transferred from the service sector to industry in the past, it is quite natural that there is a labor shortage in the service sector today. Again, it depends upon our economy, on how it will be able to handle the labor force of the young generation, how many more people will be needed in industry and agriculture in the immediate future, how many young people will continue their study at high schools and colleges, and on how many young people service enterprises and production cooperatives can count. I am mentioning this as an example only. A similar situation exists in material and technical procurement, in transfers of certain industrial operations from local industry and service enterprises to the state industry sector in order to use these urgently needed capacities for better satisfaction of the population's needs.

Nevertheless, nothing that has been said above can be used in excuse for procrastination or dragging one's feet. On the contrary: the bigger and more difficult task we face, the greater consistency, perseverance, initiative and courage is required on our part in overcoming the obstacles in our way. One cannot surrender to the panacea of indicators or organizational schemes, even if this cannot be lightheartedly brushed aside. In the first place, however, it is necessary to change the general climate, the attitude of agencies, organizations and of every worker toward the problem of services. "Every responsible worker in his field must realize that it is not only an economic, but also a highly political question," said Comrade Gustav Husak at the 16th CPCZ Congress, and we should bear these words in mind all the time.

It is from this angle that we must interpret the interlinking and appurtenance of individual measures in this or that section of the total task, beginning with planning and financing all the way to various forms of supplementary services.

New, simplified indicators were already applied last year. The government specifies only one mandatory indicator for the area of services, namely the proportion of wages to the adjusted output and three control indicators: adjusted services to the population [sluzby obyvateľstvu redukovane], deliveries to the market funds, and profit. Of these three control indicators, the indicator "adjusted services to the population" does not seem to be working in the correct direction because its methodology allows a partial escape: it permits the inclusion even of some activities for the socialist sector, although by their nature they do not conform to the basic mission of service organizations. A more serious shortcoming of the new system of planning is that the management levels of national committees frequently increase, within their jurisdiction, the number of mandatory indicators for the enterprises managed by them.

It was also taken into account that services must be reasonably profitable, with the profit margin amounting to approximately 10-15 percent of the total production cost. This was also the purpose of the double price revision for services carried out in February and October 1983. At the same time, the jurisdiction of kraj national committees in price questions was strengthened. Of the total number of approximately 82 service sectors, the national committees set the prices for 37 sectors at the present time. The attainment of necessary profitability without which services cannot exist and further develop must be seen not in the price revisions alone, but in the organizations themselves, in the reduction of material costs and administrative overhead. The new prices announced in the two revisions last year were stipulated as the highest permitted, with the proviso that the kraj national committees can also set lower prices in accordance with the local conditions. This applied, however, to a rather limited number of services. The national committees can also exercise this jurisdiction in the future. In doing so they should take notice of services of a seasonal nature and of the trend in demand.

Closely related to the price revisions is the increase in the citizens' demands for better quality services, their availability, promptness, comprehensiveness. Naturally, additional workshops and pick-up offices for the enterprises of local industry and production cooperatives have been opened; emergency services have been set up and the working hours have been changed to accommodate the citizens' needs. Nevertheless, we expected greater and more rapid progress particularly in the supplementary services. As of now, the organizations only exceptionally consent to supplementary second occupations for their employees, such as performance of petty services. Likewise, the intentions for the establishment of small production cooperatives remained largely on paper only: one swallow--namely from the South Moravia kraj--does not a spring make. And what about the other krajs? Do favorable conditions not exist, or is there rather a lack of interest there?

Greater initiative must be demonstrated in the establishment of small workshops operated by the national committees and in the orientation of their activity toward the better satisfaction of the population's needs. The obstacle consisting in the specification of a rather high limit of receipts from the population used as the regulator of the amount of wages paid has been removed and the new revision of principles approved by the government offers wide possibilities for this supplementary form, particularly in smaller towns and new satellite communities.

The key responsibility for rendering services naturally lies with the enterprises and cooperatives, while the political responsibility for their functioning lies fully with the national committees. We could say: as the national committee is so are the services. General appeals and slogans are worth nothing if the national committee does not have a clear conception of how to proceed in creating the necessary conditions in its own territorial district. If the committee is not sufficiently flexible, how can it demand greater activity on the part of subordinate organizations?

Yet, the fundamental conditions in the area of wages and financial incentives have changed in favor of greater stimulation and differentiation in the evaluation of workers. More effective and administratively simpler wage incentives, such as profit sharing and the new system of regulating wages payable, have been applied to the expansion of services. These levers, however, have not been fully understood by the enterprises so far. Likewise, they make little use of other wage incentives, such as combined bonuses for workers qualified to do several jobs.

Serious concern is also caused by material-technical procurement. Despite all measures and agreements, the situation has not essentially improved. A number of manufacturers regard deliveries to the service enterprises only as a marginal, unimportant affair, although the implications for the society in this instance are equal to the failure to make deliveries to the domestic market or for export. An extremely serious situation exists with regard to spare parts, although every manufacturer should regard it as a matter of course that his product is and will remain operational for the entire period of its service life. The demand for spare parts should be regarded as the criterion of quality: their excessive consumption unquestionably signal either the lower quality of some of its components or some technological defect in production or quality control. Regardless of that, these are well-known facts for which similar signals are superfluous.

The appropriate production sectors should thoroughly realize that the implementation of the resolutions of the Sixth Plenum of the CPCZ Central Committee is not a matter concerning the national committees and service organizations alone. In connection with the implementation of the economic and social program formulated by the 16th CPCZ Congress, this plenum assigned to them deliveries to the area of services which must be met much more consistently.

One of the other causes of the unsatisfactory situation in the area of services is the mostly low standard of management, for which the former system

of planning and financing alone cannot be blamed, but which to a considerable extent reflects the inadequate qualification of people in their jobs. The organizational changes can be carried out rather rapidly. The increase in the professional qualification of managerial personnel is a more difficult problem, whose solution will require a longer time.

This problem is particularly urgent in the housing administration, where we encounter a number of serious shortcomings in maintenance, repairs and modernization of existing apartments. The complaints are not becoming less frequent, but are rather increasing. Yet, the funds allocated are by no means small. How effectively are they used? We know from experience that waste is frequently associated with a lack of discipline and with mismanagement. For these reasons, we regard this problem as an important separate program which will have to be implemented in the immediate future.

The common denominator of all our plans, of all our efforts, is the development and improvement of the living standard. To repeat the words of Comrade Y. Andropov uttered at the last meeting of the CPSU: "All successes in increased production are properly appreciated only if they are reflected in a higher living standard. The general standard of services to the population corresponding to the goals of our socialist society is also an integral part of this."

To work systematically for further improvements in the quality, promptness, scope and availability of services must become for all national committees and service enterprises a self-evident installment on the debt which we still owe to services. All of us are bound to do so by the resolution of the Presidium of the CPCZ Central Committee. It critically and thoroughly examined the progress in the implementation of resolutions of the Sixth Plenum of the CPCZ Central Committee and formulated a solid program of further and more vigorous action toward the set goal.

10501
CSO: 2400/268

NEW METHODS OF APPLYING RESEARCH, DEVELOPMENT RESULTS NEEDED

Prague RUDE PRAVO in Czech 7 Feb 84 p 3

[Interview with Zdenek Smely, member of the CPCZ Central Committee, deputy chairman of the State Commission for R&D and Investment Development, by Vladimir Cechlovsky: "To Change the Style and Conception of Work"]

[Text] Nearly 8 months have passed since the Eighth Plenum of the CPCZ Central Committee dealt with expeditious practical application of R&D achievements. With Comrade Zdenek Smely, member of the CPCZ Central Committee and deputy chairman of the State Commission for R&D and Investment Development, we discussed how the measures in its support had been accepted and how they were being fulfilled.

[Question] How do the agencies in charge approach the specification of the decisions announced by the Eighth Plenum?

[Answer] With a positive attitude, although they must be differentiated. For example, immediately after the plenum the ministries processed only 30-40 percent of the decisions and proposals, focusing on the tasks that were easier to meet. They ignored most issues of a societywide, supraministry character.

[Question] Has their approach since changed?

[Answer] In the second stage most of our central agencies completed a thorough analysis of the materials of the Eighth Plenum containing about 400 suggestions and proposals. The data of the ministries and other agencies as well as considerations of state commissions of the federation and republics led to the concept for a comprehensive solution of the above-mentioned decisions. This stage was concluded by the decision of the CSSR Government on measures for the fulfillment of the main tasks stipulated by the Eighth Plenum, which contains already a number of systemic measures.

[Question] Are the above-mentioned measures resolving efficiently the shortcomings of our R&D?

[Answer] They have helped a great deal. On the other hand, we must constantly keep in mind that in the past our economy had been insufficiently adapted to the changing conditions in the world, and thus today we are lagging behind the

best in many areas. This is reflected in labor productivity, utilization of raw materials and energy, and in the capacity of our goods to compete.

[Question] What, then, must be done in the first place?

[Answer] The fulfillment of the decisions articulated by the Eighth Plenum demands above all a new system and conceptual approach as well as a penetrating reappraisal of the work done thus far. If we continue on the beaten track and fail to take an honest view of our problem, we cannot fulfill those vitally important decisions without reservation.

[Question] Does that apply also to the program of our R&D base?

[Answer] Indeed, although some people are erroneously putting an equal sign between the R&D base and R&D development. In view of the broad assortment of production in our country, we would need 2 million rather than 183,000 researchers if we wanted to keep everything at the top world level. Therefore, we must focus our attention far more on exploiting additional innovative resources.

[Question] Which resources do you mean?

[Answer] For instance, application of licenses, procurement of equipment with technical assistance, or even procurement of technical assistance alone, better application of world and our own R&D and patent information, planned exploitation of workers' initiative in invention and improvement movements, the movement of comprehensive rationalization teams and other collectives, and small- and average-scale rationalization programs, narrowing down the line of products. An important source of innovation is also international cooperation in research and production, particularly with the socialist states.

[Question] Let us stop first at licenses. What did they bring us and what changes should be made?

[Answer] In the first place, they brought us enormous savings of time because we could apply the latest world information in our material production and did not need our already so overburdened R&D base for that purpose. Just as an illustration: on the basis of purchased licenses we manufactured in our country in the Sixth 5-Year Plan goods in the value of Kcs 127 billion, which found greater demand in foreign markets. However, the sum total conceals great differences. Some enterprises and sectors have thus far failed to apply the licensing policies properly to upgrade the standard of their products and technologies. They are not giving priority to the mandatory tasks of the state plan, the state goal-oriented programs and the main directions of our national economic development and R&D. The objective of the new measures is to remedy that situation.

[Question] What will be the efforts of the State Commission in cooperation in research and production with the socialist states?

[Answer] To expand it in several ways and, above all, to raise it to a qualitatively higher level. Mutual cooperation covers about 15 percent of the outputs of our R&D base, but those are mainly already outdated forms, such as simple exchanges of experience. The agreements on cooperation in R&D, which are fully obligatory, cover only 1 percent of our innovation needs. Thus, the objective focuses on direct forms of cooperation where every partner participating in joint ventures accomplishes what he can expeditiously and in required quality.

[Question] Has there been any improvement in this respect in recent months?

[Answer] The partners are discussing in more specific and cogent terms specialization and cooperation in production, particularly in the chemical, machine engineering and electrical engineering industries and in the manufacture of robots. This first joint institute is now being organized.

[Question] It is said that in some enterprises administrative red tape prevents direct, highly efficient forms of cooperation.

[Answer] To a certain degree, that is no excuse. This follows mostly from the fact that socialist countries have different standards of production, traditions, lines of products, experience and methods of work. We and our partners are trying to resolve such problems and to improve our mutual contacts. On the other hand, our enterprises should not blame these problems alone; instead, they should seek vigorously new opportunities for cooperation.

[Question] Nevertheless, let us return to direct measures concerning the fulfillment of the decisions of the Eighth Plenum. How could they be characterized?

[Answer] The first group consists of expeditious, short-term measures which should eliminate during the current 5-year plan the most glaring shortcomings in the practical application of R&D achievements on all levels of management, especially in the enterprise sphere. Those are some "administrative misconceptions" that have needlessly tied our hands. Though it is already a more difficult task, we intend to build in a relatively short time a system for testing the structure and quality of our products that will enable us to compare our results with the situation and developments in the world and to select appropriate innovations accordingly.

[Question] Is that already under way in some enterprises?

[Answer] Thus far in only very few enterprises, as a rule, only in those that depend on exports of their goods and are facing stiff competition in foreign markets. Such enterprises are forced to study all available information on the situation in the world; they are organizing research of their competition, etc. Enterprises with limited or no exports show inertia in their production, which in time necessarily prevents them from reaching a higher technical level.

[Question] What long-term measures are envisaged?

[Answer] Those are measures aimed at improving R&D policies on every level of management, measures based on improved quality of the mechanisms of management which should bring the R&D achievements closer to our practical needs, and also measures related to international cooperation.

[Question] Could you quote a specific example?

[Answer] Very relevant is, for instance the task to intensify the goal-oriented programmatic approach in individual methodical instructions for the specification of the proposed 5-year plan and the operational plan, and to specify in detail the methodology of the state goal-oriented programs and qualitative indicators of the plan. That is a joint task of the State Planning Commission, the State Commission for R&D and Investment Development, and The Czechoslovak Academy of Sciences.

[Question] What is the common denominator of the long-range measures?

[Answer] They resulted from an analysis which demonstrated that the problem of interests of the sectors and of their promotion even against our society's interests reaches far deeper than it would seem at first glance. That is because the managers of enterprises and sectors are personally responsible for the indicators included in their programs but, as a rule, not for the contribution to our national economy. For that reason the technical development must be coordinated more than before and, in addition, the interests of individual sectors must also be attuned to the interests of our national economy.

[Question] But that presupposes a stronger central management.

[Answer] The tasks of the Eighth Plenum compel us to raise the task of the central management for basic innovations and supporting programs and at the same time to foster initiative "from the bottom up." Let us take, for instance, the R&D plan. Today it is basically only a set of individual tasks. What we need, however, is for the plan to proceed not only from the requirements of the sectors but of the republic as a whole--to respect the resources and the potential of the republic.

[Question] And what if during the problem-solving process another, better variant that is not included in the plan is found?

[Answer] It is axiomatic that we cannot plan everything ahead. Nevertheless, even with the central management we must provide a space in the plan for the expeditious implementation of outstanding new--even unexpected--R&D information.

[Question] But will not the effect of the above-mentioned method of management have an adverse effect on people's initiative?

[Answer] Rather, it presupposes its expansion because everything cannot be controlled and planned. The change is in the fact that labor activity should be aimed far more at the fundamental problems of material production in its full extent.

[Question] Which mechanisms of management will help turn R&D into the hub of our national economic plan?

[Answer] First, they must be conscientiously prepared. So far, hunger for new technology does not really exist in our country mainly because the indicators in material production do not prefer new technology and under-emphasize the need for new, efficient designs, whether of goods or of technologies.

[Question] How was this encouraged by some measures for acceleration of R&D progress which have been tested on a trial basis in some branches since January 1983?

[Answer] The experiment may produce positive results especially in the short-term profile, but it cannot be the only and main mechanism in the future. We must enforce a comprehensive view which includes a more specific definition of the long-term outlook for the development of our national economy, detailed preparations and improvement of the supporting programs, and more specific tasks for individual branches, enterprises and plants.

[Question] Was there a turn for the better in this conjunction?

[Answer] I don't think so. Many researchers are afraid of the risk and so in the plan they still include less demanding tasks that cannot propel us up to the top. Also, the proposed schedule for the solution is often in complete contradiction to our needs.

[Question] Why do the measures in this area presuppose first an analysis of the situation and development of our R&D base? Is this not a needless delay?

[Answer] Our R&D base, its structure and technical equipment have developed over the past decades under the influence of the development of the national economy and other factors and, therefore, fundamental changes cannot be made with a flip of the magic wand, without a thorough analysis of its condition. A number of fundamental issues must be assessed: where to focus this base, how to equip it, what must be given priority in terms of human and material capacities. We cannot risk committing any errors, because it is easy to break up a research team but it takes 10 or more years to build one.

[Question] However, the ministries are also responsible for the review, whose deadline is 30 June 1985. May not their standpoint again be influenced by the view of the ministry alone?

[Answer] It will be up to the state commissions for R&D and investment development as well as certain central agencies to coordinate the efforts for the change in the focus of our research and research programs in order to enforce the effect of the central sphere on the determination of the supporting programs and their implementation.

[Question] How are the deadlines of the most urgent measures being met?

[Answer] The State Commission recently completed a review and concluded that the short-term tasks were being fulfilled. A detailed operational plan had been prepared for the tasks scheduled for completion early in the year and personal responsibility of the managers had been defined.

[Question] The first group of measures that had stymied the initiative in R&D was supposed to be adjusted or even rescinded at the end of last year...

[Answer] Some measures have been fulfilled, others are being implemented, but those belong in the category from which in all probability our public expects more than they can bring, because they have only a partial character and eliminate glaring deficiencies of the administrative character. A fundamental change, however, may take place after the conclusion of an analysis of main problems and fulfillment of additional basic tasks stipulated by the federal government. Therefore, I repeat that the fulcrum of the measures for distinctive intensification of the R&D task is in a new systemic approach, in the change of the work style, in a new method of thinking, and in a new political attitude of our workers, mainly in the management sphere. To achieve that we all must still do a lot of work.

[Question] Does this mean that the Seventh 5-Year Plan is only a kind of springboard for the fulfillment of the decisions issued by the Eighth Plenum of the CPCZ Central Committee?

[Answer] We may say that. The new regulations cannot be implemented in their full scale before the Eighth 5-Year Plan, but in no case can we afford to waste the remaining time, because by the middle of 1985 the regulations should be ready to leave a distinct mark on the first year of the new 5-year plan.

[Interviewer] Thank you for the interview.

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CSO: 2400/241

ENGINEERING MINISTER DISCUSSES MACHINERY EXPORTS

LD241813 Prague Domestic Service in Czech 1130 GMT 24 Mar 84

[Summary] "In this Saturday talk we shall discuss the foreign trade tasks of general engineering. Export of machinery and equipment plays an important part in the Czechoslovak economy. Therefore, today we are the guests of Pavol Bahyl, CSSR minister of general engineering:

[Unidentified interviewer] "Comrade minister, what is the contribution of your industry to the tasks of Czechoslovak export?"

[Bahyl, answers in Slovak] "Last year our industry fulfilled export tasks to both socialist and nonsocialist countries and even overfulfilled them. However, we are not happy with the effectivity of sale: last year the sale of products, more effective for our economy, fell considerably because exports of more effective products dropped and was substituted by less effective products--products with a lower effectivity of sale. I can quote an example: We sold a smaller number of machine tools and textile machinery, the export effectiveness [efektivnost] of which is high. This deficit was substituted by a higher sale of cars and other products with slightly lower effectivity. Of the overall application of the volume of final production, supplies for export to socialist countries amount to 40 percent, and of that figure almost one-half are supplies for the USSR. Next, 17 percent are supplies to nonsocialist countries. In overall exports, of key proportion is air technology, cars and trucks, (?ships), machine tools and forming machines, textile machinery, construction and road building machinery, and consumer machinery and machinery spare parts. With regard to the dynamics of our sections export development in 1984, supplies for export to socialist countries are growing by 5.6 percent. Prices, including freight, and supplies for export to nonsocialist countries are to grow by over 14 percent compared with this year. This is the greatest growth of exports to nonsocialist countries from all sections of our economy."

Pavol Bahyl then spoke more generally about the need for good quality of production, availability of spare parts, observance of deadlines for export supplies, and the need for foreign trade to look for new and good contacts. Then he spoke about the preparation of the plan for agricultural machinery changes in the Eighth 5-Year Plan, about the importance of CEMA cooperation and coordination, and about the need for good managers in industry with solid knowledge and courage for innovations.

INDUSTRY MINISTRY EVALUATES PLAN RESULTS

LD261443 Bratislava Domestic Service in Slovak 1030 GMT 26 Mar 84

[Report by "Editor" Zuzana Sucha--recorded]

[Text] A political and economic working conference of the Slovak Ministry of Industry is continuing at this moment in Bratislava with a discussion. It is attended by Miloslav Hruskovic, candidate member of the Presidium of the CPCZ Central Committee, member of the Presidium, and secretary of the CPSL Central Committee; Ladislav Abraham, member of the Presidium of the CPSL Central Committee and chairman of the Slovak Trade Union Council; Jaroslav Kansky, deputy Slovak prime minister; and other party trade and youth union officials.

The aim of the conference is to evaluate the results of last year's plan, to reassess the fulfillment of this year's commitments--as well as to realize these commitments in the year ahead and in the next 5-year period, in accordance with the conclusions of the ninth session of the CPCZ Central Committee. Information conveyed to us by telephone from the conference by Viliam Racek, an editor, will please our consumers, for it concerns greater attention to be paid by the industry to increasing the volume of deliveries to shops of products in short supply. It has emerged from today's conference that the sector also wishes to honorably meet their commitments to foreign customers, especially in the Soviet Union, fulfilling them by 52 percent during the first 6 months of the current year. Rational husbanding of fuel and energy also ranks among the no less important tasks facing the sector. This is documented by another commitment: to exceed by 5 percent the savings to be achieved in the current year.

CSO: 2400/292

RUDE PRAVO SCORES MINISTERS' CONTROL

AU281000 Prague RUDE PRAVO in Czech 26 Mar 84 p 1

[Editorial: "Raising the Efficiency and Quality of Control"]

[Text] The significance and purpose of controls lie in the fact that it is an important component of management activity, an effective help in implementing the planned development of society, and of national economy in particular, as well as an invaluable means of consolidating discipline and order and erecting a barrier against arbitrariness. The significance of control grows in parallel with the tasks of economy and with the improvement of the management process. But the control system, too, must be improved, so as to be able to fulfill its social mission effectively and in keeping with the aims of our economic and social policy.

In 1981 the CPCZ Central Committee Presidium and the CSSR Government adopted the Measures for Improving the Control System in the National Economy and State Administration; and 1 year later they adopted the Principles of Control in the National Economy and in State Administration. These two are most significant documents, aimed at perfecting control activities in economic bodies so that they would ensure state interests on all management levels--in ministries, economic units, and enterprises better than they have to date.

The documents mentioned above committed the heads of bodies and organizations, and other leading staff, to establish prerequisites for an efficient control that would help fulfill the exacting tasks in the economy; would actively influence the solution of the main problems in the society's development; and would help eliminate shortcomings, mobilize reserves, and consolidate state discipline and responsibility in enforcing all-social interests and needs.

In order to ensure the effective operation of control in the spirit of the two documents, the ministers were charged with issuing instructions and directives establishing organizational prerequisites for implementing the principles of control along the management line in internal control systems. In linkage with these management acts, the directors general of economic units and directors of enterprises were meant to gradually issue appropriate directives.

The improvement of control, too, must be checked on; and that is why the CPCZ Central Committee Presidium dealt with the implementation of the adopted

measures and principles. Its deliberations were based on the results of checks carried out by the CPCZ's Central Control and Auditing Commission and by the CSSR People's Control Committee. These checks fully affirmed the justification and topicality of resolutions adopted by the CPCZ Central Committee Presidium and the CSSR Government on improving control in the national economy and state administration. The consistent implementation of these resolutions is part and parcel of the overall effort to consolidate positive trends in society's development, to push through all-social interests, and to strengthen discipline and responsibility in all sectors.

Further committees and commissions of people's control in communities and plants began their activity since the time when the principles were adopted. The results of their work still show considerable differences. That is why it is necessary to consistently enforce the further enhancement of the quality and efficiency of control work proper in the bodies of people's control ~~and~~ all levels, and why it is necessary to coordinate better than heretofore the activities of other control bodies from the viewpoint of their orientation of contents of controls and of their frequency.

The state of internal control, where the most striking changes were meant to appear, continues to remain unsatisfactory. A number of leading staff underestimate the significance of control as an inseparable part of management work and an important tool for accomplishing the set tasks, for consolidating discipline and order, and for uncovering reserves and shortcomings. The realization of the principles is progressing only slowly and inconsistently; this does not correspond to the social significance of control.

It is also necessary to express dissatisfaction with the fact that the bodies along the entire management axis, starting with the ministers, have not started to enforce the principles consistently and comprehensively with sufficient initiative. They have not shown the appropriate activity and responsibility either in establishing the cadre and organizational conditions, or--and particularly not--in implementing the principles in practice. The specific elaboration of principles for the internal norms of organizations was not consistently ensured. In a number of organizations, neither the main controllers had been appointed to date, nor had the composition of the control bodies been improved.

