

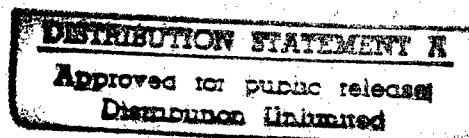
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23 March 1984

# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS



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23 March 1984

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HUNGARIAN, CSSR ECONOMIC MEASURES COMPARED IN ALL ASPECTS

Prague PLANOVANE HOSPODARSTVI in Czech No 12, 1983 p 57-69

[Article by Jaroslava Durdisova, candidate for doctor of science, Research Institute for National Economic Planning and Management, Prague: "The Improvement of Valuation Mechanisms in Hungary"]

[Text] If we compare the specific economic objectives of the development of a planned management system and its mechanisms in Hungary and in the CSSR, we see that they are similar as generally formulated. They are based on the assumption, and this also follows from the resolutions of the 12th Congress of the MSZMP and the 16th CPCZ Congress, that economic development plays a key role in the fulfillment of the program of building a developed socialist society. The long-range development strategy is to increase systematically the efficiency and quality of work of all the elements of production, as the basic resource for the growth of the material technical base of society and the satisfaction of social requirements. The fulfillment of this basic economic development strategy is presently being combined with the full utilization of the processes of the research and development revolution, intensification, the international division of labor, and with the development of the creative initiatives of workers based on socialist production relations.

To achieve these strategic objectives and utilize the intensification factors in economic growth it is essential to generate the preconditions now, in the current phase of development of the planned management system of the national economy. The basic trends which are becoming evident in both countries in this regard have basically similar features, but in their specific implementational forms a number of differences are already becoming evident which are caused by objective and sometimes even by subjective influences.

The decisive role of planning is emphasized in the official documents of both countries. Both countries cite, as the ultimate objective of the improvement of the planned management system, an increase in the sophistication of planning and of adopted planning decisions and improved management through the effective motivation of all participants in the production process toward maximum effectiveness and quality in all their activities. This is closely related both to greater role for the plan in increasing

the quality of production, and to the resolution of issues in the optimal integration of central management and organizational economic independence, issues of the intensifying of material stakes in achieved results with an emphasis on export performance. Both countries are looking for ways to intensify khozraschot further and use profits and other economic levers and stimuli more actively. Increased emphasis is also being placed on the task of measuring enterprise merit.

I will attempt to characterize the basic features of the main avenues being pursued in both countries and to describe the differences in approaches to the improvement of economic mechanisms.

In the CSSR democratic centralism is being implemented through the strengthening not only of central management, but also of the independence and responsibility of enterprises. In Hungary a significant trend toward decentralization is appearing. Hungarian economists are basing their decisions on the belief that macroeconomic decisions cannot affect non-integrated details and that the objective of an economic mechanism is to create conditions for the activities of economic entities which will stimulate them to meet centrally described objectives. This is closely related to another aspect of the Hungarian approach to increasing the sophistication of planning and of adopted planning decisions. The CSSR is implementing a unity between the state plan and economic plans, from the earliest stages of plan formation. The plan results from cooperation between the center and the enterprise sphere, while in Hungary the two domains--the state plan and enterprise plans--are relatively independent. It is characteristic of the relationship between planning entities in Hungary that the entire set of resources exerts an influence from the top down and only slightly from the bottom up. The state plan is considered to be the basic mechanism for implementing economic policy. Requirements for flexibility and the structural adaptation of the economy are placing new demands on the content and structure of the plan, on its role and position, and on planning techniques. The improvement of the economic mechanism in Hungary therefore calls for an active role for the so-called regulators, the duties of which are centrally established and governed by long-term centrally planned objectives. This form of central management (centralized decisionmaking regarding mechanisms) determines in this way the conditions for the functioning of economic entities. The regulatory system functions on the basis of previously formulated and publicized principles. Every economic entity must anticipate the evolution of the focal points of the regulators and adapt itself in time to changing conditions.

In the CSSR, on the contrary, great attention is devoted to improving the quality and raising the efficiency of national economic planning by increasing its scientific orientation and comprehensiveness as well as by strengthening its orientation toward priority programs in such a way that the state plan, as the main instrument for implementing economic and social policy, and broken down in the form of binding indicators, becomes the basis for organizing economic activity at all levels of management. In addition to this, a stimulative function of the plan for economic production

units [VHJ] and enterprises has been introduced. These managerial units have the possibility of increasing their resources for economic incentives through a counterplan (by adopting higher qualitative objectives). The basis for counterplanning are the adjusted value added indicators, return on capital assets indicator, profit and export performance indicators. By implementing counterplanning, which makes it possible to increase worker participation in management, organizations can increase both the basic and incentive components of their wages payable resources, their development fund for financing restricted investments, and their export incentive fund. The Set of Measures monitors an entire complex of other formats and methods for increasing planning efficiency. Its refinement will bring an increased role for the valuational aspects of the plan, and thereby also for the broader implementation of khozraschot. The functioning of individual economic categories and mechanisms, and particularly finance, credit, wages, prices, etc. constitute, when taken as a whole, important preconditions for the effective development of khozraschot.

Increasing the accountability of VHJ's and enterprises for management results is being implemented in the CSSR primarily by strengthening the comprehensiveness of VHJ and enterprise responsibility for achieved results and for the fulfillment of state plan objectives. This means that accountability (with direct consequences for incentives, financial management, and the overall evaluation of organizational effectiveness) is directly dependent on the fulfillment of plan indicators. Moreover, results achieved in the areas of research and development, capital asset replacement, foreign trade, etc., are being integrated more than before into evaluations of the overall managerial performance of VHJ's or enterprises.

In Hungary the 5-year plan is broken down only at the ministry level, with the ministries then being responsible for assuring the fulfillment of planned targets. The ministries do not break down state plan objectives for their subordinate organizations, but simply coordinate their activities so as to fulfill the state economic plan. Allocations to enterprise funds and the accountability of these managerial units do not depend directly on the fulfillment of state plan objectives, but on the managerial results achieved in an economic environment defined by the functioning of economic regulators in the areas of prices, economic incentives, investment policy, foreign relations, fiscal policy, credit policy, etc.

#### System of Price Regulation in Terms of the Development of the Incentive and the Standardizing Function of Prices

A comparison of the price regulation systems currently in force in the CSSR and in Hungary shows that in both countries the rationalization of the price system is directed at stimulating efficiency and quality in production and providing incentives for increasing the export performance of the economies. The specific means, however, for resolving these problems differ substantially. They reflect the overall concepts and objectives in improving the planned management systems of the national economies and seek to relate price regulation to the system as a whole. In addition to this, price regulation formulations always pursue other, specific objectives.

Following a price restructuring, three types of price formation are now being used in Hungary:

- a competition price, used for about 35 percent of production;
- prices established by comparisons with world prices or foreign prices for comparable products, used for about 40 percent of production;
- the traditional technique, based on production costs, used for the remaining 25 percent of production.

The competition price is formed by two techniques, depending on whether the price concerned is for basic materials and semi-finished goods or whether it is a price for a product of the processing industry. In the first instance, so-called import prices are used, and in the second instance export prices.

a) Import Price = price in foreign currency unit X exchange rate\* + duty.

\*Exchange rates are set based on the ratio between export volume expressed in forint production prices and the sum of prices obtained on foreign markets, expressed in dollars.

If a contract price for imports from socialist countries is higher (lower) than the derived domestic wholesale price based on prices obtained when importing from nonsocialist countries, then the import price is raised by a subsidy (lowered by a differential transfer).

The import price (input price) is taken as the base for forming the price of inputs (raw materials, the bearers of energy, basic materials and important semifinished goods, and specifically for textile products). These prices are established quarterly.

b) Export Price = price in foreign currency units X exchange rate + sales tax\* + contribution to modernization

\* This formula applies only to domestic sales; the sales tax is returned on exports.

For all products which are valued according to this formula the sales tax is the same, amounting to 10 percent. The exceptions are food (20 percent) and clothing (17 percent). This export price (output price) is taken as the base for the formation of the prices of most products of the processing industry, as long as its exports to nonruble areas exceeds 5 percent of total production.

For other products, and particularly for those which are not exported, wholesale prices are set through price comparisons (a form of price formation based on price relationships that can be applied to groups of interchangeable or similar products) or by the traditional method, i.e., based on production costs.



The essence of competition prices is that product prices are set in terms of foreign markets and it is up to the producer to achieve the desired relationships between profits and production costs. The principle is that the price may reflect only those production costs recognized by the world market. If a producer has higher costs his efficiency declines as well as his profits, and vice versa. Competition prices are found primarily in industry. The incentive function of prices is emphasized here in two ways: primarily in that the prices of raw materials, materials, and fuel and energy resources obtained on foreign markets and therefore incorporated in the valuation of inputs provide a strong incentive to conserve them; also, the valuation of processing industry products "by export price" forces producers to increase quality and salability. Competition prices, therefore, provide a direct link between production and the sale of that production.

Enterprises which import from nonsocialist countries can make use of the difference between current wholesale prices and current procurement costs incurred during the period of validity of these wholesale prices. This pricing differential may be deposited in their contingency fund, creating an incentive for them to make purchases at times when imported goods are relatively less expensive on foreign markets.

If the forint receipts from exports for a given production enterprise do not cover its production costs and it records a loss from exports of specific types of products, then it can cover these losses:

- with profits from other exported products,
- with profits from domestic sales,
- with resources from the contingency fund,
- with credits advanced by a bank to cover temporary fluctuations in managerial performance,
- with resources from amortization funds (60 percent of the writeoff remains with the enterprises, and 40 percent is transferred to the state budget).

If none of these measures suffices and if the enterprise has no prospects for improvement, then it should change its product mix.

It is asserted that the Hungarian price system is able to reflect the level of work efficiency of its enterprises and thereby form the preconditions for implementing profit sharing. This means that differences in efficiency will gradually gain in importance as differences in profits between enterprises, because the basic hypothesis is that higher profits for an enterprise will cover the higher level of national economic efficiency. The price system utilizes the single forint technique throughout; this means that an enterprise must derive the same contribution from the same product, whether this is realized on the domestic market, in the socialist countries or in the capitalist states. Theoretically, prices serve to

orient an enterprise directly to the most effective and most demanded products, that is, they reflect the relationship between supply and demand, not only on the domestic market, but on the world market as well.

In contrast to Hungary, in the CSSR the process of pricing rationalization is proceeding on the principle of a planned approach. An organic link between domestic and foreign prices is not being applied directly as in Hungary, even though in the process of rationalizing the price system steps have been taken towards the planned utilization of the impact of prices of imported products on the management of VJH's and enterprises, mainly as an incentive to take conservation measures in the use of raw materials and energy, as well as imported materials, machinery and equipment. This means that world price levels have been incorporated, in planned relationships, into "inputs" (above all into the prices of raw materials, fuel and energy). The outputs, i.e., the wholesale prices of the resultant products, are formulated for the most part independently of world prices. Moreover, and in contrast to Hungary, increases in the prices of inputs occurs in our country over longer periods of time (once a year, by means of price restructurings and in conjunction with so-called dampenings). At present we are moving forward with the utilization of world prices, with an increase in the innovative flexibility and adaptability of production, and we are directing our efforts so that price differentiation and profitability in our wholesale prices takes account of, and suitably reflects the valuation of our products on demanding foreign markets. This presumes a reduction in the unjustified protection of enterprises from the impact of the actual costs of imports (which weakens the impact of prices on higher consumption efficiency) and the formulation of a price that will not fall prey to pressures from weakening cost reduction targets or the more rigorous efficiency criteria, thereby increasing the competitiveness of our products on world markets and reducing the pressure for more imports.

The technique being used to activate the standardizing function of world prices is that of comparison. In contrast to Hungary, however, this comparison takes place at the center and not at the enterprise level. It is very demanding administratively because it must, in keeping with the objective requirements of comparison, not only reflect any price differential stemming from a comparison of the prices of domestic and imported products, but also determine whether or not we have the potential for increasing the efficiency of our production of the products in question and then, perhaps, exporting them, whether we have the resources to cover imports, whether we are dealing with imports from socialist countries, imports on credit, how world prices for the products will evolve, the kind of access we have to the raw materials for these products, etc., thereby exerting a direct influence on the planned restructuring of the economy in the direction of less raw materials-intensive and more promising sectors.

Juas as in the CSSR, there exist in Hungary two groups of prices--wholesale and retail. While in the CSSR these groups are relatively independent, their interrelationship in Hungary is being strengthened in the sense that social considerations are being transferred from the area of pricing to the area of direct social assistance. In this vein there is to be a dismantling between now and the end of 1985 of the negative sales tax.

In Hungary, the function of providing incentives for the production of new, progressive, and luxury goods, and disincentives for the continuing production of obsolete products, is fulfilled directly by competition prices or price comparisons. In our country this role is filled by so-called preferential pricing or penalty price reductions for products. In both countries, however, prices actually obtained determine the level of receipts, resultant profits and, according to applicable regulations, also the allocations to enterprise funds and economic incentive funds. In the CSSR, prices influence adjusted values added and therefore also wage volumes (under conditions of unchanging materials consumption, preferential pricing is incorporated entirely into profits and therefore increases adjusted values added and, by means of an appropriate coefficient, also the volume of wages).

It may be assumed that the world price fulfills the same role in Hungary that price limits and limits on total production costs perform in our economy. However, the system for utilizing world prices that is practiced in our country explicitly forbids the all-inclusive introduction of world prices, thereby shielding the economy from the influence of conjunctural elements and monopolistic speculation. Moreover, a price system corresponding to world prices such as is in place in Hungary can function properly only if the domestic currency maintains a stable value. Otherwise there would be the danger of importing world market inflation. Therefore an active policy is conducted in the area of exchange rates, etc.

#### Financial Management Systems of Khozraschot Organizations as a Mechanism for Implementing Intensification of Growth

The process of improving the financial management systems of the CSSR and of Hungary is proceeding under the assumption that a basic precondition for the effective functioning of khozraschot, finance and credit is first and foremost an increase in the accountability of economic organizations for the outcome of their management, with direct consequences for their economic incentives, financial management and the overall evaluation of their activity. Improvements in the financial management systems of both countries are directed at incorporating efficiency and quality into production, distribution and exchanges. Solutions are being sought both within the financial system and in relationship to its "surroundings", i.e., above all to the state plan, the state budget and the credit and price systems. It is expected that these "surroundings" of the finance system will generate the kind of environment that will make it possible for it to function effectively. Solutions within the finance system (the financial management of economic organizations) consist of changes in the formation and utilization of financial resources. In both countries this

is primarily a matter of increasing the self-financing of internal requirements and reducing the share of centralized financial resources. At the same time, taxes and transfers to the state budget are being reduced (sometimes to the budgets of oblast organs in Hungary). This concerns primarily the taxing of profits. In Hungary transfers from profits have been reduced to 45 percent. In the CSSR these transfers originally declined to 60-65 percent and now amount to 70-75 percent. Transfers from writeoffs are also being reduced. In Hungary 40 percent of all writeoffs are transferred to the state, although in sectors receiving preferential treatment 100 percent of amortized amounts are left with the enterprises in the enterprise development fund account. While on the one hand taxes and transfers to the state budget have been reduced, on the other hand subsidies and subventions from the state budget have, understandably, also been reduced. In Hungary the system of subsidy grants has been for practical purposes phased out and is being replaced with a system of state loans. For instance, in the area of the financing of state investment projects there are noninterest-bearing state loans, repayable in 10 years from the profits of the newly constructed facilities. Enterprise investments are being financed either internally or with credits. It is becoming possible for enterprises to loan money to each other. The situation is similar for working capital. In Hungary, temporary increases in inventories are financed either from the development fund or with credits at 3 percent interest. In the CSSR, investments included in the state plan are financed, similarly, by internal enterprise resources or through credits, but sometimes as well with allocations from centralized sectoral resources and, partially, with subsidies from the state budget.

In the CSSR the state budget is retaining the role of the basic mechanism for reallocating resources not only between the production and non-production sphere but within the production sphere as well. For this reason the system of subsidies and subventions has also been retained. The Czechoslovak approach to resource allocation is distinguished primarily by the fact that the VHJ has become the basic management link in the economic sphere. This means that in addition to enterprise khozraschot, VHJ khozraschot has also been implemented. This is, to be sure, based on enterprise khozraschot, but applies it to a higher organizational form. This has resulted in qualitative and quantitative changes in enterprise khozraschot, with their intensity determined by the specific level of centralization and decentralization. In conjunction with these trends, a system of financial resources allocation is developing which is substantially more complex than that of Hungary. While in the Hungarian economy the state budget is the basic mechanism for allocation, in the CSSR allocations are made at the VHJ and sectoral level as well. In both countries opportunity is expanding for the functioning of khozraschot in the sense that the financial independence and responsibility of enterprises is increasing, in the course of which the khozraschot principle of organizational management is applied by having the organization cover its own planned requirements for financing and economic incentives based on internal resources that are actually generated (profits and depreciation). Any financial resources which remain at the disposal of the organization,

after covering all requirements, in the form of free financial resources are disposed of by the enterprise according to applicable regulations. In Hungary, enterprises have the authority to allocate free resources in any way they wish:

- for allocations to the bonus fund,
- for allocations to the development fund,
- for allocations to the contingency fund.

In addition, a Hungarian enterprise may, under certain conditions, put free financial resources at the disposal, in the form of a credit, of another enterprise.

In schematic form, the profit allocation and transfer system in Hungary may be represented as follows:

#### Profit

-contributions to cities and towns (community tax in amount of 10 percent of profits)

=Base for general tax on profits

-general tax on profits (45 percent of the base)

#### =Net Profits

-allocation to contingency fund (usually 15 percent of net profits)

=Base for allocations to economic incentive fund

-allocation to development fund (at least enough to meet obligations to the state, bank and sectors)

=Base for allocation to profit-sharing fund

-progressive taxation of this allocation

=allocation to profit-sharing fund and to cultural and social services fund.

In the CSSR any free financial resources of an enterprise are usually centralized at the V.H.J. A situation where resources have not been generated, or where there are unrealized profits, can be resolved solely at the expense of the contingency fund. In Hungary, an enterprise can resolve such a situation by not only drawing on the contingency fund but also by requesting credits from the state bank or from the state budget, or it may borrow free resources from another enterprise (provided there is the promise of improvement).

In both countries greater emphasis is being placed on economic incentives as a component of *khozraschot*. They are expanding, becoming much more rigorous, and are being implemented in all their current forms (in the application of wages payable resources, in personal and collective economic incentives). However, these elements of economic incentives are being applied differently in different divisions (in the contingency fund, in the formation and utilization of free financial resources, in the turnover fund and its reduction and increase depending on inventory levels, in the areas of investment financing and foreign trade). Economic incentives are being implemented, among other ways, through economic incentive funds which are generated on the basis of long-term norms in conjunction with performance in the fulfillment of critical plan indicators. They encompass both the incentive side (fund generation) and the penalty side (curtailing fund formation). The principle of adopting a long-term view is implemented in them through counterplanning. Penalties due to losses from low quality production are becoming an integral part of the economic incentive system.

A common feature of both systems is to provide incentives for enterprises to utilize their fixed assets better. In Hungary this is known as the "expensive investment" system which means, as will be explained below, that all investments are paid for by the enterprise from internal resources or with state and bank credits. With few exceptions, there are no subsidies or subventions from the state budget for production investments. The resolution in the CSSR is somewhat different; financial participation by the state has been retained for developmental investments on the condition that individual economic incentives in the amount of 20 percent of paid-out wages be directly tied to the level of utilization of fixed assets (along with pressure to reduce inventories). Because of the makeup of the return on assets indicator, this link is problematical in practice.

A further common feature is the transition from volume fulfillment incentives to providing incentives for qualitative indicator fulfillment, for improving the management and effectiveness of the entire production process, including the level of the above-mentioned increased utilization of fixed assets, for reducing production costs, for increased utilization of research and development findings, and for the flexible adaptation of the production structure to the requirements of foreign and domestic markets. In addition, the objective is to improve the economic systems of all the socialist countries, not only of the CSSR and Hungary.

In the area of enterprise financial management there are two important differences. First of all, in the CSSR the economic incentive system is tied to the fulfillment of critical indicators of the state plan, in order to stimulate above all the adoption of more ambitious targets within the framework of counterplanning, while lesser incentives are provided for the overfulfillment of plan targets when such overfulfillment actually takes place. In Hungary, incentives are tied to the improvement of generally accepted criteria for production effectiveness in relation to the actually achieved results of the previous year. In my opinion, the differing conception of the function of prices in the CSSR and in Hungary exerts a critical influence on the effectiveness of enterprise financial management.

A more detailed description of financial management in the CSSR and in Hungary can be obtained by comparing the systems of financial funds. In the CSSR there are four funds designated to assure the financing of planned needs and four economic incentive funds; in Hungary the contingency fund is considered to be the basic fund for assuring the smoothness of the production process at the enterprise level, with the other funds being related to economic incentives.

#### Contingency Fund

In the CSSR this is one of the funds for assuring the financing of planned requirements. It is formed from profits, the export economic incentive fund, import incentives, and penalties levied on enterprises. It is set up only at the VHI level. It is used to subsidize VHI profit distributions, for allocations to the enterprise cultural and social services fund, and to cover unforeseen enterprise losses, including import penalties.

In Hungary this is the basic fund for assuring smooth enterprise operation. Its importance stems from the stricter conditions under which the enterprise operates in Hungary, which can even lead to its liquidation. Just as in the CSSR, it is formed from profits, but these are its only source. While in the CSSR a supervisory organ sets the level of the allocation and the upper limit for the fund at the end of the year (amounts in excess of the limit are transferred to the sectoral contingency fund and are subject to redistribution among the VHI's), in Hungary its level is set, in what amounts to a standard, at 15 percent of the profits that are generated, with this being, however, a lower limit and in no sense an absolute one as in the CSSR. It is rather a guideline (8 percent of the volume of wages paid and 2 percent of the acquisition costs of fixed assets).

The purpose of setting up a contingency fund is the same in both the CSSR and in Hungary--to carry the enterprise over in times of temporary difficulties.

#### Working Capital

In the CSSR, working capital represents those organizational resources designated for the permanent coverage of inventories (both production and merchandise). It is formed primarily from allocations from profits, from supervisory organs and resource transfers from the development fund in cases when the inventory turnover period in days is exceeded on an ongoing basis. Working capital is reduced mainly by transfer to the state budget and by shifting resources to the development fund when inventory turnover period in days has been lowered on an ongoing basis.

In Hungary working capital is not listed in the system of funds, obviously because it is not a financial fund in the strict sense of the word. Pressure to reduce it is generated in Hungary by the cumulative impact of all other mechanisms.

## Technological Development Fund

The technological development fund serves in the CSSR to provide the financial resources for technological development. It is formed at the enterprise, VHI and sectoral level. It is formed from costs, subsidies from the technological development fund of a supervisory organ, and by income from the results of solutions to technological development projects.

In Hungary no technological development fund or equivalent fund is formed. Clearly, these expenditures are covered by Hungarian enterprises as direct costs. They are theoretically provided with incentives to modernize production, do their own research and development and incorporate its results in production as soon as possible by the cumulative influence of indirect mechanisms, and primarily by the standardizing function of world prices.

## Retained Earnings and Development Fund\*

Production-related investments in the CSSR are financed by means of retained earnings and the development fund with the use of credits, subsidies from the state budget, and enterprise resources. Retained earnings are designated primarily for larger investment projects of a developmental character. It is not an incentive fund, but is included among the funds for assuring the financing of planned requirements, and is formed in accordance with the financial plan from allocations from depreciation, from profits, from supervisory organs, and from subsidies from the state budget. The purpose of the development fund is mainly to assure investments of a modernizing character. It is an incentive fund, is formed with standard allocations from depreciation and profits and nonstandard allocations from preferential pricing, the export incentive fund and from reductions in working capital.

In Hungary as well a distinction is made between the financing of new, developmental investment projects and that of enterprise investments. The construction of large production facilities about which the state makes the decisions (state investments) are financed mainly through state credits paid off in up to 10 years (with the possibility of an enterprise contributing some internal resources to the project as well). Non-repayable state subsidies do not exist, as they do in the CSSR. A state credit is repaid by the enterprise from pretax profits. This means that the taxable base for profit transfers to the state budget is reduced by the amount of state credit repayments. There is no counterpart in Hungary, then, to retained earnings as they are used in our country. State investments are covered directly from bank accounts opened as a state credit and repaid likewise directly from the profits that are generated, and before taxes. The source for the financing of internal enterprise investment in

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\*It is not appropriate for the purposes of this article to consider the experiment to accelerate research and development progress, for the establishment of an investment fund, and to increase the effectiveness of foreign economic relations (CSSR Government Resolution No 1, dated 6 January 1983), because even though the experiment is broadly based, there has not as yet been a definite policy decision.



Hungary is bank credit, internal enterprise resources, and in exceptional instances state subsidies provided indirectly, through reductions in transfers to the state budget. Internal enterprise investment, just as in the CSSR, is financed by the development fund, which is an incentive fund in Hungary just as it is in the CSSR. In contrast to the CSSR, however, this fund is not formed in a standardized way, but based on decisions made by the enterprise, which must be able to cover from this fund, at a minimum, their obligations to the state, to banks, and on occasion to other enterprises. In addition to this minimum allocation, the enterprise may allocate additional resources to this fund to cover its needs for additional capital investment. These higher allocations must compete with allocations to the bonus fund.