The fact that the control and specialized divisions are, in most instances, not proceeding in a purposeful way also does not correspond to the spirit of the documents mentioned above. This is also the reason why these divisions are not orienting their activity toward key problems. It is no exception that the shortcomings and reserves in enterprises are being uncovered by bodies of external control even in cases where the internal control had just carried out a check; this proves that it is not exacting.

Technical control has an important mission. There has not yet been any striking improvement of this control, however, although serious shortcomings persist, in the quality of products, and result in economic and political damages and losses for our national economy; and also although this frequently gives rise to justified criticism among citizens and consumers both at home and

abroad. It is urgently necessary to establish the necessary conditions for the objective and efficient operation of technical control, so that it emphatically influences technological discipline and the management of quality.

We must not become reconciled to the fact that the activity of internal control bodies tends to try to excuse the shortcomings they have found, or with the fact that the control results are not being sufficiently utilized in management activities and that only in isolated cases are appropriate consequences drawn with regard to those who are to blame for the shortcomings.

Inefficient management and an inconsistent implementation of principles were also reflected in the shortcomings occurring in the ensurance of tasks that follow from the CPCZ Central Committee Presidium's letter of February 1983 on improving the effectiveness of our fight against violations of socialist legality, morale, and discipline. It is imperative to be most resolute in asserting the political, economic, organizational, and administrative measures that would effectively prevent unjustified enrichment and ensure the consistent punishment of antisocial phenomena.

In keeping with the principles of implementing the party's leading role in bodies of people's control, the party bodies and organizations are, on the whole, contributing both toward enforcing the documents on improving control in their own bodies; and toward setting up plant commissions of people's control and people's control committees in localities and cities; as well as toward increasingly orienting their activities in the direction of key issues. They are also beginning to make more use of the results of controls in their management work. The influence of party bodies and organizations should show a greater impact on activities aimed at enhancing the efficiency of control activity carried out by the management staff and by the bodies of people's control; it should also help engage the working people in this kind of activity. The control results should be regularly discussed by the party members' meetings, and corresponding conclusions should be drawn from both the positive and the negative knowledge acquired.

The present approach of ministers, directors general, and enterprise directors, as well as of the heads of organizations, to the enforcement of the principles of improved and perfected control in practice thus cannot be considered sufficient. It is inevitable that basic measures be taken in state bodies and in economic organizations for consistently implementing the principles, and for raising the demands placed on planning and financial discipline, on responsibility and personal discipline. We must draw the appropriate conclusions from dilatoriness and inconsistency, with regard to the responsible staff.

Although a certain shift has taken place since the adoption of the Principles of Control in the National Economy and State Administration, the entire system has nevertheless not been mastered to date. And this must now be rapidly rectified.

CSO: 2400/292

INTENSIFICATION OF AGRICULTURE, FERTILITY DISCUSSED

Bratislava PRAVDA in Slovak 9 Feb 84 p 4

[Article by Prof Eng Juraj Hrasko, Dr Sc, corresponding member of the Czechoslovak and Slovak Academies of Sciences: "Indispensable Prerequisites for Multiplication of Harvests--Intensification of Agriculture and Its Effects on Soil Fertility"]

[Text] The basic prerequisite for intensive utilization of soil that poses no risk in agriculture is a system of agricultural production on soil, based on scientific assessment of soils and their productive capacity as well as on knowledge of the effects of the selected agricultural system on long-term development of soil fertility. Worldwide experience shows that when the agricultural system as a whole is not in harmony with the maintenance of soil fertility, soil starts obstructing intensification efforts in plant production as a negative element. This creates new problems in restoring fertility to once-fertile soils that became depleted by improvident tilling resulting in negative effects not only on soil, but also on the environment, particularly pollution of streams and reservoirs.

Areal Monitoring of Changes

We are one of the few countries in the world with a detailed survey of agricultural land resources backed up by analyses at our disposal; however, we stopped monitoring changes in soil properties except for changes in the contents of accessible nutrients and soil reaction. Thus, we are unable to assess the overall extent of the effects of the contemporary tilling system on changes in soil properties, and are merely recording alarming negative instances, or the positive effect of some fertilization promotion measures. There is a need for expedient introduction of areal monitoring of changes in soil properties that offers a possibility for their comparison and assessment through a soil information system to enable us to discern in time both the positive and negative effects of the tilling system on soil fertility with the objective of proposing and adopting the requisite measure in time. Such an approach to the given task calls for feeding all of the data acquired about soil properties so far into computers and providing for constant checking and control of their changes, as we do in monitoring the contents of nutrients and soil reaction and along the same lines as the monitoring of foreign substances in soil that is now under preparation. The proposed

monitoring should be conducted and expanded in periodic--ideally 5-year-- intervals by manifestations of compacting, mineralization and permeability of soils to water, but also by processes of erosion and degradation. We have built up an adequately wide base of control laboratories of the Central Agricultural Control and Testing Institute and of district agronomic laboratories which in case of need could be supplemented by the requisite number of personnel. Part of the monitoring should be done directly in agricultural enterprises, recorded in cadastral cards and provided for centralized computer processing. Part of these operations could be covered by aerial reconnaissance. At this stage of development it is not right when an enterprise averaging 3,000 hectares has no land resource specialist, but makes sure to have one for its 5 hectare of vineyards or orchards. Worldwide experience shows that in all the places that have adopted timely measures for adequate soil research as well as correct utilization and protection of soil cover, agricultural production has made rapid advances, and where they were able to discern in time some eventual negative changes in soil properties and immediately adopt effective countermeasures, agricultural production keeps on growing.

Preventing Drops in Soil Fertility

Even though losses of agricultural land resources have decreased over the past several years, we still cannot be satisfied with the protection of soil and its fertility, a fact that has not been resolved either factually or legally to this day. The law governing plant production charges farmers, as users of land resources, with the obligation to till the soil so as to prevent drops in its fertility, but to keep it constantly increasing. However, protection of soil against pollution by other branches of the national economy has no legal standing, because recourse is granted only for damage done to the cultivated crop, and even then only under the proviso that the soil was tilled and planted in agrotechnical terms and was properly fertilized.

In our country, we have systematically resolved the problem of protecting the purity of water and of the atmosphere, and compliance is enforced by relevant state inspections with the right of recourse. However, soil is also a component of the environment. The specific nature of its pollution is constituted by the fact that it is not perceived by senses immediately, but progresses gradually. However, the greatest danger is posed by the fact that it persists long after the source and cause of pollution have been eliminated. Ever since 1978 I have been recommending and recommend once again establishment of such soil inspection. Soil protection cannot be conceived of only in relation to acreage and registry of land resources according to crops, but as a system of technical, organizational, economic and legislative measures for the preservation of soil cover and systematic improvement of soil properties that in their sum make up fertility, and also measures that guarantee priority utilization of land resources for production of utilitarian organic substances, mainly nutrients and fodders or woody substances.

Stopping Erosion

In intoxication, acidulation and compacting of soil we consider the main problem attendant to its protection to be combating erosion which can lead to

complete destruction of the soil cover and devastation of an entire region. The process of erosion is irreversible and causes not only economic losses of agricultural acreage, but also damage to water streams, communications and settlements. For example, the water reservoirs of Krpelany, Hricov and Nosice alone contain approximately 5 million cubic meters of eroded agricultural soil washed down into the Vah river basin, which decreased the useful space of the reservoirs by almost 15 percent. As a result, at peak power consumption the reservoir of Krpelany alone is short by 600,000 cubic meters of water. Thus, water erosion represents a detriment not only to agronomy, but also to water management, power engineering and ecology. Which detriment is the highest is not decisive, but important from the viewpoint of society as a whole. Research determined that on the average an 11-cm layer of soil was washed down over the past 20 years from areas on inclines exceeding 5 degrees. Such an extensive increase in erosion is due to multiple effects. Key among them is the existing practice of economical and technical modifications of acreage involving laying out fields even on inclines that for their most part call for heavy agricultural mechanization. Erosion leads in its ultimate effect to complete destruction of the soil cover and writing off of acreage from agricultural land resources even without calling for a decision by an organ charged with its protection.

However, as shown by an analysis of the costs for implementing noninvestment-type promotion of soil fertility, from the total sum of expenditures only 10.1 percent was spent in 1971-1975 and only 9.5 percent in 1975-1980 on protection against erosion. We cannot subscribe to the opinion which holds that the more the soil is detrimentally affected by erosion, the higher is the effect of antierosion measures. Stopping erosion by suitable antierosion planting procedures, or by simple agrotechnical or technological measures, happens to be most effective only in the initial stages, even as a preventive measure. Protection of soil against erosion cannot be a concern only for its users, but for the entire society, because the benefits of protection against erosion are reflected not only at the site where it occurs, but also elsewhere, e.g., by reduced costs of cleaning or, better yet, preventing pollution of water streams. For that reason we hope that a viable approach to protection against erosion should include the pooling of financial resources from agricultural as well as water management funds.

Depletion of Soil

The carrying away of soil materials also results in depleting the soil of energy, mainly by loss of soil humus, in which is accumulated the energy of solar radiation and which constitutes one of the key factors of soil fertility. The energy contained in 1 kg of humus is equivalent to 2.5 kg of gasoline. Taking into consideration the mentioned data about the intensity of soil erosion in Slovakia, we are losing annually an energy equivalent of 40 million liters of gasoline.

On the basis of experimental results we reached the conclusion that sediments from water reservoirs could be used, after processing, for the reclamation of new soils on barren acreage, deserted branches of the Vah River and other gravelly areas. We envision the reclamation of up to 500 hectares of such

soils in the vicinity of the Krpelany Waterworks alone and approximately the same acreage in the vicinity of Hricov and Nosice. The costs of the reclamation of new soils could be covered from the resources included in the costs of new construction projects that call for compensation of equal or up to treble the acreage of agricultural land by reclamation of nonagricultural land. However, here we run into a strict interpretation of rules defining agricultural land, because some barren areas still have not been deleted from the agricultural land resources registry and, for the record, continue to be part of it and, as such, cannot be included in fertility promotion projects.

Approaches to Promotion of Soil Fertility

There is a lack of uniform interpretation in the current definition of the term "fertile soil" and, in this context, "soil fertility promotion," which are usually one-sided and far from all-inclusive. Theoretically, it should mean soil that makes it possible for all plants to achieve a yield at the level of their genetic potential.

We quantified the characteristics of most fertile soil on the basis of an analysis and assessment of the demands posed by key plants on soil conditions, which makes it possible to estimate on the basis of actually measured properties of soil how its productive potential will deteriorate in the absence of one of the desirable soil properties.

This provides the possibility of formulating theoretical approaches to evaluating the productive potential of soils which is the prerequisite, but not a reflection, of the actually attained yields. The actual yield of a specific plant need not always be (and, as a rule, is not) a reflection of merely the actual productive potential of soils and environment, but is affected by many factors that are objective as well as purely subjective in nature.

Our attempt at determining the specific properties of fertile soil is, among other things, of practical significance in that it can provide the basis for any soil fertility promotion project based on knowledge of the properties of soils acquired in the terrain and, consequently, can propose which soil property is to be upgraded and controlled. Merely secondary to these determinations is the derivation of the actual technology of fertility promotion, which has as its objective seeking approaches to the best, most expedient and inexpensive way of modifying unsuitable soil properties on the basis of a determination of whether they can be modified and controlled, or on the basis of determining the costs of their modification.

Frequent use is made in relation to a specific area, usually that of a single enterprise, of a term expressing its average productive potential and/or its average quality. The basic shortcoming of such an approach is that no matter what changes are made in that area (expropriations, delimitations, soil fertility improvement), its classification remains unchanged. If the area consists of many qualitatively different soils, any modification could have considerable effects on the economic well-being of the enterprise, either positive or negative in nature.

Delimitation Has Its Economic Basis

From the above it follows that the efforts of agricultural enterprises to "get rid of" less suitable soils by delimitation have an objective economic basis and, with the tightening up of economic instruments and/or lower allocations by the state, we can expect these trends to become stronger unless the existing system is modified.

In our opinion, the problem can be dealt with by an individual assessment of every soil/ecological unit (what has been done) and monitoring the course in which land resources are headed not only according to crops, but also by soil/ecological units, which would be conducive to the expedient modification of economic instruments.

The problems of economic assessment and its objectivization must receive an extraordinary amount of attention, because the slightest lack of objectivity or subjective approach could spell, without any action on the part of an enterprise's personnel and officials, its economic success or downfall in a relatively short period of time.

Any action toward fertility improvement must be considered to be a measure designed to increase the productive capacity of soils, i.e., from the economic viewpoint, to improve their quality. In view of the constantly shrinking resources in the fund generated primarily from payments for the expropriation of agricultural land for construction, the state's contribution is constantly decreasing, causing agricultural enterprises to prefer the so-called investment-type fertility promotion which is financed from state resources, even when a so-called non-investment type of action would suffice, but would have to be financed from the enterprise's own resources.

For quite some time we have been pointing out the lack of justification for the already moribund classification of fertility promotion into investment and non-investment types, because from a realistic viewpoint, many indispensable inputs into soil needed to improve its productive potential and falling into the "non-investment" category can prove to be more costly in investments.

From the viewpoint of the relation to changes in the productive potential of soils, we propose to differentiate between a permanent intervention which brings about radical and long-term changes in unfavorable soil properties and a periodic intervention which produces short-term changes in certain soil properties. From the viewpoint of state participation in financing, the long-term actions should be regarded as equivalent to the existing investment-type soil fertility promotion.

Even though farmers are aware of the need for improving the fertility of soil, they do not always have the requisite knowledge and resources that depend primarily on the economic standing of enterprises. Investments in soil are in essence of a long-term nature, which accounts for their neglect by agricultural enterprises that are primarily interested in immediate results. The 1972 UN conference in Stockholm considered this state of affairs as being of catastrophic consequence for the entire world. Thus, we would like to

intercede on behalf of, if not an increase in the existing inputs by the state into fertility promotion of the investment and non-investment type, at least--with a view to many other expenditures from the state budget--their maintenance and stabilization and allowing the resources not exhausted by an enterprise in the current year to be used in the subsequent year.

*

Improvement of soil fertility must be viewed as a permanently ongoing process closely connected to the type of land utilization and to the systems of plant production in soil. Thus, the key factor in improving the fertility of soils must remain a widely based agricultural practice, including that of organs that by plans or by economic instruments affect the tilling of soil, which decides on its efficient utilization and the constant improvement of its biological capacity.

8204

CSO: 2400/254

ECONOMIC DEVELOPMENT, INDEBTEDNESS, STRUCTURE OF FOREIGN TRADE

West Berlin FS-ANALYSEN in German No 6, 1983 pp 5-29

[Article by Dr. Doris Cornelsen: "The GDR Economy Under the Influence of International Economic Change"]

[Test] 1. The Situation of the International Economy

The development of the Western industrial countries in the seventies was determined by energy price increases and worldwide inflationary trends. Processes of structural adjustments as well as a monetary and financial policy aimed at containing inflation and consolidating public budgets led to a prolonged recession and high unemployment in the early eighties. But in 1983 upward trends were again evident, especially in the United States and in Japan. In Western Europe, too, the economic situation is now being assessed more favorably than during spring. In some countries, especially in France and Italy, recessionary trends are persisting. Thus far, unemployment has declined only in the United States; in most other countries, it has increased though slowly.

Demand and production in the industrial countries increased in 1983 especially because the monetary policy was changed to an expanding course in mid-1982. The improvement of the economic climate was also helped by declining oil prices and relief over the fact that, in defusing the debt problems of many developing countries through international cooperation, a breakdown of credit chains could be prevented.

The started revival can end in a lasting upswing only if investment activity increases on a broad front. The conditions for that have not yet significantly improved. The long-term sales and profit expectations continue to be dim, especially in the West European countries. A worldwide retarding effect is also exercised by the fact that interest continues to be kept high because of risk surcharges. Thus the EC Council of Economics and Finance Ministers assesses the 1984 economic prospects as shaky, uneven, and unsure.

In the European CEMA countries, the growth rates of the economy as a whole have clearly declined in the eighties. Smaller growth goals than in the seventies had been predominantly set in the 1981-1985 5-year plans. This was caused by the changed growth conditions of the eighties; in the first place, the price increases of raw materials, the resulting shifts in the cost structure,

the shortage of resources and also the shortage of manpower. Added to that, in the smaller CEMA countries there were the worsening of the terms of trade, the high deficits in foreign trade, and the problems of the indebtedness to the West. Everywhere in CEMA they bet their money on increasing productivity and efficiency for the 1981-1985 5-year plan. The growth was supposed to be achieved by intensification and not by extensive increase of the production factors. Accelerating technical progress, improving the cost-profit ratio, economizing on energy and material, greater efficiency in investments, raising the individual labor productivity were the fundamental ideas of the economic policy. The well known weaknesses of the planned economy systems became apparent in the achievement of these goals, namely inefficient use of the resources, the lack of innovation, organizational shortcomings and the slight flexibility of the planning organization. Thus the 5-year plan quota for economic growth generally has been much too optimistic. The growth attained in the average of the CEMA countries and of the years 1981 and 1982 was only 2.2 percent. Early 1983 results indicate a slight acceleration of growth; but this is not a sign that the fundamental problems have been overcome in the meantime.

The growth problems of all countries are clearly evident in the declining expansion of world trade. While until 1973, trade in industrial goods had experienced a real expansion of more than 10 percent on an annual average, this growth rate was no more than half that much from 1974 to 1980.

In 1981 and 1982, stagnation set in. On account of their structural and employment problems, the Western countries reacted with protectionist measures; non-tariff trade obstacles increased and affected more and more goods. Developing countries and socialist countries restricted their imports, especially the countries that were faced with a high negative performance balance and had to struggle with considerable debt problems. In the CEMA area, the weakening of growth also affected mutual trade. Moreover, the industrial countries in East and West were faced with growing competition from the Third World. The share of the threshold countries in industrial goods trade in 1982 with 9 percent was 3 percent greater than 10 years before.¹ This was also at the expense of the CEMA countries on the Western markets.

Moreover, on account of the high indebtedness of some countries, the entire international financial structure has gotten into a crisis situation. Overall, the international relations in the economic field have become more complicated and unstable.

2. The Foreign Trade Involvement of the GDR

The GDR as a country with few raw material resources and a small domestic market depends on intensive foreign trade relations. GDR publications normally note that roughly 30 percent of the produced national income is "achieved through foreign trade."²

In the early seventies, a changed attitude developed in the GDR--as well as in the other CEMA countries--concerning the role of the trade with the West. The basic idea was that with the import of capital goods from Western countries the development of capacities would be accelerated and thus the future chances for

export enhanced. In doing so, it was accepted that at first imports would grow faster than exports and--at least temporarily--deficits in trade with the West would develop that would have to be settled by credits in convertible currencies. Supported by the political climate of the early seventies, thereafter trade with the so-called capitalist industrial countries rapidly expanded.

The so logical concept--credit-financed imports, increase of domestic economic strength, repayment of the credits by increasing exports--however was soon jeopardized. Structure and development of the West exports showed great imbalances:

--Contrary to the theory, in practice capital goods did not dominate imports from the West. The category of machines, equipment, means of transportation (CEMA nomenclature category) in all years constituted only roughly 25 percent of the imports from the West. However, industrial raw materials and semi-finished products with nearly 40 percent and agricultural raw materials with roughly 20 percent had extraordinarily high shares of the imports from the West. Thus the Western countries were important less as sellers of modern technology than as suppliers for current production. However, credit-financed imports of such products contradicted the original growth concept.

--Imbalances also showed up on the export side of the GDR to the Western countries. Apparently opening up Western markets was more difficult for the GDR than originally envisaged. Thus, the GDR was hardly able to gain secure long-term sales markets in its actual export field, capital goods. Only less than 20 percent of its exports to the West--with a declining trend--came from the field of machines, equipment and means of transportation, which constituted only roughly 5 percent of total GDR exports in this group of goods. The lion's share of the exports to the West, with at the end more than one third, belonged to the fields of fuels, mineral raw materials, and metals, in other words groups of goods not part of the real GDR export assortment. Industrial consumer goods have a considerable share (20-25 percent). In the GDR theoretical textbook "Sozialistische Aussenwirtschaft,"³ this is called "deformed goods structure of imports of capitalist industrial states from the CEMA countries": The insignificant percentage of "dynamic products," in other words high technology, the dominance of slightly processed goods from the basic materials field and the great importance of industrial consumer goods, thus on balance the alarmingly high share of goods with slight "foreign exchange earning power."

--Moreover, imbalances are also evident in the chronological development of trade with the West. According to GDR foreign trade statistics, there have been extraordinarily large fluctuations for exports as well as imports over time. Apparently the GDR was trying to get imports from Western countries under control as early as the mid-seventies. Since exports simultaneously rose only irregularly and by leaps and bounds, the trade balance deficits increased almost every year--and this was probably the decisive imbalance of the trade with the West in the seventies.

On the other hand, GDR trade relations with the CEMA area were more stable and continuous. The long-term trade agreements made a coordinated inclusion into economic planning possible; the large CEMA share in the total foreign trade

provided a reliable basis for the overall economic development. To substantiate plan coordination, long-term target programs, the programs of specialization and cooperation, and the coordinated plan of multilateral integration measures were introduced in CEMA as additional instruments.

About 70 percent of total GDR raw material purchases come from the CEMA area; for some products the share is even higher. On the export side, the GDR delivers roughly 95 percent of its exports of machines, equipment, and means of transportation to CEMA.

But this trade, too, has not remained unaffected by the international economic changes of the seventies. Since 1975 the price adjustment for raw materials has worsened the terms of trade of the smaller CEMA countries in relation to the Soviet Union; just as the other CEMA countries, since 1975 the GDR has a growing deficit in the trade with the Soviet Union.

Compared with the great goals of the 1971 complex program, the balance sheet of the cooperation within CEMA had to be disappointing. Contrary to the original intention, cooperation within CEMA continues to be predominantly limited to mutual trade. Specialization and cooperation have hardly progressed beyond cementing the existing production structure.⁴ A purposeful international industrial policy with advantages for all participants is still in its infancy in CEMA. The GDR obtains roughly 70-75 percent of its imports of machines, equipment and means of transportation from the CEMA area--not necessarily an advantage for expanding production capacities. The CEMA area practically fails as seller of many necessary raw materials and supplies. This applies to a growing extent to agricultural products, but also to other supplies and this situation has brought about that the trade with the West has attained such great importance in the supply sector.

3. Stock Taking at the Beginning of the Eighties

Stock taking at the beginning of the eighties thus indicates numerous problems:

- a changed international economic situation;
- lacking stimuli to growth in the CEMA area;
- Deficits in trade with the West and with the Soviet Union.

Indebtedness to the Western industrial countries has become the biggest problem. According to GDR foreign trade statistics, the deficit in trade with the West had steadily increased already at the beginning of the seventies. In the 1971-1975 5-year plan period, it amounted to roughly 13 billion VM (valuta marks) and thus was undoubtedly higher than it had been estimated in the plans. In the following 5-year plan period, a deficit double that amount piled up. The GDR economic leadership is likely to have recognized that a rigorous change in the foreign trade policy had become necessary no later than the beginning of the second oil price shock. This realization was reflected in the detailed discussions of foreign trade problems at the 11th plenum of the SED Central Committee at the end of 1979⁵ and in the imports from the West that have hardly been rising since then.

But the decisive break in the development did not occur until the beginning of the eighties. The international financing situation changed abruptly. The supply of credits on the financial markets declined and the demand increased. A clear sign of the worsening of the situation was the growing number of debt reschedulings at the beginning of the eighties, also the de facto insolvency of Poland and Romania. And linked thereto was a general loss of confidence of the banking world, only hesitant granting of credits, caution especially in granting short-term credits by which customarily most trade transactions had been financed. The banks were especially cautious in granting credit to the GDR and the other CEMA countries; they usually cited as key arguments for this attitude the Polish and Romanian payment difficulties, the dropping of the so-called umbrella theory, and the growing tensions in the East-West relationship. An additional negative factor in the case of the GDR was the fact that it made impossible for observers to adequately assess its economic situation and its creditworthiness because of its restrictive publication practice.

In the analysis of the indebtedness, the DIW (German Institute for Economic Research) always--and also in this case--confines itself to the analysis of the statistically proved indebtedness. Such indebtedness consists of

--the balance from the inner-German capital transfer, which completely contains the net position of the FRG vis-a-vis the GDR;

--the reporting of the Bank for International Settlements in Basel on the claims and commitments of the banks from the reporting countries. The reporting countries are the so-called Group of Ten and Denmark, Ireland, Austria, and Switzerland; also included are some foreign branches of the reporting banks.