#### Cultural and Social Services Fund

In the CSSR and in Hungary the cultural and social services fund is an economic incentive fund and serves to finance the same kinds of expenses in both countries. It covers politically educational, cultural enrichment, factory food service, recreational activities, certain social activities, and housing related expenses.

The allocations in both the CSSR and in Hungary are obligatory and discretionary. In Hungary, the basic allocation to the cultural and social services fund is obligatory and made from pretax profits. Its magnitude is determined in part by the number of employees and in part the level of actual expenditures on the designated group of requirements. In the CSSR the basic allocation is from profits in the amount of 0.8 percent of the annual volume of wages payable and is likewise obligatory. In Hungary, supplementary allocations to the cultural and social services fund may be made without further limitation from the profit-sharing fund, while in the CSSR the supplementary allocation is calculated on the basis of the fulfillment of 5 indicators, with a permissible allocation of 0.4 percent of the annual wage fund volume for each indicator that is fulfilled.

#### Personal Economic Incentive Fund

The personal economic incentive fund in Hungary is a participatory fund and in the CSSR a bonus fund (in the CSSR only a small part of the incentive component of wages is paid from the bonus fund). Both funds are used for similar purposes--the payment of premiums, bonuses, and shares in economic performance. Wider use is made of this participatory fund in Hungary. It is used as a source of prizes for improvement suggestions and inventions, of bonuses for performance in competitions in the area of research and development, for training stipends, as well as a source of supplements for the cultural and social services fund. The bonus fund is formed only at the VHI level from an allocation from profits (enterprises pay out shares in economic performance to the extent of its allocation from the VHI bonus fund). An additional source for the bonus fund can be a transfer from the export incentive fund or from the bonus fund of other organizations. An important element in the formation of the

participatory fund in Hungary is the progressive taxation of its allocations, which is designed to assure that the broad authority of an enterprise to make allocations to the development fund and the participatory fund does not result in excessive increases in personal incomes at the expense of the investment development of the enterprise.

#### Export Incentive Fund

This is formed only in the CSSR. In Hungary there is no fund of this type, with the regulation of foreign trade carried out mainly through the actions of prices, the form of commercial payments and the range of trade, the taxing of profits and the system of fund formation, the regulation of relative wage levels in foreign trade, as well as the system of relationships between foreign trade and production.

#### Systems of Personal Economic Motivation

The wage regulation systems used in both countries up to the end of the 1970's were based on volume indicators (the volume of wage funds). This technique, as analyses of wage regulation show, motivated khozraschot organizations to achieve the highest possible planned number of employees, supported wage equalization, and weakened incentives to allocate wage funds according to merit (the documented contributions of individuals and collectives). In other words, it did not generate an interest in the economical allocation of the work force or in an increase in the effectiveness or quality of production. With the shift to intensive economic development both countries embarked on modifications in their systems of personal economic incentives. These are modifications which have always been carried out in conjunction with improvements in the entire planned management system.

The starting point for the calculation of wages payable resources in Hungary is the so-called modified type of net production according to the model:

$$\frac{\begin{array}{l} \text{social} \qquad \qquad \text{other} \\ \text{wages + security} \quad + \text{financial + profits - loss + writeoffs} \\ \text{contributions} \quad \text{expenses} \end{array}}{\text{number of employees}}$$

The starting point in the CSSR as well is an indicator which is intended to characterize the contribution of an enterprise to society (net production) - adjusted value added. If we start from the generally valid equation: sales - expenses = profits, then the following equation also holds true: sales = expenses + profit.

If we reduce both sides of this equality by

--material consumption,

--fuel and energy consumption,

--other nondepreciation material expenses,

--nonmaterial services,

i.e., by the value of the materials and activities consumed which are the results of the work of other enterprises, then the above equality takes on the form: adjusted value added - controllable and fixed expenses + profit, where the remaining expenses are

--wages and other personal expenses,

--social security contributions,

--depreciation,

--financial expenses (other than fines and penalties),

--contributions to a supervisory organ, and

--fund contributions.

This then leads to the definition and technique for calculating adjusted value added as a basis for calculating wages. A comparison of both bases makes it clear that the concept of "net production" is basically the same in the CSSR and in Hungary.

The fact that the norm in the CSSR establishes a connection between an increase in overall wages payable resources and an increase in adjusted value added, while in Hungary the modified net production indicator is recalculated on a per employee basis, is an apparently important difference in the incentive systems of the CSSR and of Hungary. In actuality this difference is not as significant as it appears at first glance. If one inserts in the formula for the relative regulation of wage volume in Hungary (see the foregoing formula), for instance, the condition that an enterprise increases production (to be more exact, net production) with the same number of employees, then this means that according to this formula, since the denominator would remain the same and the numerator increase, the modified net production indicator would also increase, and with it the possibility of increasing the volume of wages, which means that given the same number of employees the average wage can also increase.

In the CSSR a long-term standard is established for the relationship between an increase in wages payable resources and adjusted values added, which means that in the same situation the volume of wages payable resources will increase with an increase in net production (adjusted values added), which means that given the same number of employees it will be possible to raise the average wage.

## What Then Are the Critical Differences in Individual Economic Incentives in Hungary and the CSSR?

One of the basic differences is the fact that Hungarian enterprises are offered incentives to increase actual profits or, more precisely, to increase the volume of net production per enterprise employee. At the same time, personal economic incentives do not have the objective of assuring social objectives in a specific enterprise (neither profits nor other financial indicators are broken down at the enterprise level--these objectives are implemented by other means). In contrast, in the CSSR individual economic incentives are first of all intended to provide motivation to fulfill the planned tasks of the enterprise, planned profit indicators, return on production assets and the like. The system of economic incentives includes the principle of counterplanning, i.e., an incentive to upgrade the projected qualitative indicators of the plan and to fulfill planned indicators (if an enterprise, for instance, adopts within the framework of counterplanning higher adjusted values added, then the volume of wages increases in accordance with the appropriate standard; if however, it exceeds planned adjusted value added targets only at the time of actual fulfillment, then the volume of excess wages generated is reduced by the standard coefficient of 0.4 percent). I think that another difference is in the regulation of average wages. In the CSSR the formulation of standards for the medium-term plan is based on national economic considerations regarding the possible growth of real and nominal wages, but at the stage of annual plan formation and implementation the growth of average earnings is not regulated. In contrast, in Hungary the growth of average wages is regulated by the wage level indicator (wage level indicator =  $\frac{\text{wages} \pm \text{profit (loss)}}{\text{number of employees}}$ ).

Overall, both systems are constructed in the same two-component fashion, with the basic wage being formed of fixed and flexible components. The difference, however, lies in the fact that in Hungary the entire basic component of wages is formed on the basis of the modified net production indicator, while in the CSSR the formation of wages payable resources is only 80 percent dependent on the adjusted value added indicator, and 20 percent dependent on the return on capital assets indicator. This means that it incorporates one-fifth of an incentive to improve the utilization of capital assets and to reduce inventories (where this indicator would not be effective, another is used).

Of course, the entire process is different--in Hungary the economic incentives are formulated to include a differential approach to sanctions and a relatively complicated system of progressive transfers to the state budget which applies both to allocations to the participatory fund and when the centrally established coefficient for the growth of wage volumes and of average wages has been exceeded, which for practical purposes places certain limits on the greater freedom of Hungarian enterprises regarding allocations to the economic incentives fund and in the area of increasing basic wages.

These issues are studied in some detail in an article by Eng M. Bezdekova, candidate for doctor of science, entitled "Economic Incentives and the Plan in Certain CEMA Countries," PLANOVANE HOSPODARSTVI, 2/1983, and one by Dr Eng V. Papezova entitled "New Measures and Trends in Wage Regulation in Selected CEMA Countries," PLANOVANE HOSPODARSTVI, 3/1983.

It is also necessary to mention that beginning in 1983 there was a deviation from the previously valid system of wage regulation for the large number of producers included in the "competition pricing" sphere, above all in processing industries and in construction. The new system differs in two respects. Instead of being tied to the net production indicator, wage regulation is now tied to enterprise profitability (the ratio of profits to the sum of the values of production assets and the annual volume of wages). Moreover, wage increases do not depend on increases in profits in the previous year, but on the level of profitability in the year in question. This new technique of wage regulation should eliminate the main shortcoming of the benchmark principle (the connection to profit increase in the previous year), namely the rigid, forced growth, the retardation and creation of underutilized output capacity. Moreover, several measures in the area of regulating the growth of the wage level (average wages) should assure more effective and flexible work force management. For instance, tax rates on the increased level of wages are less progressive than they were previously, and with the wages saved from reducing the numbers of workers it is possible to use a greater portion than before without taxation.

The improvement of valualational mechanisms is always implemented as an inseparable part of an overall concept for the development of the planned management system of a socialist economy. Both systems, the Hungarian and the Czechoslovak, have been constructed as open systems, meaning that they are constantly improving based on the verification of selected components over the proper periods of time. For this reason I consider an awareness of the directions being taken to improve the systems of planning and management in individual CEMA member countries by the broadest possible range of economists to be important for optimizing the future development of our system.

The purpose of this article has been to acquaint the reader with the basic trends in the improvement of valualational mechanisms in Hungary by comparing them with the appropriate measures stemming from the Set of Measures in our country. The objective was not and could not have been an evaluation of the effectiveness of both systems. Such an evaluation presupposes not only a necessary time segment for the actual functioning of the system, but also a precise definition of the evaluational criteria, since these criteria cannot be based solely on generally valid principles and requirements, but must stem from specific tasks and objectives as these were formulated in a given country for specific measures or for entire sets of measures.

WESTERN OBSTACLES TO INTERNATIONAL TRADE DISCUSSED

Prague HOSPODARSKE NOVINY in Czech 20 Jan 84 p 3

[Article by Eng Emilian Vosicky, Federal Ministry of Foreign Trade: "Artificial Obstacles--The West's Dubious Practice"]

[Text] The continued worsening of the international political atmosphere, which culminated in the decision to deploy American Medium-range missiles in the FRG, Italy and Great Britain, has profoundly affected the relations among countries with different social systems on the European continent. It has not affected the political relations alone: the heightened tension has caused significant deterioration in the atmosphere for the expansion of mutual economic cooperation and prospects for a better relationship between the two big integration groupings--the EEC and CEMA. If up to now the West's positions in this respect have been burdened largely by unrealistic prejudices, not in conformity with the principles of equal and mutually advantageous cooperation, then the military-political decision of NATO (to which the EEC countries belong) represents another step toward a significant deterioration of the status quo. The article which we publish today offers a comprehensive view of the initial position, methods of pursuing EEC commercial and political interests, and the fundamental aspects of its discriminatory relations to the countries of the socialist community in general and to our republic in particular.

The factors which affect the present state of West European integration are the protracted economic depressions from which the capitalist countries of the community are only slowly extricating themselves, the lagging of most key sectors behind Japanese, American and Far Eastern competition (Taiwan, South Korea, Singapore, Hong Kong and others), and the inclusion of additional countries in the EEC.

The economic crisis is the reason for increasingly frequent measures by the member countries' governments which are in conflict with the integration process and whose purpose is to defend exclusively national interests. These essentially disintegrating factors, however, cannot be interpreted as undermining the West European grouping. Prominent officials of these countries fully realized that the integration process is important for them and that without the given degree of integration national protectionism would be under the present circumstances much more pronounced than now, when protectionism is pursued by the community as a whole. The national bourgeoisie fully realizes the significance of a large protected market and the commercial and political strength of a group with 250 million inhabitants. Without such a uniform trade policy, the West European countries would find it difficult to face the determined policy of the United States and Japan.

Lagging behind Japanese, Far Eastern and American competition is apparent virtually in all major sectors with the exception of the chemical and petrochemical industries. The most striking is in electronics--particularly with regard to integrated circuits, computers, microchips and robots.

One of the principal industrial sectors of economy of EEC countries--the automobile industry--is increasingly threatened by Japanese competition, and in the mid-1980's one must take into account also American competition, which is planning mass production of the "European-style" car. Consumer sectors are exposed to the strong pressure of cheap goods from Far Eastern and other developing countries, where the capital and technologies of supranational monopolies have been transferred. This involves the textile industry, shoe industry and consumer electronics.

The admission of additional European countries to the EEC is motivated exclusively by political considerations. The basis of the positive attitude toward the admission of Greece, Spain or Portugal is the hypothesis which assumes that this step will improve the economic situation of these countries and prevent their sliding to the left. From the standpoint of EEC functioning, however, the increase in membership makes the integration mechanisms more cumbersome, substantially increases the financial burden and intensifies the internal conflicts, particularly in the area of agriculture.

It can therefore be presumed that the protectionist steps taken by the EEC will multiply both toward the capitalist countries and the economically efficient developing countries, and, with the political motivation, primarily toward the socialist countries.

#### Methods of Promoting EEC Interests

The EEC unquestionably occupies an important place in international economic life. It is actually the biggest economic bloc in the capitalist

world which is able to assert its interests in trade policy, but also to dictate its terms in trade policy to its smaller and weaker partners--as far as the circumstances permit. To defend its commercial and political interests the EEC uses, depending upon the respective partner, both contractual tools and other techniques.

The closest possible form of cooperation is established by the association agreements which provide for a relatively intensive attachment of EEC member countries' former colonies to this integrated unit. A typical example of an agreement of this type at the present time is the so-called Lome Agreement II covering 60 African, Caribbean and Pacific countries. The EEC general policy in the Mediterranean region is reflected in the specific agreements on cooperation with Algeria, Morocco, Tunisia, Egypt, Jordan, Lebanon, Syria and Israel. All these agreements are preferential. Also preferential is the agreement with Yugoslavia signed in 1980. Apart from the trade aspects, these agreements anticipate cooperation also in the area of industry, technical equipment and technology, financing and solution of social problems. The general picture must be supplemented by the association agreements with Cyprus, Malta, and Turkey, which is expected to become an EEC member country before the end of this century. Preferential agreements have also been signed with Spain and Portugal, two candidates for EEC membership.

Outside the Mediterranean region, preferential agreements have been signed with all countries of EFTA. On their basis a free trade zone for industrial products was established in all of western Europe as of 1 July 1977, which resulted in discrimination particularly against the socialist countries.

Agreements on trade cooperation originated in the nonpreferential trade agreements. As examples we can mention agreements signed with India, Pakistan, Bangladesh, Sr Lanka, Mexico and Brazil. In contrast to the traditional trade agreements, these agreements also provide for a consultation mechanism in the broadest possible sense. In this context we must also mention a general agreement signed with Canada in 1970. This is the first general agreement on economic and trade cooperation which was signed with an industrially developed country. Special attention is paid to economic cooperation. In the first place it deals with the consolidation of ties between the enterprises and industrial sectors of Canada and the EEC, and particularly with joint projects even in third countries.

It is also necessary to mention a trade agreement of the nonpreferential type between the EEC and the People's Republic of China which constitutes the basic commercial and political relations between these two partners. Let us recall that China is the beneficiary of EEC autonomous general preferences granted to the developing countries and also to Romania and Yugoslavia.



The EEC activity in relation to other integrated units and international groupings is also considerable. In this respect a broad general agreement has already been signed with the ASEAN countries, an agreement with the Andes Pact is about to be signed, and a dialog with the Arab League continues at irregular intervals. The EEC maintains contact and participates in the activity of many international organizations.

The EEC has not signed bilateral agreements with its two biggest commercial and political rivals--the United States and Japan. Japan refuses to negotiate because of commercial and political discrimination by the EEC against Japan. The United States proceeds from the premise that as a strong partner it does not need an agreement and that the GATT framework is adequate for the discussion of current problems. Both these countries maintain commercial and political contacts with the EEC through consultations at a high level which take place twice a year, and also through their missions to the EEC in Brussels. In return the EEC maintains its agencies both in Tokyo and Washington, D.C.

The list of commercial and political tools used by the EEC is not complete nor does it attempt to be complete. The purpose is to underscore the dynamic and pragmatic line of EEC trade policy, which adapts relatively well to the political-economic needs and interests of this integration group.

#### Relations with CEMA

This involves a complex group of issues whose development is determined by the political stand of both parties. Already since 1972 CEMA has expressed willingness to enter into a constructive dialog with the EEC agencies. In view of the fact that for political reasons the EEC is not interested in enhancing the significance of CEMA, a rational attitude on the part of this integration unit cannot be expected. While CEMA strives for a broad contractual regulation of commercial and political relations between the two integration units, there has been a tendency on the part of the EEC to sign only agreements of limited scope which will not provide even for the establishment of mixed commissions or other consultation mechanisms.

The bilateral relations of most CEMA member countries with the EEC practically develop according to the need of importing goods from the socialist countries to the EEC. Romania has signed an agreement on the export of its agricultural products, is the beneficiary of EEC general preferences for the developing countries and has signed trade agreements on metallurgical products, textile products, industrial products as well as an agreement on the establishment of a mixed commission with jurisdiction over all trade and economic issues.

Bulgaria has signed trade agreements on metallurgical products, textile products and mutton. The structure of Hungary's contractual documents signed with the EEC is virtually identical with that of Bulgaria and

Poland. As of now no agreements have been signed with the EEC by the GDR, whose key trade partner in the EEC is the FRG, with which it has mutually duty-free relations.

#### Limited Room for CSSR Exports

The trade policy pursued by EEC agencies toward CSSR exports is not favorable. The EEC agencies on the one hand recognize that we are a contracting party to GATT, while on the other hand they regard the fact that we have a different social and economic system as sufficient grounds for discriminating against us. The import system applied to imports from the CSSR therefore comprises a number of protectionist, unilaterally applied and discriminatory elements--quotas, import licenses even for otherwise relatively free goods, antidumping procedures applied with increasing frequency, and so on.

Following the introduction of hard protectionist measures for metallurgical products, Czechoslovakia signed within the GATT framework a trade agreement on these products in 1978. This agreement is extended with certain modifications every year. The first trade agreement on textile products with the EEC was initialed on 18 September 1981, and remained in effect until the end of 1982. The second agreement for the 1983-1986 period was initialed on 16 July 1982. These agreements create the necessary commercial and political conditions for the export of our textile products until the end of 1986.

Technical conditions were created for the export of Czechoslovak agricultural products (seeds, hops, wine). Without them, due to legislation in the EEC, our exports could not continue without interruption. An agreement was negotiated in 1982 through an exchange of letters on our exports of mutton to the EEC. The agreement reduced the duty on exports from the CSSR to the EEC by 50 percent.

The signing of trade agreements on metallurgical products and textile products have solved--while these documents remain in effect--some of the problems pertaining to our export of these products to the EEC territories. The significance of these two documents lies in the fact that quantities specified were determined by bilateral negotiations. Other Czechoslovak exports, however, remain the subject of the EEC autonomous trade policy, which the CSSR cannot significantly affect. The quotas for our goods, whose increase had to be negotiated every year until the end of 1971 with EEC member countries within the long-term trade agreements then in effect, have been set unilaterally and at minimum levels since 1975, while the most sensitive of them are not revised at all. The continuing inflation of currencies of EEC member states has resulted in the actual reduction of the physical volume of some of our exports. Items for which import quotas were set accounted for 20.9 percent of our total exports to the EEC in 1982. The volume of exports thus regulated could be larger if the quotas conformed to our commercial possibilities.

An analysis carried out for this purpose reveals that 19 of our OZO's [foreign trade organizations] could increase in a varying degree their imports to the EEC if the EEC trade policy would allow them to do so. The OZO's in question are: Skloexport, Merkuria, Jablonex, Petrimex, Chemapol, Metalimex, Kerametal, Ligna, Drevounia, Pragoexport, Exico, Motokov, Koospol, Strojimport, Pragoinvest, Kovo, ZSE [High-Voltage Electrical Engineering Plants], Czechoslovak Ceramics and Unicoop.

At the present time, the EEC trade policy restricts the export of the following of our products:

- lead crystal glass, utility glass, glass bricks, sheet glass;
- utility porcelain, wall and floor tiles, insulators;
- leather shoes for men, ladies and boys; rubber shoes, sports shoes, leather gloves;
- plastics, urea, organic dyes, litopon, products of polymerization and copolymerization, nitrocellulose, formic acid, carbon sulfate, ferrochrom [iron chromate], electrode mass, ferroalloys;
- toys, brushes, covers, camping furniture, shovels and spades, stainless steel knives, watches and alarm clocks, lead shot cartridges, hunters' cartridges and some other products;
- furniture, floor materials, matches;
- agricultural products and sweets;
- cars and tractors, tires and inner tubes;
- electric motors, cables, electrical gearboxes.

#### Old and New Discrimination

From the specific data listed above it follows that the system applied by the EEC toward Czechoslovakia in the area of trade policy not only does not create conditions for the expansion of the mutual commodity exchange in accordance with the CSCE Helsinki Final Act, but it also deliberately maintains the commodity exchange on a small scale. This can be demonstrated by the example of the export of glass, porcelain, ceramics, shoes, textiles, electric motors, some chemical products, automobiles, furniture, and so on. It must be pointed out in this context that our enterprises had encountered discriminatory practices already before the start of the prolonged economic depression in the EEC countries, which further narrowed the existing trade possibilities.

The point at issue is not only that old protectionist measures to which we had already "got used" during the past decades still exist.

Proof that artificial obstacles are being put in the way of trade is also the fact that every time we achieve a significant commercial success with regard to this or that product, EEC commercial and political ingenuity finds new means by which to thwart the effect of such success either by new quantitative restrictions (as in the case of metallurgical products) or by the application of antidumping proceedings (as happened with regard to electric motors and a number of other products).

The socialist countries--our republic among them--have learned how to respond to the practice of economic discrimination. They find the answer in the mobilization of their own resources and powerful potential, in the consolidation of their cooperation, in the orientation toward intensive methods of management. They do not renounce broad international cooperation and are determined to implement and respect all agreements which they have signed. However, this must be mutually advantageous cooperation, without any discrimination, without any political strings, cooperation which will not be overshadowed by the threat of amassed weapons.

10501

CSO: 2400/206

SLOVENES REVIEW ROMANIAN PROGRAM FOR PRIVATE FARM PLOTS

Ljubljana DELO in Slovene 14 Feb 84 p 3

[Article: "Algerian Reform on a Small Scale"]

[Text] In Romania they have begun to give a great deal of attention to arming in household and private plots.

Ownership of the land also requires its cultivation.

Bucharest, 13 February (Tanjug)--The uniform program on increasing agricultural production in household and private plots which was published in the Romanian BULETINUL OFICIAL also qualifies as a law on "agrarian reform on a small scale." It received that name because of the fact that it treats the countryside from all aspects, regardless of who is in charge of the land--the cooperative, the state, or private individuals--because of the equal obligations which are seen in these forms in the Romanian countryside. Therefore, this signifies an extraordinarily new element, the consequences of which remain to be seen.

It says, in principle, that the land as "the main means of production in agriculture, regardless of the form of ownership, is the property of the whole society." In other words, this program requires anyone who has land, no matter how small a piece it might be, to plant it to a certain crop and to breed cattle, fowl, bees, and silkworms and grow fruit trees. If he does not do this, for the minimum reimbursement, the land must be handed over to the closest cooperative or to the state, or an independent farm which is able to cultivate the land can receive it.

A cooperative member has the right to a household plot with an area of 200-250 square meters; in addition, he can receive from the cooperative some 30 acres on loan. The program assigns him the task of growing six fruit trees on this land; he must grow vegetables and "plant fruit-bearing shrubs alongside walls." If he receives more than 30 acres, on five of these he must produce wheat and rye for his own needs, on 10-15 acres, he must grow corn, with beans between the rows, while on five acres he must grow vegetables, sugarbeets and sunflowers. Thus all the main products are provided to him since he receives a corresponding quantity of sugar and oil for the sugarbeets and oil seeds.

Private plots and cooperative holdings amount to close to 1,250,000 hectares and more than 250,000 hectares of pastures and other acreage which covers from 12.5 to 15 percent of the entire land area. On the three hectares allotted, at least a third must be sown to grains and vegetables and 10 acres, to flax and hemp, and the rest will be meadows and pasture lands. On this property, families with two or three members must maintain at least one cow and calf, two hogs, five sheep or two goats, from 10 to 18 hens or other fowl, with 60 to 80 chickens for slaughter, and 10 to 15 rabbits and draught animals. In addition they can have at least one apiary and enough silkworms for four or five kilograms of cocoons, which they are obliged to deliver to the state. If the family has a number of members, the number of head of cattle, fowl, beehives and silkworms which they can maintain on their property is increased on the basis of the number of people in the family.

Such an arrangement of seeds and livestock is not regulated by chance because when they adopted this program they calculated that this sector has almost half the cows and sheep, more than half the fowl and 27.5 percent of the hogs. A similar situation can be noted in regard to orchards and vineyards; however, only 11 percent of the meat, 16 percent of the milk, 6 percent of the eggs, 7 percent of the vegetables, about 2.5 percent of the potatoes and 4.3 percent of the grapes are bought back by the state.

This program strictly defines how much a person is obliged to hand over at the repurchasing stations and how much he can produce for his own needs. Above all, every individual cattle-breeder is prohibited from slaughtering the cattle in this sector.