No information is available on the indebtedness of the GDR to countries that do not report to the Bank for International Settlements and on credits granted by sellers that are not secured by banks. The methods used for estimating are based on assumptions concerning the ratio of indebtedness to trade volume. A possible change in the GDR debt policy--getting more credits from countries not reporting to the Bank for International Settlements, more credits from sellers--cannot be controlled in this manner. A projection hardly provides any additional findings. The statistically confirmed development of the indebtedness in our opinion is an adequate indicator of the development of the status of indebtedness and of the problems resulting from the change in the banking policy.

In the seventies, deficits and borrowing in the West belonged to the expansive factors of GDR economic growth. In 1970, the indebtedness had amounted to an estimated one billion U.S. dollars. Up to 1977 debts had increased about 8 percent a year; since 1977, the annual increase has been even more than 20 percent.

Since 1978, interest has considerably risen. An ECE calculation of averages for European currencies provided the following figures:

| | | |
|------|----|------|
| 1977 | -- | 5.6% |
| 1978 | -- | 6.2% |

| | | |
|------|----|-------|
| 1979 | -- | 8.5% |
| 1980 | -- | 11.1% |
| 1981 | -- | 13.9% |

Thus the interest charge has doubled as a result of the rising level of interest alone.

The changed attitude of the banks presumably became acute as early as 1981. The GDR found hardly any new lenders. In 1982, the situation became even more precarious. Credits falling due could no longer be extended or "rolled over." The credit-financed excess of imports from the seventies now suddenly had to be paid back by means of export surpluses.

Noteworthy figures are circulating concerning the extent of the necessary repayments. Because of a lack of direct GDR publications, this information, too, is based on Western sources, essentially on the statistics of the Bank for International Settlements. In its semiannual report, "The Distribution of Maturity Dates of the International Bank Lendings," the claims of the reporting banks are subdivided into four categories: remaining period to maturity up to one year, 1-2 years, over 2 years, and the remainder that is not classifiable. For the GDR, roughly 40 percent of the gross indebtedness in recent years was shown to be short-term, that is with a remaining period of maturity up to one year. This makes the conclusion possible that 40 percent of the gross indebtedness with the banks, that is roughly U.S. \$ 4 billion in 1982 and U.S. \$ 3.5 billion in 1983 had been supposed to be repaid but also could not be rolled over in view of the restrictive banking policy.

This calculation is probably not quite correct. In the text to its statistics, the Bank for International Settlements points out that "the category of claims with a remaining period to maturity up to and including one year...(includes) various short-term assets, such as, e.g., credit balances for current transactions with other banks and trade acceptances. Most of these short-term claims in general are steady and therefore normally do not lead to refinancing difficulties." However, no figure is provided for the "steady" part. According to the 1982 experiences, it is probably half of the claims falling due: In 1982, the GDR did not repay U.S. \$ 4 billion but roughly 2 billion.

In this scale, too, the necessary consolidation in foreign trade could not be made solely by means of increases in exports but also by reductions in imports. Thus at the beginning of the eighties, the situation was precisely the opposite of that in the seventies: Then the GDR had real gross profits because of the credit-financed imports; now, because of the necessary export surpluses, real growth losses occurred, a loss of growth that could have been achieved by means of imported goods, and a loss because goods in short supply had to be exported instead of using them domestically. In addition, the sales situation in the Western countries has become more difficult.

In this difficult situation the CEMA countries were of no help. The smaller European CEMA countries in principle were faced with the same compulsion to

export by trade with the West as was the GDR. Therefore, intra-Bloc trade was no factor capable of balancing the economic relations. Rather the impression is nearly gained as if cooperation within CEMA because of the new problems has not become any stronger but looser as if in each country thinking and possibilities of one's own reserves were dominant. Signs of this trend toward autarky can be documented quite clearly in the structural policy of the CEMA countries, especially in the raw material field. Moreover, in the CEMA discussion, problems in cooperation that have existed for some time are being pointed out with great frankness: inadequate quality and low technical level of the goods being traded, absence of economically justified rates of currency exchange, inadequate guarantees to safeguard the contractually committed deliveries, lack of interest especially in trade with especially important goods.⁷ Statements by Romanian Prime Minister Dascalescu at the 37th CEMA conference in October 1983 and those of Soviet Prime Minister Tikhonov are very clear in this respect. But striving for autarky on a Bloc scale does not appear to exist. In the strategy of cooperation for the eighties, on which discussions have started in the meantime, it has been made quite plain that in the future, too, trade relations with the West will be of very great importance to the CEMA countries.

New problems for the GDR within CEMA have developed because of its raw material dependence and the price development of raw materials and that has happened in trade with the Soviet Union. In 1982, in the middle of the current 5-year plan, the USSR reduced its oil deliveries stipulated in the long-term trade agreement from 19 million tons to 17 million tons annually. The simultaneous price increases in fact corresponded to a change in the price basis from the formerly valid 5-year average to a 3-year average. The trade deficits piled up since 1975 constitute a heavy burden to the GDR for the future.

4. GDR Reactions to the New Conditions

Forced by the new conditions of growth, the GDR reorganized at the beginning of the eighties the economic organizations and the economic mechanism (organization of combines, new regulations in the reference number system with greater emphasis on cost and yield, laws designed to stimulate and control, price increases in the production field). In addition, numerous structural changes have been made (return to brown coal, shifts in the transportation system). The successes in lowering specific consumption and in import substitution all in all were notable.

The successes in foreign trade were also great. GDR imports from the West have not increased any more since 1980, exports to the West were pushed. The balance in trade with the West was turned around within 2 years: In 1980, trade with the Western industrial countries resulted in a deficit of 5.4 billion VM while in 1982 a surplus of 2.7 billion VM was achieved. This was especially remarkable because of the in principle unfavorable commodity structure in trade with the West and because of the bad international sales situation. The GDR continued its "valuta policy" in trade with the West also in 1983. Although it was reported at the Sixth Plenum of the SED Central Committee⁸ that the surplus in trade with the West was smaller than planned during the first 5 months, nevertheless there was again a surplus also in the first half of 1983.

Through the efforts in foreign trade the GDR has thus far succeeded in coping with the debt problem. The statistically proved status of debts was reduced in

1982 by roughly U.S. \$ 1.8 billion, or 18 percent. According to the quarterly statistics of the Bank for International Settlements, the status of debts decreased another 11 percent or U.S. \$ 0.9 billion during the first half of 1983. Moreover, amazing in the latest statistics is the development of the GDR credit balances: they increased quite considerably during the second quarter by roughly U.S. \$ 600 million. By the way, the GDR has other liquidity reserves also because of the fact that the swing is now being used with only roughly DM 500 million, that is only roughly 65 percent.

It is undeniable that the inner-German relations have been a considerable stabilization factor in this consolidation phase. This applies first of all to inner-German trade. The GDR import restrictions are concentrated exclusively on trade with the Western industrial countries (not including inner-German trade). Here imports were reduced by 30 percent in 1982 and exports simultaneously increased by 9 percent. For 1983, too, numerous OECD countries reported a continued decline of their exports to the GDR (important exceptions: Austria, Japan, Canada).

The situation in inner-German trade was quite different. It is true, the FRG banks, too, were affected by the changed credit allocation policy of the Western banking world. The GDR debtor position vis-a-vis the FRG, however, was better than that towards the other OECD countries: The status of debts was absolutely smaller and the ratio of status of debt to exports was much more favorable. Also the GDR has had a surplus in inner-German trade since 1980. Sales successes in inner-German trade therefore immediately resulted in leeway for additional purchases. Thus the GDR was able to obtain in the FRG urgently needed imports from the West and thus to keep the negative consequences of the overall restrictive import policy towards the Western countries within justifiable boundaries. In 1982, total FRG deliveries expanded by 14 percent and total purchases by 10 percent. In 1983, too, the GDR obtained a large share of its necessary imports from the West in inner-German trade, but with the consequence that up to and including August FRG deliveries increased 26 percent while purchases stagnated. This year's GDR deficit thus far amounts to 600 million accounting units; it will presumably be higher by the end of the year.

The commodity structure of the inner-German trade during the past two years shows that the GDR has actually needed the inner-German trade to cope with its current problems in the supply field. The GDR purchases were concentrated on iron, steel, and nonferrous metals. Moreover, unexpectedly high were the purchases in the agricultural field (protein feed and grain), even though in the FRG, on account of the special status of the inner-German trade--different from the other EC countries--there are no export reimbursements in agricultural exports and the GDR had to pay high prices for its purchases in the FRG.

The other stabilizing factor for the development of the GDR economy were the proceeds in convertible currencies. The GDR receives, e.g., the FRG payments for the Berlin traffic (transit lump sum payment) and for cost shares in investments in Berlin transportation. The payments from the public budgets (predominantly in freely convertible DM) are statistically documented; they amounted to more than a billion DM in recent years. Further GDR proceeds are obtained e.g., from Intershop, Intertank, the Genex gift service and from the minimum

exchange for visits to the GDR. The entire proceeds outside the accounting unit field--documented and undocumented proceeds--are now estimated as 2-2.5 billion DM annually; this amount is sufficient to pay for the interest due for the entire indebtedness to the West.

Also the 1983 billion credit, which presumably has been used in the first place for the debt service in the West, has undoubtedly contributed to coping with the liquidity bottlenecks.

Projections towards the end of the seventies made it appear doubtful whether the GDR would be able to achieve consolidation in the trade with the West within a short time. These projections⁹ were based on certain ratios determined from the development of the seventies and are to be presented here in simplified form and compared with the actual development.

The principle of the calculations is presented in the diagram. For this purpose, the GDR exports to the West and imports from the West were roughly corrected for price effects. Basic assumptions are:

--The possible increase of exports to the West (real) is connected with the development of the GNP of the OECD countries (dependence on demand). For the 1971-1975 period, the real increase of the exports was twice as high, for 1976-1980 it was just as high as the increase, as the real GNP of the trade partner. The projection is based on the same growth rates (3 percent each).

--The necessary increase in exports (real) is connected with GDR domestic production (dependence on raw materials, supplies, and capital goods). During 1971-1975, the imports from the West increased twice as fast as the produced national income; in 1976 to 1980, the ratio of the growth rates was 1 : 1.7. The projection to 1985 is based on a ratio of 1 : 1.5.

In this manner, a projection is possible only quite roughly; many refinements are conceivable (detailed estimates of elasticities, inclusion of future price developments, and interest charges). However, the quite rough projection vividly demonstrates the main problem: without a drastic change in the foreign trade policy, exports and imports would be increasingly farther apart, the deficit would have amounted to roughly 11 billion VM in 1985 and would have amounted to 42 billion VM for the entire 5-year plan period.

The actual development widely differs from this projection. The gap between export and import has not widened, but has disappeared.

However, this does not prove that the statistically determined connections from the seventies have been completely canceled. There is undoubtedly a connection among material input, investments and economic growth. In 1982, the GDR achieved the growth without increasing economically important raw materials and sources of energy. In the GDR, too, it is being pointed out¹⁰ that this has first been made possible but the relatively easily achievable reduction of "waste potentials" --a development that cannot be constantly continued to the same extent. Even now, growth of the economy has slowed down as compared with the optimistic quotas of the 5-year plan; the GDR economy has fallen in with a clearly lower pace of

growth. Furthermore, the foreign trade successes were paid for with a reduction in investments. This last fact in particular will also reduce the growth chances of the future.

FOOTNOTES

1. DIW, Structural Reporting 1983, p 12.
2. Kurt Fenske (deputy minister for foreign trade): "Export Profitability-- a factor for the increase in the effectiveness of the Economy." In: "Questions of the Further Strengthening of the Material-technical Base, Treatises of the GDR Academy of Sciences." 1982, No W3, p 85 ff.
3. Eugen Faude, Gerhard Grote, Christa Luft: "Sozialistische Aussenwirtschaft" (Socialist Foreign Trade). East Berlin 1976, p 134.
4. Cf. contribution to the discussion by O. Bogomolov, in: "Socialism: Economic Development and Social Progress" In: PROBLEME DES FRIEDENS UND DES SOZIALISMUS (Problems of Peace and Socialism), 5/1982, p 646 ff.
5. NEUES DEUTSCHLAND, 14 Dec 79.
6. "Economic Survey of Europe in 1981," p 297.
7. Cf., e.g., O. Bogomolov: "CEMA economic Strategy for the Eighties, In: GESELLSCHAFTSWISSENSCHAFTLICHE BEITRAEGE, 5/1983, p 595 ff.
8. NEUES DEUTSCHLAND, 16 Jun 83.
9. Cf. Benedykt Askenasis, Gerhard Fink, Friedrich Leycik: "East-West Trade and Indebtedness of the Individual CEMA Countries up to 1990." WIIW Reprint Series No. 50, Nov 80, and Gerhard Fink: "An Assessment of European CEMA Countries' Hard Currency Dept." WIIW Research Report No. 72, Sep 81.
10. C. Wolfgang Heinrichs: "Material-technical Base and Economizing on Resources." In: "Questions of the Further Strengthening of the Material-technical Base. Treatises of the GDR Academy of Sciences," W3 1982, p 25 ff.

GDR FOREIGN TRADE BY COUNTRY GROUPS 1)

Attachment 1

| | Billion VM 2) | | | | | | | | | | | | | | | | | | STRUCTURE IN VM (6) | | | | |
|--|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---------------------|--------|---------|--------|--------|
| | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1965 | 1978 | 1975 | 1980 | 1982 |
| (8) DDR - EINFUHR | | | | | | | | | | | | | | | | | | | | | | | |
| (9) INSGESAMT | 11.80 | 14.25 | 17.32 | 17.32 | 20.34 | 26.34 | 26.92 | 22.85 | 27.33 | 33.37 | 39.79 | 45.72 | 49.88 | 56.71 | 54.42 | 52.97 | 57.00 | 69.88 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| (10) SOZIALISTISCHE | 8.59 | 10.74 | 12.55 | 14.12 | 18.37 | 18.37 | 15.19 | 17.62 | 20.22 | 26.16 | 26.16 | 29.11 | 34.21 | 35.45 | 34.36 | 39.87 | 44.64 | 47.59 | 72.00 | 69.25 | 64.58 | 63.37 | 68.19 |
| (11) RW-LAENDER | 8.01 | 10.19 | 12.01 | 13.45 | 13.45 | 14.35 | 14.35 | 16.97 | 19.32 | 24.95 | 24.95 | 27.83 | 32.70 | 33.84 | 34.73 | 37.90 | 42.79 | 45.77 | 47.88 | 44.04 | 41.50 | 40.19 | 45.50 |
| (12) UDSSR | 5.06 | 6.27 | 7.33 | 8.17 | 7.95 | 8.01 | 8.64 | 10.15 | 14.09 | 14.91 | 17.87 | 18.60 | 19.64 | 22.21 | 25.81 | 28.58 | | | 42.88 | 40.13 | 35.84 | 35.27 | 40.99 |
| (13) WESTLICHE (H-S) | 2.48 | 2.96 | 4.12 | 5.41 | 5.77 | 7.03 | 8.90 | 11.46 | 11.46 | 11.41 | 14.62 | 13.16 | 12.90 | 17.37 | 19.19 | 19.76 | 19.04 | | 22.71 | 26.72 | 29.04 | 30.47 | 27.78 |
| (14) INDUSTRIELAENDER ENTWICKLUNGS-LAENDER | 0.52 | 0.35 | 0.45 | 0.79 | 0.78 | 0.63 | 0.62 | 1.89 | 1.89 | 1.71 | 2.19 | 2.31 | 2.34 | 2.70 | 3.91 | 2.57 | 3.22 | | 4.41 | 3.88 | 4.35 | 4.21 | 4.41 |
| (15) DDR - AUSFUHR | | | | | | | | | | | | | | | | | | | | | | | |
| (9) INSGESAMT | 12.89 | 15.92 | 17.44 | 19.24 | 21.32 | 23.93 | 26.17 | 30.44 | 35.10 | 39.54 | 41.84 | 44.17 | 52.42 | 57.13 | 65.93 | 75.23 | | | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| (10) SOZIALISTISCHE | 9.45 | 12.19 | 12.74 | 14.22 | 15.89 | 18.05 | 19.16 | 20.84 | 25.48 | 28.22 | 31.25 | 34.40 | 38.55 | 39.24 | 43.25 | 47.43 | | | 74.84 | 73.91 | 73.16 | 68.72 | 65.05 |
| (11) RW-LAENDER | 9.14 | 11.38 | 11.85 | 13.21 | 14.78 | 17.20 | 18.32 | 19.74 | 24.32 | 26.71 | 29.54 | 32.76 | 34.87 | 37.39 | 41.55 | 45.73 | | | 70.91 | 68.44 | 69.29 | 65.45 | 60.78 |
| (12) UDSSR | 5.50 | 6.58 | 6.96 | 7.31 | 8.14 | 9.62 | 9.89 | 9.96 | 12.45 | 12.88 | 14.79 | 16.31 | 19.61 | 20.40 | 24.08 | 26.58 | | | 42.67 | 37.99 | 35.47 | 35.71 | 35.33 |
| (13) WESTLICHE (H-S) | 2.67 | 3.05 | 3.91 | 4.21 | 4.50 | 5.01 | 6.01 | 8.33 | 7.88 | 9.59 | 8.60 | 9.10 | 10.91 | 13.77 | 18.08 | 21.79 | | | 28.71 | 21.88 | 22.45 | 24.10 | 28.96 |
| (14) INDUSTRIELAENDER ENTWICKLUNGS-LAENDER | 0.58 | 0.48 | 0.79 | 0.81 | 0.93 | 0.97 | 1.09 | 1.28 | 1.54 | 1.73 | 1.99 | 2.67 | 2.97 | 4.10 | 4.40 | 4.81 | | | 4.58 | 4.21 | 4.59 | 7.18 | 7.99 |
| (16) SALDO DER DDR | | | | | | | | | | | | | | | | | | | | | | | |
| (9) INSGESAMT | 1.09 | 1.67 | 0.12 | -1.12 | 0.40 | 1.08 | -1.16 | -3.13 | -4.19 | -6.38 | -8.04 | -4.54 | -4.00 | -5.84 | -1.07 | 5.35 | | | -7.00 | -28.80 | 1981/82 | 4.28 | |
| (10) SOZIALISTISCHE | 1.44 | 1.15 | 0.19 | 0.10 | 1.52 | 2.86 | 1.54 | 0.62 | -0.48 | -0.89 | -2.76 | -1.05 | 2.17 | -0.61 | -1.41 | -0.16 | | | 4.04 | -3.34 | -1.57 | | |
| (11) RW-LAENDER | 1.13 | 1.19 | -0.16 | -0.24 | 1.15 | 2.45 | 0.42 | -0.53 | -1.72 | -3.16 | -1.08 | 2.16 | -0.51 | -1.24 | -0.94 | | | | 4.94 | -3.83 | -1.28 | | |
| (12) UDSSR | 0.44 | 0.31 | -0.37 | -0.84 | 0.19 | 1.61 | 1.25 | -0.19 | -1.44 | -2.03 | -2.88 | -2.79 | -0.03 | -1.81 | -1.73 | -2.00 | | | 1.72 | -9.04 | -3.73 | | |
| (13) WESTLICHE (H-S) | -0.81 | 0.09 | -0.21 | -1.23 | -1.27 | -2.02 | -2.89 | -3.13 | -3.53 | -5.03 | -4.56 | -3.80 | -1.46 | -5.82 | -1.48 | 2.73 | | | -12.84 | -25.27 | 1.05 | | |
| (14) INDUSTRIELAENDER ENTWICKLUNGS-LAENDER | 0.64 | 0.13 | 0.10 | 0.02 | 0.15 | 0.24 | 0.18 | -0.41 | -0.17 | -0.46 | -0.52 | 0.31 | 0.27 | 0.19 | 2.03 | 2.79 | | | -0.71 | -0.21 | 4.82 | | |

Key to Attachment 1:

1. At prices appropriate for the year; fob; selling or purchasing country.
2. VM=valuta mark, statistical accounting unit to report GDR foreign trade; rate of conversion: 4.67 VM=1 transfer ruble; the rate of conversion to the Western currencies fluctuates with the parity changes between the ruble and the convertible currencies; for 1982: 1 VM=0.713 DM.
3. CEMA countries and the PRC, Yugoslavia, North Korea, and since 1978 also Laos.
4. Albania, Bulgaria, CSSR, Cuba, Mongolia, Poland, Romania, USSR, Hungary and, since 1978 also Vietnam (until 1977 included in socialist countries).
5. All so-called capitalist industrial countries, i.e. OECD countries.

Since 1980, the GDR Statistical Yearbook has omitted a detailed listing of countries and country groups in the methodological remarks. Since then there has been a difference between addition of individual figures and the group figure for the socialist countries which cannot be explained by the absence of the foreign trade with Laos. However, this difference amounts to less than 1 percent of the total turnover with socialist countries.

Source: 1983 GDR Statistical Pocket Book; GDR statistical yearbooks; CEMA and CEMA country statistical yearbooks and foreign trade yearbooks; OECD partner country data; DIW calculations.

6. Structure in VM.
7. Balance sum
8. GDR imports
9. Total
10. Socialist countries 3), 4)
11. CEMA countries
12. USSR
13. Western industrial countries 5)
14. Developing countries
15. GDR exports
16. GDR balance

Table 2

FRG Payments to the GDR 1971-1982

In Million DM or VE*

| <u>Purpose</u> | 1971/ | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | <u>1975</u> | <u>1976</u> | <u>1977</u> | <u>1978</u> | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>1982</u> |
| A. Payment from the FRG budget, total (million DM) | 234 | 477 | 523 | 513 | 991 | 921 | 1,046 | 1,002 |
| Including: transit lump sum ¹ | 188 | 400 | 400 | 400 | 400 | 575 | 575 | 575 |
| Investment cost sharing in Berlin transportation | - | 46 | 98 | 81 | 566 | 327 | 455 | 410 |
| Payments of visa or entry permit fees and tax equalization levy | 46 | 31 | 25 | 31 | 25 | 19 | 17 | 17 |
| B. Payments to other public budgets, total (million VE) | 82 | 60 | 72 | 140 | 84 | 73 | 95 | 76 |
| Including: Services ² of the GDR based on contractual agreements of Land Berlin ³ | 37 | 94 | 70 | 66 | 58 | 77 | 94 | 98 |
| Payment of Federal Postal Service and Railroad ⁴ | 45 | -34 | 2 | 74 | 26 | -4 | 4 | -22 |
| C. Private payments for not reimbursed visa and road use fees (million DM) | <u>36</u> | <u>69</u> | <u>73</u> | <u>80</u> | <u>80</u> | <u>40</u> | <u>35</u> | <u>35</u> |
| Sum of A. to C. (million DM or VE) | 352 | 607 | 668 | 733 | 1,155 | 1,034 | 1,177 | 1,113 |

* VE=accounting unit; differences in the sums from rounding.

1. Including fees for road use and visas.
2. Including refuse and sewage disposal
3. Including its own enterprises
4. Including offsetting of the positive balance of the Federal Railroad (in million VE): average 1973/75: 80; 1976: 70; 1977: 95; 1978: 22; 1979: 71; 1980: 101; 1981: 95; 1982: 121.

5. Five-year average
6. Starting in 1972 with an annual amount of 235 million VE.
7. Including equalization payment based on exchange of territory amounting to 35 million VE in 1972.
8. Including a lump sum payment of 250 million VE for additional services of the GDR Postal Service until 1966, which was paid in fiscal year 1971; including investment costs for telephone lines in the amount of 3 million VE in 1972.
9. Including reimbursement for additional expenses in connection with a directional radio link (1.7 million VE)

Sources: Documents of the German Bundestag, 8th election period, Nos. 1554/78, 2598/79, and 3790/80 and 9th election period: Nos. 553/81, and 1391/82; compiled by DIW.