CSO: 2800/233

## INTERNATIONAL AFFAIRS

### BRIEFS

NEW POWER LINE FROM USSR--The power transmission line being built to run from the Khmelnytskyi nuclear power plant in the Ukraine is a joint industry investment project of the CEMA countries. Electricity will flow along this line to Poland, Czechoslovakia the GDR and Hungary, and this power will be channeled through a switching station at Widelka near Rzeszow. Right now ELBUD brigades from Katowice and Krakow are erecting huge pylons, on which the power transmission lines will soon be strung, running from the Polish-Soviet border to Widelka. At the same time, work is under way at Widelka on the installation of switching station equipment. Power should start flowing through these lines some time around the end of this year and the beginning of next year. [Text] [Warsaw RZECZPOSPOLITA in Polish 27 Feb 84 p 3]

CSO: 2600/745

CZECHOSLOVAKIA

FISHERMEN'S CONGRESS SETS TASKS FOR MANAGEMENT OF RESOURCES

Prague RUDE PRAVO in Czech 23 Jan 84 pp 1-2

[Article] by Jindrich Spevak, special correspondent: "Good Stewardship of Water Areas--From the Fourth Congress of the Czech Fishermen's Association"

[Text] The Fourth Congress of the Czech Fishermen's Association was held on Saturday and Sunday in the Railroad Workers' Central Hall of Culture in Prague. It reviewed the accomplishments in the work of that organization since 1978 and adopted further tasks the fulfillment of which will contribute toward the realization of the decisions announced by the 16th CPCZ Congress.

More than 200 delegates representing over 170,000 members of this public organization welcomed in their midsts the delegation of the CPCZ Central Committee, the CSR Government and the Central Committee of the CSR National Front led by the minister of agriculture and food of the CSSR, Vladislav Treska. Among the guests at the meeting were also representatives of the comradely fishermen's association from the USSR.

The chairman of the Central Committee of the CRS [Czech Fishermen's Association], Frantisek Reiss, presented the report on the activities of the association since its third congress and on its other tasks. He expressed deep appreciation for the dedicated work of the members and officials of the association who had achieved significant success in the past period in developing special programs, in the management, in fishing and in the fulfillment of the concepts for the development of fresh water fishing up to the year 1990 as well as in political education.

The association contributed in a meaningful way toward the fulfillment of broad social tasks, especially of the election program of the National Front, as well as in environmental protection, assistance to our agriculture, harvesting of fruit and herbs, and collecting of recyclable materials. The economic program of the association, consisting particularly of the maintenance and restocking of the fishing areas under its management, is especially broad.

The Czech Fishermen's Association is meeting its tasks aimed at better environmental protection and public interests of fishing, which stem from increased water pollution. While in the year of the Third Congress 191 cases



of polluted streams were reported and the consequent loss of fish amounted to about Kcs 250,000, in 1982 there were as many as 237 such incidents and the value of the destroyed fish amounted to more than Kcs 9 million. Most of these shortcomings were caused mainly by disregard for the directives, regulations and standards in force, and many by careless people, not excluding the fishermen.

Following the report on activities and the report of the control and audit commission of the CRS, the representatives of the CRS Central Committee received from the hands of Vladislav Treska the state medal "For Constructive Achievements" granted to the association by the president of the CSSR. Other individuals and teams received awards from the ministry and from the association.

The discussion focused mainly on the purity of our streams, on raising the fish stock and on education of youth. The association also welcomed the representatives of Soviet fishermen.

The minister of agriculture and food of the CSR, Vladislav Treska, spoke in the name of the delegation of the CPCZ Central Committee, the CSSR Government and the Central Committee of the National Front, saying, among other things: "Our fishing organizations have done great work for our national economy. They deserve full appreciation for their achievements in fish production, particularly in 1982 when on the average 437 kg of fish per hectare of water area were caught, as compared with the average in the past years, when it fluctuated around 300 kg.

"Your association also participates in the export of fish in the value of more than Kcs 1 million all charges paid. This is not a negligible income for our national economy, if we consider that we can import only so many goods and raw materials as we can pay for with our exports. Nevertheless, these achievements indicate certain untapped assets which must be better utilized for the development of fishing in running waters.

"An assessment of the current concepts for the development of fishing, dating back to 1974, disclosed many problems with which our ministry must deal in cooperation with your association and in close collaboration with other agencies and organizations, above all, with the national committees and users of water areas. For that reason, in May 1983 the administration of the CSR Ministry of Agriculture and Food approved 'The Main Directions for the Development of Fishing in Running Waters until 1990.'

"We must study primarily the situation of our water system and its technical and biological adaptation far more consistently than before. Here there are very few reasons to feel satisfaction. The importance of water for man today has narrowed down not to the basic amount of drinking water necessary for the preservation of his biological life, but to its purity. The level of many reservoirs storing drinking water is far below normal at this time and even the underground waters are in short supply. And precisely in this context we must realize how serious the problem of deterioration of the purity of water is. More than 5,000 hectares of water areas have been closed to

fishing due to their excessive pollution. Although the compensation for losses amounts to more than Kcs 9 million, a considerable amount, the pollution will have very grave consequences and the losses are frequently irreplaceable."

At the conclusion of the session the delegates at the congress elected the top officials of the Czech Fishermen's Association. Frantisek Reiss was elected chairman of the Central Committee of the CRS.

The participants in the congress adopted additional decisions and the proclamation of the program. In the next 5-year period the activities of the organization will focus mainly on the fulfillment of the tasks stemming from "The Main Directions for Fishing in Running Waters until 1990." It deals primarily with further improvement of the artificial production of the fish stock. The members of the CRS expect to release every year in our waters 2 million carp, more than 1 million trout and 800,000 pike. The fishermen will also cooperate more closely with water economy agencies in environmental protection and continue their successful work with the young generation of fishermen.

From their meeting the delegates addressed a letter of salutation to the CPCZ Central Committee.

9004

CSO: 2400/217

EXPERIMENT TO INCREASE FOREIGN TRADE EXAMINED

Prague HOSPODARSKE NOVINY in Czech 27 Jan 84 p 4

Article by Eng Bohumir Dolak: "Findings One Year Later"

Text In the high-tension electrotechnology concern enterprises, production has been linked economically and organizationally with foreign trade since 1969 by being entrusted with export in the provinces of its activity. Gradually this activity has been widened to include import. The import and export activities are carried out by the foreign trade section, which is a part of the general management of the VHJ economic production unit. All this has led to an experiment to increase the effectiveness of foreign economic relations as per Resolution of the Government of the CSSR No 1/1983. The experiment started in 1983. In connection with the experiment a number of economic questions arose; I focus on those which are related to khozraschet and to the utilization of financial economic instruments.

One of main features of the experiment to increase the effectiveness of foreign economic relations is the fact that the profit balance of the VHJ includes the results of both wholesale prices and foreign trade. In export it is the difference between purchase and wholesale prices; in imports for our production consumption in selected items of Group II of price regulation, it is the 100-percent difference between purchase and wholesale prices.

Profit Balance

The profit balance of our producing organizations does not, according to our intraconcern rules, contain the result of export because the latter is influenced by a number of factors on which producing organizations can have no influence. These include especially the centralized method of foreign trade management according to all of its vertical and objective outside influences, such as speculative fluctuations in foreign markets or economic-political discrimination against our economy by nonsocialist countries.

The task set for the VHJ in export by the state plan is written out for enterprises. This means that enterprises have no direct influence on the volume or territory of export.

In view of the fact that at the time of the drafting of the state plan the order structure is often not sufficiently clear and, moreover, is subject to changes during the year, especially concerning exports to non-socialist countries, export tasks are subsequently adjusted for the enterprises. To the degree that export results are projected into the economic results of the enterprises, this also requires operative changes in financial plans and concomitant changes in incentive. This, however, at the same time weakens the relative stability of financial management of the enterprises. If the VHJ keeps the export results for itself, it can eliminate the consequences of nonfulfillment in enterprises, as long as this was not their fault. In this the integrity of the concern as the basic management link manifests itself. (The way to motivate the organizations to fulfill export indicators is discussed below.)

Part of the profit balance from wholesale prices is set by the last year's results. The task in export (the difference between the purchase price and the wholesale price) is calculated from past facts with consideration of the needs of export to socialist and nonsocialist countries.

The task in export to socialist countries is based on specialization and bilateral agreements within CEMA. However, fluctuation in price and assortment takes place here, based on regulation of sliding average on the basis of world prices. The original general volumes in export in fco prices and wholesale prices in the plan specifications are redefined more accurately in the first half of the year on the basis of concrete contracts. This changes both the volume and the value, which results in a change of the breakdown of the profit balance.

The task in export to nonsocialist countries is set also according to the need for foreign currency for the national economy. This is reflected in the VHJ in foreign exchange regulation for noninvestment needs in the dependence on foreign exchange collection gained in foreign trade. The task in the balance profit from foreign trade is set generally, and one cannot, therefore, consider influences which may be active at the time of the plan's implementation. These are changes in requirements of foreign customers, price movements, customs and other barriers, etc.

In the final phase these factors influence the net profit. The real profit (loss) deviates frequently from the planned one in both directions, mostly negatively, even though the khozraschet unit strives for the elimination of negative influences. This then influences the size of net profit and thus the whole VHJ management.

The net profit in the VHJ was, on the whole, exceeded for the first half of 1983. This means that, from the point of view of financial management and material motivation, no problems should arise. If, however, we evaluate the structure of net profit accomplishment, we see that:

-- the VHJ exceeded the profit from domestic receipts by Kcs 41.3 million, while export profit fell short by Kcs 20.6 million;

-- the better result from export to non-socialist countries than the one planned was caused by failure to fulfill the planned export in fco prices and wholesale prices;

-- although the export to socialist countries was exceeded in both fco prices and wholesale prices, the planned profit goal was not achieved due to lower effectiveness.

The results show the necessity to consider whether or not the profit or the loss from foreign trade should be judged aside from the criteria of funds management. This question is not yet being resolved within the rules of the experiment. The discrepancy appears in the fact that, while from the point of view of foreign exchange needs it is socially desirable to fulfill the planned tasks of export to nonsocialist countries, from the point of view of financial management it is more advantageous for the VHJ not to fulfill these tasks. This situation may arise also with the exports to socialist countries, should the result show losses.

For clarification we created a model situation. If the export result is left in concern organizations, the following situation would take place in three analyzed enterprises after the first half of 1983:

-- In the first enterprise net profit would improve, especially due to non-fulfillment of the material volume of the export;

-- In the second enterprise non-fulfillment of profit from domestic sales due to excessive exports would significantly decrease. The improved fulfillment of profit from exports was caused primarily because the material volume of exports to nonsocialist countries had not been achieved;

-- The third enterprise would highly exceed the export result so that total net profit would be exceeded. At the same time it would have the opposite influence on the total export results--excess exports to socialist countries and a substantial nonfulfillment of export to nonsocialist countries with the marginal indicator lower than 100.

This confirms that the decision of the VHJ not to take the export results all the way to individual concern organizations was fundamentally right and that the method chosen for their motivation in exports is also substantiated. Further, it shows the importance of a differentiated vs. non-differentiated approach to export results.

#### Capital Management

In the framework of experimental verification of the effectiveness of foreign economic relations, the system of capital management of the VHJ was changed, too. The export incentive fund was replaced with a direct grant to the respective funds for enterprise, collective, and personal incentives and the role of the contingency fund was significantly strengthened. An investment fund which replaced the investment and development funds was created.

In the experiment the difference between purchase and wholesale price is a part of net profit which is put into the national budget at 75 percent. This means that at the disposal of the funds are resources equal to 25 percent of the difference between purchase and wholesale price.

A potential grant to funds after delivery to the national budget was figured out in the plan for 1983 as follows: Kcs 8 million to the cultural and social services fund, Kcs 13 million to the investment fund, and Kcs 12 million to the special compensations fund. The grant to the cultural and social services fund is limited to 0.4 percent of wages payable.

The allocation to the investment fund was mandatorily determined by the directive of the ministry for financing planned limited investments up to Kcs 2 million. This procedure does not facilitate the VHJ's creation of sources outside of the plan, which it would apply primarily for machine and equipment purchases in order to increase the volume and quality of exported products, and thus weakens the economic incentive of the VHJ and enterprises.

The allocation to the special compensations fund is a surplus item remaining from the total volume of means usable to raise export motivation, and amounts to 0.6 percent of the wages payable. Thus it does not reach even the 2 percent of wage volume which had been possible earlier. In this situation the VHJ cannot sufficiently motivate enterprises in the growth of exports and their efficiency by way of the special compensations fund.

Besides the three mentioned funds the VHJ should, in my opinion, have the possibility of giving grants to their contingency funds, already in the plan, from the results of exports. Given the low volume of resources and their predetermined share in covering the planned needs in investments, it was not possible in the three quarters of last year to allocate anything to the contingency fund.

Regarding the special compensations fund, the size of possible allocations to it is determined within the framework of total wage regulation.

In connection with the conditions for creation of resources for funds on the VHJ level, the following question is especially relevant: Will the profit balance influence the disposable sources of the VHJ and, if so, how? Also crucial is the question of how to eliminate the risk of causing shortages in resources as we create VHJ funds.

In setting the tasks, the ministry fully counts on the financial resources from export, namely, on the financial balance remaining after 75 percent of these financial resources has been transferred to the national budget. Significant risks arise when export profit does not materialize even though the profit from domestic activity is fulfilled according to plan.

In accordance with CSSR Government Regulation No 161/1980 on the financial management of economic production units and enterprises, which concerns the order in profit distribution, the monetary incentives (investments, special compensations, and cultural and social services) would be affected most.

A sufficient capital reserve can contribute to the mitigation of the cited risks. In addition, a procedure could be considered where part of the disposable resources from export results would not be fully quantified for the coverage of planned needs.

Even though the VHJ was entrusted with exports in 1969, it was not given the right to form a trade-loss compensation fund, such as that which exists in foreign trade organizations. This means that in the past years the compensation fund of our VHJ was expected to cover not only production risks but also risks arising from export and import. Also, contrary to the current application of the compensation fund, as defined by CSSR Government Regulation No 161/1980, risk losses from exports include, for instance, no-fault shortages above the stated norm and damages beyond the limit covered by insurance. The compensation fund should further cover losses from the liquidation of inventories of unusable goods not caused by the organization, write-offs of foreign claims and also foreign exchange losses and differences.

On the other hand, compensation received for written-off foreign claims and foreign exchange profits and profitable active exchange differences is a resource of the compensation fund.

Besides these current risks, which appear regularly, some others showed up in connection with the experiment. For instance, in transferring the supplies of exported goods from the foreign trade division to production enterprises at purchase price, exchange rates changed to the disadvantage of the purchase price level in the period between the time of their origin and the transfer. These differences occurred in two enterprises in the case of electric motors. Even though the concern organizations are entitled to grants of funds for exports, the VHJ cannot supply these means as long as it did not create them as a whole. The VHJ further pays interest on long-term claims which arose due to the insolvency of foreign buyers. The need to cover domestic and foreign trade risks requires the resources of the compensation fund to be adequate for the size of these risks. This means that the size of the compensation fund in our VHJ entrusted with export, and to a great extent also with import, should approximately correspond to the level of compensation funds of other VHJ's, and also to the level of trade loss compensation funds of comparable OZO's [Foreign trade organizations]. Moreover, the fact should also be considered that in the experimenting VHJ further risks arise from consolidating receipts from domestic activity and results from foreign trade into net profit.

This is, however, in contrast to the limitation of the balance of the compensation fund imposed by the ministry for 1983 of 0.2 percent of their adjusted performance, which represents an amount of Kcs 10 million (0.7 per mille of production of goods). At the same time, according to CSSR Government Decree No 1/1983, the limit of maximum compensation fund remainder at the end of the year can amount up to 5 percent of adjusted own performance at experimenting VHJ's, which in our case would amount to about Kcs 250 million. Neither the tasks, set by the ministry, of the financial plan in the division of profit nor the plan implementation in 1983, however, make it at all possible to establish such a large compensation fund.

## Export Motivation

The appropriation to the fund for cultural and social services of the VHJ from the disposable profit in the amount of 0.4 percent of annual volume of wages payable is conditioned by fulfillment of export at 95 percent in fco value. With a fulfillment below 95 percent, and this also applies to a single area, the claim ceases.

We evaluate the merits of our enterprises in export in two ways. As long as the enterprise fulfills the export at a minimum of 95 percent at fco prices, it has a claim on an allotment to the fund of cultural and social needs in the amount of 0.3 percent of accrued wages. An additional 0.1 percent is allowed if planned effectiveness has been kept up as measured by the comparative indicator calculated for both export areas.

If the concern organization complies with the given conditions, it may claim grants to the fund of cultural and social services needs even if the concern as a whole does not fulfill the qualifying indicators. The resources from which the VHJ will make the grant have not yet been determined by the managing organs.

The allotment to the investment fund of the VHJ is stated in the plan as a conditional absolute amount of Kcs 13 million. Besides that, the internal VHJ regulations enable the organizations to claim a grant in the amount of 30 percent of the profit gained from exceeding the planned profit in exports to socialist countries. For each Kcs million by which the organization exceeds the export plan to non-socialist countries in fco prices, it will receive Kcs 50,000 for the investment fund.

The availability of these grants, however, is subject to the creation of sufficient disposable resources in the VHJ. It could, therefore, easily happen that, given the number of enterprises, the VHJ might not be able to meet all the claims for grants at the end of the year. This would constrict export and its effectiveness. The removal of this discrepancy would be possible only given a sufficiently large contingency fund and the possibility of using it, but present pertaining regulations do not yet provide any solution.

In working out the conditions of motivation in the investment area for concern organizations, we started from the following principles. Since the export to socialist countries is profit-intended (from the aspect of the difference between purchase price and wholesale price), it was used as a stimulus for the acquisition of superplan resources for the investment fund. A majority of organizations have a comparative indicator of export to non-socialist countries which is under 100. That is why we put emphasis on the volume of exports in fco prices. Similar criteria were chosen for acquiring resources for a personal motivation incentive fund.

As for the special compensation fund, in concern organizations indirect personal motivation in export is applied in the form of addable items in figuring the usable amount of wages payable. The process is cumulative:



exports to non-socialist countries in fco prices in Kcs millions times 6,000, to which is added export to socialist countries in fco prices times 2,000 and the profit or loss as the difference between purchase price and wholesale price according to Fin 1-12 for both areas in Kcs million times 12,000. Conversely, a loss from the difference between purchase and wholesale prices reduces the usable amount of wages payable.

The total of the items cited should present itself as the superplan savings of wages payable. At the end of the year the savings should be transferred to the special compensation fund of the concern organizations. The condition is that this saving is not compensated for by non-fulfillment of adjusted own performance, by exceeding labor costs, by bank sanctions, etc. It further presupposes that the concern will have sufficient disposable resources from profit for grants to the special compensations fund of the concern organizations.

By the fact that the export incentive is one of the items in the total wage regulation which can be added or subtracted, it can happen that sufficient means will not be created in the special compensations fund in spite of favorable results in exports. Moreover, due to the transfer of the means to the compensation fund which is, in addition, destined mostly for the payment of shares, the previous intention to stimulate the export effectiveness with this fund ceases, just as did the material motivation fund in export. The question thus arises of a different construction in the creation and use of a reward fund, which would include also motivation means from export results and their purposeful utilization.

12392

CSO: 2400/229

SUPPLIER-BUYER CONTRACTS DISCUSSED

Prague LIDOVA DEMOKRACIE in Czech 7 Feb 84 p 1

/Article by (hv): "Contracts Must Be Formulated Properly and Signed on Time"/

/Text/ Supplier-buyer contracts have been at the center of attention for a long time. There has been a lot of talk and many articles have been written about them. Nevertheless, it will not do any harm if we point out that they assume a concrete form in economic contracts. These are economic contracts signed by enterprises and organizations on the delivery of various materials, raw materials, semi-finished and finished products, but also on certain work and services without which they could not discharge their economic tasks.

The Set of Measures for Improving the Planned Management System of Our National Economy quite naturally lays great emphasis on signing supplier-buyer contracts when the plan is detailed and adopted, because otherwise, during the implementation of the plan, very often complex negotiations take place, unnecessary delays occur, as do quarrels and ultimately also the favoring of group interests over the interests of the entire society.

To regulate supplier-buyer relations correctly, the Set of Measures instructs the State Planning Commission and CSSR State Arbitration Office to revise the regulations on the establishment of supplier-buyer relations. In the mid-1980's these agencies issued a decree on material balancing the negotiating supplier-buyer relations in the planning process. This new decree in SBIRKA No 48/1980 replaced the former decree of SBIRKA 33/1975 while adopting and elaborating such positive elements of the former decree as cooperation of suppliers with buyers. Moreover, it stipulates more instances of mandatory negotiations on supplier-buyer relations, formulates the procedure on deliveries of societywide importance on the basis of priority, such as the deliveries of complete industrial plants for capital construction, deliveries for export, deliveries for advancement of research and development, and deliveries for accelerating the entire science-research-production-use cycle. It is expected that economic contracts will play a much more active role in this area in particular.

Other measures designed to improve supplier-buyer relations are contained in the amendment to the Economic Code which became effective on 1 January 1983. Among other things it contains provisions on the mandatory signing of long-term contracts, on the supplier's duty to sign economic contracts covering the planned volume of products' deliveries prior to the beginning of the delivery period, but also on fines for violation of contractual obligations. It also stipulates the obligation to sign an economic contract covering the delivery of necessary spare parts and so on.

All these revisions and improvements represent an important step forward toward remedying the existing situation in supplier-buyer relations, as was called for by the guideline of the 16th CPCZ Congress. However, this entire system of management organization and coordination of material flows in our economy remains merely a tool or rather a directive for the procedures and negotiations between enterprises and organizations. It by itself cannot solve the problems caused by the shortcomings in management, failure to ensure harmony between resources and needs, inability to be an active subject to enterprise for whom it is a matter of honor to help in satisfying the needs of economic development in the desirable quantity, required quality and on time.

The Set of Measures for Improving the Planned Management System established the principle of increased interlinkage of the plan with the economic contracts in a whole in which the signed contracts will give the assurance that the plan is realistic and so interlinked that gradually conditions will be created for the evaluation of enterprises and economic production units on the basis of the fulfillment of these economic contracts. More than 3 years of application of the principles of the Set of Measures resulted in some improvement of supplier-buyer relations. During the preparation of the plan there is an apparent effort on the part of enterprises and organizations to apply the new rules. Nevertheless, there still remain enough problems and shortcomings.

Only a further increase in the responsibility of suppliers and strengthening of the buyer's position can contribute to their elimination. Violations of contractual commitments must be punished much more severely. After all, this is a very important area which plays a major role under the conditions of highly developed social production. The supplier-buyer relations constitute the basis of the proportional development of related productions and the elimination of bottlenecks in the completion of end products which, in view of the increasingly larger assortment of products, is the key issue in the continuity of the entire reproduction process.

10501

CSO: 2400/231

FODDER PRODUCTION IN EASTERN SLOVAKIA DISCUSSED

Prague RUDE PRAVO in Czech 16 Feb 84 p 1

/Article by Eduard Drabik: "Conservation of Grain Fodder"

/Text/ The winter period is for the farmers in the East Slovakia kraj by no means easier than it was in previous years. A generally good supply of dry roughage and grain fodder for the kraj cannot solve all the problems encountered by individual okreses, cooperatives and state farms.

The attention paid over a long period to the roughage production increase is beginning to be favorably reflected in the eastern region of the republic. Last year they were able to replace approximately 42,000 tons of grain. For this winter period they succeeded in accumulating 2.41 tons of roughage per head of cattle (in VDJ /large livestock units/). Hay accounts for as much as 1.1 tons, which is the biggest quantity so far and considerably exceeds the level in recent years.

It Begins in the Fields

The extensive conservation program carried out by the Kraj Agricultural Administration at Kosice is gradually reflected also in fodder production in accordance with the kraj's conditions. While the intermediate crops covered 18,000 hectares in 1981, they were grown on an area almost twice as large as last year's. A similar twofold increase was achieved in the utilization of pastures. Turnips were grown on less than 2,000 hectares 2 years ago and their importance had to be explained to the farmers. They were planted on an area twice as large as last year, and farmers want to increase the area by another 1,000 hectares this year. Clovers are an important source of grain conservation.

Changes in Herds

Despite favorable results achieved in livestock production, some problems persist. The high rate of calving during the spring period causes a discrepancy between the need for and resources of grain fodders, even if the annual volume covers the need. Here the farmers of the kraj will have to struggle hard to bring about an improvement. Partial results

indicate that they can do so. For example, an 11-percent increase in milk production offers good prospects for attaining milk production of 3,000 liters per cow.

Enterprises in every okres have worked out the feeding plans in accordance with the local conditions. The control feeding centers rendered them effective assistance in this respect. With the help of computers they have specified fodder allowances for approximately 40 percent of the milk cows. In some instances, however, they have had to resort to rationing in order to make the best possible use of what was available. They have achieved good results in the utilization of treated straw in fodder allowances. They apply on a large scale various methods of baling, ammoniation, silage, fermentation and similar procedures. Straw made more palatable is already used in eastern Slovakia as a fully equivalent component of fodder allowances, and more than 200,000 tons of straw will thus be utilized by the end of this winter. This also is the way to reduce grain consumption. The effort to eliminate ineffective grain consumption led to the discontinuation of breeding of some pigs with low utility. The herds of pigs were thus reduced by 92,000.