Attachment 3

Data on GDR Indebtedness in Convertible Currencies

| | <u>1977</u> | <u>1978</u> | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>1982</u> |
|--|------------------|-------------|-------------|-------------|----------------------|--------------------|
| | In Billion US \$ | | | | | |
| Status of GDR debt ¹ | 5.28 | 6.79 | 8.55 | 9.93 | 10.73 | 8.86 |
| Claims of reporting banking institutes (accdg to BIS) | -0.90 | -1.32 | -1.96 | -2.15 | -2.18 | -1.99 |
| Obligations of reporting banking institutes (accdg to BIS) | 4.38 | 5.47 | 6.59 | 7.78 | 8.55 | 6.87 |
| Balance | 1.29 | 1.85 | 2.13 | 2.15 | 1.64 | 1.52 |
| Inner-German capital transfer ² | 5.67 | 7.32 | 8.72 | 9.93 | 10.19 | 8.39 |
| Total net indebtedness (for comparison: accdg to ECE) | . | . | (8.1) | (9.6) | (11.3) ³⁾ | . |
| Interest payments ⁴ | 0.30 | 0.43 | 0.71 | 1.06 | 1.37 | 0.90 |
| Exports to the GDR ⁵ | 2.51 | 2.86 | 3.57 | 4.52 | 5.45 | 6.27 ³⁾ |
| | <u>Ratios</u> | | | | | |
| Net indebtedness ⁶ | | | | | | |
| per inhabitant in U.S. \$ | 338 | 437 | 521 | 593 | 609 | 502 |
| in % of exports ⁵ | 226 | 256 | 244 | 220 | 187 | 134 |
| Interest payments in % of exports ⁵ | 12 | 15 | 20 | 23 | 25 | 14 |

1. In each case at the end of the reporting period.
2. Cumulative GDR negative balance from inner-German trade, converted to U.S. \$.
3. Preliminary.
4. Estimated; based on net indebtedness according to Bank for International settlements including inner-German capital transfer (not including swing). For the amount of interest, the average rates calculated by the ECE were used. (Average interest rate on inter-bank deposits reflecting

a basket of Eurocurrencies, 1977: 5.6%; 1978: 6.2%; 1979: 8.5%; 1980: 11.1%; 1981: 13.9% (1982: 11.0%); 1981 annual report, p 297).

5. To the Western industrial countries (capitalist industrial countries) according to GDR statistics; converted to U.S. \$ via the ruble exchange rate.
6. According to Bank for International Settlements plus inner-German capital transfer.

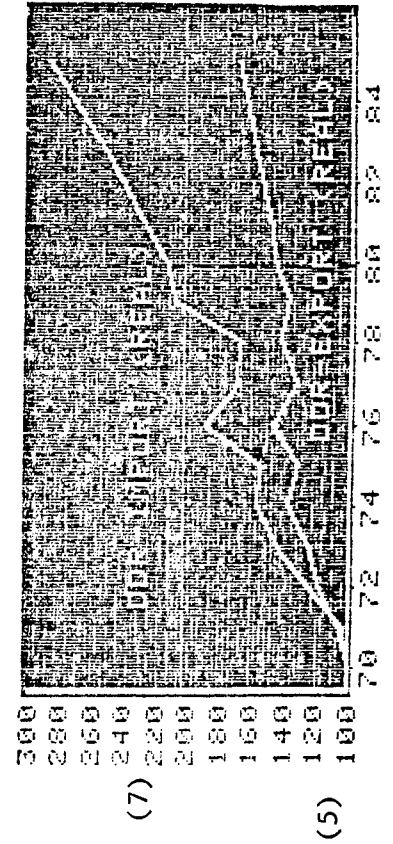
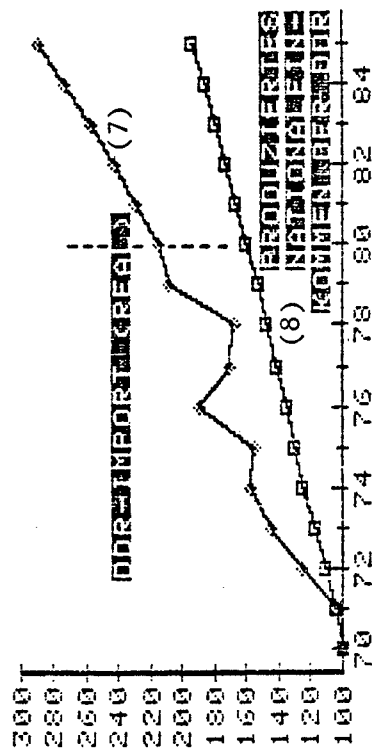
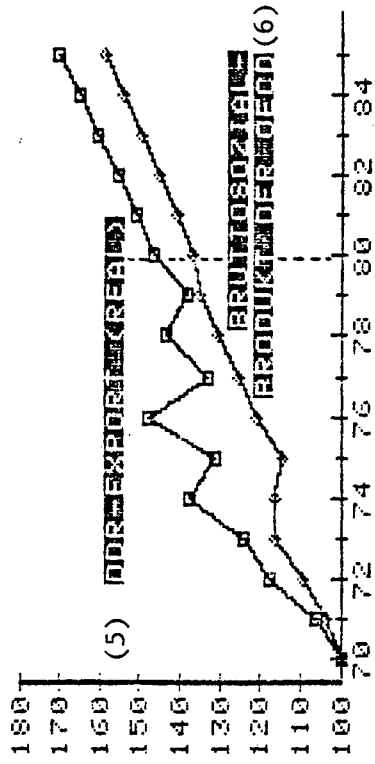
Sources: BIS (Bank for International Settlements); semiannual statistics, claims and obligations of the reporting banks, not including inner-German capital transfer, not including banking institutes not reporting to the BIS, not including nonbanking and supplier credits.

Inner-German capital transfer: Trusteeship Office for Industry and Commerce.

ECE (Economic Commission for Europe): Estimated debt of Eastern Europe and the Soviet Union to the developing market economies. In: Economic Survey of Europe in 1981, p 311. The table has the following footnote: Gross debt includes short-, medium- and long-term liabilities. Assets include only Eastern deposits in Western banks. Net debt equals gross debt less assets.

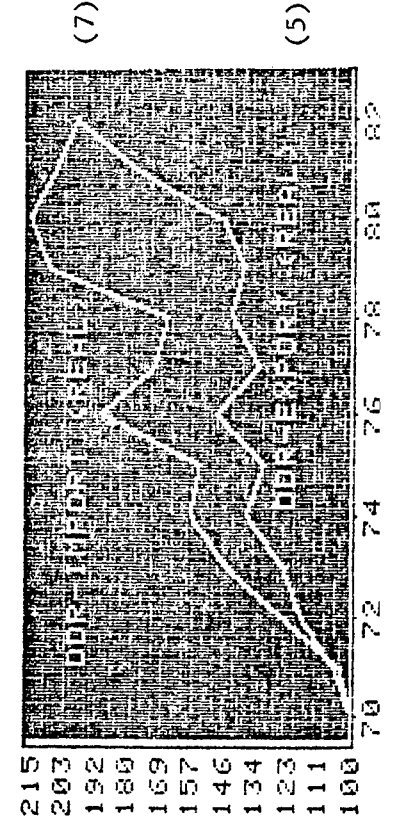
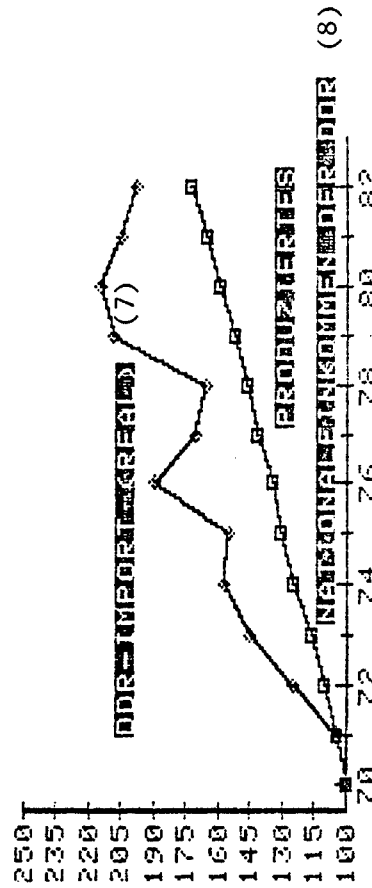
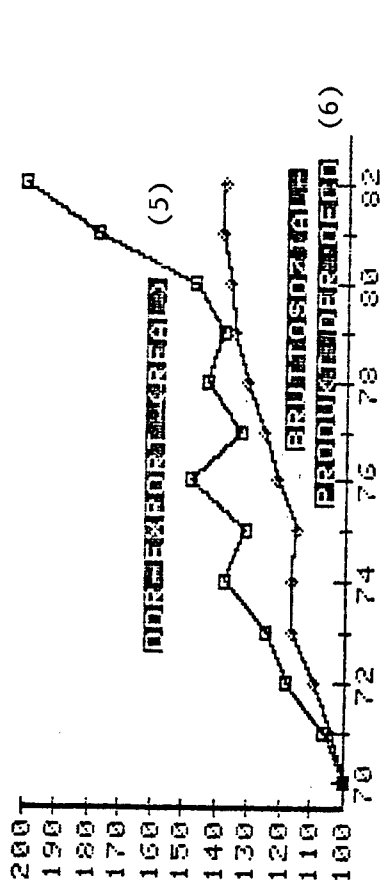
Handel der DDR mit den westlichen Industrieländern (1)

Reale Entwicklung von 1970 bis 1980 (2)
 Fortschreibung bis 1985 (3)



Handel der DDR mit den westlichen Industrieländern (1)

Reale Entwicklung von 1970 bis 1982 (4)



Key to Attachment 4

1. GDR trade with Western Industrial Countries
2. Real development from 1970 to 1980
3. Projection to 1985
4. Real development from 1970 to 1982
5. GDR exports (real)
6. OECD gross social product
7. GDR imports (real)
8. GDR produced national income

INDICATORS OF GDR ECONOMIC DEVELOPMENT
Growth Over Preceding Year in %

Attachment 5

| | 1976/ 1980* | 1981/ 1985* | 1981 | 1982 | 1983 | | (21) |
|---|----------------|----------------|--------------|--------|-----------|----------|------|
| | (22) Ist | Plan | J a h r (20) | | 1. Halbj. | Ist (22) | |
| | | | (22) Ist | Plan | Ist | | |
| Produziertes Nationaleinkommen (23) | 4,1 | 5,1 | 4,8 | 2,5 | 4,2 | 4 | |
| Industrie (24) | | | | | | | |
| Warenpromille (25) | 1) 4,7 | 5,1 | 1) 5,5 | 1) 3,6 | 3,8 | 4,4 | |
| von: Industrieministerien (26) | 5,5 | 5,5 | 5,9 | 4,3 | 4,5 | 4,5 | |
| Nettoproduktion (27) | . | . | . | 5 | . | 6,2 | |
| Nettoprodukt-Beitrag (28) | . | . | . | . | . | . | |
| zum Nationaleinkommen | 5,0 | . | 5,5 | 3,5 | . | . | |
| Arbeitsproduktivität (29) | 3) 4,6 | 2) 5,2 | 3) 3,7 | 3) 3,0 | 4) 4,0 | . | |
| Bauwirtschaft (30) | | | | | | | |
| Produktion der Volkswirtschaft (31) | 5) 2,3 | 3,4 | 5) 3,9 | 5) 3,1 | 1,4 | 3,1 | |
| wertgestellte Wohnungen (32) in 1000 | 162,6 | 188,0 | 185,4 | 187,1 | 187,7 | 96,1 | |
| von: Neubau (33) Wohnungen | 111,9 | 120,0 | 125,7 | 122,4 | 117,5 | 59,8 | |
| Modernisierung (34) | 50,7 | 68,0 | 59,6 | 64,6 | 70,2 | 36,2 | |
| Landwirtschaft (35) | | | | | | | |
| Nettobodenproduktion ⁶⁾ (36) | 7) 0,3 | 8) 2,2 | 1,1 | -2,0 | > 7 | . | |
| Vegetationsbestand ⁹⁾ (37) | 7) 0,5 | . | 0,6 | -2,8 | . | 10) 2,0 | |
| tierische Marktproduktion ¹¹⁾ (38) | 7) 3,8 | 8) 0,9 | 2,8 | -6,8 | < 3 | 12) 1 | |
| Verkehr Gütertransportmenge (39) | 5,0 | . | -0,9 | -7,4 | . | -2,3 | |
| (40) davon: 1 Eisenbahn (41) | 1,4 | . | 1,2 | 2,3 | 4,0 | 3,2 | |
| Binnenschifffahrt (42) | 1,2 | . | 1,8 | 1,2 | 6,9 | 16,0 | |
| Übrige Verkehrsträger (43) | 6,7 | . | -5,0 | -11,7 | . | -5,6 | |
| Einzelhandel Umsatz, gesamt ¹⁴⁾ (44) | 4,1 | 3,7 | 2,5 | 1,0 | 3,0 | 0,1 | |
| (40) davon: Nahrungs- und Genussmittel (45) | 3,4 | < 3,7 | 2,9 | 2,1 | . | . | |
| Industriewaren (46) | 4,8 | > 3,7 | 2,1 | -0,1 | . | . | |
| Außenhandel Umsatz, gesamt ^{14), 15)} (47) | 16) 10,3 | . | 10,7 | 9,2 | 13,0 | 14,8 | |
| (40) davon: Einfuhr (48) | 16) 10,3 | . | 6,4 | 4,3 | . | 14,6 | |
| Ausfuhr (49) | 16) 10,2 | . | 15,4 | 14,1 | . | 14,9 | |
| Nettogeldeinnahmen der Bevölkerung (50) | 3,7 | 3,7 | 3,1 | 2,7 | 3,0 | 12) 2 | |
| Investitionen, insgesamt ¹⁷⁾ (51) | 16) 4,6 | 18) -2,1 | 2,7 | -6,4 | -5 | 19) 0,1 | |

Key to Attachment 5

1. Calculated from monthly index data; actual figure, i.e. by recalculating the official daily adjusted data.
2. Based on goods production.
3. Gross production per blue and white collar worker.
4. In the area of the industrial ministries; based on goods production.
5. Calculated from index figures.
6. Total crop production per unit of area; determined on the basis of the GDR grain units key.
7. Average annual rates of change taking into account all annual values (1976-1980) compared to the 1971-1975 average.
8. Average annual rates of change starting from the 1976-1980 average in view of the planned 1985 volume.
9. Based on GVs (live weight units of cattle); based on the GDR GV key.
10. Calculated on the basis of the census figures per 30 April or 31 May of cattle, hogs, sheep, laying hens.
11. Sum of state procurement of slaughter cattle, milk, eggs, and wool valued in grain units according to the GDR grain unit key.
12. Estimated.
13. Quantity planning.
14. Prices in respective years.
15. Including inner-German trade.
16. Including all annual values.
17. Not including general overhauls and foreign participations; 1980 constant prices.
18. Taking into account the planned total volume of 256 billion marks.
19. The finance minister mentioned in his speech justifying the 1983 state budget an investment volume of 53.1 billion marks (at current prices). Calculated at 1980 prices, the planned

investments this year thus should be in the neighborhood of 50 billion marks. The amount cited in the 1983 economic plan of 47 billion marks presumably does not include the investments which, based on valid legal regulations, can be carried out in addition to the state tasks of the economic plan.

*5-year average.

Sources: 1982 GDR Statistical Yearbook; 1983 GDR Statistical Pocketbook; Statistical Indicators of Short-term Economic Changes in ECE Countries, Geneva; Plan fulfillment reports (the latest: NEUES DEUTSCHLAND, 15/16 Jan 83; reports on the implementation of the economic plans during the first half year (latest: NEUES DEUTSCHLAND, 16/17 Jul 83); DIW calculations and estimates.

20. Year
21. First half year
22. Actual
23. Produced national income
24. Industry
25. Goods production
26. Including: industrial ministries
27. Net production
28. Net production contribution to the national income
29. Labor productivity
30. Construction industry
31. Construction production of the economy
32. Dwellings completed, in 1000 units
33. Including: new construction, in 1000 units
34. Including: modernization, in 1000 units
35. Agriculture
36. Gross soil production⁶⁾
37. Cattle holdings⁹⁾

38. Animal market production¹¹
39. Transportation freight transport quantity
40. Including
41. Railroad
42. Inland shipping
43. Other carriers
44. Retail trade total turnover¹⁴
45. Food and beverages
46. Industrial goods
47. Foreign trade, total turnover^{14, 15}
48. Import
49. Export
50. Net monetary consumer income
51. Investments, total¹⁷

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CSO: 2300/350

RAIL TRANSPORTATION GOALS FOR 1984 OUTLINED

East Berlin EISENBAHNPRAXIS in German Vol 28 No 1, Jan 84 (signed to press 6 Dec 83) pp 3-6

Article by Dieter Neumann, engineer, deputy general director, Deutsche Reichsbahn (German Railway System): "Rail Transportation Tasks for 1984"]

Text Demanding Tasks

In 1983, the women and men railroad workers achieved good results in the implementation of the resolution of the Tenth SED Party Congress. These achievements deserve full recognition and represent a good foundation for the materialization of the high requirements for the year 1984, the 35th year of the republic's existence.

This is also reflected in the call to competition issued by the railroaders of the Berlin-Schoeneweide railroad station and the competition programs of all personnel forces in the most varied main service branches.

The further developments of the country's national economy confront our railroad personnel with new and higher tasks for the year 1984. Shipments necessary for the national economy as well as work and student commuter travel and tourist travel must be guaranteed along with a decline in the expenditure of energy, equipment, investments, and cost. The share of the railroad, as an energy-saving carrier, out of the total domestic freight transportation volume handled by the entire transportation industry, will rise by about 3 percent to a figure of about 80 percent in 1984.

The passenger transportation performance will go up by 7.35 million passenger-kilometers compared to the preceding year and 10 million tons more goods are to be shipped than in 1983; container shipment is expected to show an output increase of 10 percent. The daily loading volume is to be raised by 25 kilotons to a figure of 844 kilotons; 1983 peak performance figures must then become a daily target. Freight car turnaround time is designed for 3.80 days per car and the average utilization rate is figured at 20.02 tons per two-axle /car/.

Guaranteeing the performance capacity of the railroad means that all science and technology measures must be guided by the new criteria and that the measures contained in the science and technology plans must be

carried out with maximum consistency. The further strengthening of the material-technical base is also planned to guarantee this output increase; specifically, among other things:

223 kilometers of electrified lines are to be placed in operation;

62 kilometers of second track are to be newly built;

535 kilometers of track are to be renewed;

around 60 electrical traction vehicles are to be placed in service and this means that the share of electrical traction out of the total train traction volume will rise to about 32 percent;

more than 3,000 freight cars and 180 passenger cars are to be procured or are to be made ready in the vehicle remodeling sector.

The employment of modern switching equipment and safety engineering will be continued in a goal-oriented manner.

Many measures will be carried out in an effort further to improve the working and living conditions of our women and men railroad workers.

In the following we will cover some selected main points in our work in 1984.

Work and Student Commuter Travel, Tourist Travel

Every day, about 1.7 million citizens of the GDR ride in about 7,000 trains of the German Railroads. They judge the level of consciousness and the labor ethics of the railroaders not according to declarations of intention but according to the way in which they are being transported safely, punctually, politely, and with good service in clean trains. Although it was possible to achieve partial successes in improving the quality through the manifold activities of railroad personnel and through goal-oriented management efforts in some areas of tourist travel, one can say that a thorough improvement of all tourist travel has so far not been achieved. It is especially the punctuality, the cleanliness, and the orderliness in vehicles and at stations as well as the quality of information and care for travelers that do not correspond to needs and requirements. Here are the most essential causes of this:

The trouble rate is still extraordinarily high;

Management control over train operations under difficult conditions connected with construction activities is still inadequate;

The training and upgrading process for railroad personnel assigned to passenger transportation is still not sufficiently effective.

During the coming years it will likewise be important constantly to meet the growing requirements arising in work and student commuter travel and in passenger travel and thus to make a contribution to the attainment of the primary mission established by the SED.

The foundation here is the central "Program for the Development of Work and Student Commuter Travel and Tourist Travel During the Period of 1981-1985." This program spells out tasks for all government managers in the transportation system and these tasks must be accomplished through the planned development of the initiatives of all transportation workers in close collaboration with the party and labor union organizations as well as the local government agencies. A particularly important point in this program therefore also consists of the in-depth development of cooperation among carriers and with the local government agencies, the combines, the enterprises, and the installations in the territory.

To develop the performance supply of the railroads, it is necessary on schedule to implement the measures designed to increase the number of available spaces in domestic and international traffic, to materialize important connections in tourist travel after completion of current construction work, and, on the train formation stations, to make car-assignment, technological, and organizational preparations for the employment of additional cars and possibly relief trains at any time.

The handling of tourist trains in keeping with quality requirements is particularly important. Main points here are external and internal cleaning, supply with water and toilet articles, reliable lighting, preheating and heating, as well as an improvement in the technical condition through maintenance in keeping with quality standards.

Preventive vehicle and installation maintenance in keeping with quality requirements is also an essential prerequisite for the avoidance of trouble in handling tourist travel and thus also for a visible increase in on-schedule train operations. In carrying out construction activities, the important thing is to guarantee a high level of technological discipline, order, and safety, further to improve preventive work to avoid slow-speed sections, and correspondingly to guarantee the employment of construction capacities.

Maximum use must be made of cleaning plants for outside cleaning of passenger cars; the quality of cleaning must be decisively improved through the use of the technology of the acid-alkaline method; new washing plants must be erected and local reserves on smaller railroad stations must be included in the inside cleaning operation to relieve the car cleaning junctions. To raise the level of passenger care, it is necessary consistently to carry out complex programs, reconstruction measures, maintenance, as well as staffing of care facilities for railroad stations in bezirk and kreis towns and in particularly important cities.

Agreements on the commitment of territorial capacities must be signed with the appropriate local agencies.

The conditions for passenger processing, seat reservations, and baggage storage must be improved through the planned continuation of the employment of microcomputer-controlled ticket sales installations, the expansion of electronic seat reservation, and spare parts production, as well as the repair of station baggage lockers.

Comprehensive passenger information must be guaranteed at all tourist train stations. For this purpose it is necessary to create personnel and material prerequisites. Timely and orderly public address system messages--especially in case of deviations and irregularities--must be guaranteed in keeping with the pertinent service regulations. It is furthermore necessary to continue the equipment of railroad stations with train movement direction indicators according to plan.

Basic and advanced training for railroad personnel assigned to work and student commuter travel and tourist travel is particularly important in the effort to improve quality in this type of operation. In addition to organizing onetime advanced training for personnel assigned to train escort duty conductors--especially when it comes to providing care and information for travelers--it is therefore necessary to orient the topics of OJT instruction for personnel assigned to passenger transportation mainly toward the safe mastery of operational functions, the reliable operation of technical installations in passenger trains, the consistent application of traffic service regulations, and the polite and correct handling of travelers. In talking about passenger transportation along the lines of quality requirements, we must also devote increased attention here to the handling of baggage and express freight in keeping with quality requirements.

Working With Freight Car Rolling Stock

The constantly rising transportation requirement of the national economy calls for stepped-up intensification of work with freight cars in spite of the employment of considerable investments in the DR German Railroads, for example, procurement of new freight cars, expansion of lines and railroad stations.

To accomplish the demanding transportation tasks in 1984, it is necessary to exhaust all possibilities in order to guarantee continual utilization of transportation space every day of the week. A particularly important point here consists of the implementation of continuity on weekends and holidays because some enterprises and combines do not always fully utilize the transportation space that has been confirmed for them for Saturdays, Sundays, and holidays. In order therefore to be able even more effectively than in the past to influence these transportation customers, the transportation regulations were so supplemented effective 1 January 1984 that, if a customer for instance reduced his orders for freight cars on weekends and holidays, he would forfeit the right to order further additional freight cars in a number equal to the number by which he reduced his weekend or holiday freight car order. In other words, we apply the following principle: "Anybody who, on weekends and holidays, does not make full use of the available transportation space, will not have a full transportation claim on work days either."

Another main point in our work consists in increasing the average freight car utilization. This is a necessary rationalization measure to make additional transportation space available. Through the supplementation of transportation regulations, we are therefore, effective 1 January 1984, likewise applying legal means in dealing with those transportation customers who, in spite of existing prerequisites, do not make maximum possible use of

available transportation equipment in terms of mass or bulk and who thus permit a situation to arise in which valuable transportation space is wasted. An essential measure to reduce the national economic transportation expenditure was the introduction of TKZ (transportation coefficients). Starting with the experiences and results of working with TKZ in 1983, we must in 1984 likewise continue to work on the further implementation and perfection of the TKZ in order to attain the objective of further reducing the transportation expenditure that is necessary for the national economy. The implementation of this project means that close cooperation must be guaranteed with all sectors of the national economy for the sake of the further improvement of the fundamentals and for effective work with TKZ.

Here are the pertinent main points:

Compliance with TKZ, confirmed by the resolution of the Council of Ministers, for the year and for specific figures for the various quarters, on the part of all transportation customers;

improvement in the quality of TKZ accounting and corresponding evaluation and settlement with the enterprises of the national economy.