#### Measures Adequate to the Situation

Financial incentives and training of workers are gradually bearing fruit in better technological discipline, controls, personal responsibility and quality of work. This is reflected in higher utility and ultimately also in efficiency of production. The effort to avert sudden problems by long-term preventive measures has favorably affected agricultural production. Despite the generally good situation, however, there still are differences between individual okreses and enterprises.

Assistance must be rendered particularly to the Roznava okres, where the winter fodder reserves are the smallest. Quite a few problems are encountered also in the Michalovce okres and particularly the Trebisov okres, but also in other okreses fodder will have to be transferred so that the best okreses can help others with an inadequate fodder supply. In the Trebisov okres strict monitoring of supply has been introduced, and fodder allowances are set every month under the strict personal responsibility of the management personnel. They have established twin partners which will help each other with transfers of fodder. The Kosice-countryside okres will help them by transferring part of its fodder surplus, while the SSR Ministry of Agriculture and Food and the kraj agricultural administration will provide them with some fodder components. The northern okreses will help increase their fodder supply by deliveries of waste potatoes. Even in this difficult situation they are trying to solve the supply problem by not increasing grain consumption.

The farmers are already thinking of the approaching spring. They are systematically applying additional fertilizers to fodder plants in order to switch to fresh green fodder in feeding cattle as soon as possible. It is an unusually important source of fodder for the kraj because approximately 90 percent of cattle feed on pastures.

10501

CSO: 2400/233

MANAGEMENT OF AGRICULTURAL, FOOD EXPORTS CRITICIZED

Prague HOSPODARSKE NOVINY in Czech 14 Oct 83 pp 8-9

[Article by Engineer Jiri Rehak, CSSR People's Control Commission: "Self-Sufficiency Raised to a Higher Degree by Export"]

[Text] The report of the CPCZ Central Committee's Presidium on accelerating the practical application of R & D results, which Comrade Milos Jakes presented to the 8th session of the Central Committee, emphasized also the need to increase our self-sufficiency in food production by, among other things, raising the level of the value-enhancing processes and reducing losses. In one of its latest analyses, the CSSR People's Control Committee set out to determine the reserves that still exist in this area. It focused attention on the efficient structure of foreign trade in farm and food products. The article responds critically to the shortcomings in maintaining an efficient structure of export. On the basis of the analysis, certain desirable directions of future development are outlined as well.

The basic strategy for developing our agriculture and food-industry complex calls for increasing the degree of our self-sufficiency in staple foods produced domestically. This strategy follows also from certain general features of the world economy's development, such as the gradual transformation of most developing countries from exporters into net importers of staple foods, the unfavorable trends in the development of the terms of trade, and the concentration of the export of agricultural raw materials and foods to the advanced capitalist countries. In conjunction with the intensifying political aspects, especially this last factor is gaining in importance. World trade in food is becoming more and more a matter of political pressure and discrimination trends.

Limited Assortment

The principal directions of increasing our self-sufficiency were outlined at the 13th session of the CPCZ Central Committee in 1979. They include primarily the following: better enhancement of the value of the inputs into the agriculture and food-industry complex; reduction of all kinds of losses; harmony between the development of crop production and livestock production; development

of the cultivation of all crop varieties under suitable soil and climatic conditions; and the restructuring of livestock production aimed at reducing the need to import feed.

We did not succeed in increasing the degree of our self-sufficiency under the 6th Five-Year Plan. The main reason was particularly the widening gap between the development of crop production and livestock production (about a fourth of the feed grain for livestock production had to be imported), and also the needlessly increasing import of temperate-zone fruit and vegetables. Development to date under the 7th Five-Year Plan is more favorable. The trade deficit of the agriculture and food-industry branch has dropped over the end of the 6th Five-Year Plan by 1.5 billion korunas, at f.o.b. prices, in trade with the most sensitive provenance and destination, the nonsocialist countries. However, this drop is mostly a result of the measures to curb import. For the time being, export is not asserting its active role much.

The approaches so far to solving our self-sufficiency contain a number of reserves. In its main substantive objectives, structural farm policy is fairly clear. The recommended rations of staple foods can be converted into the food industry's production structure, which in its turn can be converted into the structures of livestock production and crop production. However, this physical-balance approach fails to take fully into account the role of foreign trade in increasing our self-sufficiency.

The degree of self-sufficiency is expressed as the share of production within visible consumption (i.e., production + import - export), either in the aggregate (in value terms, in which case 100-percent self-sufficiency is achieved when import = export), or in a breakdown by principal commodities (in value terms and also in physical units). Up to now we have never achieved self-sufficiency in the aggregate. The main reason is the low per capita area of farmland and arable land in comparison with many other countries. Therefore our further course of action must be based on intensification (including structural changes) and on reducing losses. However, a clear preference for natural self-sufficiency in the individual commodities has its limits:

--The given soil and climatic conditions are favorable for growing intensively only a limited circle of temperate-zone crops;

--The further development of crop production will take place with limited inputs of intensifying factors; their maximum use will be feasible only in the case of certain crops;

--Our agriculture and food industry need a number of raw materials and products that can be obtained only through import (and this import must be offset by efficient export);

--The intensification of farm production (technological progress in crop and livestock production, effective pesticides, biological factors, etc.) and food-industry production cannot be ensured without the necessary imports that require efficient export.



Thus the efforts to attain maximum physical-commodity (physical-balance) self-sufficiency have their limits, aside from the fact that there are some arguments against the expansion of foreign trade in farm and food-industry products, such as the heavy weight of the products, their difficult and costly transportation, storage, etc. However, maximization of our self-sufficiency based on a balance in value terms, by reducing the imports of products that have favorable conditions for their domestic production, and by intensifying efficient exports, provides the optimal prerequisites for ensuring the supply of the necessary foods. Utilization of foreign trade's absolute and comparative advantages, by developing the output of products that have favorable production conditions and high quality, and also of food-industry raw materials that are universally tradable in world markets, will therefore play an important role in improving our value-balance self-sufficiency in the future.

#### Effects of Substitution

The latest, albeit partial, analysis of the management system's efficiency indicates that the instruments of management and the senior officials' activity are aimed at achieving physical-balance rather than value-balance self-sufficiency. This can be illustrated on the simplified example of exporting malt.

Malt is made from our varieties of spring barley that have very good yields and malting characteristics, and a part of the produced barley is used for feed. And yet it is becoming increasingly difficult to select suitable lots of barley for malting. The main reason is excessive treatment with nitrogenous fertilizers, often at a time unsuitable for application. Although the principles of growing brewer's barley are well known, the farms do not observe them, preferring a larger harvest over its quality. Malt of good quality cannot be made from spring barley that has a high nitrogen content (it is suitable for feed, however). In 1982, for example, the export of malt had to be reduced because of a shortage of good-quality brewer's barley. Seemingly nothing changed in the feed balance, because the import of feed grain was reduced by the volume of barley that would have been necessary for the malt that was not exported. However, the actual impact on the feed balance was unfavorable. For the foreign exchange earned by exporting malt it would have been possible to import more feed grain than the equivalent of the barley needed to produce the malt. Thus the physical-balance approach to self-sufficiency leads in its consequences to lower grain resources.

We are not succeeding in overcoming the conflict between enterprise interests and the interests of society. The agricultural enterprises and their supervising organs are striving to maximally ensure that their feed balance is in equilibrium or to minimize its shortage. Due to the decline of malt export, however, the state does not obtain additional feed grain that it could give the agricultural enterprises as a subsidy, to offset the shortage of their feed balance. Thus failure to manage production in a differentiated manner according to the necessary qualitative criteria (maximization of the yields for feed, optimization of the quality for food-industry use) deprives us of a comparative advantage of our foreign trade and, in the final outcome, also of an opportunity to improve our physical-balance self-sufficiency.

The preponderance of the physical-balance approach, at the expense of efficient export, can be demonstrated in a number of areas. The structure of crop production can be geared either to physically ensuring the needs of livestock production and the food industry, or to obtaining maximum output, with the possibility of efficiently trading the surplus for necessary imports. For example, the protein component is often added to mixed feed for pigs in the form of feed pulses, i.e., peas and beans. However, it is not efficient to grow them in our country: the production potential of the crops is utilized not more than 40 percent on average, and the long-term average yields are around 1.7 tons per hectare. Although plant breeding and testing are able to obtain long-term yields more than double the present ones, such yields are not being achieved in practice. Under these conditions it might be advisable to consider whether to increase the yields or to grow on a proportion of the acreage, instead of pulses, other crops with higher yields--say, grain--that could be exported to pay for imports of other protein components (for example, oilseed cake). In this way we could obtain the same amount of protein from a smaller acreage.

Other intensive crops, too, can save acreage. By exporting the output of a hectare of hop plantation, for example, we can import about 18 tons of wheat (the output of roughly 4.4 hectares) or 22 tons of corn (the output of about 4.7 hectares). The ratios, of course, will develop in accordance with the price changes. In the past we were exporting also other intensive crops, so-called low-volume crops such as caraway seed, marjoram, spice peppers, etc. Farmland can be saved also by taking advantage of the favorable price ratios and acreage ratios. In 1982, for example, by exporting wheat for food processing we were able to import corn in a ratio of 1:1.3.

So far as corn is concerned, there is no doubt that it is our most intensive grain crop. During the past 5 years, however, corn yields have been only 14 percent higher than wheat yields. In the opinion of the scientific-research base, however, growing corn is efficient only if it gives yields at least a third higher than wheat. In West Slovakia Kraj as the principal corn region, where about 70 percent of the total acreage of grain corn is concentrated, the average corn yield in 1980-1982 was only 3.3 percent higher (wheat, 4.89 tons per hectare; shelled corn, 5.05 t/ha). At the foremost agricultural enterprises that use modern corn-production systems--such as the Sala cooperative district, for example--the yields are very good (the highest yields in the kraj are around 9 tons per hectare). It is worth considering, therefore, to coordinate the rate of the corn acreage's expansion with the material and technical possibilities of employing modern production systems. Possible disproportions could be resolved by producing and efficiently trading crops that can be grown intensively under the given conditions, for low-cost feed grain (of course, suitable terms of trade are a prerequisite for this).

#### Stimulation of Export

While management of the structure of crop production has been directed only to a small extent toward developing the production of intensive crops that provide the prerequisite for efficient foreign trade, the economic instruments likewise have not pursued this policy consistently. The ratios of the procurement

prices and of the profit rates contained in them were characterized by the preceding development when the cost-recovering and stimulating functions of the prices of individual products were not decisive. The gradual concentration and specialization of farm production compelled modifications of the procurement prices, in the direction of uniform profitability. In spite of this, however, the prices of certain decisive export products or raw materials did not offer producers any incentive to increase the production volume and improve the quality.

We might cite hops as an example. Growing hops became practically unprofitable for major hopgrowers, and many of the hop plantations of low intensity (by international comparisons) were neglected, which can be attributed in part to the low profitability. The profitability of growing sugar beets was similarly low. Development of the price ratios was not favorable even for the production of high-quality brewer's barley (in 1966-1982, the average price of feed barley increased by 83.8 percent, as compared with only 29.6 percent for brewer's barley).

Investment policy during the past period likewise did not provide much support for the development of the food industry's key exporting sectors. The main function of this branch is to process agricultural raw materials and to ensure the domestic market's uninterrupted supply. From this point of view it was appropriate that investments were channeled preferentially to the sectors with the largest increases in output, such as the poultry, meat and dairy industries, refrigeration plants, and in Slovakia also wine processing.

It is regrettable, however, that the investment resources did not suffice for the necessary renovation and expansion of capacities in the sectors specializing in export, such as the sugar factories, malthouses and breweries. This is evident also from the following data: the average wear of fixed capital in the CSR food industry (on 31 December 1980) was 49.6 percent, but 61.6 percent in the sugar factories, and 58.1 percent in the malthouses and breweries; in the SSR the average wear of fixed capital in the food industry was 35.4 percent, but 48.2 percent in the sugar factories, and 44.5 percent in the malthouses and breweries.

Renovation of the sugar factories and construction of new malthouses were deferred. The reconstruction of the key exporting breweries has been extended. Capacity expansion at the Budvar brewery, at the present rate of progress, will take about 25 years. The not very purposeful concentration of investment resources to develop efficient exports is evident in other sectors as well. A substantial proportion of the limited investment resources allotted for the development of fresh-water fisheries was used to expand the breeding of trout, one of the least efficient export items of this sector, and even its domestic marketing has encountered problems since the 1982 adjustment of retail prices.

In the coming period, therefore, it will be necessary to allocate investment resources more evenly for ensuring the domestic market's supply, and also for the development of the efficiently exporting sectors. A concept for the development of the sugar industry has already been clarified, and machine building for the food industry, which up to now has not been performing its function satisfactorily, is being beefed up.

The system of economic incentives for the enterprises likewise supports the physical-balance approach to ensuring export tasks. Of decisive importance in this system are the indicators derived from the wholesale prices (their setting does not adequately reflect the efficiency of export) such as value added, profit, and the return on production assets. The results of export are practically not projected into the profit or loss and are felt only indirectly, through the incentives for earning domestic currency and foreign exchange. In the sectors of the food industry, elaboration of the rules for using the export incentive fund and their breakdown to the enterprise level are proceeding slowly. So far the incentives to earn foreign exchange have not been adapted to the specific conditions of the agriculture and food-industry complex. Merely the indirect influence of the export results on the enterprise's economic incentives cannot create a favorable climate for innovation. The progress of innovation is unsatisfactory, and there is not enough interest in changing the export structure in favor of more efficient products. In such an environment the interest in fulfilling the quantitative tasks of supplying the domestic market is often the dominant.

A more consistent link between export results and the profit or loss of the enterprise is a matter that concerns the entire management system. Some sectors are now conducting experiments to link production and commercial activity more closely, to share in the export results, and to simplify the paperwork presently needed to ensure imports for export production. But such an experiment is not being conducted in any sector within the food industry, although it obviously could help to identify the directions for perfecting the still inflexible supplier-user relations between production and the commercial sphere.

A good example of such inflexibility is the slow spreading of the packaging of bottled beer in 12-bottle cases. Such cases are easier to handle, especially for women, and they are preferred abroad as self-service sales mount. Technically the introduction of such cases is not complicated. In spite of this, the breweries have been unable to procure such cases. The foreign-trade organization has supplied a small quantity; the bottles are now being repacked manually from the machine-filled 24-bottle cases, either at our breweries or abroad.

The slow solution of this requirement, and of introducing nonreturnable beer bottles or the new type of container (keg), is not helping to strengthen our position in the export markets. A direct impact of the export results on the enterprise's profit would certainly contribute toward accelerating the introduction of product and packaging innovations, although this often depends on the activity of subsuppliers whose performance in many instances has long been unsatisfactory.

#### Clear Concept Lacking

The management system's perfection will be reflected indisputably in the formation of the export structure within the agriculture and food-industry complex. As evident from the results of the investigation conducted by the CSSR People's Control Commission, two directions must be distinguished in which the management system's perfection should proceed. First, there should be flexible response to cyclic developments in the foreign markets. Here the utilization of

existing reserves depends on the availability of sufficient inventories, and on operational decisions in accordance with the momentary situation on the foreign markets.

The other question concerns the export structure's conceptual management, the identification of the promising, stagnating and declining exporting sectors and exports, the creation of the investment and noninvestment prerequisites (capacity modernization, product and packaging innovation, etc.), and on this basis the closer participation of the agriculture and food-industry complex in the international division of labor, primarily with the CEMA countries. In creating an efficient export structure it is not possible to start out only from the so-called heavy items, rather it is necessary to ensure the conditions for exporting also less bulky items such as, for example, fresh-water fish, spices and herbs, snails, processed wild fruits and berries, and a number of other farm and food-industry products or coproducts. Intensification of the export of also such items can contribute to the overall rise of the volume and efficiency of export.

Up to now the management of the export structure and the formation of the prerequisites for its further development have not been purposeful enough. As a result, the export of specialized products such as sugar, malt and beer has declined or is stagnating. On the other hand, the export of certain less efficient commodities--for example, of dairy products--has increased. According to the results of audits, lack of consistency and foresight manifested itself in that the export tasks often were fulfilled operationally, in accordance with the fluctuations in production, the development of world-market prices, and the situation of the domestic market (the development of market surpluses). The overall efficiency of export declined, due to a number of factors such as the development of production costs in agriculture and the sectors of the food industry, the foreign customers' ever-stricter quality specifications, innovation activity, and development of the world markets' supplied assortment.

Likewise not negligible is the effect of domestic price policy. The long-standing policy of low food prices, accompanied by the stagnation of retail prices and rising production costs in agriculture and the food industry, led to the solution of this disparity by means of an entire series of nonprice instruments in the nature of grants and subsidies. Gradually more realistic procurement and wholesale prices logically meant the decline of the efficiency of export, measured by means of the export margin indicator [the ratio of f.o.b. to wholesale prices].

The decision-making sphere sometimes attempts to improve the efficiency of this area by limiting the export of inefficient items, i.e., by reducing the total volume of export. But this approach is no solution because one of the constant ways of improving our self-sufficiency will be the maintenance and possible expansion of our export volume. This of course requires an active and purposeful approach.

Management of the export structure through a goal-oriented program is not possible without reliable instruments for measuring its efficiency. So long as export is not realized on the basis of trade-policy interests (if products are exported that can be sold in the given territory), the criterion of efficiency serves as the basis for evaluating and managing the export structure.

In the agriculture and food-industry complex the indicators of the efficiency of exporting products are the same as in the other branches of the economy. Therefore the same objections apply as in the other branches regarding the information content of these indicators. But here there partially arise specific problems that often are not fully appreciated.

The export margin indicator is the basic synthesized indicator that measures the value of national labor in foreign trade. Assuming a realistic exchange rate, the general problems regarding this indicator's information content concern the conditions under which the f.o.b. prices or procurement prices are formed (the influence of the terms of sale, of the export's breakdown by destinations, of the cyclic fluctuations, etc.), and how the wholesale prices are formed, especially how much differentiated profitability they contain. These problems apply to the agriculture and food-industry complex as well. For example, the profitability in relation to costs contained in the wholesale prices of the products varies within a range of several tenths of a percent on the plus side to negative values.

This effect can be documented by evaluating the efficiency of exporting beer. It can be demonstrated that long term it is more efficient to export draft beer than bottled beer. But this is partially because the profitability included in the price of draft beer is lower than in the price of bottled beer.

To this there is added another specific feature of the formation of wholesale-price ratios in the food industry. It is common knowledge that it is efficient to export steak, less efficient to export roast, and not efficient at all to export dressed quarters of beef. But how is it possible that it does not pay to export beef quarters, but cuts from them can be exported efficiently? This is again a matter of wholesale-price ratios that are not in accord with the ratios of the utility values of partial products. The situation is similar in the advantageous export of milk powder made from skimmed milk, as compared with the export of other dairy products. Wholesale prices, then, often are not a good basis for measuring the social efficiency of export.

#### What Should Be the Yardstick

As the investigation conducted by the CSSR People's Control Commission and its subsequent analysis revealed, for a realistic assessment of the social efficiency of exporting the products of the agriculture and food-industry complex it is necessary to correct the export margin indicator so that it will better express the socially necessary costs, include the real rate of surplus product and measure the social utility of partial products according to the conditions of the market, the domestic as well as the foreign. Computations by the CSSR People's Control Commission confirmed and often widened the differences in the present assessment of the efficiency of export, and in some instances these ratios changed. It became evident that the agriculture and food-industry complex produces foods at less cost from the products of crop production than of livestock production. The relatively greater efficiency was confirmed of exporting products made from crops (beer, malt, nonchocolate candies, cookies, sugar, spirits, and bottled white wine of varieties I b), and that the export of hops was less efficient (due of course to the inclusion of the costs of renewing and expanding the neglected hop plantations). The export of products

made from fruit and vegetables is not advantageous, with few exceptions. Highly inefficient is the export of livestock products, especially of dairy products, beef quarters, and the products of sheep breeding (due to the high social costs of raising cattle and sheep in our country). Relatively more favorable is the efficiency of exporting the products of hog production (split hog carcasses, cuts, and Prague ham), but in principle the level of this export's efficiency is likewise unsatisfactory. More favorable is the efficiency of exporting only the products of water fowl within poultry (the efficiency of exporting goose feathers and goose liver is rated especially high), and fish (tench, barbel, carp), casings, certain offals, and seasonal products (the export of Easter lambs). The sources for the efficient export of live animals and processed game are diminishing year by year.

Important in exporting the products of the agriculture and food-industry complex is the indicator of net foreign-exchange earnings or the reciprocal of the foreign-exchange dependence. But it is debatable which costs should be included as foreign-exchange costs in the products. When comparing cattle products with the products of monogastric livestock, for example, the advantages are argued of the low foreign-exchange dependence of cattle production from the viewpoint of feed (domestic bulk fodder) as compared with hogs and poultry (complex mixed feeds made with imported feed grain and protein components). Although these relationships are valid, they are not so pronounced if we take into consideration the energy intensity of cattle farming (especially the motor fuel for the production and hauling of the bulk fodder and for the spreading of the stable manure).

As the analyses performed by the CSSR People's Control Commission showed, in the agriculture and food-industry complex the net foreign-exchange earnings must be measured per unit of farmland as the limiting factor. When production alternatives on a hectare of land are feasible, it is possible to consider the relationship between the yields and f.o.b. prices of the alternative crops or products. In a more synthesized manner, it is possible to evaluate also how the difference between the f.o.b. price of the product from a hectare and the production cost of the same quantity relates to the difference of the alternative product's import price. But here we encounter also the specifics of the export margin indicator's limit in the agriculture and food industry, which may modify the general conditions of efficiency. (Very lively in this respect was, for example, the debate on the efficiency of exporting malt in exchange for feed grain: not only to what extent there ensued a surplus of feed grain for the exported malt, but also to what extent development reimbursed the processing costs for the production of the malt.)

In the agriculture and food-industry complex the indicators derived from foreign-exchange costing (valuation of the direct material costs by means of the foreign-exchange reproduction equivalent) play a smaller role than in a number of other branches because the main purpose of exporting products in this branch of the economy is to earn foreign exchange with domestic raw materials. Their revaluation at lower world-market prices, then, is not a good argument to justify the social efficiency of export with the indicator of the foreign-exchange valuation of materials and wages. Equally nonfunctional is the use of a number of materials' wholesale prices in foreign-exchange

costing (because data are lacking on the world prices of the initial raw materials). Therefore it would be expedient to review the range of the prepared foreign-exchange cost calculations for the products of the agriculture and food-industry complex, or to define more precisely the manner of performing these calculations in accordance with the specified economic content, so as to reduce the volume of unnecessary paperwork.

After evaluating the conclusions from its analysis and investigation of export, the CSSR People's Control Commission requested the CSSR minister of agriculture and food and the CSSR minister of foreign trade to ensure, in cooperation with the appropriate central agencies of the republics, the preparation of a long-range outlook for the efficiency of the export structure of farm and food-industry products, with special attention to exporting to nonsocialist countries. Simultaneously the CSSR People's Control Commission recommended that the two ministers--in cooperation with the State Planning Commission, the Federal Ministry of Finance, the Czechoslovak State Bank and the appropriate other central organs of the republics--ensure that evaluation of the social efficiency of exporting farm and food-industry products is perfected in accordance with the specific conditions in this branch. The resolution that the CSSR People's Control Commission adopted contains also a number of other tasks for improving the agriculture and food-industry complex's ability to export, and the fulfillment of these tasks will be audited in 1985.

These recommendations stem from the realization that by managing the export structure's long-term efficiency, together with creating a demanding parametric environment for the economic subjects and with projecting the results of foreign trade into their profit or loss, it is possible to achieve far more purposefully a more efficient export structure than up to now in the agriculture and food-industry complex. More thorough clarification of our efficient export possibilities and, conversely, of the areas of farm and food-industry production in which we are unable to maximally utilize the existing soil and climatic conditions, should contribute to our more active role in the intensification of the international division of labor within CEMA.

Czechoslovakia's active participation in the development of socialist economic integration enables us to step up the concentration of production, to coordinate research and development, and to increase the volume and improve the quality of exported products, earning thereby the resources with which to purchase the necessary raw materials and foods from the CEMA countries. The intensification of mutual cooperation simultaneously enables us to reduce a certain dependence of ours on import from the advanced capitalist countries. The worsening international situation, the use of trade as a means of exerting political pressure, the employment of discriminatory measures in trade and financial policy with the intention of harming the socialist countries--all this requires of them their coordinated approach to increasing their economic independence and self-sufficiency in the basic types of agricultural raw materials and foods.



PRICE SETTING INFLUENCES AGRICULTURAL, FOOD IMPORTS, EXPORTS

Prague HOSPODARSKE NOVINY in Czech 20 Jan 84 p 4

[Article by Engineer Ivan Hojovec, Federal Price Office: "Are Prices the Alpha and Omega?"]

[Text] In issue No 41/1983 of HOSPODARSKE NOVINY we published an article by Engineer Jiri Rehak, entitled "Self-Sufficiency Raised to a Higher Degree by Export." The author discussed the efficiency of the structure of foreign trade in farm and food-industry products, pointed out the shortcomings in managing this field, and also outlined some directions of the desirable further development. An official of the Federal Price Office now responds to that contribution and calls attention to certain broader interrelations of pricing farm products.

I agree with most of the ideas that Engineer Jiri Rehak presented. But I find it necessary to supplement some of his views or data. In the same way as the author, I start out from the fact that available land in our country is limited. Therefore it is necessary to direct farm production toward more intensive crops, to sell them efficiently abroad, and to buy with the earned foreign exchange other necessary farm products that we are unable to produce with the required intensity.

Fictitious Savings

It is generally believed that it is advantageous for us to grow feed pulses because it saves us foreign exchange. In mixed feeds, namely, feed pulses are a substitute for ground oilseed cake that is mostly imported from nonsocialist countries. But Engineer Jiri Rehak correctly points out that it is not efficient for us to grow feed pulses, their production potential is not utilized more than 40 percent on average, and their long-term average yields are around 1.7 tons per hectare.

In 1977-1982, 364,000 hectares were sown to peas mixed with beans. The yield was 1.9 tons per hectare, which gave the same amount of protein per hectare as 1.1 tons of imported soybean meal costing 4,650 korunas f.o.b. border. But on the same total acreage we could have grown, for example, 730,000 tons of rapeseed, at substantially less cost and an average yield of 2 tons/hectare.

This would have meant 10,400 korunas (f.o.b. Czechoslovak border) from every hectare. In comparison with rapeseed, then, the intensity of growing the mentioned feed pulses is less than half. At the present average yields per hectare, we are not saving foreign exchange by growing feed pulses.

Understandably, the mentioned average yield of peas mixed with beans covers wide variations by specific agricultural enterprises. There are agricultural enterprises in West Slovakia and South Moravia Krajs, for example, that get yields of up to 4 tons per hectare. The above conclusions do not apply to them, of course. On the other hand, however, we have agricultural enterprises with yields far below the average.

#### Price Preference With Caution

The price of brewer's barley--especially its ratio to the prices of other grains, including feed barley--is a very controversial issue. There are views to the effect that the procurement price of brewer's barley is low in comparison with the procurement prices of other grains and is hampering successful expansion of its production. But the fact is overlooked that the price must not be so high as to permit, even at lower yields per hectare, the same amount of profit that other grains provide. Already now the long-term average yield of spring barley per hectare is about 10 percent lower than the average yield of winter wheat.

An exceptional price preference for brewer's barley would permit a further reduction of its production, at the same or even higher profit for the agricultural enterprises, which certainly would not be acceptable. An excessively high procurement price for brewer's barley in comparison with other grains would have the same effect that the excessively high procurement price of corn is having at present: it is enabling the agricultural enterprises to achieve a favorable profit even at relatively low yields per hectare. In West Slovakia Kraj, for example, the average corn yield per hectare in 1977-1982 was higher by only not quite 5 percent than the average wheat yield per hectare. But as also the author of the article points out, growing corn is efficient only if its yield per hectare is at least a third higher than the wheat yield.

Because available farmland is limited, exceptional stimulation of the production of individual types of farm products has a different effect than in the case of industrial products. If we prefer the production of one crop, this is usually at the expense of other crops. Stimulation of the production of brewer's barley would lead to an increase in the production of spring barley at the expense of other grains, say, of winter wheat that is a more intensive crop and therefore serves better to ensure our self-sufficiency in food supply.

Despite an overall positive evaluation of the article, I am unable to agree with some ideas of the author's. He writes: "The prices of certain decisive export products or raw materials did not offer producers any incentive to increase the production volume and improve the quality. We might cite hops as an example. Growing hops became practically unprofitable for major hopgrowers and many of the hop plantations . . . were neglected, which can be attributed in part to the low profitability."

I think it is not acceptable to blame low procurement prices for the shortcomings in hop production. Low yields per hectare, not low procurement prices, caused the low enterprise profitability in hop production. While we have yields of about 1 ton per hectare, under approximately identical natural conditions the Federal Republic of Germany reports yields per hectare close to and even exceeding 2 tons.

We compared the prices of production assets in the FRG and the CSSR. It was found, for example, that a farmer in the FRG must sell three times more hops to buy a unit of fertilizer than in the CSSR, and about five times more than in our country to buy farm machinery. Thus the production costs in our republic, in comparison with the FRG, are not burdened by high prices of production assets. Therefore the profitability of hopgrowing cannot be improved by raising the procurement prices, but through production measures to increase the yield per hectare. The results achieved in exporting this product likewise do not permit higher procurement prices: foreign sales do not attain even 60 percent of the domestic wholesale prices.

#### Domestic Ratios

We are achieving self-sufficiency in food production often by growing crops whose cultivation has not been mastered in our country. One such crop is soybeans, grown on 1,580 hectares in 1978-1982, at an average yield of not quite 1.2 tons per hectare. At the same time we are able to grow at least 4 tons of grain per hectare under the natural conditions in our republic. Although on the total acreage it was possible to produce nearly 9,500 tons of soybeans, we could have produced more than 32,000 tons of grain on the same acreage. This would have meant between 70 and 80 million korunas f.o.b. Czechoslovak border, in contrast with the 47 million korunas from growing soybeans. Thus the expansion of the production of soybeans, without ensuring a sharp rise in the yield per hectare, would lead to reinforcing the extensive trends in farm production.

There have been proposals to support higher soybean yields per hectare by raising substantially the procurement price (from 7,500 korunas per ton at present, to 11,000 korunas per ton). But this would produce the opposite effect: at standard production costs of 7,500 korunas per hectare, growing soybeans would become profitable for the agricultural enterprises already at a yield of 0.7 ton per hectare. Such a price policy certainly would not provide an incentive for the enterprises to attain a higher intensity of production. A more feasible way, in my opinion, is to complete the solution of all the factors of production, beginning with the supply of suitable soybean varieties, and of tested and proven production technologies.

It is very questionable to measure with the export margin indicator the efficiency of export in the case of products whose prices have been derived from joint costing, especially when only some of the products included in joint costing are being exported. Engineer Jiri Rehak also encountered this problem in his article: "But how is it possible that it does not pay to export beef quarters, but the cuts from them can be exported efficiently?"

The wholesale prices of certain cuts of meat (steak, roast, etc.) are set by joint costing, on the basis of domestic needs and consumption habits. In foreign countries, of course, these cuts may be valued differently. And this difference in valuation is reflected also in a different export margin indicator. However, it would be a mistake to draw from this the conclusion that the wholesale prices have not been set properly. The same export margin indicator could be obtained for all cuts of meat only if the foreign ratios were applied to our wholesale prices, but these ratios would not necessarily be in accord with the interests and needs of our domestic economy. For the sake of completeness we might add that price ratios in the foreign markets are very variable, and this in itself can significantly influence the export margin indicator for the various cuts of meat.

Each import and export item of the agriculture and food-industry complex must be analyzed thoroughly. Domestic production of some products is inefficient, and it would unquestionably be more advantageous to supply the demand through import. The acreage freed in this manner could be used to grow more intensive crops more efficiently. In this way we could save not only much foreign exchange but domestic costs as well, and there would be a pronounced improvement in the overall efficiency of foreign trade in farm and food-industry products.

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CSO: 2400/240

# TASKS IN DEVELOPMENT OF PRICE SYSTEM DISCUSSED

Budapest NEPSZABADSAG in Hungarian 22 Feb 84 p 10

[Article by Bela Szikszay, deputy chairman of the National Material and Price Control Board: "The Tasks in Developing the Price System"]

[Text] Development of the Hungarian economic management system has long been closely linked to the price system's development. It may be stated practically as a general rule that each major step in the development of economic management has been introduced by the price system's modification and perfection. And it is only natural that this is so because, in a commodity-producing society, prices are the category that provide guidance for the most comprehensive evaluation of the situation. They present a picture of the level of production and inputs, of economic activity's efficiency and profitability, of the possible directions of development, and of the reserves. Without a suitable price system it is not possible to assess the present, plan the future, and realize our plans efficiently. And when is a price system "suitable"? Basically when it provides incentives for the economic organizations to fulfill the most important economic tasks and economic-policy objectives, and helps the planning organs to choose the most advantageous plan alternatives.

The current large-scale development of economic management also began with the price system: since 1980, we have placed under the control of the international competitive prices the development of most industrial producer prices. The socially necessary labor determines our prices also now, but we wish to achieve that at home the prices applicable to products that are exported, or are being considered for export, be prices that also the competitive international market recognizes as socially necessary.

## Favorable Effects

This requirement is based on the realization that the Hungarian economy's further development depends decisively on whether we will be able to significantly improve the international competitiveness of our production and export. To improve our competitiveness, of course, it is essential to attune accordingly our entire economic management system, including the price system. If this price system transmits the foreign markets' value judgments of our production and economic activity also through the development of the domestic prices and the changes in profitability, then we are able to judge what is competitive and what is not, what should be developed, and what would be better to substitute

with import. In the tense external economic situation that arose in the early 1980's, however, the strong market competition that is indispensable to the functioning of such a price system can be developed only gradually. For the time being, therefore, detailed provisions regulate the methods of adjusting to the world-market prices. Since 1980, there are statutory regulations that tell the exporting enterprises how to track the changes of the foreign prices (or profitability) in the changes of their domestic prices and of the profitability contained in these prices; and the nonexporting (so-called "tracking") enterprises how to adjust their domestic prices to the prices of the exporting enterprises. This method of pricing enables the prices applicable to two-thirds of industrial production to follow the changes of the international (foreign-trade) prices, i.e., of prices that develop amidst real and stiff competition.

All this, of course, does not mean that in the nonexporting areas and in the other branches of the national economy (in agriculture, construction and transportation, for example) prices are set on the basis of the "let it cost what it may" principle. Pricing in this wide circle of products is mostly in the form of official prices that are based on technical and economic standards or standard costs. A further constraint is that in the case of many products the official consumer price sets the limit for the producer price's movement. Between 80 and 85 percent of entire social production is controlled by means of an industrial price system that adjusts to the foreign markets, and by means of official prices. Thus pricing is based on production cost, but this does not mean that individual (and occasionally unjustifiably high) costs are included in the prices automatically. Often also the value judgment of the market or buyer prevents the inclusion of such costs. The market's value judgment must be taken into account also when setting official prices. In addition, detailed instructions specify what may and what may not be taken into consideration in pricing. Within the specified circle of products that have unregulated prices there is the obligation to report the proposed price changes in advance, and the price authority may defer the efforts to raise prices. Proportional adjustment--often specifically to the prices warranted by the foreign-trade prices--applies also to unregulated prices; the price authority may declare disproportionately rising prices as unfair and may impose sanctions. Wide-scale and regular price audits are another means of keeping price movements within reasonable limits. Not counting the several tens and thousands of store audits, in 1983 official price audits--mostly comprehensive price audits--were held at over 3,000 enterprises and cooperatives, and sanctions were imposed in several hundred cases. The sanctions ranged from warnings through the loss of the managers' bonuses to fines.

The favorable effects of industrial pricing geared to foreign markets are considerable. Enterprise decisions have perceptibly been influenced by adjustment to foreign-market requirements. The enterprises have been more active in their attempts to obtain more favorable export prices, and in transforming their production structure as well. The enterprises' cost-sensitivity has increased, especially their interest in conserving materials and energy. Since 1980, the implemented regulations have kept the rise of industrial prices within warranted limits (at about 5 percent a year). And actually it is not even possible to express in forints, as specific savings, the favorable great change in approach, evident in that adjustment to the conditions in international markets

is being regarded as more and more natural and is having an ever-greater influence on enterprise decisions.

#### Competition a Prerequisite

The view nonetheless is fairly widespread that the competitive price system is not yet able to fulfill its function adequately, to suitably attune the Hungarian economy to meeting the international requirements and following their changes. Some people seek the cause of this in the price concept, in price regulation. Occasionally it is not sufficiently clear even to high-ranking state officials that the real cause of this should be sought partially in the rather underdeveloped socialist competitive market, and partially in our economic situation and circumstances.

With the competitive price system we undertook to establish an organic and constantly maintained link between foreign and domestic prices. However, this link will begin to shape views and influence decisions only when it permeates the entire economy: both the enterprise sphere and central management, the price system as well as the other instruments of management. For adjustment to foreign markets requires changes, rearranges incomes and makes for greater differentiation among enterprises. Unless we accept this, our competitiveness will not improve (or will do so only slowly). The price system alone is unable to achieve this change. It is able to transmit the international market's value judgment, but is unable to trigger desirable changes in production and economic activity if the enterprise has no incentive or disincentive to introduce such changes, if other instruments rearrange the enterprise incomes generated by competitive prices. Sustained and complete economic effects thus require, in addition to consistent central management, also the development of a balanced socialist competitive market, the creation and maintenance of its conditions.

We introduced the competitive price system in 1980 without the existence of such a competitive market. The external and the domestic price sphere can be linked even under these conditions, although by means of admittedly complicated statutory regulations. Without real competition, however, such statutory regulations can be maintained only temporarily. Our economic situation in recent years, and especially the developments in the capitalist commodity and money markets have not been favorable for improving the conditions of competition. First of all the curtailment of import has been the greatest obstacle to wider competition. The competitive price system is able to fulfill its role and functions also long term only under a socialist competitive market that is regulated in a planned manner.

All this does not mean that pricing and the price mechanism are not in need of perfection, or that all their methods and solutions meet the requirements. It is a practically law-conforming concomitant of the present situation that it has been possible to operate the competitive price system only with the help of fairly complicated statutory regulations, because it has been necessary to achieve through them also a part of a balanced market's natural effects.

What Now?

Thus the principal direction of developing our price system further is not the prescribing of new restrictions but, to the contrary, the removal of the existing rigidities. This, however, can occur only at the same rate and on the same scale as our domestic market becomes balanced, the conditions of competition improve domestically, and the dictated methods of tracking the world market's prices are replaced by compulsion to adjust to the foreign prices.

But not even under developed market conditions can the relaxation of the price system and price mechanism's rigidity mean unlimited opportunity to pass on individual costs. Price control and the price mechanism will have to ensure also long term that the price movements (price increases) remain limited. The more independence the enterprises gain and the greater their freedom of action, the more necessary it becomes to strictly observe the price system and price mechanism's "rules of the game." This must be ensured also through effective price control, in addition to the state's planning and market-organizing activity.

There are also several other areas for the price system's near-term development. We must find methods for eliminating the cyclic and other harmful effects of foreign-market prices; reduce the still frequent contradictions between the volume and economic efficiency of export; relax the excessive and unwarranted rigidity of the price forms and the regulations on costing that occasionally counter the realization of our economic-policy objectives; and reduce administrative regulation in those areas of the market that function well, are balanced and therefore adequately control the development of prices.

We have implemented some of these changes in 1984. While maintaining the concept of competitive pricing and linking it organically with the economic mechanism's other elements, we will find that it is possible and absolutely necessary to proceed further with the price system's development as a part of reforming economic management, so that the price functions may become complete.

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## HUNGARY

### DEBATES ON APPROACH TO REFORM CONTINUE

Budapest FIGYELO in Hungarian 16 Feb 84 pp 3-4

[Article by A.: "Continuing the Reform of Our Economic Management"]

[Text] Some of the state leaders and researchers connected with the continuing reform of our system of economic management recently accepted a joint invitation by young KISZ [Communist Youth League] members of eight Budapest institutions to inform those interested about some of the ideas that are presently under discussion.

First, state secretary Bela Csikos-Nagy, head of a task force appointed to look into the problem of how to improve government work gave an introductory lecture, and later a joint report was presented by Andrea Deak, group chief at the Ministry of Industry and Marton Tardos, Head of science department at the MTA's [Hungarian Academy of Sciences] Institute of Economics.

It is clear from the debates that have been heard so far, started his lecture Bela Csikos-Nagy, that we are not only talking about ways of implementing the guiding principles that were laid down in our economic reform of 1968, but also about the necessity of improving some of the elements of that concept. The following are the main targets of modernization:

- the relationship between plans and regulations (including continuous government involvement);
- our structure policy and economic mechanism;
- the monetary problems of our economy;
- developing an institutional system which is in harmony with our market conditions.

#### The Main Targets of Modernization

Hungarian economic policy has always been based on the primacy of planning, but for the past few years it has also stressed the

openness of its plans. In light of the many experiences we have gained in recent years we have found that the hypotheses on which our plan concepts have been built quite frequently differ from reality in some vital areas. For the Hungarian economy has been very much affected by decisions that have been made outside our country, in the world economy. Our intra-CEMA cooperation has also lost its naturally organized, long-term oriented character which had been one of the cornerstones of our planning and economic regulations. For example, in 1983 we became unexpectedly indebted in our intra-CEMA relations, essentially because some fraternal countries refused to take delivery of machines which under the terms of various import quota agreements they were supposed to purchase, arguing that they were also trying to slow down their rate of expansion and therefore had to limit their investment growth. As a result of all these circumstances there has been an increase in our country in the importance of continuous government efforts and activities which can no longer be interpreted simply as being the same as our previous plan implementation mechanism.

In connection with this we should mention a proposal according to which our structure policy should be interpreted differently from the way we envisioned it in the 1970's. Our earlier ideas were characterized by centrally made structure policy decisions and a credit and state subsidy policy that had been formulated to support those decisions. Our economic life, however, has proven that a structure policy cannot be developed without those who are in actual possession of changing market information: our enterprises, therefore, must be given a greater role in our structure policy.

The function of money in our system of management has been a matter of debate since the 1960's. There is an increasingly accepted view according to which economic means cannot be effectively used to regulate without the development of the money function. The efforts that are presently under way do not address the question of forint convertibility, for given our country's present economic situation it is not timely to put it on the agenda.

The need to modernize our institutional system also came up between 1966 and 1968, but at that time we did not have the opportunity to make the necessary changes. We thought we could implement our basically regulatory reform within the framework of our existing institutional system. Naturally, even back then there were, and there have been ever since, decisions made that have affected our institutional order; however, the question of our enterprise structure as a whole as I have described here was not discussed back then either from the point of view of our enterprise relations or from the point of view that the infrastructural and institutional background with which we trade and cooperate within the CEMA is not adequate for participating competitively in business cooperations on the capitalist markets based on mutual advantages. The insti-

tutional system of an economy which must be able to sell its products is different from a system which operates on the assumption that enterprises need to produce only what is centrally prescribed for them because marketing is not their task.

In this kind of centrally controlled economy the integrated function of economic organization is divided. If possible, every function is assigned to a central control organ and marketing problems are addressed on the macrolevel. Life, however, has disproved the validity of this concept, and we have already taken steps to change it.

There has been considerable debate concerning possible ways of transforming our enterprise structure which at the same time is also one of the conditions for developing a market-oriented sales structure. We have come to the conclusion that in order to put ourselves in the right starting positions we also need central measures. By 1986 we can probably develop an industrial enterprise organization structure which we can subsequently expect to be able to adjust to the changing market conditions as a self-managing mechanism.

#### Prices, Exchange Rates, Taxation

On some of the problems we face the preparatory committees have already come to an agreement; on other issues, although they have reached a consensus regarding the objective to be attained, they have not agreed on the way to pursue it, and finally there are some questions on which there continues to be a disagreement among the experts.

An agreement has been reached regarding the further development of our branch management system. The proposers are of the opinion that the simulated competitive price system introduced in 1980 which is presently in effect should be developed in the direction of a market price system, and that we should not stand by idly waiting for the time when we can say that the situation of our national economy meets the requirements of a competitive price system from every respect. It is fair to presume that without modernization we would not be able to get our national economy anywhere near this ideal state. It would be nice if between 1984 and 1987 we could create a situation that would allow the creation of a market price system that could be universally applied in industry. There is also a virtual consensus regarding the need to develop rational economic projections the purpose of which would be more than just to make it easier for the price office to control prices and enterprise price policies. The function of the old projections built on the so-called production-cost reduction planning concept has been to inform our controlling organs about the conditions of enterprise management. Today we need a system which keeps our enterprises informed by focusing on rational production structures,

price negotiations with our partners and economic development. Although our various organs agree in principle, the debate still cannot be considered closed. For although our enterprises are entitled to develop different projection systems for their own purposes they must use a single system for the purposes of central information reporting. Our experiences have been enough to convince us: our state's information needs are so diverse and complex that it takes a very determined manager to be nevertheless willing to undertake the development of another information system, especially if we consider that the manager is fully aware that his performance appraisal will be determined not by how well the information system he has developed supports his own decisions, but by how the enterprise has been run on the basis of our central information system.

One price-policy principle related topic of debate has been whether we can maintain, especially in the food economy, or whether there are any exceptional cases where we can maintain the separation between producer and state purchase prices and consumer prices. In the case of state purchase price formation the question whether the prices thus obtained can be passed on to the consumers at all, or how to find that certain subsidy system that can be kept in effect on a more permanent basis without undermining our commodity relations has not even been considered.

Those who since the 1968 economic reform have been following the economic literature are very well aware of the endless debates that have surrounded the question of income regulation. Unfortunately, the various recommendations that have been put forth so far do not provide a satisfactory answer to our problems, despite the fact that the best way to promote the release of our inner growth energies would be by transforming our existing wage structure. In wage regulations we must break with the base concept and must stop taxing wage funds and wage growth differently.

There is continued debate, furthermore, regarding the problems of our exchange rates, taxation system, bank system and market policy. According to the speaker, in order to have a successful structure policy we need to set our exchange rates as close to the exchange rate limits as possible. But this can only be done by transforming our tax system, for otherwise it would set off an inflationary process. Also important in his view would be the introduction of a value added tax (English abbreviation: TVA), for this would help to promote exports in a way that would be acceptable to GATT and other international financial institutions.

The speaker did not address the problems of our bank system, but he did mention that of the advantages of modernization he considers the foreign-trade organizing and regulating role of commercial banks to be the most important. In the hard-currency cleared areas foreign trade is full of unforeseeable difficulties, and our enterprises must have very complex financial and banking information to ensure that they do not sell off the country. The centrally manageable knowledge of commercial banks may be of enormous importance.

## New Organization, Unchanged Environment

Andrea Deak outline some of the ongoing--primarily intra-ministry --debates which concern the role of the Ministry of Industry.

The general view is that the principles that were developed at the time the ministry was established and their practical implementation have not been in harmony which is the main reason why the ministry's tasks and the means available for solving them have also been out of step with each other.

The Ministry of Industry was created to be a ministry which serves strategic functions and which, as a result,

- has no supply responsibilities,
- is not a corporate organ, and
- has no market control functions.

In practice, however, from time to time these functions do become the tasks of the Ministry of Industry. In the speaker's opinion, this has been due mainly to the unfounded assumption that we could change our management by changing one organization without touching any of the others. For example, if there is a certain product--let us say, if there are not enough refrigerators--then our government leaders turn to the minister of industry. Yet, if the Ministry of Industry has no supply responsibilities the should be turning to the Ministry of domestic Trade.

If they expect a minister or a ministry to think differently from the way it is prescribed for them in the pertinent principles and regulations, expectations will always have a dominating effect on the contemplation of actions.

The other reason is that when the Ministry of Industry was created our market situation was more favorable than today. At that time still no one thought that our foreign trade asstes would have to be increased at such a rapid rate, and that as a result our exports would also have to be expanded on a significantly greater scale and at a faster rate than it is otherwise possible given our economic efficiency, industrial resources and existing structure. Subsequently, the government has introduced a centralized form of import management, and once again has forced the Ministry of Industry to perform a market control function which otherwise is not covered by its "mandate."

The third important reason is that a part of the problem which at the time we thought stemmed from the existence of branch ministries have proven to have significantly deeper roots. Initially, for example, the Ministry of Industry tried to adhere to these prin-

ciples, and especially in cases having to do with corporate interests it stood up to certain enterprise demands (supports, price disagreements, drawing up of contracts, etc.). At that time many enterprises simply circumvented the ministry and won the patronage of other guiding organs. What developed was a strange situation where our functional organs had to "protect" our enterprises from the ministry. Our enterprises, especially the large ones, have strongly criticized the ministry for not standing up for its enterprises like other branch ministries have. Eventually, the industrial ministry has also been forced to "give in."

In such cases, therefore, the continued assertion of ministry-type corporate functions is due not to the existence of branch ministries, but to our failure to solve our mechanism-related problems.

The lack of harmony between the principles that were defined at the time the Ministry of Industry was established and their practical implementation since that time is attributable to cause which cannot be eliminated with the stroke of a pen. Hence, many at the Ministry of Industry have come to the general conclusion that we should either reevalutae the function of the Ministry of industry or take steps to eliminate these causes. If the Ministry of Industry is to continue to handle the same tasks which it is presently expected to perform, a thorough reassessment should be made of the means that are available to the ministry for making this possible.

#### Allocation Without Means?

Included among these means is the possibility to make recommendations. The effectiveness of these, however, can be immediately question, for a very large portion of them are never adopted. Consequently, compared with the functional organs the ministry plays a subordinate role which is one of the reasons why only a very few of its recommendations have ever been implemented. In the case of small-business type enterprises and branches--especially in the field of energetics--it has supply responsibilities for which it also has available operative means. As for influencing the activities of the other enterprises its functions are limited to setting up, reorganizing and closing down businesses, but since naturally it has no money its right to set up businesses is not even exclusive but rather a joint one with the Ministry of Finance. Incidentally, the general tendency today is toward decentralizing most of the eneterprises which previously were centralized. Achieving this, however, will take significantly longer than had been thought, for many of the organs which must go along with this effort are unwilling to make specific decisions. The implementation of decentralization is also the subject of debate in the ministry where it is being discussed not only from the practical standpoint, but also in terms of principle.