The reduction of the number of improperly or deficiently handled freight cars in transit traffic is still a main point in this effort.

Improperly or deficiently handled freight cars have a negative effect on border-crossing railroad freight shipment also in political, economic, and technological terms. This moreover inflicts a loss on the national economy and the prestige of the DR and at the same time that of the GDR is diminished. The energetic effort to reduce the number of improperly or deficiently handled freight cars or their most rapid return to operations is therefore an absolute duty of all railroad personnel involved.

In this connection it is necessary to implement the following main points, among others:

Goal-oriented action aimed at those who cause separations of waybill and car to correct deficiencies;

expert car selection for export loading;

regulation loading of export cars by shippers and orderly acceptance control by railroad stations;

careful handling of cars while switching;

orderly border arrival investigations.

Piece Goods and Container Transport Tasks

Considerable volumes of goods must be accepted from highway transportation in 1984 likewise, as during the years before, when it comes to combined piece goods and GC (large container) transportation. This implies the

effective tapping of additional reserves through the better utilization of available capacities. In GC transportation, it is necessary to achieve at least a 10-percent output increase; the sectors of the national economy however must also in piece goods transportation provide a 10-percent increase in the performance supply compared to 1983. In piece goods transportation the important above all is further to improve the effectiveness of loading operations and to reduce ineffective transloading. With this goal in mind, the loading organization for piece goods shipment was changed effective 1 January 1984 and the shipment collection and receiving distribution stations were newly determined, considering current requirements; as a result of this, it was possible to eliminate or reduce transloading assignments in some of the piece goods dispatching offices.

In this connection, the share of complete car loads must be further increased.

By maintaining and, if possible, cutting car layover times and the specified 0600 time standard inventories and by meeting minimum utilization norms for piece goods cars, we must make sure that the output increase in piece goods transportation can be handled without additional freight car requirements.

Work with small containers and pallets directly influences the results achieved in piece goods transportation. The increasing use of small containers and pallets increases the degree of mechanization in piece goods transloading and reduces the share of physically heavy labor. It is therefore necessary to improve discipline and order in small-container and pallet handling operations, to maintain the specified car availability limits, to guarantee the recording and control of inventories, to speed up the repair of damaged pallets, and to reduce the turnaround times.

Good prerequisites were created for further improving the pallet utilization degree with the help of the pallet checking method amended effective 1 October 1983.

The basis for a further output increase in GC transportation is the speedup in GC turnaround times.

Available reserves--which are expressed in the form of large inventories and long idle times at GCUP (large container transloading stations) and at the transportation customer's end--must be tapped as part of a continuing and effective team effort by the railroads, motor transportation, and the transportation committees.

Here we must as always demand greater continuity in loading and unloading during all shifts and every day of the week and we must stabilize the performance of motor transportation. Consistent compliance with acceptance plans at GCUP must lead to improved utilization of freight cars used for GC shipment and scheduled container trains.

Implementation of and compliance with regulation technology in piece goods and GC transportation, constant influence being exerted toward correct and complete labelling and marking of goods and containers, stepped-up control by the railroads and motor transportation during transfer and acceptance,

as well as responsible and conscientious handling of goods or containers during loading operations must bring about a situation in which the performance will be increased not only quantitatively but will also be improved qualitatively.

Energy Industry Tasks

The objective of the entire national economy to guarantee an output increase coupled with an absolutely reduced energy consumption applies particularly also to railroad transportation. An increase in energy-efficient railroad transportation is connected with the further optimization of the national economic transportation processes.

At the same time, the absolute energy consumption in 1984 will go down by at least 3 percent as compared to 1983 and we will achieve the priority replacement of the following energy sources: diesel fuel, heating oil, hard coal, brown coal briquets, and coke. The decisive factor in the attainment of the demanding goal is this: the further implementation of scientific-technological progress must be guaranteed through the effort of all railroad personnel to display rich initiative in influencing this process. This applies to the most important rationalization measure of the DR, that is, line electrification, but also to the many operational processes involved in railroad transportation as a whole. The 1984 Energy Plan contains a rationalization effect which leads to an energy saving involving a raw brown coal equivalent of around 300 kilotons per year. These savings are being achieved through several hundred individual measures in all main service branches. They are concentrated directly on railroad transportation and thus in the final analysis on the reduction in the specific energy consumption from $255 \text{ GJ}/10^6 \text{ Btkm}$ [gross-ton-kilometers] in 1983

to $248 \text{ GJ}/10^6 \text{ Btkm}$ in 1984,

and to a series of main tasks in the other practical application processes.

The most important of these are as follows:

Increase in the effectiveness of heat management through outside-temperature-dependent regulation of space heating; maintenance of specified room temperatures and application of the heating stage system;

creation of the prerequisites for the substitution of brown coal briquets and coke with raw brown coal;

replacement of electrical direct heating;

weather-dependent control of switch heating;

reduction in electrical energy consumption for lighting purposes through the use of modern light sources and work-station-related determination of illumination level;

efficient development of factory transportation with motor vehicles owned by the DR;

conversion from diesel-fuel engines to electrical engines for priority use of electrically-powered subsystems;

utilization of secondary energy and employment of small heat pumps.

To carry out the rationalization measures included in the 1984 Plan it is necessary at least monthly to tally the results in the duty stations and management sections and to derive further measures from the specific situation. As a result of rationalization activity and specifically goal-oriented daily efforts to eliminate any kind of energy waste, it is necessary to guarantee the absolute compliance with or reduction of predetermined energy quotas.

Effective Traction Vehicle Use

The effectiveness of traction vehicle use is essentially determined by the coefficients of:

operating time per traction vehicle and day,

locomotive-run-without-cars-kilometers per train-kilometers,

millions of gross-ton-kilometers per traction vehicle and day.

It was impossible to improve the utilization of traction vehicles in terms of time in 1983 in case of internal-combustion-locomotive traction with 16.2 hours per day and in case of electrical traction with 17.5 hours per day as compared to 1982.

The causes for this were to be found mainly in frequent deviations from regulation technology and through a high degree of trouble in daily train movements caused by the fact that the traction vehicle pool was overworked. The development of deadhead runs by traction vehicles (locomotive-run-without-cars kilometers) likewise had a negative effect on the size of the working traction vehicle inventory and thus on its effective utilization.

A number of locomotive runs without cars resulted from the fact that additional traction vehicles had to be used in order again to stabilize the regulation technology which had been impaired through irregularities in train runs.

As it happens so often, reacting too late to the trouble magnitudes that influence the train movement process causes operations to become sluggish and this is particularly expressed by the number of trains in the network without traction vehicles. At the same time, this increases the waiting time for traction vehicles and traction vehicle personnel. The planned working hour regulation effort can no longer be maintained. The consequences are an increase in the working traction vehicle inventory and longer idle times at the railroad operations plant.

We must concentrate on the following main points to accomplish the transportation tasks coupled with the most effective utilization of the traction vehicle as a basic asset:

Consistent application of the Cottbus initiative entitled "Notes On the Plan" to discover weak points in traction vehicle utilization technology and reserves regarding the higher and more effective utilization of traction vehicles;

guaranteeing traction vehicle and personnel standby scheduling in keeping with regulation technology coupled with a higher degree of traction vehicle inventory availability;

high trouble-free traction vehicle running performance in the train movement and switching service;

maximum time-wise utilization of traction vehicles in traction vehicle round-trips coupled with continuing decrease in special service share;

further reduction of locomotive-run-without-cars kilometers;

reduction in miscellaneous operating hours.

Orderliness, Discipline, and Safety

Our work, our prestige, and the prestige of our socialist state are essentially influenced by high-quality work. Through their responsible and disciplined work, many thousand women and men railroad workers each day contribute to the accomplishment of the national economic tasks. But we still have accidents and irregularities due to mishandling, disciplinary violations and transgressions of orders on the part of individual railroad workers which have a negative influence on the effectiveness of the transportation process and which undo the good results achieved by many railroad workers and which endanger human lives and valuable property.

The most important points in the consistent and uncompromising implementation of a high degree of orderliness, discipline, and safety in the DR are as follows:

Constantly to ensure the unity of task assignment, accounting, and supervision in all management activities on all levels, including the enhancement of the role of the managers, specifically,

higher quality of management activity as a whole,

uncompromising work by all railroad personnel according to applicable legal and service regulations, orders, and instructions,

compliance with technological regimen and

preventive work to reduce factors that promote trouble, damage, and accidents;

to achieve a rise in the level of the work of railroad personnel in the main occupation types (above all traction vehicle engineer and switching station personnel) on whose circumspect and disciplined work safety in railroading depends to a great degree; in other words, it is the declared

goal to develop such attitudes in railroad personnel which, on the basis of profound technical knowledge and a well-developed sense of responsibility, will guarantee safety-conscious behavior in any situation;

guaranteeing consistent compliance with specified technologies in the organization and execution of train operations and, equally, in the maintenance and repair of vehicles and systems as basic prerequisite for technical safety in operating equipment and systems;

to achieve a noticeable qualitative and quantitative improvement in overall control and inspection activities aimed at the complete assurance of direct guidance and control over railroad personnel at the place of work through the managers and supervisory agencies.

In close conjunction with the social forces, it is necessary to exert influence so as to make sure that an even greater contribution will be made to an increase in the output and in work safety and a reduction in trouble with the help of socialist competition and the safety teams.

By way of implementation of the resolutions of the Seventh Conference of the SED Central Committee, it is important to achieve the significant output increase with less assets, higher labor productivity, and a high quality level. The following main points must be implemented here among others:

guaranteeing work and student commuter travel and tourist travel under all situational conditions in keeping with quality requirements;

securing the reproduction process of the national economy, especially the supply of the population, in terms of transportation;

further reduction in energy consumption, especially diesel fuel, through absolute fulfillment of the electrification plan;

execution of export, import, and transit shipments; increase in revenues and reduction in expenditures, especially in foreign currency.

The demanding tasks of the year 1984 can be accomplished if all women and men railroad workers, under the proven leadership of the party organizations and the political organs, in cooperation with all government and social forces, make their contribution with a high sense of responsibility and personal commitment, every day, during every shift, and in every work collective.

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CSO: 2300/348

MINISTER OUTLINES PERFORMANCE REQUIREMENTS OF AGRICULTURE

Budapest NEPSZABADSAG in Hungarian 25 Feb 84 p 3

[Article by Janos Vancsa, minister of agriculture and food: "With Joint Efforts"]

[Text] The current appropriation and planning assembly meetings and production consultations unequivocally reflect the fact that most managers and workers of our large farming and food-processing enterprises have realized that this year they will have to face more difficult economic conditions than a year ago. They only hope that the weather will be more favorable than in 1983 and that another drought will not make the solution of the problems more difficult.

Weather conditions however are uncertain and incalculable. We have to build on more secure foundations. We well know that security in agriculture can only be provided by a solid technological-material background and even more by the hard work, discipline, care and expertise of the persons involved. The higher the standards of human preparedness and willingness, the more modern the resources and materials to be used by the producers, the greater are the probabilities that our agriculture will meet the expectations of our society. The practical value of this thesis has been proved by the developments of the years past.

We have five years behind us during which the macroeconomic regulations have transmitted to us, in the context of our situations and conditions and with growing intensity, all those relations and conditions that our agriculture meets on international markets. This confrontation faced our agriculture and food industry with ever growing qualitative standards. If we want to hold our stand, and there is no other rational alternative, we have to adjust ourselves ever more to the requirements dictated by the international economy.

More with More Profits

The adaptability of our agriculture may be considered satisfactory. This is reflected not only in our export performance, but also in the development of prices and profits. Over the last five years the prices of materials and equipments used in production have increased, from year to year, more

than those of the agricultural produce. The difference amounts, from one year to the other, to billions of forints to the detriment of agriculture. And nevertheless the profits of farming have grown from year to year, although as a matter of truth rather as a result of the expansion of ancillary activities. Thus our agriculture reacted to the increasing difficulties with growing output, improving efficiency and thereby with growing profits. The year of 1983 was an exception. Last year the damage of various billions of forints caused by the drought compounded the curtailment inherent in the economic regulations. The almost 10 percent decrease in plant production could not be offset by the more than planned increase in the production of animal husbandry. The overall agricultural production lagged behind the 1982 record with 3 percent and, in spite of the significant growth of the industrial, construction industry and service activities, macroeconomic profits declined.

This year we will have to make changes also in this sense and we have to return to earlier tracks. Our plans reckon with more profits in agriculture, although the regulators entail further curtailments. Profitable farming can only be based on growing output and more economic production methods. According to the predictions the so-called basic activities should exceed the 1982 indices. This year's goal is a 15 million tons grain production instead of last year's 13.7 million tons. This is the greatest and most important task of our plant production. Two years ago we have already produced 14.8 million tons. The material, technological and biological conditions have improved since then, although only to a minor extent. If our farms are going to increase this year their grain croplands by 2 or 3 percent over the usual extension, then under normal weather conditions we may achieve the planned 15 million tons production. We may accomplish this although at present the development and status of our fall cereal crops are of low standard in comparison with the previous years as a result of the prolonged drought.

Among the industrial crops particularly sugar beets require great attention. In order to meet our domestic need of sugar, we have to sow 115,000 hectares with this important crop. In the gardening sector, notably insofar as vegetables, grapes and other fruits are concerned, the process that characterized the last five years continues. Although during that time the recorded crop area of these products has decreased by 100,000 hectares, the output and value of production has increased even at the old prices. Improvements in the intensity of production may improve the competitiveness of our gardening.

The most valuable product of our animal husbandry is meat. Last year the domestic production of animals for slaughter reached 2.3 million tons, i.e. it surpassed the output planned for 1985. This year our stock of animals provides the possibility, despite the drought, of a minor increase in the production of animals for slaughter, taking into consideration our fodder stocks, the genetic bases and the development of animal hygiene. We intend to increase our meat production primarily in the non-forage consuming sectors, i.e. in cattle and sheep breeding. We will be able

also to slaughter more hogs than last year, but because of the problems of transportation and processing a constant production has priority. The meat-processing industry and the farms are equally abiding by this requirement. Insofar as poultry is concerned, the worldwide overproduction bars the full development of our production potential. Fortunately the broiler-poultry production is promptly able to meet the demand of the market, and we hope that we can repeat our last year's export performance of this item, or even surpass it.

In Conformity with the Market

Our plans concerning the production of animals for slaughter indicate, and the experience of the last two years has proved, that producing for the market is the sine qua non of the growth of agricultural production. Our domestic markets require only a slight increase insofar as quantities are concerned, and not in each agricultural product. But the demand for a broader choice and better quality is much more important. This should be in the focus of the efforts of all involved, i.e. farming, food processing industry, wrapping material factories, transportation enterprises, retail trade, to mention only a few from the most responsible sectors. On the other hand, insofar as the expected longterm increase of the production of about 2 percent per year is concerned, it goes without saying that the growth, in full awareness of the requirements of foreign markets, should strongly promote exports.

Among these requirements competitiveness is the most important. When we confront our agriculture with foreign markets, we can easily find out how much we still have to do in this area. Our efforts should primarily be directed toward two goals, namely lower production costs and better quality. The profitability of our exports hinges on the former, i.e. on whether the price obtained covers the cost of production and whether it brings profit or loss to the national economy.

Proper quality, on the other hand, is a prime condition of the marketability of our product. From this point of view it is indifferent to which country the export is directed, since qualitative requirements have been growing everywhere. Those who cannot meet these requirements cannot sell their product or can get rid of it only at the price of big losses. We have to use to our advantage the experiences acquired in this area applying them in the management of production, in farming and in all other areas of work, while trying to meet our export targets, which this year are bigger in volume and more important in value.

Today almost everybody knows that the investment potential of our national economy is smaller than before. This is the case also in the area of agriculture. The demand is greater but we have to take cognizance of the realities. And we must also realize that the existing resources, worth several billions of forints, in view of this year's investments into mechanization, chemicals and reconstruction provide a solid material and technological basis for the implementation of our production plans. The biological background is also available and it meets the requirements of production.

With A Good Farmer's Care

We continue, with unchanged rhythm, our intensive cereal growing program which provided, during the first three years of its application, on 134,000 hectares cropland 85,000 tons more wheat and 375,000 tons more corn, i.e. a total increase of 460,000 tons of cereal production. In the framework of this program the most productive species and the most modern tools, materials and equipment are applied by our large agricultural enterprises and these exert a favorable influence upon the other branches of plant growing on arable lands. The process of melioration, i.e. improvements in the productivity of the croplands, is being implemented with the help of state subsidies on large areas.

The government does its best to create the best possible conditions of production. In farming, on the other hand, one of the most relevant questions is, this year as always, to what extent the production tools and materials are used really profitably. There are great differences in this respect even among farms of largely identical natural endowments. The standards of profitable techniques and technology greatly outstrip the organizational standards on several of farms. Order, discipline and thoughtfulness are the conditions of more and better production in all state farms and producing cooperatives. The work done with the care of a good farmer is still only a desirable optimum which has not been reached on many farms, either, insofar as management or the practical production processes are concerned.

There are many possibilities in this respect, and a lot remains to be done. The managers and experts of the large farming units, i.e. those whose decisions and quality of work influence and determine the performance of many people on the farms, are primarily responsible for exploiting these possibilities. They can do this by organizing and controlling the work and by determining the relations of interest.

The vulnerability of the large agricultural enterprises to cost problems has increased already last year. The curtailments, which entered into force this year, have increased this susceptibility. Under these circumstances those mistakes and deficiencies which were hidden by the important results of a more successful sector, will now have their negative impact upon farming and upon the yearly financial balance of the enterprises. It is of great importance that the managers and work collectives be more perceptive to and recognize in time the negative phenomena in farming. This would require in many enterprises a more perspicuous and self-critical attitude and a more determined capacity of action. For the performance, which was years ago still praiseworthy, is no longer enough. We have to take notice of the fact that also the world around us makes progress. We cannot give up our endeavor to catch up with those who are the best in agricultural production.

It Should Become Reality

In order to achieve this we should, among other things, expedite the dissemination of material and energy saving technologies. During the last five years, while agricultural production grew at fixed prices by more than 10 percent, energy consumption declined by almost 7 percent. In 1978 the value of our production of livestock and animal products amounted to 110 billion forints, while in 1983 it reached 120 billions at 1981 prices. Yet the cost of imported protein forages dropped by 5 percent over the last five years. Both foraging and the use of energy carriers still offer a lot of chances for rationalization. But the exploitation of these possibilities requires a good deal of ability to survey, organize and initiate. All these are indispensable requirements of good leadership and disciplined work.

In the practical implementation of our agricultural policy we have to invariably pay close attention to the development of the large socialist enterprises. Their work is vital, not only because they till 90 percent of the arable land, but also because they are organizing the bulk of the household farming. We want to make use this year, as well as in the future, of all the latitudes that household farming offers us. However in order to do this we have to strengthen in the first place the large socialist enterprises and their organizational ability, while simultaneously keeping alive the interest in small farming.

The development of the functional internal mechanism of the large enterprises which may help promote human knowledge and may spur the sense of responsibility and ambition of those involved, is a task that we have to continue. Only in this way they will be able to adapt themselves to both our wishes and to the dictates of international economy. In this way we expect to strengthen the ability of agriculture to produce more values in 1984 and to increment those favorable processes which have been perceptible during the last couple of years in production and in the increasing contribution of farming to national income.

The one million workers in agriculture are confronted this year with great and difficult tasks. This is obvious in the plans that these days and weeks are being discussed in the workshop caucuses and assembly meetings. The atmosphere of the debates and meetings indicate the participants' sense of responsibility for both their small communities and in an ever growing sense also for the nation. What today is a spoken word and a decision, should become reality tomorrow and everyday. This maybe the program that will nudge our agriculture ahead on the road that we have been traveling for years and which has become increasingly difficult.

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CSO: 2500/252

DEVELOPMENT OF BANKING SYSTEM DISCUSSED

Budapest HETI VILAGGAZDASAG in Hungarian No 8, 25 Feb 84 pp 4-5

[Interview with Matyas Timar, president of MNB [Hungarian National Bank], by Agnes Tibor]

[Text] When analyzing the further development of the macroeconomic management system, economists often refer to the need of development in the system, economists often refer to the need of development in the system of circulation of capitals and banking. As a matter of fact, some progress has already been made in both respects: various enterprises and institutions have issued bonds, the first joint stock company formed by exclusively Hungarian members came into being, and in the recent past a couple of small financial institutions have been established. According to some of the experts we should go along this road as soon as possible, while others are concerned about the possibility of macroeconomic management losing its grasp of the financial processes as a result of these developments. What is the opinion of Matyas Timar (60), president of the Hungarian National Bank about this matter?

[Question] Hungary has preserved its financial solvency on international markets despite the unfavorable domestic and external conditions. It is well known that the Hungarian National Bank played and still plays a key role in this. Yet the enterprise managers for whom the interests of their company is of course of prime importance, do not always praise you. Many of them have complained that the bank increased the interest rates at such a pace during the last couple of years that it made very difficult for the enterprises to meet their amortization commitments and to make profits at the same time. The situation of those, who in the early 1970s subscribed to large development loans at the relatively low interest rates than prevailing, has become particularly difficult.

[Answer] We have to realistically assess the role of the credits granted by the Hungarian National Bank and the interests charged by it in the financial management of the enterprises. The cost of the investments currently in process of implementation in Hungary that amount to approximately 170 billion forints is halfway met by the state treasury. Most of the other half is being provided by the development funds of the enterprises and a further portion by state contributions to these funds.

Both last year and this year the credits granted by the Hungarian National Bank covered only 22 billion forints of the mentioned total cost of these investments. Thus the role of the bank is not particularly important, notwithstanding the fact that--as is well-known--it has a certain measure of authority over the management of the development funds of the enterprises in connection with the credits granted. For the rules of the bank demand that a certain percentage of the enterprises' development funds be available for the investment planned. Moreover the bank examines the full scope of the enterprise's investment activities in order to find out whether or not it invested efficiently its own development funds. The results of this survey also influences the bank's decision concerning the credit to be granted. By the way we use the 22 billion forints in question for various concepts. The largest amount, about half of this total, is made up by credits designed for such developmental purposes which may improve our foreign trade balance. Our conditions are quite strict in such deals, yet we have proved to be successful: most enterprises have been meeting the goals set forth by the contracts. Moreover we have the so-called energy-rationalizing credits which may be considered successful--in 1983 we granted three billion forints for 127 such investments--the credits for the utilization of refuse and second-rate raw materials. Unfortunately there are few applicants for the latter. There are also a few billion dollars available for other investment credits by which we finance investments into projects of structural changes and commitments set forth by international trade agreements.

The pursuits of the lending agency and the borrowers are of course not entirely identical, above all when we are compelled to raise interest rates. The interest rates on loans and deposits, which are currently applied, have essentially evolved during the last three years. The high interest rates are on one hand the results of the increase in interest rates on international markets during the last couple of years. Our country has to pay such interest rates on the loans contracted. On the other hand we wish to set higher standards of efficiency in connection with the activities and development of the enterprises.

[Question] Theoretical economists are challenging you--in contrast with the enterprises--to be more severe. They refer to the fact that enterprises of low efficiency or even deficitary are obtaining moratorium on the amortization of their loans, and frequently even a part of their debts is cancelled. What is the justification for such a leniency?

[Answer] The bank must always do an in-depth study of the causes of an enterprise's insolvency. Sometimes it is merely the consequence of the fact that it has an outstanding debt and is unable to recover it. Yet a guiltless enterprise should not suffer damage. In other cases the cause of insolvency is that when the enterprise drew up its development projects it did not and could not reckon with the upcoming change in the regulators. Thus I would not say that we are lenient. We recover most of the loans which expire. Extensions are primarily granted to enterprises which are wrestling with structural crises.

Often we cancel a credit if in the first phase of the implementation of an investment it becomes clear that, as a result of a change in the circumstances, both the enterprise and the national economy would come better off if the original plan were dropped. Although there have been few cases of liquidation of enterprises in our country, financial rehabilitations are not uncommon. In the future we will have to carry out these interventions more consistently and in a better organized manner.

[Question] According to a principle, which is often emphasized, capital should be managed by the ones who can best invest it. Nowadays this principle can only be applied under limited conditions. For example the enterprises' faculty to grant credits to each other is at present very restricted, although the possibilities have recently been expanded. Therefore now only 5-7 percent of the development funds of the enterprises is provided by other economic organs.