Closing down an operation is a much more difficult task than reorganizing it. There are many people in the ministry whose views are based on the assumption that the production which is taking place is also necessary, and if they close down the enterprise its product would have to be made by someone else. The final conclusion one is to draw from this kind of thinking is that the best solution is always to allow production to be continued--perhaps not even at a profit--by the enterprise which has been doing it for a long time. The ministry would, first of all, like to have its functions defined in a more unequivocal manner which is more closely related to our practical requirements, and secondly, after this has been done, it would also like to determine whether the means available are sufficient to perform these functions.

#### To Ensure Recovery We Must Move

Our main conclusion--and this is something that has occupied our reform politicians since 1953--is that a centralized and centrally directed system cannot really be managed well, according to our social needs, started his joint report Marton Tardos. We are not smart enough to manage this economy centrally, yet at the same time the institutional framework that has evolved is slowing down the process of decentralization.

As the Hungarian economy is searching for a way out of its present difficult situation there appear to be several possible solutions. Economic logic would demand the most complete introduction of market mechanisms possible, and as a precondition for this it would require a reduction in domestic consumption to a point where the market mechanism can maintain the economic balance by itself. Given the reduction in the standard of living it would require to give us a good starting position, implementing this solution would not be feasible.

Behind the many successes which the Hungarian economy has attained during the past decade has been an atmosphere of political calm which, among other things, has been based on our favorably developing standard of living. A drastic decline in this standard of living would directly endanger this political calm, and would threaten to upset the present state of tolerance. Should this happen, nevertheless, the resulting change still would not bring about a move toward economic balance, for such a sudden change in the living conditions would cause a shock that would be certain to interrupt the continuity of our production and marketing efforts, and would lead to an even greater recession that would last for a considerable length of time. This is why we are justified in having a policy which is not free of internal contradictions and is hard to explain, but which tries to move toward market control without, at the same time, relinquishing all of the direct means of control over our economic processes. "When I say that I recognize the need for such a policy I do not mean to imply that I approve of the

contradictory manner in which we have been combining market solutions with central intervention, that is to say of the wide gap which exists between our market-oriented statements and central interventions," said the speaker.

Naturally, right now we cannot resort to using the means of the classic market model in every situation. Not only because at the end of the 20th century these can only be used with modifications, but also because due to our existing economic tensions even these modified means could not be applied in every sphere.

We are able, however, to take strong steps toward improving the situation by way of market-oriented modernization of our system of management. It is obvious that we cannot recover from our economic problems without modernizing our fixed assets and by allowing our industrial and construction industry production to become increasingly inefficient and stagnant. In the past few years everyone has accepted that there is a depression and that this has caused our rate of growth to decline. Not much has been done, however, to transform our structure. There has not been virtually a single enterprise that would have transferred its unused resources to others. And the existence of unused capacities by itself cannot be viewed as a sign of structural change as some would propose.

We need to make changes in our system of management which even if not everywhere but at least in some of the main areas of our economy, i.e. in the branches which play a determining role in terms of our foreign trade turnover, will increase our enterprises' price-, wage- and import-decision making autonomy, and significantly decrease the role of inflexible central regulations and interventions. Only by doing this will we be able to find the way that can lead the citizens of our country to a better life.

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LODZ OFFICIALS DEBATE MERITS OF PARTY ROLE IN RUNNING ECONOMY

Warsaw ZYCIE GOSPODARCZE in Polish Nos 4, 5; 22, 29 Jan 84

[Interview with Lodz area officials conducted by Stanislaw Chelstowski and Irena Dryll at the J. Marchlewski Cotton Industry Plant; date not given; material enclosed in slantlines printed in boldface]

[22 Jan 84 pp 1,4,5,6,7,8]

[Text] Should the party be involved with the economy? If not, why not, and if so, in what way? How should this look in practice during the reform period? We discussed this topic with Lodz party workers, scholars and economists. Our discussants were: Wieslaw Brzozowski--director of the EMA-Elster Electrical Equipment Plant; Zdzislaw Grzelak--director of the Lodz University Political Science Institute, member of the PZPR Central Committee; Docent Stefan Krajewski--deputy director of the Lodz University Institute of Political Economy; Jan Pietrzyk--economic secretary of the PZPR Lodz Committee; Wiktor Pyrkosz--director of the TEOFILOW Textile-Clothing Plant; Pawel Zawadzki--first secretary, PZPR Plant Committee at the J. Marchlewski Cotton Industry Plant. The editorial staff was represented in the discussion (whose second half will be included in the next issue) by Stanislaw Chelstowski and Irena Dryll.

[S. Chelstowski] The topic of the party and the economy has its own history. The party's influence on or steering of the economy has not always been the best. This has led to the conclusion that the party really should not "interfere" in the economy. Let us leave this to the economic experts. It seems to me that it is unacceptable to state the issue in this way. One reason is that, as we all know very well, every economic decision is a definite choice that has consequences for society. It is a choice by which someone usually profits and someone usually loses. And the party cannot be indifferent to the latter, since this would deprive it of its class character. There is also another problem: today especially, during the crisis, a number of economic arguments and decisions at various levels (including the enterprise level) clash very sharply with social arguments. In my opinion, the party must assume the role arbiter to decide which economic arguments are worthwhile and should

be pushed through and which social arguments must be considered unconditionally in economic activity. The question arises, however: if we accept that the party must conduct a specific class policy in economic affairs, what does this mean in practice? How is this translated into concrete actions?

It seems that the sphere of these actions is comprised within several planes, the first of which regards production structure. Hence I believe that the party's task is to ensure that the production structure is adapted to meeting the social needs of the broadest masses, the needs of the basic population groups. In the present situation, it is the production structure that decides the consumption structure. Our gross production is very difficult to change due to the specific possibilities, i.e., limitations of foreign trade. In a word--if we do not make something, if we do not produce it, we do not have it.

Consequently, the production structure has stopped being an economic or technological problem and has become a weighty social and political problem.

The second plane of party influence is linked with the question of prices. My view is very similar to that of Prof Bobrowski. Under the difficult conditions that large groups of people live in today, the prices of basic items should increase minimally and the price of all other items should increase much more. This is especially so with regard to luxury items. The party's class policy should be expressed in its overseeing of this matter.

Generally, everyone agrees that since we have inflation, we must attain stability, partly through prices. And since I have mentioned the dreaded word "inflation," I would like to say that I personally am inclined to state that those that seek its primary sources not in enterprises and not in the decisions of the central authorities, but in the production structure, are right. Its increase--a much higher one in the sphere of nonmarket production than market production--must increase inflation.

Finally, the third place of the party's influence reduces itself to the problem: the party and economic reform. The reform is a foregone conclusion in the Ninth Party Congress Resolution and in other decisions confirming the political will for continued changes in the economy. But there are also spheres of issues in the reform to which the party--if we may put it this way--should be especially sensitive. I am thinking in particular of the employee self-government and wage policy.

In my opinion, the self-government should become a very important line for transmitting party influence in the economic sphere, a transmission line or, if you will, a path for reaching workforces. It should, but whether it can, I do not know. I would be very happy to hear the opinions of our discussants on this question. The self-government creates an opportunity and possibilities greater than any other for involving workforces in management. The status of the self-government likewise emanates from something else. In my opinion, there is a very serious danger that the reform will be "squeezed out" by the return to centralized management, in various old and new forms. I believe that the organs of self-government can become the fundamental social support for management and that they can protect the enterprise from such dangers.

The next question in which the party is and should be very interested is the wages and incentives system. Of course, many problems arise here, but I would like to note the basic one from the reform viewpoint. How does the general principle of the reform that work results should be paid for reach the workforce? The slogan that work quality determines wages, known to and felt strongly by many people, has been altered to some degree by the reform. We say: work results determine wages--a very big difference. The selection of this reform slogan is not so simple as is attested to by the Bednarczyk case and its repercussions on public opinion.

Thus, everything that happens in the economy--what is produced and for whom, what investments are made, what the priorities are and how prices and wages are set--affects the economic interests of basic social and occupational groups, of the inhabitants of particular regions and of workers and peasants, textile workers and metalworkers and the like in different ways. In view of this, there is nothing more political than economic decisions. Since this is so, politics cannot be separated from economics, nor can party policy be separated from economic policy. The party must be involved in the economy in the same way as all political parties, especially ruling parties.

In my opinion, the problem thus reduces itself not to the question of whether but to the question of how?

[J. Pietrzyk] It is difficult for me to give an unequivocal answer. It is a problem that has been discussed theoretically for a long time, and I am reminded in this discussion of the period preceding the Ninth Congress. In practice, however, many questions arise. For example, we say that the principle of the unity of ideology, politics and the economy stressed at the 13th and 14th Plenums of the Central Committee [KC] imposes upon party echelons and organizations the duty to influence the course of economic and financial processes actively and in accordance with society's needs. By this we understand that the party should employ a strategy, it should mark out directions and it should inspire. But how far should it go? Where does the limit lie? We know that there is one, but it is difficult to pinpoint it in daily work, and it is impossible to delineate it with a pencil. For example, if we limit ourselves to strategy, this is the work of the party echelon up to a specific level, for in the plant there are other, more concrete problems to which we cannot be indifferent.

[Z. Grzelak] As I observe some measures, it seems to me that the party's role in the economy is too often pragmatic and not political. This leads people to fear that we may be on the best road to the old ways. At the 13th Plenum, I spoke of the dangers of conservatism. I was not so concerned about our natural human inclinations to ossify our impressions of the world, the routines of our everyday behavior or our disinclination to innovation as about the lack of sufficient trends toward displacing what is obsolete and preserved in social structures and political systems and forces--in the party itself as well. This includes the party's relationship to the economy. Is it an accident or a trend that the party enters into detailed discussion on taxes instead of concentrating on principles? I know secretaries at both the plant levels and the levels of external supervision over plants that are practically

specialists on reform instruments--the domain of the ministries, the government and banks.

[P. Zawadzki] Is this knowledge something bad?

[Z. Grzelak] No, on the contrary, but only on the condition that their minds are not closed to other important matters. For example, this includes the attitudes of workers, their opinions on concrete issues, whether with regard to the famous butter issue or price increases.

[J. Pietrzyk] I agree, but--please--if we do not leave butter and prices for later, our discussion is over. The butter issue is one that is still emotional today.

#### The Need for a Measure of Boldness

[P. Zawadzki] Let us return then to the question, whether we as the party are able to "separate ourselves" in a certain sense from the economy and, at the same time, not lose our influence upon it. I do not think we can. I am afraid that we say more often that we can. This is evident in the factory and in the KC. Do not forget, however, that this Central Committee is subject to tremendous pressure from plant committees, especially those from the 208 largest plants, to which MARCHLEWSKI also belongs. KZ [Plant Committee] representatives take advantage of every opportunity to ask: what are you in the KC doing, seeing that things are as they are--speculation, price increases, inflation, the accumulation of wealth by some at the expense of others and the like? This leads to various types of intervention that must be eliminated, despite the difficulty of this. I am aware of this from my own practice. At POP [Primary Party Organization] meetings I often hear: why is there such waste, such lack of discipline and why are there such price increases? What is this party doing about the decline and the rise [of prices]? Please believe that it takes a great deal of resistance not to submit to intervening in concrete, more or less important matters that belong to the authority of specific departments and cells. We try not to yield; clearly, the results are various.

We are preparing a program of operation for 1984. I have argued with the economic secretary regarding the subject of the limits of our intervening in matters for which a particular director is responsible. I believe that we as the party should assess operational effectiveness in a given sphere of affairs, draw conclusions and not give orders, point the finger or, worse, admonish a director on how he should do something. How he should do it is his affair. Our duty is to create a political mantle for certain difficult undertakings of an economic nature, to interpret, explain, persuade and break down psychic barriers among people (otherwise a natural phenomenon) when confronted with the need in our enterprise to modernize, to change the wage system or to change operations standards.

[S. Krajewski] I agree with the idea that the PZPR as the ruling party must be interested in the economy. But the problem is--how? I am personally opposed to "steering by hand" both in the management sphere and in party work.

I am opposed to the party's edging its way into the economy in every sphere and at every moment. I believe, however, that our situation, the crisis prompts such "pushiness," such interference in everything. And, unfortunately, this is done in the worst way possible: suppose there is an area we have not penetrated; when we do enter it, everything will be fine. At the same time, it is forgotten that this is nothing new, that we tried to do this many times and the results were lamentable.

While this may sound heretical, it seems to me that, given the differences among society in world view at present, a great many people--for reasons that have mounted up historically--do not believe or trust the party. Many party members are aware of this and experience it personally. We ought to and do draw practical conclusions from this fact regarding the question of the party and the economy as well. But we may be too slow in doing so. If we speak of broadening the social base of government, I believe that this same process must occur in practice in the management sphere. This is an inevitable process: the party consciously abandons specific "decision-making fields" in favor of political parties, self-governments, PRON [Patriotic Council for National Rebirth], unions and the like. Very good! Let this party also have real partners in the economic sector. Let it be the case that when something goes wrong, the party, voivodship or plant echelon replaces this or that and makes specific decisions of an economic nature as well. Perhaps it would be better for people in a given enterprise or voivodship to be persuaded that since things were not done in the manner suggested by the party, they turned out to everyone's detriment.

For example, after the syndicates were liquidated, did not the voivodship committees temporarily assume the function of overseeing what goes on in the enterprise?

[P. Zawadzki] Well, hardly...

[W. Brzozowski] Rubbish. They did not even try.

[S. Krajewski] Fine. Then let us take another example. How should the party--I have in mind here the Lodz Committee--handle the following question: Do we have preferences for light industry?

[W. Brzozowski] Do we have to have them at all?

[S. Krajewski] What do you mean? I am not speaking of the sort of preferences granted by temporary reductions or such one-time decisions as Resolution 88, but of a definite process--the process of restructuring the economy. Do we want this or not? Do we want the market industries, including light industry, that are the most important for the Lodz urban area, to develop more rapidly? If so, then let us look--as the party--what is being done in this area.

[J. Pietrzak] If we had to answer the question: In what were we the least successful in 1983? (ignoring the successes, of which we are aware), I personally would answer that we did not succeed in breaking down stagnation in the area of structural changes in industry. This is attested to clearly in investment

outlays: of the more than 12,000 enterprise investments, 90 percent are investments in group A--in the mining and heavy industries, and thus in those that do not produce for the market.

[P. Zawadzki] In my opinion, for the present, restructuralization is sheer claptrap.

A basic slogan of the economic reform, one of the fundamental postulates of the reform, remains only on paper. I know the circumstances, I know the colossal problems related to this, but we cannot stand still. And we continue to merely talk about be supposed to change the structure and changing the structure. This means that there are some sort of spectacular gestures: factory X has shifted to the production of forks or chains, while factory Y produces spades. However, we are very far from this type of "shift" into increased market production. In Lodz, for example, I do not know of any example of a change in the production structure toward one that is more market-oriented. It is enough to look at the structure of domestic production, at its much more rapid growth rate in the mining, heavy or machine engineering industries than in subbranches producing for the market. Unfortunately, the overcoming of stagnation noted by the previous speaker does not depend upon factories. In my humble opinion, these must be either political decisions--exposing the party to the charge of interference in the economy--or the party should force the government to create economic mechanisms that favor structural changes. Theoretically, of course, one is able to conceive of a decision to close several dozen group A factories, for example, including the Lodz machine tool plant or the EMA-ELESTER factory that produces contactors, whose director is a participant in this discussion.

[W. Brzozowski] Market production that is in need of a contactor or a transmitter is all the more at a standstill. Without such equipment, not a single meter of fabric can be produced, no machinery is made and, as far as I know, light industry also needs machinery...

[P. Zawadzki] Of course it does, but this is merely an example of the complexity of the entire matter. When we get down to specifics, every plant is needed, everyone supports this market. The fact that I speak half-jokingly and half-seriously does not mean that I undervalue EMA-ELESTER. To take the subject further, I would like to note that we are touching upon a fundamental problem: should there be political decisions, orders that contradict the reform or decisions on economic mechanisms and the putting into practice of instruments that comply with the reform? Such decisions that would force a structural change or the scaling down of given production and in the extreme case would lead to the closing of a given plant. In order to decide upon something, we need not only specific outlays and financial guarantees, but some measure of boldness. However, I believe that all decisions should fall within the spirit of the reform idea, to enable the mechanisms to operate, even a law on bankruptcy, for example and not an order.

[Z. Grzelak] The reform will not resolve the problem of structure. A definite vision must arise regarding structural changes on the state scale that affects the entire industry, as well as a regional vision regarding the structure of

industry in the Lodz urban area, for example, as well as structural changes within the given production subsector--let us say, in light industry. The reform could aid such a notion, in the sense that--let us assume--all depreciation should remain in light industry and not in the metallurgical industry. In speaking on this issue, however, I would like to note that the structural reform will not be painless; it will "throw out" surplus officials, but workers as well. Thus, it is not merely a question of boldness at central headquarters, as Mr. Zawadzki said, but it also asks: What are we to do with microstructure resistance--the workforce of a given enterprise, self-government, plant party organization or even voivodship echelon? I am afraid that our theoretical considerations, our aims to restructuralize will look different when they come into contact with practice. It is easier to say that we must liquidate a particular plant than to actually carry out such a difficult task.

#### People Are Not Pawns in This Game

[W. Pyrkosz] I have a concrete example. An enterprise is falling apart. The roof is holding together by word of honor and the management figures that if there is only a certain amount of snow, it will still hold up, but if more falls, it may collapse. Another enterprise, a fairly new one, suffers cadre shortages and would gladly absorb the workforce from the first plant, especially since it is industrious and disciplined. Even the machinery would not have to be transferred, since the second facility is equipped with modern machinery. But how are we to convince people about this operation?

[S. Krajewski] Let the party initiate it...

[W. Pyrkosz] My dear gentlemen! These are just words. We cannot depend on party work for everything, counting on something that is supposed to happen happening through the intervention of party members.

[W. Brzozowski] I think it would be easier to convince that workforce through economic arguments.

[P. Zawadzki] Why could the party not inspire this?

[S. Krajewski] If no one else wants to do this or cannot carry it out...

[W. Pyrkosz] Let us suppose that the party echelon (without specifying the level) takes on such a task. Immediately it runs the risks of being charged (even by those that sit here) with "coming in without taking off its shoes first," with not having the right, since there is a self-government and there are trade unions that will fight for the workers, since there is labor law, PRON and so on and so forth.

[P. Zawadzki] That depends on how far the party goes in its inspirational work.

[W. Brzozowski] The workforce must be told convincingly--look, the working conditions here are poor, you are losing time and effort, you are making 10,000 zlotys here and you would make 15,000 there.

[P. Zawadzki] Then who will convince, persuade and break down the resistance of microstructures, as Professor Grzelak pointed out?

[S. Krajewski] This ought to be done by the director, the management and the foremen. And if the party, not the director accomplishes it, perhaps people will say: oh, I like that party, maybe I will join it.

[W. Pyrkosz] I view this differently. The director will not do it. For the present, the director, his vice directors and high-level management have a good situation. For the present--for this year, and maybe next year. And if it comes to relocations--for that is what we are discussing here--the management will be out in the street. In their natural, human fear of this, they will find thousands of arguments not to do it.

[S. Krajewski] That is why I stand by my statement that only the party can do it.

[W. Pyrkosz] Exactly who do you mean--the district committee or the voivodship committee?

[S. Krajewski] Why not the plant committee?

[S. Chelstowski] Perhaps the bankruptcy law will ease this difficult relocation process. The regulation will force the management and the workforce to act in specific ways and the party will play the role of protector, shock absorber, arbiter. Let us not forget that people are not pawns in a chess game.

[W. Pyrkosz] I am afraid that with or without the law, every endangered enterprise will somehow save itself from bankruptcy.

[J. Pietrzyk] I remember the situation over 2 years ago. At the beginning of 1982, several construction outfits (including some in our area) were in danger of bankruptcy because they had no credit worthiness. But this did not last long: the appropriate indexes--"5" and "6" were introduced, and everything was multiplied. Today, despite the fact that these plants --of which there are five--build exactly half the amount they did in 1981, they are in good shape. At the time, we petitioned the ministry and we recently reiterated our proposals that consideration be given to transferring these people, relocating where there is work, where there are unused production capacity and raw materials. The result was that in the first place, the ministry was opposed to this and in the second place, we could not do it, for there were no legal grounds, the law was silent on the issue. Another example: if the FAKORA Radiator Plant added 30 people and set up a second shift, 300-500 more residences could be added yearly in the Lodz City Voivodship. Unfortunately, we do not have the additional dwellings, because we do not have the radiators, and we do not have the radiators because we do not have the people. Again, this brings us to the subject of structural changes, not so much from the production viewpoint as from the employment point of view.

[P. Zawadzki] We keep discussing the same subject. Until we have a specific goal, a vision of structural changes and a way to arrive at them, all discussions will be fruitless.



For example, I do not understand why raw materials are allotted equally to all factories--from the smallest to the largest, from those equipped with 19th century machinery to those outfitted with the most modern equipment? Is it really impossible to prepare assessments of enterprises according to objective criteria and, within the framework of intersubsector, intrasubsector or subbranch restructuralization, to "sentence" some to bankruptcy? It should be pointed out in the "sentencing" that, given the amount of raw materials and the size of the workforce, these basic production elements must be directed where they will be utilized the most effectively. While the word "bankruptcy" sounds terrible, in reality it would probably be the absorption of plant X into plant Y, or a merger, or perhaps the closing of one shop and the setting up of the others into two shifts--I do not know. It just seems to me that there is no economic sense in both plants' working at half capacity--the factory that has modern potential and the factory whose equipment is ready for the scrap heap.

[J. Pietrzyk] Today there is a problem throughout the economy, and not only in Lodz, due to the non-use of full production potential because of the catastrophic shortage of people.

We lack people for production, not in offices. If we ignore the questions of restrictions, credit, the debt and the other external circumstances, it may be said that despite the existing difficulties and restrictions, we should "squeeze" more out of the economy and industry. In my opinion, this does not succeed primarily because of the lack of workforce mobility. It is difficult to find a way out of this situation. Neither in the CPR [Central Yearly Plan] nor in other documents did I read even an outline of ideas on how to resolve this question. Editor Chelstowski made mention here of the law on bankruptcy. I am also counting on it, but I am afraid that in any event, if we as an echelon wish to stand guard upon the spirit and the letter of this law, a cohesive front of various types of institutions and organizations--from the plant party organization to the self-government will open up against us.

Perhaps it will come to the situation spoken of by Prof Grzelak, that as a result of restructuralization, a surplus will arise in the labor force. For the present, however, this is a very distant vision. The first problem here is the current lack of people, not their surplus. I consider the solving, or at least the moderation of this problem--precisely through structural changes in the economy--to be a basic duty of the party at the various levels. Without this, we will merely mark time. We will have the kind of production that the market plants are projecting for this year--ridiculously low--an increase of 2 to 4 percent. And society will blame no one else but the party for this.

[S. Krajewski] I am returning to the question I posed previously regarding preferences for market industries, broadly conceived as a basis for a structural reform. Is the "systems-type legislation" enough for these industries in the sense that they will be able to manage during the reform and will be in a position to develop in step with the vigorously resisted vision of structural changes? If not, then what should be the role of the echelon in this regard? I am thinking aloud here, but can we not, for example, oblige KC members, Lodz area deputies and the active members of the various organizations

to "bring up" the subject systematically, can we not battle to abrogate or prepare the proper formal legal regulations, can we not agitate and protest in various ways, also voting against decisions that do not foster the implementation of this vision?

If, for example, there are bad regulations that block the development of market production or if powers are insufficient, the KL [Lodz Committee] should analyze these questions and bring them to the attention of the central headquarters. Very generally speaking, this is how I would view the role of the echelon: not as steering a given issue manually and encroaching upon the powers of economic workers, but in terms of analytical-conceptual work.

[J. Pietrzyk] The KL economic department makes use of an entire range of analyses of various types and also presents many suggestions on this "structural-market" issue as well. Our analyses and sharp statements on many questions, for example, on the questions of the failure to utilize potential in light industry, among others, and mistakes that are made by particular ministries are not always received properly by central headquarters. Thus, we generate much material, but it is sad to say that not all our recommendations and initiatives (viewed as well-aimed by others besides ourselves) are considered properly in decision-making practice or in the practice of advance planning.

[S. Krajewski] Do you battle over your concepts and recommendations with enough pertinacity?

[J. Pietrzyk] I believe that we do. As proof, let us look at the housing question, one of the growing fundamental sociopolitical questions of the region. The level of housing construction in Lodz is among the lowest. We as the echelon do not approve of this and we demonstrate potential for increasing production and the failure to use reserves. With regard to light industry, we point out the delays in the implementation of Resolution No 7 that envisages the partial modernization of this subsector of production.