[Answer] For a long time only the central authorities could grant and withdraw capital to and from the enterprises and thus the flow of the resources was vertical. Our purpose is now to make the mobility of capital horizontal. The flow of resources toward profitably working enterprises has been made easier by bonds, which can be issued since last year. We also plan further simplifications in the granting of commercial credits by enterprises. Additional stimuli to the flow of resources are provided by the growing number of joint enterprises, partnerships, monetary funds and funds for undertaking (the so-called small financial institutions), and last but not least the joint funds of the cooperatives.

[Question] In the opinion of many people we could make further progress. A financial expert said lately that today's bonds are all "gold-framed," i.e. first class securities, since they are endorsed explicitly or covertly by the state and the investor runs no risk. There are opinions according to which the mentioned forms of temporary transfer of capitals should be complemented by definite grants of capitals, for example by rehabilitating the concept of the share.

[Answer] The share is not a novelty either. We have applied it earlier to enterprises using foreign capitals. However now there is also a joint stock company in operation which has been formed entirely by Hungarian shareholders. We agree with the idea that in some cases, in which the concept of share appears to be rational, we should allow to Hungarian enterprises to establish joint stock companies. This is not a panacea either but it would undoubtedly contribute to the mobility of capital. Besides I am convinced that the proliferation of bonds and shares would be of great practical utility, since those who subscribe to securities--particularly the shareholders who are interested in profits--would certainly try to inform themselves about the value of their investment before making any kind of deal. But I would like to emphasize that the idea that our existing enterprises should be transformed into joint stock companies did not arise.

[Question] However, the possibility of issuing bonds and forming joint stock companies alone does not suffice for launching the circulation of securities. We should create the institutional and personal conditions for that. How will the stock exchange come into existence? Who will be authorized to deal with the marketing of the securities?

[Answer] Any financial institution commissioned by its customers could deal with the buying and selling of securities. We should however find the organization or bank which would centralize the commissions and informations and which thereby would be the most knowledgeable about the real value of the securities.

[Question] And when all the conditions for such operations will be given, will the enterprises realize that in some cases they should not necessarily invest their savings "at home"?

[Answer] In order to enable the enterprises to ascertain this with some measure of security, the regulators must remain stable. If the management of an enterprise can calculate beforehand the cost of an investment and the portion of its development fund that may be used for it, then it will be in a better position to decide where it is worthwhile to invest. But at this point I should note something in the defense of the current frequent changes in the regulators. The development of our macroeconomic management system gained momentum again in 1979 after various years of stagnation. But at that precise moment occurred the second explosion of the oil prices, the economic crisis and the aggravation in the troubles of the international financial market. Our policy of economic balance was compelled thereby to amend the regulators frequently. Unfortunately this was compounded by the fact that certain measures have not always been consistent.

[Question] Competition between the financial institutions may greatly promote the useful investment of moneys which are temporarily available at the enterprises. Nowadays we witness a continuous emergence of the so-called entrepreneurial or innovation funds, but their activities are greatly restricted and their resources limited.

[Answer] With respect to the financing of investments by the economic organizations the Hungarian National Bank has no monopolistic situation. Last year about one quarter of the investment resources were provided by these small financial institutions, which collect and lend out the development capitals of enterprises and cooperatives and the reserves for technological development. But also the Foreign Trade Bank, the State Development Bank and the Central European International Bank have some resources. We may say that in case of smaller investments multi-partnership prevails, and the situation is similar in certain medium-size investments. But the case of larger investments is quite different. I must observe that the larger investment credits are usually related to either governmental programs or international agreements in which also the position of the Hungarian National Bank is determined. Moreover, we plan to establish a financial institution of greater sphere of authority within the MNB and

using its current Enterprise Funds. In cooperation with the Finance Ministry we are going to regularize also the legal status of the small banks. Yet we cannot renounce our directing role as an issuing bank, if we want to keep our grasp of the monetary policy as a whole. And I think we should not forget another thing, namely that the fact alone that many financial institutions are operating does not increase the quantity of money and credit available, but it may make their utilization more efficient.

[Question] But the small financial institutions cannot compete with each other since most of them are sector-bound. They cannot grant credit for working assets, are not entitled to keep accounts for others nor to accept deposits and cannot even think about founding an enterprise.

[Answer] Some sorts of deposits can be dealt with by these institutions and, as I already mentioned, they can increase their resources by issuing bonds and entering into partnerships. However the present system of banking does not make it possible for them to lend working assets. This would require a change in the fundamentals of our banking system and this, as I already noted, we do not consider as justified.

[Question] I do not know whether the issue involved is to what professional circles refer as the duality in the functions of the Hungarian National Bank, i.e. its issuing and lending tasks, which compels it to make compromises. Do you not envisage the possibility of giving up its credit-bank function?

[Answer] We do not see it as warranted that in a national economy in which market conditions are restricted, where the development of the macro-economic management system has not been always consistent, where (and when) investments had to be reduced and balancing considerations are predominant, a 2-level banking system could provide more than the current not entirely monolithical system.

[Question] Would such a 2-level system not make your work easier? If you renounced your role as a lending agency, the Hungarian National Bank's issuing bank policy, which oversees all financial operations, would perhaps be less influenced by the solvency problems of individual enterprises.

[Answer] It is just on account of such considerations that we want to separate the issuing bank functions from the credit bank functions within the Hungarian National Bank. This is no longer a task that we would have to start from the very outset, but at present we would like to have a more accurate grasp of the deposits, credit needs and amortization indices of the various economic sectors. We want to tighten the control of our issuing bank sector. All this cannot be accomplished overnight. Besides I consider it possible that at a later stage of development it will be worthwhile to revise this problem. However in order to do this we need, in addition to our decision, various relevant things to happen. First of all that favorable changes occur on the world market. Further we need changes in the Hungarian macroeconomic management system to occur within two years. These changes should, in my opinion, precede the possibly significant changes in our banking system. I mean primarily a further development in the systems of prices, wages, enterprise income regulations and the forms of enterprise management.

NYERS INTERVIEWED ON REFORM, PARTY, GOVERNMENT ROLES

Budapest MOZGO VILAG in Hungarian No 1 & 2, 1984 pp 5-17

[Interview with Rezso Nyers by Gyorgy Balo and Andras Domany: "I Have Bound My Fate to the Reform"]

[Text] [Question] You have come into fashion recently? You write a lot and make statements....

[Answer] I believe it is not I who have come into fashion, but rather those questions with which I also deal. What is involved? The present and future of economic policy, the relationship of economics and politics, the possibilities and limits of building socialism, the ideological foundations of Marxism, the link between theory and practice. These themes have come, as I would say, into fashion, because somehow the building of socialism in Hungary, and I might not be exaggerating if I said the building of socialism in Eastern Europe is in a uniquely fateful period. And this brings to the surface problems, in some merely doubts, but in many a Marxist-socialist search for a path. So, if I have "come into fashion" this is only a sign that what has become fashionable is a sort of basic Marxist position in social, political and economic policy questions which I, together with others, represent.

[Question] What are you thinking of when you say "fateful"?

[Answer] I mean that we must organize the economic system of socialism in a fundamentally different way, not only the guidance of the economy but the relationship of the guiders and the guided, while we must base our thinking about the economy also on a better link between theory and practice. We are at a crossroads. It is not possible to constantly change and improve merely the various partial methods of our economic practice--we must adjust socialism as a whole, socialist economic practice as a whole, to a fundamentally changed situation. They simplify this by speaking of the extensive and intensive method, but this has become already such a commonplace that....

[Question] Yes, because in 1966 already it was the slogan that we must turn to intensive development....

[Answer] Precisely. And since then we have also been threatened by the danger that every year we make ourselves believe: "Now we are managing in the

intensive way." But this simply is not true. We really have not yet found the socialist economic mechanism needed right now. This is one factor. But what is involved is also fateful in that the building of socialism takes place amidst international conditions, and the foundation of this is the international communist movement, within this the Eastern European communist movement, and I feel that a new period in this is also beginning these days--we must break with many, many methods used in the first decades of the building of socialism, we must expand our thinking, we must apply the new achievements of science and the consequences deriving from the present world situation. So there is need for an ideological renewal too. The 20th congress of the Communist Party of the Soviet Union was the first great cannon shot in connection with this in the international communist movement. Yest, but this was only one cannot shot....

[Question] The Aurora had fired a shot too....

[Answer] But after the Aurora fired the Bolsheviks immediately attacked. But in the ideological struggle we did not really develop this attack and, primarily, we have not yet won the engagement.

[Question] Now the big question is: Who is taking part in this struggle. Surely you have experienced that your generation finds it difficult to talk even with those young people who are truly committed to socialism. But in addition, do you see anywhere, here at home or abroad, a readiness or a possibility for this ideological renewal? Because I think that we are even weaker in this than in the economy....

[Answer] Yes, I do. In every one of the European communist parties I know of one can experience a demand for renewal, and there really are certain partial renewals too. But these are not yet deep enough. Frequently the practical political viewpoints speak against our working intensively on the modernization of ideology. But if we want to achieve something in practice then we must turn from earlier ideological theses. It would be most dangerous if we did not....

[Question] Yes, but in the meantime we are self-conscious, we give explanations, we say that we are not really turning away. But we are turning away... and for the most part it is not the party which initiatives these turnings, at most it tolerates them silently....

[Answer] This, certainly, is our ideological and political weakness. What really happens is that if the party does initiate some change or reform then it starts defending itself the day before in the press and radio, on party days; primarily talking about what it does not want.

And in general we turn much more attention and make greater efforts to convince people about what we do not want as a result of the reforms. This defensiveness--and here I return to the generation problem--this defensiveness is for the older generation, speaks to a way of thinking which derives from the period between the two world wars, which was formed and hardened and became what it is during the Second World War and after, in the cold war period. Our movements always defend themselves, thinking of this stratum, of the pioneers of

the communist movement. In the meantime, frequently, we do not pay sufficient attention to the fact that the youth, just the contrary, expect something different from us, from socialism too. The youth are waiting for an ideological advance, receptiveness to new things, brave initiatives in solving the problems of society. The youth do not understand this defensiveness.

But in my opinion we will be able to solve this problem, even amidst the difficulties, because today it is already completely obvious that Marxism, the Communist movement, is not the cause of a single generation. I consider it certain that we will be able to change generations again. And this will be accompanied by changes in our thinking. What we communists should look at now is not so much what Marx and Lenin said in their times but rather we should be asking approximately how they would be thinking and acting if they were alive today.

[Question] Why is it--to phrase it a little bitingly--that the party is on the defensive so often? In a word, that those people who insist on these certain reforms come, in general, from the outside, are not party members, or are the younger members of the party and, for the moment, are really in leading positions?

[Answer] It is true, sometimes the party only defends itself. But I do not accept that the idea of reform comes in general from the outside. I think we can find it within the party and the labor movement too, indeed we can find its historical origin primarily in this medium. But insisting on the relationship of the party and the reforms is just. I see the key to the problem in the present leading role and political responsibility of the party, and in the fact that even while developing we want to protect society from uncertain, adventurous undertakings, from unripe experiments. Why are we sometimes too cautious? Because we too are afraid of undoing the fundamental institutions of the social system, and unfortunately certain historical events justify this.

[Question] And yet you say that to a certain extent this political institutional system must follow the changes in the economic institutional system. This is two-faced.

[Answer] Yes, yes, we really say that, in the meantime we are afraid of erosion. And we are not afraid of a phantom, because the history of past decades proves that the danger of such an erosion does exist. Unfortunately. Already in 1956 Hungarian politics had almost taken the path of changes in the right direction, when a serious conflict arose, and we slid into that period when the counterrevolutionary danger arose. In Czechoslovakia in 1968 too one could observe a sort of erosion about which there is still a debate in the international communist movement. And in my opinion this is nothing to be ashamed of. On the other hand one cannot dispute that the changes there, to a certain extent, did unfortunately hide in themselves the danger of the erosion of the system. But the Polish situation was most dramatic, continually. The erosion became completely obvious in 1980.

[Question] Yes. But the Polish developments also proved that a further development of the institutional system, of the political mechanism, is unavoidable,

because simply changing personnel and resolutions which promise that such things will not happen again are not enough.

[Answer] I accept this totally, I agree. These events prove that in the present period there is a need for change of such magnitude that at the beginning of our conversation I called it a fateful turning point for socialism. Putting this off endangers and undermines the future of the social system no less. But another problem remains. All this brings a demand for political and ideological change in the international communist movement. We must seek and find a truer and more concrete interpretation of internationalism. Our present interpretation of internationalism is rather schematic, superficial in many respects, and actually makes it possible for certain nationalist tendencies, economic nationalism and cultural nationalism to survive behind the slogan of internationalism. So much needs to be clarified here.

The relationships of the socialist states to one another are also appearing in a new way today. One cannot simply form these into some sort of monolithic community, state community, on the basis of the old slogan of internationalism, which is not based on real economic and cultural interests. Scope must be permitted to national multiplicities here also, in the relationships of the socialist states with one another in Eastern Europe. The Yugoslav developments after 1948 called attention to this already, and if we follow the development of eastern European history this is still an insistent question today.

[Question] One gets the feeling that it is too little if a party appears before the country or before the individual members of it as if the party were now defending itself against something, setting itself off, trying to hold back or contain certain processes, as you formulated it. In a word, this is too little today. All the more so because in this country the number of people with diplomas increased three times in 20 years, between 1960 and 1980. So the size of the intelligentsia has increased and its average age has decreased very significantly. It is my opinion that what the party is offering today ideologically is not satisfactory. What is needed within the party is not only a change in thinking and in generations but a change in the method of approach, a change in attitude. Am I right?

[Answer] Of course, I agree with this, we must do this. But this change in attitude cannot come about as a monolithic unit change in the attitude of 300,000 communists and in the attitude of several millions of our political allies. It would be unrealistic to imagine this. A change in attitude is necessary, but it is a very, very painful process. In the beginning, in a curious way, it will appear to many as an erosion of communist ideals, because, let us admit it frankly, the first demands for a change in attitude were mixed in many cases with a revision of Marxism, were classified as revisionism in our movement. Thus they were conceived of not as a driving force for development but rather as a questioning of the socialist foundations. Young people justly say of such a conception: Well! OK, then Lenin was the first revisionist. He was the first and greatest revisionist, because he revised certain thesis of Marx to a degree that was unimaginable to many then and would be unimaginable even today.

In a word, this erosion process appears as a danger in the beginning, so only ideologically strong and politically intact movements can permit themselves such intellectual path seeking activity. For a long time we Hungarian communists were weak ideologically, and we had certain organizational weaknesses too. All this was coupled with an ideological uncertainty which we tried to cloak by assuming an especially militant armour. I believe that the communist movement is growing stronger in Hungary today, although there may be those who think that the way of thinking is in a process of disintegration here. It is not in a process of disintegration; rather this is the unfolding of a dialectical process when the movement is undertaking such an intellectual seeking of paths. The economic reform movement and many attempts which can be experienced in cultural life show that the seeds of this are there in the Hungarian communist movement. They are there in many areas of the international communist movement also. It is true that this must be strengthened. But now....

[Question] Excuse me! Do you see in Hungary today a younger guard which is ready to follow you?

[Answer] Yes. But I do not know to what extent it is ready to act and to what extent it assumes social responsibility. I do not know precisely what strength it represents, but it is there.

[Question] In your opinion is there enough mobility in the party?

[Answer] No, no. There is not enough. Fortunately the dogmatic view has relaxed so much in our party, has been limited to such a narrow circle, that the bases for sectarian ideals are actually limited to a very narrow area; today they speak rather of uncertainty when this intellectually more active part of the party still does not have the power to start a development within the Marxist movement on the basis of dialectics. But life, unfortunately, has created a situation where the state-maintaining function of our movement and the path seeking or revolutionary function of social development come to contradict one another at certain times.

What I have concluded from my own career is that it is not true, it profoundly is not true, that these two can coexist free of contradictions, even at a time when we are building our state and we are responsible for the policies of the country, responsible for the military security of the country...there is a certain serious contradiction between military security and building a revolution too. So in my opinion it must be emphasized, and the younger people must see this too, that unfortunately it is not possible in practice to become only the champions of revolution, of social revolution. We must serve this unceasingly with our hearts and minds, but we also have a state-maintaining role.

[Question] Many feel that enterprise independence is impossible if the ministry or council cannot have a say in everything but the district or county party committee or executive committee continues to intervene in an operational way too much of the time.

[Answer] Yes, and here too what is at work is the responsibility accompanying the state-maintaining function. In any case I do not believe that the state has really been taken out of economic life in Hungary. There have been remarks of this nature...but this can be taken care of very simply. From time to time we must say that we should not imagine the state to be merely a night watchman, thus a liberal state.

But really, raising the problem itself is false. Because the economy cannot be regarded as a sphere independent of or separate from politics and the state, a sphere from which they "could be withdrawn." At the same time they cannot be integrated into the economic process itself, they play the role of unique external factors. Anyway, one source of the problem is that with a grand simplicity the state apparatus is very easily and superficially mixed together in political life. But the state is not the ministry, is not the central office; the state is the people itself and the state is represented primarily by organs of power created by the people.

It is a political deformation, which took place beginning in 1948-1950, whereby the state apparatus forced into the background to such an extent the elected power organs of the state. It is true that now it will require political reform to reestablish the correct relationship.

In no way does the wellbeing of the state depend on the everyday intervention in the economy of the state apparatus. Indeed, it could be said that beyond a rational limit the more the state apparatus intervenes in economic life the weaker the state itself becomes. It is social consensus that provides the strength of the state. Of course there is no need for an apparatus which watches the development of economic life without acting; what is needed is a state apparatus responsible to the organs of state power which aids independent social activity.

As for the party, the idea that the party must realize the social interest in enterprise work directly, with political tools, derives from the fact that many see the role of the party exclusively or crucially in strengthening the state-maintaining function.

This hides in itself the danger that party work will become part of state administration, even if it stands above state administration, because thus also the party is brought into state administration. It must be recognized that an administering party cannot be a politicizing party. An administering party becomes bound to the lower, middle and high level leadership of the time to such an extent that sooner or later it loses its link with the people. So I think that here too there is need for a significant change together with the economic reform. This change has begun in our party since 1957--initially in an embryonic way but later to a greater extent--and we have started toward a politicizing party movement. But now we must take greater steps here.

[Question] If I understand you, the function of the state does not mean in every case the function of some--possibly incorrect--decision of a representative of the state apparatus. And the same thing applies to the party too. One

frequently hears about someone that he is not serving the party, but it may be that the person involved only wants to serve the party differently.

[Answer] I think that there is need for fundamental change in this too. We must reinterpret the concept of ideological unity and political unity to mean that in certain fundamental questions and fundamental aspirations unity is indispensable, but this must be brought into our life so that there can be different views in concrete questions, even in question of great weight, on the same ideological foundation. If in the future we cannot bring this pluralism of views and opinions into party life and into political life in general then the danger of conservatism and primarily of a split from the youth will become real.

[Question] This pluralism of views and opinions is not very apparent today, because in the various communiques we are always proud that unitedly and in complete agreement....

[Answer] But within the party we are debating more, thinking more today than it appears from the outside, than we make it appear to those outside. But if we look at what individual communists are saying in the newspapers, or radio or television it does not at all indicate that there was some sort of terrible monolithic unity in concrete questions here. It is possible that in the infinitely well rounded communiques issued about the decisions of responsible party bodies there is a reflection only of ultimate unity. But fortunately it is characteristic of many forums in the Hungarian communist movement today-- and I dare say this even of our central committee--that worthy debates are taking place.

[Question] But why cannot this be said to those outside? Why cannot it be made public at least to the extent that hard debates preceded a given decision?

[Answer] So...perhaps it is odd that I, as a member of the central committee, meditating in MOZGO VILAG, say that our communiques really are too "polished." Why is this odd? Because actually, today, in essence, we adopt every communique at a meeting of the central committee. And if I meditate on it and say that perhaps this is not good, then why did I vote for it? Because I too voted out the last communique.

Well, I voted for it because I could not suggest anything better. But I feel the problem. We should look for a better solution, a more worthy expression of the living, lively, pulsating strength of the party. This would be important primarily from the viewpoint of the intelligentsia.

So, in this regard also, we should try to develop the style of work of the party. When I talked about a fateful period, I was thinking also of this change in style of work.

[Question] The fact that public opinion is so unaware of the debates within the party explains in part why we know so little about the period between 1972 and 1974, which is called the sudden halt of the reform. But these years have

been mentioned more frequently recently. For example in the writings of T. Ivan Berend or in the statements of certain leading politicians. Perhaps it is not without interest how a young writer, Denes Csengey, characterized this period in December of last year in his book titled "...And Now We Are Here." According to him the economic opening was not accompanied by a political opening. You are one of those who formed this entire epoch. How do you see our recent past?

[Answer] As I see it a political opening also did begin in 1968, perhaps uncertainly, cautiously, on the basis of a conception which was not clear or not entirely clarified. We were continuing the program of the Revolutionary Worker Peasant Government adopted in 1956. But I must say that this continuation was not straight or self-evident, because at that time it certainly was not clear what interpretation of Marxism would finally become general and accepted for the long run, become characteristic in the policy of the party, and which political practice would become general and accepted--one which interpreted democracy in socialism in a new way or one which equated the idea of the dictatorship of the proletariat with political dictatorship in the old way. For a time after 1957 the MSZMP carried this double charge in itself. Only later, sometime in the first half of the 1960's, was there a change so that a creative interpretation of Marxism and a flexible political line became increasingly characteristic in the policy of the party. In this sense I say that the 1968 period rested on 1957, more precisely on the 1957 line of the MSZMP which was proceeding in this direction.

[Question] Yes, now we know that in 1957 much was called revisionist which in 1968....

[Answer] This is certainly true. I remember, for example, even in our party we had a debate about whether a producer cooperation could have a tractor.

[Question] When?

[Answer] Around 1958.

[Question] So after 1956....

[Answer] Well after 1956. It was necessary to note this because the creative and practical political concept became the major, ruling concept in our party, but it never became absolute. There always existed in our party, there exist today, various versions of the old way of thinking which developed in the first half of the 1950's. There are no longer pure, one hundred percent sectarians or dogmatists, but there certainly are false sectarian or dogmatic ideals and they manifest themselves. And there are those whose thinking cannot be characterized with either adjective and yet they represent a sort of political radicalism and think on a narrow class basis which has no foundation in life today. But these too are joining us on our path to build a society, this is a political current, and one cannot say, if you please, let us kick them out of the party, as if these people were without value in every respect.... Because in many respects they are not without value; in part they are conducting useful

activity even today. But in part, unfortunately, they do undermine the policy of the party in critical situations....

[Question] And sometimes they do so with an effectiveness worthy of respect....

[Answer] With an effectiveness worthy of respect. And they are defending the revolution, apparently, according to their beliefs. But in reality they spread bitterness, disillusionment and the idea that socialism cannot be reformed. Which actually is what our ideological, political enemies are saying. That the goal of the reform is not real change, that our system was Stalinism, remains Stalinism, and will be Stalinism hereafter, that it simply puts up a screen of reform and only apparently becomes something different. That is what our enemies say. And unfortunately these people are saying about the same thing, only with a different sign; according to them there is no need for reform. So, finally, there are these views in the movement also.

But in 1968 there was a political opening building on the progressive current of the party. We did things of great social importance, although perhaps they were not spectacular. For example, the National Council of Producer Cooperatives was established as an important organ to represent agrarian and cooperative interests; in 1968 and since then we have regarded the councils not simply as local organs of central state power but rather declared them to be self-governing organs. It is true that this self government--we see this today too--did not start some sort of quick flourishing and brought only local results. But this was a political opening. Another example is the activation of the trade unions; we recognized clearly their dual function, they support the system politically but in economic questions they have an interest representation as well as interest defending role, and certain regulations fix this too.

All this started carefully, because this political opening very quickly lost international support. With the collapse of the Czechoslovak reform experiments it actually remained without any international support in the socialist world. It is true that the Yugoslav economic practice also proceeded on the track of a unique reform policy, but it is a fact that Yugoslavia is separating itself from the institutions of the socialist community. At the same time we always held the Hungarian-Soviet friendly alliance contacts to be fundamentally important. We may have friction with this or that smaller socialist country, but we tried to avoid even these and did not take them up gladly, although they sometimes occurred. Maintaining the alliance contact with Soviet policy was always a fundamental question. In 1968 we interpreted this alliance contact in such a way that the principle of our greater internal policy independence became a part of it too. So such a new interpretation of this alliance is also a political opening, which has very great significance.

But it is true that this opening stopped in 1972.... No, no, even earlier, already in 1971. In 1972 a resolution gave expression to the fact that there had been a certain readjustment in regard to the economic reform and the political opening. It was not a complete readjustment.

[Question] But, in any case, you left the leadership at this time, although until then you were a secretary of the central committee. We would like you to tell us how and why you left.

[Answer] I was removed as secretary in 1974. I left the leadership because between 1972 and 1974 it became clear that there was a difference in the interpretation of Marxism, in the interpretation of the general laws and national peculiarities of socialism, a certain difference of political and ideological opinion within the movement, and in the question of continuing the economic reform also. So at that time it became so difficult for the party to have people with such different opinions work well and effectively together that it seemed logical to have a couple of us leave the leadership--Lajos Feher with me and soon Jenő Fock too. So....

[Question] Excuse me, to whom did this seem logical?

[Answer] It seemed logical to me to rethink my position in the situation at that time. In my opinion it was a symptom of a certain lack of development in the Communist movement or in the Hungarian political system that questions were solved in this way, because today the political leadership can work together better, perhaps, with similar differences, differences in interpretation and opinion. But even today it is not certain that this would be possible in practice. So I say that my departure was natural under the conditions at that time.

[Question] Does this mean that you or those like you initiated your departure?

[Answer] No. But I would not have been able to represent conscientiously and with a full expression of unity many things--not everything, but many things--of what was done in practice in those years. But the resolutions of the central committee always contained correct principles; I accepted and represented these.

[Question] Including the readjustment, what you called a readjustment earlier.

[Answer] I could not represent that readjustment.

[Question] So if I understand you, you are saying that you all did not initiate it but you accepted the logic of it.

[Answer] We did not accept the logic of the readjustment, rather we accepted the logical nature of the personnel changes. If you please, we accepted it, of course we accepted it. Let me confess frankly that I accepted it because at that time I was more pessimistic. Although I knew that this sudden halt and readjustment would be temporary and would eventually end--I believed this profoundly--still, at that time, it seemed to me that there would be a greater return in Hungarian policy to the conditions prior to 1968, and I did not care to participate in this in my earlier post.

[Question] And how did this affect you personally? What did you feel, what did you think, what state were you in? In a word, did you feel this to be a defeat?

[Answer] Look.... I was bitter, because I had taken a stand for a cause, I had tied my fate to it at that time. This was the cause of economic reform, and I feared for this. It was actually a relief to me to leave the leadership, because I would not wish it on anyone to spend a long time in such a leading post. I also had needs in connection with private life, I also lived a private life, but such a high position presses on a person's private life to such an extent that however much ideological commitment he has 10 or 20 years is more than enough. So there was a feeling of relief. The bitterness passed quickly, the relief remained.

[Question] But if you look back, then it turns out that you and those like you were right in the great majority of things; the events or the processes have justified you....

[Answer] This.... I am very abstinent in this, and I would say that I am not the one to say this. I am not objective, and I will not give my opinion.

[Question] But we would like to recall that you were the one who, as secretary of the central committee, said that "we have stopped the 1973 capitalist price increase wave at the border." Although you obviously knew that this was impossible....

[Answer] I said this in an impromptu interview, but not entirely without foundation. At that time I thought that we could prevent the ripple effects of world market inflation with an active rate of exchange policy. And, in part, this happened; because the Hungarian economy never assumed the degree of Western inflation. In that interview I could not point out--there was a debate about this going on in the party, and it has now been proven with serious professional work--that an internal inflation was being induced in Hungary. I was thinking about stopping inflation coming from outside.

[Question] There are opinions about this same period, being warmed up again now, that the stopping of the reform was initiated or encouraged under the banner of a sort of narrow, so-called worker interest or trade union interest. And it is difficult to deny that those proposing such views did represent real social anxieties. Indeed, seeing the constant price increases and other economic problems maybe even today the majority of the Hungarian working people are not really on the side of reform.

[Answer] Really, it is not just a few politicians who discovered contradictions, they really do exist; but it was incorrect to raise them to the political level. Just as in Lenin's time the behavior of the Soviet Russian worker opposition was incorrect--however much they emphasized workers' interests and criticized on the basis of them, in the long run they were working against the interests of the working class. But it is a fact that temporarily--not for long but for a certain time--this found understanding and acceptance in a part of society.

We had plenty of real problems. The broad masses, the people who were not political, did not become real participants in the economic reform. Perhaps a part was played in this by the fact that the reform was not coupled successfully with social, political changes. But in any case, it is my opinion that it is not true that the millions who think in the long term would have a stake in what happens everyday. If you ask how big a camp the reform had in the politically active Hungarian society then I would say that it was large. It was a large camp. But there can be no doubt that there were divisions even in the politically active camp, and because of this the political sphere could not convey to broad strata of society the sense, goal and advantages--together with the disadvantages--of the reform, in order to win over the everyday people. Still, if the reform policy goes into opposition then the position of the people becomes clear, and they support the reform. For example, I remember very well that in 1972-1973 the so-called worker trend spread a rather large anti-peasant feeling in the country, in industry, especially in the capital. They wanted to make you believe that the entire reform was for the benefit of the peasantry, that the workers would only suffer because of it. And many believed this. In 1974-1975 the government took some incorrect measures, for example to cut the income from household plots. Well, yes, but this quickly had an effect on production and supply difficulties appeared, wonderfully quickly. And just as wonderfully quickly Budapest public opinion awoke from its Sleeping Beauty dream and saw that the household plot policy was a good policy. And soon, in the second half of the 1970's, the balance of political public opinion tipped unambiguously to the side of the household plots.

[Question] Permit me to reformulate this question--to apply to 1984. It is my feeling that it now more or less accepted, or is becoming accepted, that outstanding performance must be honored outstandingly. Indeed, I think we agree that it should be rewarded more outstandingly than it has been. But it appears that it is very, very difficult to get it accepted that he who is rewarded outstandingly will consume outstandingly also. It appears that the dissatisfaction, the bad feeling appear primarily when people see the life style or consumption of their countrymen who perform outstandingly--even if they really deserve it. I feel that this is a serious question for the future.

[Answer] This tension is really very strong today, and several things strengthen it especially. One is that there is no real economic growth. Naturally I am not thinking that our golden age could return, when the national income grew by six percent per year. No, this cannot return. But a growth greater than at present could, because on the basis of that the differentiation could take place more smoothly socially, with less tension. So it is my opinion that in the present period we are talking more about differentiation than we can do to achieve it. Of course, efforts must be made everywhere to differentiate better.

It also increases the tension that after 1979 a very correct measure was taken with the intention of continuing the reform policy--encouraging small undertakings. Comparing the advantages and disadvantages of this measure, in my opinion, the advantages certainly dominate, even from the viewpoint of those who today feel the disadvantages more strongly. But this explosive change, the opening of this free-market-like sphere, with an imperfectly regulated,

actually simulated market--this was a factor increasing the contradictions. This market dilemma can be resolved only by continuing the economic reform.

The third factor is the high inflation--with 3 or 4 percent or even 5 percent it would be easier to differentiate incomes in real value so as not to increase the social tensions.

As for the future, I think that if these three factors come to an end or if their effect diminishes greatly then the situation will be better, but in my opinion the income distribution problems and the tensions arising in connection with this will follow our lives for a long, long time. So we must always deal with the income distribution problems, with the lack of proportion, with thestrata who are disadvantaged. Among other things this justifies the creation or strengthening of mechanisms which will transmit and realize social interests, and the development of a political system in which the interests come to the surface openly. The greatest trouble and bitterness is caused if there is no forum where people can voice their complaints, or if they feel that "circumlocution offices" are dealing with their complaints, and not democratic forums.

[Question] You also know that debates about the reform or about the reform of the reform are taking place far and wide in Hungary--and not only in the economic papers or in economic programs. MOZGO VILAG entered this debate also with the study by Tamas Bauer which appeared in November 1982 and elicited extreme responses.

[Answer] Yes.... It is unfortunate that this study caused problems, what it had to say as a whole did not justify this. There were a few superficial, offhand statements in it with which one cannot agree. But I hope that this study was not the cause of the editorial crisis that followed.

[Question] But they say that it was. They also say that he had to be removed because of it.

[Answer] I am not up to things to that extent, but in my opinion there was a bigger hubbub a few months ago that this study would have justified. The fact that a young staff demanded a more vigorous reform policy is certainly understandable to me. But the fact that some proposed starting a completely new reform process because, according to them, the 1968 reform had failed and thus could not be continued--this is not true, this is an erroneous view. A person can have such erroneous views, but they entered into a debate with this, and I also debate with this.

[Question] In a word, if I understand you, you spend your days in a two-front struggle. The young people favored and supported by you are thumping for more vigorous reforms than even you are. And you are trying to convince others that for this reason something must be done, even if not as much as they are demanding from you.

[Answer] Unfortunately that is the way it is. To certain young people I am a rose-red reformer, while in the eyes of others I am an extreme reformer, a sort

of dark red broadcloth. But my God, different people see colors differently. Young people frequently lack the "also." The way it is today, on one hand they consider the debates in our party insufficient, while on the other hand when they become public in practice they consider them to be too many. In the meantime they also say that the debates are formal, in a word...the debates are actually conversations which take place side by side, and they do not adequately reflect--at least the public debates do not reflect--the actual oppositions. Because it is characteristic that the debating parties themselves try to make their views mannerly, trying to wrap them up in some sort of public life packaging in which they can represent them to a certain degree. Because the value of everything is moderation, quoth Aristotle. In a word this is correct to a certain extent, but beyond a certain measure this packaging destroys the essence of the views opposed to one another. And today we can establish that the debates are not real enough. On the other hand, if a debate is real, we say that, well, there should not be a debate on this now because it is a delicate question. And it really is a delicate question, I must say, if someone, for example, brings up certain problems of CEMA. And if there is not sufficient reputation to back someone up then, certainly...he is made to pay the price. So we are in a contradictory situation. In my opinion we should expand, in a sensible way, the circle of questions which are not delicate; indeed, actually, even the delicate questions should not be tabu, it is only that the truth must be formulated more delicately, more carefully, on one's guard--but in these matters also the truth must be formulated.

In a word, there must be a more careful formulation of delicate questions. This is my opinion, I try to represent this in practice myself. As I see it this is not impossible; one can deal with delicate questions in Hungarian politics today, but there are many problems in practice and...so, this is not really done.

[Question] So, how to get on with the reform?

[Answer] The idea has been put together already and in essence I agree with it. One chief direction is that we must develop enterprise leadership which is capable of undertaking things and which does undertake things and we must create government guidance or a regular system which encourages this.

The second chief direction is to develop an economic regulator system in which the price, wage, tax, credit and entire financial system or the various methods of economic valuation are in harmony with one another and in combination expand the freedom of the enterprise leadership and of enterprise action. Insofar as they are restricted the restrictions will be coordinated. So we must put an end to the state of affairs whereby we reduce some resource for some social interest, but thereby actually hold back the realization of another social requirement, which characterizes the over-regulation of today.

The third chief direction is a substantial further development of the internal functioning of enterprise leadership and of the enterprises, in the course of which the partner relationship of leaders and workers will become more worthy, reordering the methods whereby the state exercises ownership rights so that responsibility for public property will come closer to the people actually managing and not merely remaining some sort of unfathomable ideological

factor. These are very essential reform measures. If we add a reform of the banking system, which this concept also contains, then this provides the economic foundations. We are also dealing with a rethinking of the economic organizing work of the party--retaining the idea that the party develops economic policy. So we must rethink the economic role of the party, the style of government work and the leading role of social organs, including the trade unions, with the idea that a substantial improvement of economic efficiency is in the public interest.

These things, let us say, are the framework and essence of this reform concept; and today Hungarian politics is open in this respect, that it is better able to permit the unfolding of the interest clarification, interest clashing and interest harmonizing function of the political mechanism. This includes a development of public administration plus the increasing role of the national assembly. These are the things which, as I would say, outline this economic reform concept, which may become more of an all-social reform process than the 1968 reform.

[Question] Seeking international supports for the future of the reform, all this only confirms how much interest we would have in a swifter development of commodity and monetary relationships in CEMA.

[Answer] There are certain limits to this but they are not so narrow as some think. The Hungarian economy really would have an important interest in having the CEMA countries as a whole go through similar reforms, or at least reforms or mechanism reforms moving in one direction. The necessity of this exists today. The possibility? Well...there really is some, starting these reforms is not impossible. We can even see in the Soviet economy that experiments connected with the economic mechanism are underway. There are signs of this in Bulgaria. In Poland they have already accepted an economic reform politically, but the economic conditions for it hardly exist. So I think that the Hungarian reform policy will find a somewhat broader base...or, to put it more precisely, will meet with definitely less resistance on the part of the economic mechanisms in other countries than it did after 1968. So the situation will be somewhat better, but we cannot count on a large part of CEMA going through a similar reform in the relationship of planning and the market or in the character of the economic mechanism in the remaining part of this decade. We cannot count on this, but even under these circumstances we must seek a possibility for the development of CEMA cooperation. We must find possibilities for cooperation more intensive than at present even with differing mechanisms.

[Question] But this could act as a brake....

[Answer] If you like I could call it a brake too, because as a result of this the Hungarian economy also will receive less stimulation for growth from CEMA cooperation, as will the other member countries. But let us put it this way, that for the time being the Hungarian economic mechanism is capable of developing on its own base too, and will be capable for a good bit without clashing with CEMA.

[Question] So we have not yet achieved the maximum in the possibilities of CEMA?

[Answer] We have not. Naturally it is a very, very delicate question, and I mean a complex political question, to judge how far independence in the economic mechanism or economic policy independence can go given the alliance relationship. It is my most definite opinion that we can still develop our independence even with good alliance relationships. In the interest of this sometimes we must have debates, momentary disagreements, trusting that in the longer run such debates will serve to strengthen the alliance.

[Question] And are you not afraid that the global political situation developing for the second half of the 1980's will lure the opponents of reform into more significant resistance? I would say, into isolation, into curtailing contacts. Because there have been such tendencies in Hungary in the last one or two years, even in leading positions.

[Answer] Yes. There were, and I am counting on a renewal of this. This will reappear in every period of external political tension, and there will always, always remain a certain sort of dilemma in communist policy, and I do not blame the dilemma itself. Considering that the world situation now is radically different from what it was earlier, many ask, "How are things going, what are the interests of the socialist world, what do the special interests of the Hungarian people and the Hungarian economy require?" and we must always think about this. Because in connection with this meditation there will be renewed attempts to raise the idea of turning away from the world market. However far into the future I think, I imagine the relationship of the different social systems on the basis of peaceful coexistence. This is the ultimate axiomatic base from which we cannot budget. So I cannot imagine that we will ever turn our back on the world market. Indeed, I cannot imagine this of the Soviet Union or of the socialist world as a whole. We are--at least in part--dependent on the world market, on the developing part of it and on the developed capitalist part of it too.

As I see it today this system of bi-directional contacts has taken its place in our policy, with the socialist world and with the non-socialist world. There is no alternative to this. We must strengthen this and understand it, but both sides of it. We must understand that we depend on continual economic contacts with the non-socialist world. But also that we have an elemental interest in being able to live with the socialist world, turning toward the East, perhaps even more so because there were no historical traditions for this so it requires special attention and effort. If we think well of the aspects of Hungarian policy then great personalities also call attention to the lesson that we cannot turn toward the West alone, that there are serious geopolitical and ideological reasons for binding ourselves strongly to the socialist world. This must be brought into public awareness much more than at present. But we are open in every direction, and I see the prospects for this as being good today.

[Question] A final question. In December 1980 you made a statement to Andras Mezei in ELET ES IRODALOM, and accepted the expression, in regard to our

situation, that we must dance "bound hand and foot." Is that how it is today, and if so are we bound more or less than we were?

[Answer] Dancing while bound hand and foot can be interpreted in two ways. What I said then was that whether it was possible was not the question, we had to dance bound hand and foot. I thought that then--and think it now--in this sense, that the position of Hungary is determined by very many historical, international, political and economic factors, production forces and cultural conditions, and all this certainly restricts our freedom of action. These are the things which bind us.

But there is an everyday sense to this too, that we are bound by central over-regulation. The low degree of readiness for social cooperation binds us. The weak level of leadership in many, many areas binds us. In this sense I do not believe that we have to dance bound hand and foot.

8984

CSO: 2500/278

NEW EFFORT LAUNCHED TO ATTRACT FOREIGN JOINT-VENTURE CAPITAL

Frankfurt/Main FRANKFURTER ZEITUNG in German 29 Feb 84 supplement BLICK DURCH DIE WIRTSCHAFT p 1

[Text] Berlin, 28 Feb--Trade with the People's Republic of Poland remains difficult. Poland is forced to improve its debt-ridden image through a rigorous policy of austerity. Without a confirmed line of credit, there is nothing more that Poland can purchase in international markets. That presents an economic system, which bet all too strongly on using imported capital goods and thereby "lost," with almost unsolvable problems. Perhaps, with sufficient imports, part of the indispensable process of recovery and restructuring could be solved more easily, but Western partners, and especially the banks, have been shocked.

It became quite clear at a seminar of the Berlin Institute for the Continuing Education of Economic Managers that Polish experts are not fooling themselves at all: the analyses that they presented were mercilessly sober, and the silver lining is still far on the horizon. Whether justified or not, their hopes hang on the effects of the half-hearted economic reform, on another good harvest, on understanding for the Polish situation and on increased cooperation with the West on the basis of new legal regulations.

The economic collapse of the country, along with the now-lifted martial law, have forced the country to restructure its foreign-trade flows. The portion corresponding to Western countries has declined sharply, while trade with other East bloc countries has experienced a commensurate sharp rise. In Berlin, Janusz Czamarski, responsible assistant director in the Planning Commission of the Council of Ministers, said quite clearly: "We, together with socialist countries, have been forced to replace a number of elements of cooperation and the importation of spare parts and installations in important sectors of manufacturing (shipbuilding and the automobile and chemical industries, for example). For this reason, we have entered into cooperative agreements with the USSR, CSSR, Hungary and other socialist countries in the area of cooperation where we previously dealt with West Germans, Italian, English or French firms."

Poland's offers are a new opportunity to draw foreign capital to Poland and to make such commitments attractive, especially from the tax perspective. To be sure, the experts in Berlin did not want to overestimate this cautious

new beginning, but Poland is grateful for every small beginning. Initially, it is small and middle-sized enterprises that are working in Poland and that were already able to show some successes at the last fair in Poznan. The legal basis was established by a law dated 6 July 1982, but important changes are in the works, particularly in the area of taxation and the availability of earned hard currency. So far, only about 500 firms have taken advantage of the new opportunities; 20,000 workers are employed in these cooperative enterprises. Firms from the FRG and West Berlin are especially well represented in these businesses. In part, the rate of profit on sales appears to be high, up to 25 percent and even higher in some cases. The effects of additional tax relief passed in August 1983, however, are still not apparent. After 3 years, various easements--up to 20 percent--are possible in the income tax, provided, for example, that part of production is set aside for export or that production saves imports or is of particular importance for the domestic market. The possibility of transferring half of export receipts abroad is to be made dependent upon the sale of the other half to Bank of Poland.

The Polish Government wants to encourage larger enterprises to take part in such cooperation whereby the example of Hungary serves as a model. But the Polish parliament will debate the matter for several months yet.

Those interested in cooperative agreements should best turn to the "Office of the Authorized Governmental Agent for Foreign Enterprises": Warszawa, Plac Powstancow Warszawy, telephone 26 34 14. Cooperating Polish firms also have their own chamber of commerce and industry, Interpolcom: Warszawa, Krakowskie Przedmiescie 47/51, telephone 27 22 34.

9746
CSO: 2300/336

NEED FOR EFFECTIVE MARKETING PROGRAMS FOR EXPORT OF CLOTHING

Bucharest REVISTA ECONOMICA in Romanian No 7, 17 Feb 84 pp 12, 13

[Article by Stefan Masu: "Stimulation of Export Activities--Marketing Programs in Efficient Clothing Merchandising"]

[Text] The international clothing market is still going through a difficult period, against the background of the severe economic and structural crisis that has been weakening the world economy over the last decade. Since the clothing industry is a field particularly sensitive to fluctuation of international market conditions, it is necessary and important to give a brief recapitulation of certain major features of the world economy in recent times; this is important in particular since the industrialized countries absorb more than one-half of the textile imports of the world and about three-fourths of the clothing.

Slight signs of encouragement were given in 1983 by the animation of the economy, following the absolute decreases in both world production and international trade in 1982 brought about by virtual stagnation of the world economy during the previous years, 1980 and 1981. To be added to the 2 percent drop in world capitalist production in 1982, the sharpest drop in the last 8 years, and to a decrease also of 2 percent in the volume of international trade, there is to be added the rise of unemployment to the level of more than 30 million persons⁽¹⁾. Thus we obtain the general context in which we fit analysis of the textile trade, and especially details of preparation and implementation of a marketing program in the field of clothing.

Textile and clothing production and trade registered decreases of 4 percent and 4.5 percent respectively in 1982. World textile and clothing exports were at the level of 92 million dollars, 4.5 percent below that of the previous year. These effects, which represent a specific element of the crisis, depend on each other and feed each other. The increase in the exchange rate of the U.S. dollar exacerbated, in terms of prices, the shortage of capital and the resort to protectionist measures, phenomena which are encountered again, and preeminently, in the world textile and clothing industry.

Under the conditions as outlined the textile industry continues to be the setting of a phenomenon of channeling of investments in such a way as to replace imports, with a resulting escalation of protectionism. In Western countries

intensive research programs are underway to arrive at solutions whereby organization, modernization, and automation of textile production will lead not just to reduction of imports but also to reduction of the manpower employed in this sector⁽²⁾.

Technological and Marketing Forecasts

In the clothing industry as a target of marketing strategy, clothing is a product characterized by the particularly great volatility inherent in production of consumer goods subject to the action of highly variable factors (fashion, taste, and so forth). Hence the need for constant correlation of marketing strategy, a function of management at the micro-economic level, with technological forecasting, a policy function at the branch and component branch level. In other words, a fundamental commandment in the clothing industry is that medium-term and long-term technological forecasting must ensure equipment plus materials and organizational support capable of allowing flexibility, that is, rapid adjustments of production required by short-term changes in product characteristics and fluctuation of foreign demand.

These priorities are among the objectives set for light industry in general and for the clothing industry in particular within the framework of the economic policy of the party and the state. Party documents thus provide that in light industry, which by the end of the current five-year plan will account for more than 10 percent of total Romanian exports, substantial improvements will be made in the quality of products intended for export, through better finishing, ability to adjust rapidly to the demands of fashion, constant elaboration of models permitting better utilization of original creative efforts, and production of short-run series coordinated with consumer demands and taste. The use factor will be increased 50 to 100 percent during the current five-year plan as a result of application of these measures⁽³⁾.

The first stage, already completed, in development of the Romanian clothing industry was that of creation of the structures needed for modern production on an industrial scale (to its century of experience with making clothing and knitwear Bucharest adds the decades of experience of 35 other clothing factories grouped together today in three major centers, Bucharest, Sibiu, and Bacau); these structures are to ensure transition from extensive to intensive development. The current stage may therefore be characterized as one of quality and better utilization.

At the world level the clothing industry is going through a process of transition to complex semi-automation and automation of the processes of planning and design, cutting of textile materials, and assembly of machines and sub-assemblies, including the activities of planning, scheduling, and monitoring production. Romanian industry, having been prepared to cope with the problem of automation, will rise to an absolutely superior level of modernization on the basis of which better productivity and utilization will be achieved. Steps have already been taken toward automation of the processing of anthropometric data and the process of clothing construction and sorting, classification, and reproduction of patterns. There is also a program in place for adoption of highly sophisticated equipment. Note should be made of the

prospective research covering the next 30 to 40 years being carried out for preparation of long-term programs and plans of scientific research, technological development, and technical progress in the sphere of the technology of manufacturing clothing products from fabrics over the 1986 to 2010 (2020) period.

Other specific features of technological forecasting and marketing strategy in the clothing industry are represented by the element of connection between subsidiary branches--manufacture being the final stage of utilization in a vertical cooperation process made up of spinning, weaving, and manufacture--and at the same time the dependence of the progress recorded on horizontal cooperation by a number of sectors and subsidiary branches providing auxiliary materials and accessories (buttons, rings, zippers, ornaments, display elements, etc). If we add the factors of cooperation outside light industry, especially with the chemical industry, the mechanical engineering industry, and agriculture, we come to realize the magnitude of the indispensable requirement that the preparation of long-term development and marketing programs for production and merchandizing of clothing must be organically linked to forecasting for all sectors participating in the cooperation process. This requirement is now being met, under the vast program for better utilization drawn up on the initiative of the party and state.