[I. Dryll] Exactly what is the situation with regard to this resolution, graphically termed "the reanimation"? It is a sort of element in the restructuralization chain. And in this case we can no longer say that there is no concept, no vision, for this "mini-vision" does exist.

[P. Zawadzki] It refers to the "reanimation" of spinning mills. Our factory, too, has turned in this direction: we are short of people, so the machinery must work more productively. The machine must replace the human being, as it does throughout the world, and Poland cannot be an exception here. There are no miracles; people will not fall down from the skies. But we do have the resolution, and we are to modernize. A minister has been appointed at the ministry to handle machinery contracting, which is already taking place... Meanwhile, another ministry, two streets down in Warsaw, says that it is helping, but this is just talk... One ministry strives to save the market and tries to ensure that people will not have to go around naked and the next implements the policy of tight money. It is so tight that there is not enough for the credit guaranteed in the Government Presidium resolution.

Why the paranoia? All over the world banks do business and do not make out badly by selling money and collecting their fee in the form of interest. And we want to prove that business means not borrowing money. This does not mean we should take everything that is offered. It may be established: Mr Director, you may have 100 million zlotys' worth of credit at 9 percent, 200 million at 15 percent, and still more at a higher rate of interest: 30, 50, 100 percent. Well, does the director take this credit regardless of the rate of interest? No, he does not, for the self-government will not allow it, for this will bring up costs, reduce profit and the like. The credit squeeze that has taken place recently with regard to light industrial plants shows our lack of confidence in the management cadre, in my opinion.

The situation in our plant is such that we are moving toward stepping up all kinds of activities in conjunction with Resolution 7--without financial backing. In other words, in practice, the director of the Marchlewski plant contracted for machinery at the end of last year without having credit, since the bank declared that since the investment would be implemented in 1984, they would return to credit matters at that time.

[I. Dryll] I encountered an analysis that shows that investment credit for light industrial enterprises last year, according to bank estimates, would reach 3.5 billion zlotys, while in actuality credit was granted for three investments for a combined sum of 400 million zlotys. The bank maintains, however, that the reason for such meagre credit is the lack of preparation of investments for implementation. Thus, everyone has his arguments.

[W. Pyrkosz] My reasoning shows that the bank can and does do with me what it wishes, despite increased export, productivity and production in meters and zlotys. For example, we "pay" for the development of export in the form of the withholding of part of credit. A little more and we will unpack our packages for export and... But as the saying goes, that is the theme of another tale, since the matter cannot be explained in a few sentences. The fact remains that it is difficult for enterprises to make any kind of investment plans.

[W. Brzozowski] Interestingly, I represent a different subbranch--the electrical engineering subbranch, but I have the same feeling. I put aside money for development and the bank says to me: please put the money into turnover and buy raw and other materials with it. Given such a situation, how can I plan a modernization policy? Is the fact that I paid a given amount into the FAZ [Vocational Activization Fund] a sufficient economic justification for such actions? At the end of November I had outstanding amounts due me of 440 million zlotys and obligations of only 200 million zlotys. I conclude from this that many enterprises have found themselves in a similar situation: they lack funds for current activity. And the circle closes.

[S. Chelstowski] I propose that, in spite of everything, we close this part of our discussion, the party and the economy, the party and the production structure, with the optimistic statement: the issue is perceived by the Lodz echelon and its importance is appreciated, and although there are many problems, something is being done in this field. Let us go on to the question of prices.

## Let Us Not Mince Matters

I do not wish to speak at length, but in all honesty, I am not sure whether the price proposal that has been submitted was to be consulted upon or negotiated. For if meat, let us say, can cost this much or this much, society becomes persuaded that prices can be negotiated, that it is not economic pressure but only the good or ill will of the government. As for me, I share Prof Bobrowski's view, primarily because it is less painful for those in bad straits. In general I believe that this operation could be conducted at less expense to society. In other words, prices could be increased, but at a lower level and through the establishment of a different price increase structure. Of course, this is my own private view.

[S. Krajewski] Will the proposed increase improve the price ratio and help the production increase to move in the desired direction? I doubt that it is in a position to lead to the creation of such ratios. If it is not, the prospects are that in several months, subsequent increases will have to be implemented.

[W. Pyrkosz] People have slowly begun to get used to the idea that prices cannot stand still. In my opinion, the problem reduces itself to the scale of increase. I hope we do not make the old mistakes; I hope the price office does not move toward big price jumps.

[W. Brzozowski] Prices have to increase, but wages also have to increase.

[S. Krajewski] What do I fear here? It seems to me that this stick has two ends: the lowest paid workers are to receive compensation. Everyone else is told: earn a wage increase for yourselves within a year, but at the same time, the average limit of the wage increase is set at 17 percent. It is easy to anticipate the tremendous outcry of workforces to a wage increase at any cost. I do not know whether this other end of the stick has been figured in accurately enough.

[W. Brzozowski] When an appropriate production-wages mechanism is created, we will take this burden to enterprises. The fact that the price increase must be attended by a wage increase seems natural. I do not know, however, if we can afford to raise real earnings any longer. If we can, bravo!

[S. Krajewski] And if there is no mechanism, or it is too weak and comes to pass through favorable decisions?

[W. Brzozowski] Then we will again stagnate in enterprises.

[S. Krajewski] You will stagnate--total mincemeat having been made out of you. People will say: it is guaranteed and you cannot give it to you. Something is amiss here. In my opinion, the party should battle to make this mechanism better and better, since the concern here is the interest of working people, broadly conceived. And if the assumptions cannot be implemented, this should be made clear to the public. But this should be done from the very beginning, and not a year later, as was the case with last year's price increase assumptions: they were planned at 15 percent, but the actual increase was about 23 percent.

[S. Chelstowski] This was what was planned initially, the Planning Commission estimates were at this level, but there was also a tremendous social pressure to reduce the rate of inflation, so a 15 percent price increase was projected in the plan.

[S. Krajewski] It is not the level that concerns me but making the issue clear. I must say that I was shocked by the statement made by Minister Krasinski in which he said in some report from the Sejm commission that no one believes that the price increase index for 1983 (this 15 percent) is a real index. Pardon me, if a minister says this and, moreover, the minister for price affairs...

[W. Pyrkosz] At the same time, enterprises are charged with planning too carelessly when they exceed one index or another.

[S. Krajewski] I am concerned about something else--the party's credibility. For in this case--let us not mince matters--our eyes were closed (if we may put it this way) to the wishful nature of this inflationary index. I believe that the truth should be told, whether sad or bitter, but the truth. If this is not done right away, a year later the only result will be a drop in confidence.

[S. Chelstowski] Let us hope that the price and wage increase indexes contained in the CPR for next year are calculated realistically. Let us also hope that mechanisms will be set in motion that will enable production and costs to be steered in such a way that we will not have to attain relative stability by increasing inflation. In this way we come to the next subject of our discussion--the party and reform. I believe that we can take as our motto Docent Krajewski's idea--let us not mince matters in any area (even though we are at the center of the cotton industry\*), for without extensive criticism reform cannot be effective, and a good reform is extremely necessary for both the party and society.

[29 Jan 84 pp 1,4,5,6]

[Text] [S. Chelstowski] Although we are at the center of the cotton industry, let us not mince matters.\* Especially--the reform. Without honest criticism, the reform will not be effective, and a good reform is extremely necessary for both the party and society. With this statement we concluded the first part of our discussion, with an extremely important problem remaining to be discussed: the party and economic reform. The reform is taken for granted by a resolution of the Ninth Party Congress and other decisions confirming the political will for continued changes in the economy. Nonetheless, one encounters fears that the reform may not have sufficient "penetrative power." On this depends its present and future shape and the rate and scope of changes ushered into the economy.

\* The idiom "Let us not mince matters" translates the Polish "Nie owijajmy w bawelne," lit., "Let us not wrap in cotton" [translator's note].

On the plane of the party and the reform, there are likewise--as I noted before--those spheres of affairs to which the party should be especially sensitive. I have in mind here the employee self-government and the wage policy. The idea of the employee self-government, as conceived and defined in the economic reform, lends the reform a social, and not a managerial character. It is likewise a concrete, practical expression of the treatment of working people as the subject of this process. It creates an opportunity for reform assumptions to reach employee workforces. Wages should also be viewed from this aspect; it is not merely a question of finding a way to measure work input. There is also the broader problem of bringing reform rules to the particular work stations, of tying in every employee with the reform principles.

Everyone interested in the reform always remains to some extent within the circle of hopes and fears. What, then, is the current "mode" of the reform, and what is the party doing, or what should it be doing, to strengthen it?

[Z. Grzelak] This is not the first time that we are embarking upon economic reform. The same slogan was always the guiding principle: "adapting" production relations to the level of production forces. But we never succeeded in adapting, i.e., in taking the reform to its end. Why? Were we lacking the will and skill, or the consistency and persistence? Or perhaps there were more or less objective obstacles. Since this is so, we should not approach the reform "mode" ahistorically. The political forces at work in our country have become ossified in time to a degree that not only has delayed but has halted the processes for improving economic mechanisms and production relations. I have in mind here the dogmatic-conservative trend present in the party. (These questions were raised at the 13th Plenum). This was the major, but not the only barrier to the reform. And if, from this brief historical reflection, we put down a footbridge to the present and future, we should consider whether this barrier has had an effect. /Does everyone within the reform circle understand clearly enough the otherwise obvious truth that stubbornly preserving obsolete structures, failing to deal with the truths of the dialectic and dogmatism and the failure of economic policy to take into account the everyday current of life must lead us astray?/ I do not know, it is partly intuition, but in my opinion there is an undercurrent directed against the reform that we cannot ignore.

[S. Krajewski] Nor should we exaggerate it.

[P. Zawadzki] Often it seems to me that we are following the best path to drown the reform, just as we have drowned economic incentives, WOG's [Large Economic Organization], strategems and other more or less vital attempts to change the functioning of the economy. We are a very impatient people and we are too hasty in drawing conclusions, forgetting that nothing happens from day to day in the economy. Various voices are heard on the reform issue, including those that undermine the sense of it in general. I note, for example, the article "Is the Reform Reformable?" published a few weeks ago in POLITYKA. The article glorifies the orders-directives system and negates the three "S" formula [autonomy, self-government, self-financing]. I value the courage of the editorial staff in including this kind of statement

and polemicizing with it openly--one must know the arguments of reform opponents in order to defend against them. This voice, not an isolated one, is symptomatic of the undercurrent spoken of by the professor. And while this is an undercurrent that does not affect specific decisions and solutions of a practical nature, it really should not be exaggerated. History demonstrates that all reforms have been attended by such a current. Nonetheless, we as the party must be in touch with things. If the party declared itself in favor of the reform at the Ninth Congress, the question arises: what should we, its members, activists, do on behalf of this reform?

[J. Pietrzyk] The party must uphold the reform politically, creating a sort of mantle for its solutions.

[Z. Grzelak] The Ninth Congress was the turning point for the reform. Here the party declared itself in favor of the reform in a special way, saying that without the reform, there was no getting out of the crisis. Thus, if there are voices today, not only outside the party, but within the party, among its members, that wish to verify the principles of the Ninth Congress and its decisions or demand a departure from these principles and decisions, we must be aware that this affects the economic sphere as well. In other words, /for me personally, a fundamental danger to the reform is represented by the broadly understood tendency toward conservatism that renounces the political will of the reform, if it may be said this way. Of course, this "renunciation" is a potential danger for the present./

[S. Krajewski] It seems to me that if the reform does not work, society will have some right to blame the party for this.

[P. Zawadzki] And it does.

[S. Krajewski] We know that it does, but it will have the right to do so. We are the ruling party, a fundamental, significant political force and it is from this that we derive our primary responsibility, and thereby the need to support the spirit and letter of the reform.

I recall that once, during the 1970's, I was at a high-level conference. Already at that time, I heard a person that was himself in favor of the then reform say from the platform that if we make mistakes once again, if we do not carry out the reform, society will have the right to mistrust us and to say: you are to blame.

[P. Zawadzki] And that is what happened.

[S. Krajewski] Exactly. I cite this fact to make it clear that: /the present reform--the broadest, comprehensive and the most difficult--is also a last chance reform./

[P. Zawadzki] Thus, under no circumstances should we allow the child that has just begun to crawl to be annihilated. It is said: there is no turning back from the reform, and I am convinced that this is so. But fears that we are only saying that there is no turning back do exist.

[S. Krajewski] Enterprises act to secure themselves against everything, for they ultimately do not know what will happen next, will there not be a slow departure from some reform assumptions? Of course, no one believes that one day an official turning away from the reform will be announced and that it will be said : we are returning to "manual control." On the other hand, among the management cadre, and not only among them, strong fears exist that we may reach a situation in which we will gradually withdraw from the reform. I am saying this based on polls conducted in enterprises.

[W. Brzozowski] Fears of the "ossification" of the system.

[W. Pyrkosz] I would agree especially with the first statement, that enterprises secure themselves and thus do not reveal their reserves.

[W. Brzozowski] For they do not know the prospects. An enterprise cannot plan for a half-year or year. The major operational strategy should be set up for a period of at least 2 to 3 years, and in some spheres for an even longer period. Let us take wages, for example. At the beginning of 1982, the average wage in our enterprise was 6,200 zlotys. What could I do with such a wage, given the increases in prices and increased living costs? When the occasion arose, I had to make a big jump in the wage scale, or I would have been left standing in the battlefield without a workforce. Last year, the situation stabilized slowly, we paid a certain level of FAZ dues and we entered this year from some sort of starting position, with a base that enables us to carry out a rational policy within the structure: productivity--production--wages. At the end of last year, we reached a level of productivity per employee that equaled the level from our best year of 1979. And now we ought to consider how to "set up" the productivity--wages ratio for next year. This is not for a 1-year period, but for longer. Meanwhile, the hands of some people have begun to tremble, we are already paring down the issue and "improving" the rules of the game, in a drastic manner. I have in mind here the new obligatory principles for calculating the wages base for this year. The preliminary calculations in our plant show that in order to increase wages by 10 percent this year, we would have to pay about 220 million zlotys into FAZ, while our entire profit for distribution is estimated at 430 million zlotys. I am using this example to show that we cannot change the obligatory principles by 180° from year to year--moreover, by surprise. /Enterprises secure themselves because of such uncertainty, because of the lack of even a minimum of stability./

[W. Pyrkosz] While a base system exists that limits our horizons to a year: 1984 compared to 1983, 1983 compared to 1982, there are no miracles. On the one hand, reserves are hidden and on the other--I have in mind here the wage fund--everything is used up. Both methods are insurance against the unknown that awaits us. There are, however, symptoms of change for the better.

[W. Brzozowski] For example...

[W. Pyrkosz] The possibility of creating a wage reserve out of last year's unused wage fund. We left ourselves about 7 million zlotys. True, some people warn me that this is a mistake, that various things may happen and--let us say--



in mid-year another method of calculation will be announced. But I risked it. The bitter truth is that before, whether or not we had to, we turned over all the money. It seems to me that a very accurate conclusion may be drawn from this.

[W. Brzozowski] If the reserves not due the FAZ are retained...

[W. Pyrkosz] If not, then I will give up everything, as in the past. I will give it up lock, stock and barrel. But to return to the base system, who of us in enterprises plans for more than a year? The only exceptions are some export ventures. As a rule, production plans for enterprises are not, and will not be, at the limit of potential...

[J. Pietrzyk] In most enterprises, there is the conviction that those that have disclosed their reserves and have used their potential effectively have lost everything. It seems to me that the reason for this is that we make too sudden changes too often that do not allow for real planning over the long term.

[W. Brzozowski] Moreover, to plan realistically, we must know the "rules of the game," at least for the very near future, early enough. Meanwhile, the end of last year reminds one of the film entitled "No One Knows Anything." There was something said about an income tax, but until the end of December, it was not known what was really behind this talk. A wage law was announced, along with the possibility of experimentation. We wish to enter into this experimental wage system...

[W. Pyrkosz] We are also getting ready for the experiment. We have appointed a team to prepare its principles, and some solutions are already being put into practice. But to be honest, we are doing this on instinct. I do not know what will pass ultimately in the Sejm.

[W. Brzozowski] The experiment will pass.

[W. Pyrkosz] But I am speaking of the upper hourly wage limit, the 60 zlotys under discussion.

[W. Brzozowski] There is no upper limit; I am familiar with the draft law.

[W. Pyrkosz] The draft law and the final law are two different things. I know of the drafts of many resolutions for this year, but I did not know until the end whether there would be any income tax relief for export, whether there would be new prices for spinning yarn and when. And in December, I had to sign contracts and sell, for the first quarter of this year, a definite part of production geared for export, sell production for the market and the like. I negotiated prices with one of our foreign consignees (we sell in transaction prices), not knowing what figure to enter. I projected a specific percentage of profit without knowing the price of raw materials. During negotiations, I had very little idea of whether I would make a profit or suffer a loss.

[W. Brzozowski] That is why I say that a system must be presented on time that is, however, more stable and cohesive.

[S. Chelstowski] Are we to conclude from what has been said that the reform is in a weak condition?

[W. Pyrkosz] No, on the contrary, it seems to me that a number of recent decisions have been in the right direction, and regarding the appeal of my colleague the director, I ascribe to a stable system only to a certain ceiling. I believe that in a crisis, such stability is often impossible. I am concerned, however, that there are still many blank spots in the reform and that there is a void at the center.

[Z. Grzelak] I believe that the problem reduces itself to something else. The horizons have been laid out, but it has not been shown that it is necessary to implement the reform by stages. Everything cannot happen "today and immediately." For example, we give a signal within the reform framework that the wage system must be modified. But we do not have a "macro-" concept on this wage issue. In arriving at this concept, we will have put into effect a wage increase that rectifies all sorts of nonsense and disproportions that have arisen over the years. Meanwhile, it is not suited to present conditions. Hence the various kinds of "cuts." While no one, or very few people, at least officially, undermine reform principles, many criticize the mechanisms and instruments ushered in by the reform or the gaps that exist (criticized by the preceding speaker).

[W. Pyrkosz] In speaking of the void at the center, I have in mind the middle economic level...

[I. Dryll] Has Director Pyrkosz, the famous No 1 enemy of syndicates in Lodz and in subbranches, decided to repent?

[W. Pyrkosz] No, I have not changed my opinion regarding subbranch syndicates. The TEOFLOW Plant has not joined this type of syndicate, which, incidentally, was very hard on our nerves. We need strong voluntary economic organizations made up of factories joined together through technology, coproduction and joint interest--not only today's and not only our own. The members of such an organization would embark jointly upon various ventures, including modernization. For example, they would all contribute toward the purchase of several or more pieces of machinery for plant X, after which they would divide the profits resulting from the increase in production. This is not theory, it is fact. Such an organization does exist: TEXTOR in Torun, and our plant is one of its members. On the other hand, I note as a curiosity that /we have received a letter from a syndicate to which we do not belong informing us that we will have a supervisory council./

[W. Brzozowski] The UNITRA syndicate operates according to similar principles. While I do not belong, I am familiar with this model: plants have joined with their potential and their ideas, they wear no special "hat" as a group, nor is there an office over them. They decide jointly what kind of subgroups should be developed and the like. On the other hand, I belong to a different, bilateral system. In conjunction with the foreign trade agency we work on a common task: setting up cable lines for the computer and telecommunications industries. They provide the funds, which I do not have, and I do the finishing work on production shops for them, designated for the previously noted production. The partnership management is handled by our factory on our grounds--there is no reason to create new structures and offices. We share the profit based on input.

[S. Krajewski] These are interesting ventures, but they still have their problems. Does not the TEXTOR or UNITRA type of connection threaten an even greater monopolization of production than exists at present?

[W. Pyrkosz] Perhaps, but monopolization exists at that. Although every one of us from a large plant would disagree that he is a monopolist, he is in some sense.

[S. Krajewski] Monopolization exists and is even becoming more fixed, but we are improving other areas, the particular production elements are developing more harmoniously and coproduction is going better. Is this not so?

[W. Brzozowski] More or less.

[W. Pyrkosz] For the present there is one major danger: the lack of production and inflation. If we improve these areas--I am not even talking about full liquidation--we then will be able to change and stiffen the antimonopoly law. Moreover, thus far we do not have an antimonopoly law.

[Z. Grzelak] Exactly. And thus far, clarifying and simplifying the issue, I would say that in effect we have been demanding autonomy for--monopolies in the reform. This is inadmissible in my opinion, and I personally am awaiting an antimonopoly with great impatience.

[S. Krajewski] I, on the other hand, /have the silent hope that sooner or later the reform will rationalize the structure that is defined conventionally as subbranch-subsector Poland./ But that is a different subject entirely.

[P. Zawadzki] I do not agree totally that it is different. "Ministerial Poland" still exists. If we are to implement the reform and deepen certain processes of economic reform that are already in progress, and not only say that we are implementing them; if we have armed enterprises with the three "S's" and we are implementing new instruments--in this case for 2 years--then we must be consistent in this difficult work. But what do we face right now? /We are still waiting for a law on the Council of Ministers and ministries, since the "shifts" that have taken place in the ministerial structure do not solve the matter./ What has been achieved is merely a first step--actually half a step. And I envisage no other path here than calling the issue to mind and compelling definite changes. Who is to call it to mind? In my opinion, it is the party: we have said A and we wait for B, C and D and the rest of the alphabet. With regard to the Planning Commission, one hears of late that under the new leadership, it is to have a different or more appropriate place in the structure, that it will be a staff organ and not a supercenter, a superministry for every tax reduction, every investment decision and every modernization decision. But the issue does not end at the commission. /There are still ministries and their powers and functions. The cadre that works there has become accustomed to a specific portion of the power and authority, which the reform has restricted severely. It attempts to create various branch offices and middle levels: SURETEX and other central agencies, syndicates, of which some recall associations--in a word various branches to help it reach and reprimand the disobedient and unsubmitive.../

Of course, for the sake of justice it must be stated that ministries are also subject to pressure questioning the manner in which they are managing, while they operate in a specific, difficult economic situation that sometimes forces them to resort to overt or covert orders-directives solutions. Thus, the rebuilding of the center cannot take place overnight--of this I am fully aware. But this process should be continued, because it substantially hamstrings the implementation of the reform and cuts off many channels.

[S. Krajewski] It is said, and with good reason, that the economic central headquarters will be able only minimally to utilize and activate the reserves contained in plants. Hence the need to continue the restructuring that has been halted in the initial stage. I agree with the previous speaker that the /party ought to be the initiator of these changes, since society does not perceive this, at least externally./ This is an extremely important check of the party's credibility and of the consequences of its activity. At the same time, we must be reminded just how difficult such an operation is under present conditions.

[W. Pyrkosz] If I may interrupt, this is also difficult because every minister or representative of the "top" refers to the Ninth Congress, the decisions of subsequent KC plenums and party resolutions when he wants to force an issue...

[S. Chelstowski] ...whose authority he often uses as a convenient means of support, a sort of "mantle" over ministerial decisions.

[J. Pietrzyk] And fundamentally something very different is the real concern: narrowly conceived subbranch interests and forcing the decisions of a specific lobby.

[I. Dryll] Recently in our publication we printed a fragment of a paper written by Docent Jan Knapik that was read at a scholarly conference of the TNOiK [Scientific Society of Organization and Administration] branch in Krakow. Knapik said: "In light of our experiences thus far, once again it has become evident that likewise the recent reform of the economic central office was too superficial and inconsistent with regard to the 'Reform Directions.' Ministries continue to be the implementors not of state policy but of their own subsector-subbranch politics (...)." Knapik went on to say that in the present state of the economy and the reform, "everything points to the fact that the processes strengthening the regulative-control and supervisory function of ministries will take place out of necessity."

[S. Chelstowski] These are, of course, farreaching generalizations and mental shortcuts. Nonetheless, when one speaks of the reform, one always reaches questions of the reform of central authority. We too (and not only we) have a so-called higher awareness of both the need for certain changes and for restrictions emanating from the concrete situation in which our economy finds itself. With regard to the problem: how many regulations, and how many mechanisms ushered in by the reform--then I am reminded of the following comparison. It was made by a cybernetic engineer that was listening to a discussion on the economy, just as I am. There is Warsaw--he said-- with cars driving all over it. There are more and more of them, and what are the

authorities doing about it? They station more and more militiamen. And the situation becomes such that a militiaman must approach every car and tell the driver: now to the right please, now to the left please, and you, sir, stop. If we succeed in creating the proper mechanism, the right "traffic regulations" for the economy, no militiaman will be necessary. For it is known that red means stop and green means go and the like. While this was a very good analogy, it seems to me that despite everything, even given the best "rules of the game" in the reform, such "militamen" will also be needed at times.

[W. Brzozowski] But there cannot be more militiamen than stop lights.

[W. Pyrkosz] Even more so, there cannot be one militiaman for every car.

[S. Krajewski] He is needed where there is a crash or a breakdown.

[S. Chelstowski] Precisely. Life, including economic life, is more complex than the best regulations and there are situations in which decisions will be necessary apart from the regulations.

[P. Zawadzki] But within the framework of the system.

[S. Chelstowski] Even in the most excellent system, the party must be this element authorized in certain situations to correct and lay out guidelines.

[P. Zawadzki] Agreed--but how? Will we be able in practice to implement what we wrote down in the Ninth Congress resolution? I say--what we wrote down--for I was a delegate. And it was said there that the renewal should include the party's operating in a different manner-- in representative bodies, for example, via its members.