It is in this spirit of coordinated and integrated development that we understand the investment efforts being applied to the direct or indirect benefit of the clothing industry.

Product Strategy

Having adequate material resources, experience, and tradition available to it, our textile clothing industry has been diversified to the extent that it is now able to offer virtually the entire spectrum of products involved in international trade: clothing for men (suits, trousers, suit coats, shirts, jackets, overcoats, raincoats, etc), for women (suits, dresses, skirts, blouses, raincoats, jackets, etc), for children, clothing for various purposes (clothing for sports, protective clothing, etc), and a comprehensive range of knitwear.

Another specific feature of the clothing industry is that the bulk of the output is intended for export, so that the industry is oriented toward and specializes in production for export. There are many factories at which exports account for 80 to 90 percent of all output. There are frequently times when whole departments and entire factories operate exclusively to produce exports (the enterprises at Bucharest, Craiova, Focsani, Satu Mare, etc). Under such conditions market research, technological and commercial, comes to be of decisive importance, making product strategy not a simple component of general marketing but a strategy of production for export.

It suffices to point out that the element of flexibility and responsiveness in adjustment also acquires particular value for the clothing industry at the level of sensitivity and demands characterizing the world clothing market, under the conditions of fierce competition in all areas and of strong

protectionism. To give only one example, the expression 'adaptation to fashion' is used in current parlance, while in fact the need for anticipation of fashion is increasingly felt, since the essential elements must be provided at least a year in advance. Under these conditions product strategy (research, creation, production, promotion) comes to be faced with a hurdle of demands higher than the state of adaptation and is thus transformed into a vanguard element.

The Clothing Research and Design Center (CCPI) (in cooperation at the Clothing Industry Central Agency (CIC) in Bucharest) analyzes all the preliminary phases and components of the manufacturing process: creation, design, preparation for manufacture, cutting of materials, processing and installation of machines and subassemblies, and improvement in organization and management of production and work.

The existence of traditional partners, in the case of a considerable volume of export production, also makes it necessary and possible to engage in cooperation in creative endeavor between CCPI specialists and specialized organizations of foreign clients. This activity permits increasing introduction and more and more intensive promotion of original creative work, a basic factor in ensuring better utilization. At the present time, more than two-thirds of the volume of output intended for export is turned out on the basis of original creation or in cooperation with partner firms. This continues to be, however, a field in which efforts should be continued and intensified, in order to bring about increase in the contribution made by original creation to increase in the efficiency of production for exports. A greater contribution must also be made by creative work in the vertical and horizontal cooperation sectors (textiles, accessories, etc).

According to recent directions issued by the party and state leadership, certain organizational improvements must be made in this sector in order to improve creative activities. Insofar as we are concerned, we support the opinions and proposals to the effect that CCPI should intensify its efforts and functions at the level of the clothing branch as a whole, and that the central agencies and enterprises can develop their own research activities and organizations (as is the case with ICTIB [Bucharest Clothing and Knitwear Enterprise]), after, of course, they have been suitably outfitted, reorganized, and improved.

In another order of ideas, the efforts to meet the demands of the foreign market, against the background of the intensifying competitive struggle, and the evolution in recent years in the direction of increasing sophistication of products have induced Romanian industry to achieve a product complexity the dynamics of which has outstripped the methodology of evaluating output in terms of actual items. It can easily be seen that the same number of items of a particular product may entail varying consumption of materials and manpower, different production times, and different productivity, as a function of the number and complexity of seams, accessories, ornaments, etc, and that proper expression of these differences requires supplementing the actual output indicator with an indicator reflecting the difference in complexity. As a matter of fact, at the end of 1983 a methodology proposed by specialists of

CIC Bucharest was introduced on a trial basis; the methodology needs to be finalized and officially approved before introduction of an indicator specific to the clothing industry, one in keeping with the requirements for continuing improvement in the economic and financial mechanism.

Merchandizing Strategy and Marketing Program

Romania's 2 percent is a relatively modest share of the world clothing trade in terms of total volume. But when we remember that the clothing industry is present in the economic structure of all developed socialist countries and of a great majority of the developing countries, being one of the largest branches, we can say that Romanian exports occupy an important place in world trade in this sector. In terms of presence and of volume (being 3 times greater than the share of all other exports in world exports) and in terms of contribution to the national balance of trade, clothing represents a competitive field of the economy.

A qualitative aspect of the evolution of Romanian exports is conformity to the tendency (which characterizes other European countries with experience in this field, such as France, the Federal Republic of Germany, Italy, England, Hungary, and Poland) toward increase of the share of clothing exports in the total exports of the country (4.1 percent in 1976, 5.2 percent in 1980, 6.0 percent in 1982). As in the case of the countries mentioned, there is also a trend to be observed toward slight decrease in the share of knitwear and the corresponding increase in the share of clothing⁽⁴⁾. In the case both of clothing and of knitwear the vast majority of Romanian exports continue to be oriented toward outer wear, which accounts for 99 percent of clothing, while underwear represents only 1 percent. Outer wear, in turn, continues to be dominated by articles for men, which represent about two-thirds of outer wear. As a result of advances in quality, both in industry and in merchandizing activities, the position of articles for women, which exhibit a high degree of complexity and utilization, is nevertheless becoming stronger.

Analysis of the geographic distribution of Romanian clothing exports yields the positive finding of stability of relations with a number of traditional partners in countries having wide experience and powerful industries of their own in this sector: the Federal Republic of Germany, Italy, France, Canada, England, the United States, etc. This persistent presence of Romanian clothing on different continents is not only an element of fully deserved prestige but a direction of participation by Romanian industry in the international division of labor and in world trade.

The Confex Foreign Trade Enterprises, which performs the function of marketing Romanian clothing abroad, has cooperated with the clothing manufacturing centers to draw up marketing programs with breakdowns by countries and groups of products, so as to ensure full employment of capacities reserved for export in filling orders. On the initiative of the Ministry of Light Industry, a number of steps were taken, especially during the last half of 1983, to conduct marketing activities on a more organized basis. For example, the activity of market study and signing of contracts was intensified, through application of coherent programs, to assure a better presence and continuity on foreign markets.

A detailed outline was drawn up for a comprehensive promotional program now in the process of being implemented, a program calling for publicity and advertising activities in accordance with a unified concept at the branch level, with a separate listing of measures that may be carried out at the various hierarchical and efficiency echelons: ministry, foreign trade enterprises, industrial central agency, and manufacturing enterprise.

The elevation of marketing activities to a higher level has stimulated production activities, from research and creation to mass production, and the production efforts in turn are imposing new requirements on the distribution network, such as that of diversifying markets and partners to provide a broader context for conduct of trade, with new alternatives and priorities determined by variations in market conditions. It will be possible on this basis to consider being more selective in acceptance of orders, as a function of efficiency, degree of utilization, reflection of the complexity of products covered by contracts, exploitation of domestic resources, etc.

Production and export of clothing are today becoming the scene, perhaps the most prominent one, of interaction of the elements of the battle for quality, from long-range technological forecasting to the possibility of rapid action and adjustment through current marketing programs, from creation of powerful industrial structures to increasing participation in world trade, on an economical and efficient basis, for optimum utilization of the potential of this branch of Romanian industry.

FOOTNOTES

1. GATT document 1340, Geneva, August 1983.
2. UNCTAD, Report on the International Textile Trade, Geneva, February 1983.
3. The program for raising the engineering and quality level of products, reducing consumption of raw materials, fuels, and energy, and better utilization of raw and other materials over the 1983-1985 period and to the year 1990.
4. See the study done by the IEM, "Directions of Improvement in the Structure of Romanian Clothing and Knitwear Production."

6115

CSO: 2700/160

SUGAR BEET PLANTING PLAN REDUCED

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 3-5 Mar 84 p 3

[Article by Miodrag Filipovic]

[Text] On the basis of contracted acreage, no change in sown acreage is expected. The program to increase them is based on an increase in the private sector, whose behavior has been extremely uncertain for years.

Sugar beet, being the first crop in spring sowing, will to some degree set the tone for the whole. It is already known that the sowing plan will not be fulfilled. The ambitious planning of over 190,000 hectares will be, as is our custom, switched to the next year, when sugar mills, although they operate at great losses, will again fully commit themselves to securing raw materials. Although one should not judge too soon, results in agricultural production have been known to change at the last minute. Judging by contracted acreage, the sowing program will not come close to fulfillment. It seems that acreage will be at last year's level--about 140,000 hectares--which will only aggravate problems in sugar production.

Although more modest than sugar industry plans, the task stated in the Social Agreement about the development of agroindustrial complex aiming at a production of over 9.5 million tons of sugar beet this year will not be fulfilled either. The "sacred goal" of the agreement to produce over 9.5 million tons of beets and 1.3 million tons of sugar by the end of the midterm will thus become even more remote.

The production of sugar beet and oleaginous plants has for many reasons been an equation with one unknown for a long time. It has become impossible to say how individual producers will relate to this social task. In fact, it is not unknown that the private sector under current production conditions is not accepting this crop which is almost the only labor-intensive agricultural crop. This sector has a rather wide choice, and the fact that corn, for which there is never enough acreage, also participates in the spring sowing together with beet, is sufficient. This unequal duel has always ended with the same winner, yet despite this situation conditions for growing corn have been improved in the preparations for the next phase of the harvest, against social commitments.

Sugar an Import Commodity Again

How to disentangle this knot which is constantly thwarting sugar beet production, especially as the increase of sugar production is based on the land possessed by the private sector? Beets as well as oleaginous plants can make a major break-through only here, and this is why the sowing plan for this year specifically counted on its participation for 32.68 percent (67,000 hectares). Acreage in the private sector in relation to last year was supposed to more than double. Second thoughts soon took place; farmers contracting for the acreage have been abstaining again, and according to present calculations it can be expected that sowing will be done at approximately the same acreage as last year, if not at an even lower level.

Price-parity relations in agriculture, elaborated in the last few years, have become the greatest obstacle to the increase of production here. The increase in sugar-beet acreage stopped in 1982, and disturbed parities of production with wheat prices have characterized the entire last decade. For the last 5 years, since 1979 when record production was achieved, this parity has varied, but it has always been pronouncedly unfavorable to the production of beet. In 1979, for example, it was 1:6.9, in 1980 1:6.7, in 1981 1:4.6, in 1982 1:5.4, and last year 1:5.2. The sugar industry instead advocates the establishment of a real price parity with wheat of 1:3.5. It is said that parity should in no case be below 1:4 if we want to avoid dependence on the world market.

Since 1981 sugar has in fact become an import item again, although our country has larger-than-necessary capacities for its production. Of 21 sugar mills, only 10 have secured raw materials, while the others use only 30 to 60 percent of their capacity. By building the Sabac and Pozarevac sugar mills, daily processing capacity has grown to over 100,000 tons of beets, so that our facilities can process in 80 days more than 8.2 million tons of sugar beet (which is approximately the quantity anticipated by the republic and province for this entire year).

New Plants--Greatest Losers

Because beet production is insufficient relative to processing capacity, sugar mills as an average worked 71 days, with great variation--from 25 days at the sugar mill in Pec to 102 working days at the mill in Belgrade. Thus, losses in production over the last 2 years have surpassed 3.5 billion dinars. New mills find themselves in an especially difficult situation because of the payments of annuities and very high interest rates needed to finance their working capital.

Apart from price parity--and sugar mills suffered losses in relation to their consumers, too--there are quite a few additional problems in production. Sufficient quantities of all sorts of seeds have been prepared for the spring harvest on the basis of the producers' estimates. The plan foresaw that the percentage of domestic seeds would grow to over 43 percent, which would continue the trend of decline of foreign seeds (their share in 1982/83 surpassed 70 percent). Although foreign seeds still lead, their replacement

should be speeded up, as they are not giving better results. It is anticipated that their share will be 50 percent in 1985.

Preliminary results from 1983 show that the domestic seed "al cermona" has been proven to possess the best properties, and yet it participates in the total structure with a modest 10.16 percent. Ahead of it, for example, are "gemo monopur" with 14 percent and "mono ford" with 11.32 percent. For these varieties as well as for other foreign varieties, the licence must be paid in hard currency, and for one unit it costs 25 percent of the price of the unit at the Brussels trade board.

Among the other conditions of production which hinder the producers' response, is the inadequate mechanization together with the traditional difficulties in supplying producers with insecticides, pesticides and mineral fertilizer. There is sufficient mechanization for supplementary cultivation of the soil, sowing and care of the crop, but combines for picking sugar beet which can do the job in one pass are still lacking. Other producers in the world have used such machines for 20 or more years, but our industry has not mastered their manufacture yet. This, because of small lots, particularly hurts private producers by considerably increasing the necessary labor.

In order to normalize sugar beet production, some other steps are necessary besides establishing real price parity in relation to wheat. Among the most important are certainly the allotting of crediting to the sugar beet producers under the same conditions as to wheat, the establishment of a mechanism to make the determined parities valid for longer periods, and the exemption of producers from taxes for programs to grow this harvest.

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CSO: 2800/231

PROBLEMS OF MACEDONIAN FERRONICKEL ENTERPRISE

Zagreb DANAS in Serbo-Croatian 6 Mar 84 pp 12-13

[Article by Jovica Trajkovic: "Is It Possible To Bail Out FENI"]

[Text] The FENI [Ferronickel] Combine for mining and processing nickel, steel and antimony not far from Kavadarci has again been a subject of debate by the highest forums in the Republic of Macedonia. More accurately, the item on the agenda is an analysis and review of this combine prepared by the Copper Institute of Bor in collaboration with the Institute for Industrial Economics, the School of Metallurgical Technology, and the Institute for the Technology of Nuclear and Other Mineral Raw Materials of Belgrade, along with a sizable number of experts from various work organizations in the country, all under the supervision of and coordinated by Rade Kojdic, MA, and Cedomir Knezevic, MA. The analysis is supposed to show the real production potential, market conditions and financial impact of FENI. All this in turn is supposed to serve the conduct of a broader discussion and adoption of a final decision on the fate of this most expensive project in the republic, which so far has cost \$280 million and 1,000 billion dinars.

It cost 800 million old dinars to prepare the analysis and review. These documents contain 147 pages of text and are divided into four chapters: the FENI of the design and the program, the FENI that was built and realized, an assessment of what was programmed and what has been achieved, and the real possibilities and prospects for FENI.

But before we concern ourselves with the analysis and review of FENI, it would not be amiss to recall how and when construction of that project began, a project which at this point is once again arousing the Macedonian public--and not only the Macedonian public.

The decision to build FENI was made more than a decade ago. The first drill holes in the hills near Kavadarci revealed strata of nickeliferous ore; they were made back in 1966, and the decision to establish FENI was made by the Assembly of Kavadarci Opstina on 22 December of that year. The actual activities, however, date only from 1973, when the Stopanska Banka [Economic Bank] of Skopje, on the basis of an application of FENI, granted the credit to build the Rzanovo underground mine, which would have an annual output of 2 million tons of ore, to build a smeltery with a possible annual output of

16,000 tons of ferronickel and 600,000 of iron concentrate, which would be obtained as a by-product in the technological process.

According to the predictions at that time, FENI was supposed to begin production in 1979, to produce mainly for export, and to bring Macedonia sizable amounts of foreign exchange. Yet predictions are one thing, and reality another. FENI did not begin to operate in 1979; its construction began only in 1978. Significant changes were made in the conception in the course of construction, and along with a multitude of other factors they had the result that instead of becoming Macedonia's largest exporter, FENI became its enterprise with the largest loss. The analysis and review of FENI also deal with commencement of construction of the combine.

"Decisions were made in our country in the seventies to build two major facilities to produce ferronickel: FENI near Kavadarci and Feronikl-Glogovac (SAP [Socialist Autonomous Province] Kosovo) with a total output of 28,000 tons a year. Yugoslavia was thereby supposed to account all of a sudden for more than 4 percent of world nickel production (in the case of steel that percentage of ours is 0.4 percent, and for copper it is 1.4 percent), when we have no nickel market of our own, and so on. All of this determines to a great extent the present position of nickel production in our country."

Very stormy polemics have been carried on concerning the percentage of ore in the course of the discussions of FENI to date. Some have said that there virtually is no ore, that is, that there is ore only for a few years of exploitation, that the percentage of metal in the ore is negligible, while others assert the opposite, say that there is enough ore for at least two decades of exploitation, and that the metal in the ore is quite adequate and that exploitation is profitable. According to the analysis, there are about 30 million tons of ore at the Zanova locality with a nickel percentage of 1.036. The Studena Voda deposit has 7.5 million tons of ore with a nickel content of 0.7 percent. The analysts suggest further explorations in the area between these two deposits. The Rzanovo mine is capable of producing the planned 1.5 million tons of ore, but equipment has to be purchased to achieve that. As for the transport system, it is said that a capacity of 350 tons of ore per hour has been proven and achieved. To achieve a capacity of 550 tons per hour additional efforts would be needed to increase the speed of the conveyor belt.

And while the analysis asserts that it is realistic to expect that the smelter will smelt 1.5 million tons of concentrate or ore, which is what the design calls for, when it comes to nickel production, the observation is that it cannot exceed 14,000 tons a year.

These are the real capabilities of FENI. More metal can be obtained only from better raw materials. The estimates which indicate that FENI could produce 19,100 tons or indeed even 21,300 tons a year, figures given in the project assignment for preparation of this analysis, have no realistic material or technical basis. They are more a reflection of the moment at which they were written--the analysis says.

Certainly one of the most interesting parts of the analysis is the one which talks about FENI's investment difficulties. It was built, it says, under very adverse conditions. Perhaps this is best illustrated by the datum that compared with the 1973 projections, the investments are 8.4-fold greater in nominal value and about 22-fold greater when no adjustment is made. The principal cause given for these increases was the additional inclusion in the program of the main transport system and the plant for preliminary concentration (which incidentally has not proven itself in practice, and it is estimated that even the prospects for its successful use are not very good), the use of foreign exchange credits for dinar payments (a purpose for which all of \$100 million were spent), the enormous disproportion of dinars and the differences in rates of exchange (the project was financed exclusively with credit, the investor putting up no capital of his own), commencement of operation at full output has been postponed because of the lack of power, and so on.

At the moment FENI is producing 550 tons of ferronickel a month, which according to responsible people in this combine makes it possible to operate more less profitably, that is, to meet production costs, to pay the personal incomes to employees regularly and even to set aside something for depreciation.

Nevertheless, it is stated in the analysis that the shortfall in output is very large. For example, between June 1982 and the end of September 1983 output represented only 15 percent of the projected capacity. Aside from that, prices have not favored FENI either. Last fall they reached their lowest level in the last 13 years on the world market.

Viewed in the long run, according to the figures in the analysis, FENI cannot be profitable and liquid. That is why possibilities have been studied for partially or completely writing off FENI's debt, that is, of relieving it of certain obligations--contributions, for example.

"The way things stand today, FENI has ore for 20 years of production, and it could achieve 80 to 85 percent of the planned production of nickel," the analysis says. "All FENI's debts do not in essence belong to it alone. For example, those which arise from differences in rates of exchange or foreign exchange credits for dinar payments, or again those obligations created in the last 2 years when it was unable to operate because of the electric power shortage, and so on. All of this leads to an assessment to the effect that the production of nickel at FENI and Glogovac should be assisted even though Yugoslavia does not need such expensive nickel and even though other mistakes related to FENI and more broadly were also made."

Conclusions 5 and 7 in the analysis nevertheless attract the greatest attention. They state that under present conditions for the conduct of economic activity FENI cannot be profitable. That is why it supports the proposal that FENI be relieved from certain obligations under credits, contributions....

Soon the delegates in the Economic Chamber of Macedonia, the Executive Council of Macedonia and others will also have their say concerning the analysis. Trajce Bosilkov, director of the FENI smeltery, reported the opinion of those employed at FENI.

They feel that the analysis is realistic and objective and that it gives the true picture of FENI. It makes it more than clear that FENI needs to go on operating, since this is the most correct decision.

"We entirely accept the analysis, and we think that we can run a good business if some of our obligations are written off and if we operate at full capacity and not, as at present, use only 30 percent of capacity. In addition, we have to have a regular supply of electric power, coke, residual fuel oil, and lignite," Bosilkov said.

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CSO: 2800/248

COMMERCIAL BANKING SYSTEM TERMED 'FRAGMENTED'

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 7 Mar 84 p 11

[Article by D. Brdar]

[Text] Territorially fragmented and hemmed-in, banks cannot help to strengthen the economy. Changes are possible on the basis of reproductive links of OUR members. Why bankers are suspicious.

The existing bank network has for a long time been pronounced irrational, fragmented and incapable of sustaining economic and self-management growth. According to the "latest" data, this network consists of the Association of Yugoslav Banks, 164 basic banks with total business potential of 3,366 billion dinars. This too-large number contains very few distinctly large banks and a large number of very small basic banks. Thus the 10 strongest basic banks have a potential of 1,535 billion dinars, that is, 45.6 percent of the total bank potential. At the same time, the 28 weakest banks have individual financial strength of 3.4 billion dinars, and the sum of their potential is 61.6 billion dinars, or 1.8 percent of the resources of all the banks.

The strength of the basic banks reflects, in fact, the economic strength of the area in which they are active. This is why the number of basic banks and business units of basic banks from other areas is constantly growing in large cities. In the capital cities of republics and provinces there are 35 basic banks with a potential of 1,954 billion dinars or 58.1 percent of the potential of all the basic banks in the country.

The average potential of these banks is 55.8 billion dinars, but individually it ranges from 1.1 to 336.4 billion dinars. Some of these institutions are specialized or have specific characteristics, so that they frequently contain a significant amount of funds from a wider area. Such banks are mainly those that have a developed network of business units covering other republics and provinces.

Localism and Depository Role of Banks

The dominant trait of the organization of basic banks is an almost exclusive linkage to the territory in which they were founded. "Exterritorialization" is possible only as far as the borders of republics and provinces; it is impossible beyond them. Although such hemming-in of basic banks is in a way systematically determined, the dominance of local factors in the organization and business activity of basic banks is not a result of an erroneous and inadequate orientation in the organization of the bank network. It is, in fact, a logical consequence of the deposit role of the basic bank or business unit.

The territorialization of the bank network grows on the soil of a chronic imbalance between financial supply and demand, in which the demand is constantly and significantly larger than the supply. Demands for faster development, high inflation rate and an inappropriate interest rate policy in the past represent, of course, basic factors leading to a too-large demand. The banks' supply of financial resources is immediately dependent on the volume of the business potential of each bank, drawn from the deposits of the population and the noneconomic sector, and only partly of the economic sector. A bank's business potential formed in such a way cannot be but territorial.

Open Questions About New Concept

When it is taken into account that, under the conditions of a market economy, money and commodities can freely circulate depending on their quantity in relation to demand, it is quite understandable the reason for the tendency to keep resources in one's administrative territory and for the of bank network in such a way that it can satisfy this tendency becomes understandable. This is also the reason for the assertion that the territorialization of funds has not been caused by the organized banking system, but is only manifested through it.

The Long-Term Program of Economic Stabilization also calls attention to this. It, does not however, point out the way out of the present situation. Against the territorialized bank, the program sets up a bank whose basis would consist in organizations of associated labor linked through income and reproduction. However, the concept of such a bank contains some open questions to which it is hard to get satisfactory answers.

First, of course, one must explain how a part of the funds of the population and the noneconomic sector from all the areas covered by the OUR will flow into the bank. This is important not only because participating socio-political organizations must renounce this part of the monies, but also because the new basic bank could not function with the associated deposit and other OUR funds only.

This problem would not exist if there were a supply of free financial resources on the money market. However, as there can be no money market when the monetary supply constantly lags behind the demand, one must thoroughly reflect on this question. This is the more difficult as not even the Law on the Bases of the Credit and Bank System contains the principle

of a free intrabank fund circulation, except for specific users or for liquidity.

This is why the impression predominates in banking circles that the integration of money within the framework of a new bank can be achieved only by spreading the network of business organization and business units to all the areas from which the OUR members come. Moreover, this network should also spread to other areas from which funds indispensable to additional financing of current and expanded reproduction could be obtained. This would lead in practice to an unlimited expansion of every bank's network to the areas of all the other banks, which would make the whole thing absurd.

Thus it is not surprising that bankers are cautious. In the Bank Association they point out that not much can be expected from the transformation of the banking network, and certainly no spectacular results. They also warn that without the answers to the questions of homogeneity and integration of the larger basic banks, which find it difficult to eliminate territoriality from their activities, one must not expect even minimal results. The fact that the formation of banks on the principle of reproductive links between their members depends first on material and only secondly on sociopolitical circumstances, makes their caution perfectly understandable.

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