[W. Pyrkosz] I really doubt that this is possible in practice in every situation, since, for example, the self-government, trade unions and other plant organizations have broad legal powers. I am a party member and let us say that I act stupidly and badly, let us say, on the average stupidly and badly, for if I trespass a certain boundary, they will throw me out. There are no miracles: the party will not work through me; it will not be in a position to do so.

[P. Zawadzki] I am very sorry, but there is a plant committee for this, for determining whether there are stupid party members on the average within the self-government, for example, or smart members. But maybe the latter does not exist. If so, this is a new kind of situation and the KZ should decide whether during the coming elections, for example, it should initiate a campaign to elect party members to the self-government, how it is to work with this "nonparty self-government" and how to gain it as an ally and so on and so forth. If we consider the Marchlewski Plant self-government to be a real force interested in all problems of the greatest importance to the plant and its workforce, then as the secretary, even if I would wish it to be so, I have no other exit than working on this self-government and influencing what it does through party members.

[J. Pietrzyk] Just a question--will this activity be effective?

[P. Zawadzki] It seems to me that that depends upon how the party organization relates to the employee council and other self-government organs. If it is as it is at the Marchlewski Plant, where we treat the self-government as a real partner and ally, then I see a chance for success. At the same time I would like to point out that the self-government in our plant was elected in November 1981, party members represent 30 percent of the membership of its organs and no one can accuse them of having gotten in through the "nomenklatura" principle--they were elected like everyone else, in democratic, secret elections.

[J. Pietrzyk] And if party members are not elected or the number of them is very small?

[S. Krajewski] /We must have the kind of party members that people will want to elect to the self-government./ We must also learn to work day to day with the self-government.

[P. Zawadzki] This brings us to the next question: without the self-government, how can the party draw the workforce into the problems of plant management? It is evident that little is achieved with success in deliberations and training sessions. That is not the route to take. The employee must first want to participate in management; second, he must be able to do this; and third, he must see and feel its results. And here we reach a very vital question--the plant wage system.

Our system links work quantity and quality with wages directly and, I would say, even quite brutally. At a meeting in the weaving plant held in December 1983, I asked workers what they thought of this system, were they not offended that a weaver could make 10,000 to 12,000 zlotys or as much as 26,000 zlotys. One worker answered this by saying: Well, secretary, in order to make this 26,000 zlotys, she would have to wear herself out working on work-free Saturdays and overfulfilling her quota. What is there to envy her for?

[W. Brzozowski] If this is true, you have the first stage of the wage reform behind you.

[P. Zawadzki] Perhaps, although some people express reservations regarding the production--wages ratio. Production is not increasing as rapidly as the level at which it is paid, but without such pay, productivity in Poland would not be as high as it is. This is how we compensate for the decline in employment. Without this system, the results would be lamentable in my opinion. Who knows whether we would not find ourselves today on the verge of bankruptcy? Another issue is that over the long term it will be difficult to maintain this effort from the workforce, even at relatively high pay.

[W. Pyrkosz] I would like to return again to the issue of the self-government and the director's responsibility. In reality, I am able to suspend every decision of the employee council or a general meeting, but only when such a decision does not comply with the law.

[P. Zawadzki] And you can take legal action if the interest of society in general has been seriously violated.

[W. Pyrkosz] And if such a decision is in error economically?

[S. Krajewski] If such a thing happens, I do not believe that I will not be able to convince the people of it. In the event that this should happen, however, the director should forewarn of the consequences and say: you will see for yourselves in about 2 or 3 months.

[P. Zawadzki] I do not understand Director Pyrkosz, who operates in a different manner from the manner in which he speaks here. I never heard that he was unable to persuade the workforce.

[W. Pyrkosz] Of course, sometimes I do convince them. For example, on the FAZ question. You want money right now (and a group of workers did come to me asking for money). And I can pretend to be a good director and I can--I have some funds--grant such and such an increase. But we will go to the FAZ. And you do not even notice that with such a decision I put a few groszy into one pocket, but I take out much more from the other one. For the FAZ eats up profit, and at the end of the year, each of you will receive a tidy sum out of profits. The people believed me. Of course, then, one can persuade, but my constant concern is mechanisms, unchanging rules of acting. And under the existing powers held by the self-government, this mechanism does not exist for the director even in economic matters.

[S. Chelstowski] The director must know how to persuade and how to have arguments, he must share his authority. There is no council. There is, instead, the self-government that participates in decision-making and in governing and shares in accountability before the workforce.

[W. Pyrkosz] Nonetheless, I still say that we need strong people in industry. We need people that make demands and know how to do this. Without this, there will be no results. I value all representative bodies, including, of course, the self-government, but this forces us to enter into broader and broader consultations which, I say in all honesty, somewhat incapacitates the director.

[S. Krajewski] Let these strong people--and I heard such an opinion about the previous speaker--manage enterprises to make them strong economically and to bring them to enable the workforce to earn a living. The self-government will still have its quarrels with the director, but certainly in the vast majority of cases, when it comes down to things, it will take his side. Moreover, it seems to me that /a strong director and a strong self-government are the best defense against the "squeezing out" of the reform through a return to centralized management, in various old and new forms./

[J. Pietrzyk] I believe that we ought to stop "being afraid" of the self-government, "being afraid" in the sense that some looked askance at it from the very start. What is important, on the other hand, is that we manage to work together with it. I personally believe that if every decision is well prepared, without any controversial points, the workforce will understand and accept it, for the majority of these people are intelligent individuals.

[S. Chelstowski] I shall not summarize our discussion. Let me only note that in my conviction, it has confirmed the following idea: whether the reform penetrates the wall of difficulties, routine, conservatism and conflicting interests depends, to a great extent, upon the party. It depends upon the political will for continued changes in the economy, the will that represents a sort of mantle over our difficult reform. Judging by what has been said in this discussion, the will for continued changes in the Lodz echelon does exist. We have heard about many interesting experiences (obviously, we have not been able to use all of them here) and we have come into contact with interesting views and observations. These have led me to yet another, apparently obvious, but unshakable conclusion: the "mode" of the reform--if we may call it this--depends upon the number and spirit of its adherents. Without a doubt, our discussants are among them.

Thank you for the interview.

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## 1983 FOREIGN TRADE RESULTS ASSESSED

Warsaw POLITYKA in Polish No 3, 21 Jan 84 Special Supplement p 17

[Article by Stanislaw Gruzewski]

[Text] Like all the economy, the foreign trade sector had a hard time in 1983. Foreign transactions were no easier to push through than in 1982. The huge debt to the Western world continued to be Poland's number one problem.

This had two immediate consequences. First, payoffs of interest (only part of it, for the time being) and principal weighed heavily on the balance of payments, and, second, due to [Western] sanctions and low credit-worthiness Poland had no possibilities of getting new foreign credits. How difficult it is, under these conditions, to do business in world markets is well known to anyone professionally engaged in clearing foreign transactions. Various economic restrictions which Western countries imposed early in 1982 and upheld throughout 1983 were, and are, serious obstacles.

It is understandable that, faced with such enormous difficulties, Polish foreign trade firms could not always achieve their ends. There is no unequivocal assessment for foreign trade's performance last year. In some areas, as in exports to socialist countries, splendid results were recorded. In others, for instance in fulfilling import targets set in the 1983 Central Annual Plan [CAP] both for convertible and nonconvertible markets, failures were obvious. Nonetheless, the 1983 performance should on the whole be recognized as satisfactory. During this difficult year Poland exported goods worth (at current prices) a total of Zl 1,047.1 billion (preliminary estimates), which is Zl 82 billion, or 8.5 percent, more than in 1982. Respective export figures for nonconvertible (socialist zone) were Zl 502 billion and 545.2 billion. As for imports, for a second year in a row they were lower than exports, totaling Zl 920.2 billion, roughly as much as in 1982. They rose only slightly, by Zl 3 billion, or a mere 0.5 percent. Imports to socialist countries amounted to Zl 538 billion, while those to capitalist countries reached Zl 383.2 billion. Net surplus was thus Zl 127 billion, or some Zl 80 billion more than the year before. Poland's trade balance with socialist countries was adverse (Zl 36 billion), while with capitalist countries it was positive for a second year running,

reaching nearly Zl 163 billion. Once again, as in 1982, this trade surplus with capitalist countries was due much more to cutbacks on Polish imports than to any significant export gains. This fact dampens Polish industry's export success last year.

In trade with socialist countries, higher growth rates for exports than for imports have established themselves as a long-standing trend. Planned export quotas were significantly surpassed in 1983, rendering a surplus of Zl 21 billion, or 4.5 percent. The converse happened in imports. Their value (Zl 538 billion) was not only lower than planned (by Zl 23 billion, or 4.2 percent) but even lower than the analogous 1982 value (by more than Zl 12 billion).

The planned adverse balance of Zl 80.8 billion could therefore not be achieved. Effects recorded in the first half indicated the CAP plan targets had been unrealistic. Despite the Foreign Trade Ministry's great efforts to get socialist countries, especially the Soviet Union, increase their exports to Poland, the adverse balance that could be achieved by the end of June 1983 was only Zl 5.5 billion. So, in August the government reduced the CAP adverse trade balance target by Zl 34 billion to Zl 46.8 billion. However, not even this reduced figure could be achieved. The most important of the many causes for this, which I discussed in the August export-import supplement to POLITYKA [see PNB ECONOMIC WEEKLY No 34, 25 August 1983], is that imports volume depends not only on the buyer's behavior but also on the seller's; last year, few partners were willing to sell goods in quantities and assortments Poland demanded.

Another reason for this should be sought in inadequate preference patterns for producers, who on this ground prefer to export to socialist countries, where goods are easier to market [than elsewhere]. Meanwhile, as long as Poland cannot get credits for financing imports indispensable for keeping the economy on the move, any export transaction with capitalist partners is of paramount significance.

However, economy-wide interests are one problem, and industrial and trade firm interests are another. If the latter find exports to socialist countries more lucrative, they won't think twice about the direction in which to dispatch their products. The outcome of this is well known--export plan targets to socialist countries were surpassed, while those to capitalist countries were very difficult to achieve.

Moreover, Poland's revenue from exports to socialist countries suffers from continuing adverse price movements. The terms-of-trade index, which in the first half of 1983 was only 98.3, further fell in the second half to 97.4. This was due chiefly to price increases for crude, natural gas and oil products.

In trade with capitalist countries, the top task was again, as in 1982, to fulfill export plan targets. Despite great difficulties, this goal was achieved. Poland exported goods worth a total of Zl 545 billion, or Zl 69 billion (14.5 percent) more than in 1982. This figure, which at first

glance looks like a respectable achievement, must however be corrected. It envisages the value not only of goods produced and exported by Polish enterprises but also re-exports of Libyan oil. Deducting this latter from the total figure, we will see that exports grew only by some 8 percent. Moreover, a close inspection of the export structure will reveal there is little reason for enthusiasm. As a year ago, the bulk of Poland's exports were low-processed goods (fuels, above all coal, coke and semi-coke, metallurgical products, chemicals, timber and paper products, as well as agricultural produce and foods).

Planned targets for each of these commodity groups were surpassed considerably, and so setbacks in exports, chiefly of engineering products and building services, could be offset. These setbacks were significant, amounting to more than Zl 20 billion in the engineering industry and to some Zl 1.3 billion in building.

The engineering industry thus appears to have been worst off. What is really alarming is not the industry's 1983 performance alone, but a tendency which threatens to establish itself as a trend. In 1983, engineering product exports fell for a third year in a row. In the record year 1980, this industry sold goods worth Zl 225 billion abroad, but Zl 183 billion in 1981, Zl 175 billion in 1982, and only Zl 165 billion last year.

Chief reasons for this were listed in my assessment of the first half. Here let me point out the disruption of cooperation ties between Poland's engineering sector and related industries in capitalist countries. This circumstance was bound to hurt the Polish industry painfully considering Poland's enormous dependence on all kinds of Western supplies of raw materials, components, semi-finished products and spare parts since the 1970's. Import cuts came as a particularly heavy blow to this industry. Its import-intensity rate fell by 36 percent within 3 years. This obviously affected the industry's output volume, but especially product quality, which, combined with the impact of sanctions, led to a sudden collapse of exports to advanced capitalist countries. Compared to 1980 figures, the engineering industry's 1983 loss in exports to the first six trade partners (West Germany, the United States, Italy, France, Switzerland and Austria) is estimated at some Zl 40 billion.

As mentioned before, the resulting huge gap in Poland's trade balance could be filled with increased exports of raw materials, components and semi-finished goods. However, how long yet can Poland resort to this kind of emergency operation? Possibilities for further increases in exports of fuels, energy, copper, sulfur silver or timber are clearly limited. Polish economy's demand for hard currency is enormous, and keeps rising. The only way out is to increase exports to the West of highly processed goods, mainly of engineering products. This industry is predestined for such a role in Poland's exports structure, if only because of the huge investment made in it during the 1970's.

Also inadequate in 1983 was the realization of CAP target for building services exports. Actual effects fell some Zl 13 billion short of the

plan. The chief reason for this, however, is not the building sector's inability to do its jobs properly (though it too bears part of the blame), but payment difficulties of this industry's major partners, especially Libya. I pointed this out in my assessment of the first half year. Six months have passed, and the overdue payment has not come. Foreign trade firms cannot tackle this on their own. This particular problem is still open and has yet to be settled.

Nor did imports from the West match CAP targets. Plan fulfillment was only 88.5 percent, chiefly because possibilities for new credits were practically nil. Poland considerably increased its positive trade balance with capitalist countries. While the CAP target was Zl 107 billion, actual performance was Zl 163 billion. As I have mentioned, there is no reason to hail this as an accomplishment. Shortages in imported raw materials deliveries may adversely affect industrial production already in the first quarter this year, thereby encumbering export task realization.

Nor were price movements in trade with capitalist countries advantageous to Poland. Prices for most Polish export goods slid, especially for coal, oil products, metallurgical products, sulfur, coniferous timber, meat products and processed fruit, as well as engineering products. The converse happened in imports, for prices climbed. In effect, the terms-of-trade index was only 95.0, even worse than that with socialist countries. Price movements have thus for some time been disadvantageous for Poland, which makes it even harder for us to cope with the crisis. Forecasts for 1984 provide for few silver linings. Poland's foreign trade is facing yet another difficult year.

[Editor's note: Foreign trade performance last year and prospects for the future will be the subject of an ER supplement, planned for publication early in February.]

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POLAND

BYDGOSZCZ ACADEMIC RATES PUBLIC 'BACKLASH' AGAINST REFORM

Warsaw RZECZPOSPOLITA in Polish 13 Feb 84 pp 3, 5

[Article by Doc Dr Janusz Meller, researcher, Institute of Social Sciences and Management Science, College of Engineering and Agriculture, Bydgoszcz: "Reform--That Is, the Awareness of Choice"]

[Text] The essential changes in economic life introduced by the reforms in the functioning of the national economy and the beginnings of its initiation have brought forth a definite reaction in social awareness. The strength and character of this reaction are important for the further fate of the reforms.

The economic reforms at first met with a very good and even enthusiastic reception on the part of broad public opinion and unleashed great hopes and expectations. This in turn created an enormous danger to the fate of the reforms, since the baggage of positive results which it was supposed to bring disproportionately exceeded its potential. One has to be fair to the journalists (particularly in the economic press) who noticed this danger and tried to cool down the mood.

Brittle Enthusiasm

Nevertheless, at the beginning the appeals did not bring a change to a more realistic viewpoint. Some see in this a deliberate action by opposition forces who wanted to raise barriers of social expectation so high as to cancel out the possibility of their attainment. This was supposed to bring yet another defeat to the authorities who rubber-stamped the reforms officially and started to initiate them. Unquestionably, this type of calculation had its place. Still the enthusiastic mood towards the reforms possessed deeper, more objective motivations.

The first among these was an authentic dislike and a complete disbelief in the effectiveness of the compromised centralized method of managing the economy. The declaration of its repudiation and a fundamental change in the method of steering the economy with the introduction of many socialized and autonomous elements evoked the well-founded approval of many social groups. The second premise was--in my conviction--the natural tendency of people's

minds eagerly to accept attractive solutions which can give quick results without much effort.

I believe that a significant part of the society treated the reforms as a method which would bring about an improvement in the economic situation, lead the country out of the crisis (and indeed the reforms were presented as the main ingredient of an anticrisis program), without heavy sacrifices and constant effort. The tendency to reject the hard and heavy (though only) road toward a "miraculous," "ingenious" solution is an external element in the economic mythology. From this comes, for example, the very lively, always recurring proposition of solving economic problems by changing the currency, achieving (or unilaterally announcing) a moratorium on foreign debts, entering into the club of underdeveloped nations, and so forth. The enthusiasm for reforms arose from similar principles, which were to be, in the preconceptions of many, "good for everything."

And so public support for the reforms (besides a rational conviction about the low effectiveness of demand-distribution systems) was based on fragile premises. One proof is the fact that, in spite of fairly earnest efforts towards the popularization of its foundations, a deeper knowledge of its principles and mechanisms was never very extensive. It is possible to attribute this--unfortunately--to a part of the directing cadres of the economy. Unfortunately, it is necessary to admit that many supported the reforms "in the dark," not knowing very well on what it was concretely based. A positive state of awareness towards the reforms showed all the qualities of an emotional experience based on hopes and intuitions. It was not long-lived.

It is necessary to add that the structure of the positive expectations in relation to the reforms was from the beginning incoherent and internally contradictory. Large groups of Poles expected from the reforms the simultaneous bringing of strong, effective motivation to better work and equalization of the material situation of families; the wider utilization of "healthy principles" of market economics and stable prices controlled by the government; sharper regulation of the economic game and the guarantee of rising wages and full employment; shortened work hours, expanded social programs, higher wages and a stable market, and so forth.

The reforms cannot straighten out the above-mentioned and contradictory expectations.

#### Backlash

It is difficult to place exactly in time the beginning of the "backlash" and the extinction of social support for the reforms. It shows up first, for example, in the widely manifested current opinion that the reforms--besides raising prices--gave nothing; it is also reflected in public opinion polls.

Not going into a detailed analysis of the reasons for this turn-about, in simple terms it is possible to state generally that the reluctant feelings are called forth equally by the violation--in the first stage of initiating

the reforms and in the crisis conditions--of essential material interests as well as by the agitating effect of many economic stereotypes which function in the awareness of Poles. To the most important in this last sphere belong:

- 1) Placing the responsibility for the economic situation, including the income situation of work forces, on the enterprises--their directors, self-government organs, political and social organizations. On the surface all are supposedly for self-sufficiency and self-financing but in practice they show an attachment to the protective-subsidy system, proven throughout the whole history of the PRL, in which no enterprise can die out. Hence the absolute expectations for equalizing the conditions for the start of individual economic units, the guarantee for everyone of the same chance of compensation for "innocent" losses, applying for individuals the same discounts and specific preferences based on their "unique" situational standing, etc.
- 2) An exceptional dislike and lack of acceptance of the reaction of prices, economically directed and necessary in the circumstances of the reforms, to the objective factors shaping their level (socially based costs, the state of the market, world prices), and a lack of tolerance for different prices for goods of similar utility value. In public opinion the best situation takes place when the government sets the prices and ensures their stabilization. The resistance to rising prices is connected in Poland with the far-ranging tolerance for other equally burdensome symptoms of inflation and especially so-called deferred inflation, expressing itself in the lack of goods, queues, controls, and so forth. One carries away the impression that most Poles prefer the situation where there are no goods but prices are relatively low rather than a better state of supply with higher prices.
- 3) Much pressure on simplified, literally understood egalitarianism. This matter is universally known and I will not expand on it. Still dominant is the attitude that wages are income guaranteeing the satisfaction of the consumption needs of the family. First, this causes expectations incompatible with the reforms, that increases in wages are still going to be decided and "acknowledged" at the central level. (Hence the universal anticipation of the reform of the system of compensation and its association primarily with increases in wages.) A second result is the lack of tolerance for excessive (even though justified) differences in the levels of compensation. Public opinion polls show that the majority believes that the present differentiation of wages is too broad and aimed too much at the feeling of social justice. In reality the problem does not lie in excessive range but in the lack of correlation between work (its quality and effect) and the payment for it. Meanwhile, the pressure of large groups of workers causes a dangerous leveling of compensation, among others, the substantial degradation of wages of people engaged in intellectual work.

The excessive egalitarian tendencies make more difficult the introduction of harsher rules in the economic game, so necessary to come out of the crisis and in line with the ideas of the reforms, rules which give the chance for creative initiative, which reward increased efforts, ingenuity, effectiveness. The state of awareness in this respect is not conducive to the creative activity of working people.

## Endangering the Reforms

Generally, I observe that the state of social awareness, and especially the lack of a feeling of linkage to the interests of the whole national economy, great impatience, a mood of group egoism, a lack of tolerance for some of the inevitable results of the new economic solutions, all create a danger for the economic reforms.

The greatest danger rests--I believe--on the possibility of taking advantage of the lack of understanding, disillusionment, or lack of conviction as to the effectiveness of the reforms by groups who consciously do not want important changes in the system of the functioning of the economy. These groups are numerous and close-knit. They are made up both of opponents of the political system (successful reform and bringing the economy on the road to stabilized activity would be a big achievement for the PZPR and the government), and for the most part of those whose interests (prestige, incomes, feelings of power and influence over others, material status, and similar things) would be endangered by the reforms.

Part of the directing cadres was placed by the development of the reforms in considerably more difficult circumstances than previously, and is undergoing a particularly trying procedure of verification. In these circumstances an individually understandable and socially dangerous nostalgia for older "tested" methods of steering economic processes is born.

A full awareness of the dangers for the reforms should be an alarming and motivating signal for social forces calling for a deep structural alteration of the method of the functioning of the socialist economy, for full-scale reforms, as laid out by the Ninth Extraordinary Congress of the party. Progressive transformation in this sphere is necessary to raise the social effectiveness of the economy and to prove finally in practice that "socialism is reformable."

12594

CSO: 2600/656



MESSNER SURVEYS STATE OF ECONOMY

AU071351 Warsaw TRYBUNA LUDU in Polish 5 Mar 84 pp 1, 3

[Interview given by Zbigniew Messner, PZPR Central Committee Politburo member and deputy chairman of the Council of Ministers, to Andrzej Leszczynski: "The Economy Is a System of Combined Factors"--date and place not given]

[Excerpts] [Leszczynski] We ask ourselves at the beginning of the new year how the year will continue. Will the economic difficulties burdening our daily lives diminish, and if so to what extent? Therefore, Comrade Premier, let us try to discuss the most important matters, in other words, the conditions that will shape the socioeconomic situation this year.

[Messner] An answer to this question requires a glance back to the past. One has to give an assessment to last year, and also 1982, when economic order and equilibrium began to be restored and social discipline reestablished during material law conditions. Last year brought many positive features, especially a rise in the national income for the first time in 4 years. The falling trends were halted despite the keenly-felt restriction of imports from the capitalist countries, which was mainly the result of the restrictions.

However, one must not forget that the results that were achieved have not made up for the losses incurred during the crisis. The country's economic normalization does not alter the fact that the positive trends are still not firmly established, and some of the economic results are delayed in comparison with the assumptions of the 1983-85 National Socioeconomic Plan.

The best way to assess the state of the economy is according to what is available on the market. That is how a citizen shapes his views of the economy. The collapse of the economy emptied store shelves and made it necessary to introduce rationing. In order to fill these shelves once again and equate supply with demand, we have to make better use of materials and work resources. At the same time, however, it is essential to restructure industry in such a way that industrial production suits market needs better than before. Last year did not fully bring the expected results. Production for market needs rose only 4 percent out of a total growth in production of 6.7 percent. The ratio between the two must change while a constant growth in production is maintained at the same time.

[Leszczynski] The question always appears in letters and during meetings with readers: How long will ration sales of some goods continue?

[Messner] Maintaining rationing is a way of guaranteeing the satisfaction of society's basic needs while there is a shortage of many basic articles. It is still impossible to equate the supply and demand of these articles. Hence the need for rationing, even though it has a negative effect on the economic mechanisms governing the market. That is why the government's aim is to create conditions for lifting rationing.

[Leszczynski] When is this to occur?

[Messner] We will gradually withdraw the rationing of individual articles as the market becomes more stable. However, in order to prevent a repetition of the situation that arose when the rationing of butter was restored, more accurate market forecasts are essential. A concrete date for completely abolishing rationing depends on many factors, including agricultural crops. If these crops are favorable, I believe it could be possible to lift rationing at the beginning of next year. However, we must still count on the continuing rationing of meat and meat products.

[Leszczynski] How does the economic reform appear against the background of all the achievements and dangers we are encountering?

[Messner] Economic reform, in other words, the strengthening of the role of economic mechanisms in the functioning of the economy, means seeking more effective ways than before of attaining economic efficiency. We are not alone in this search. Other socialist countries are doing it as well. We will avail ourselves of their experiences to a greater degree.

In the specific situation presented by the Polish economy, reform mechanisms require the kind of improvement that will make them shape productivity in a better way and lead to a return to economic equilibrium. I believe the lack of this equilibrium is the greatest danger to the reform. I will say more; reform mechanisms may degenerate if economic disequilibrium lasts too long. For example, we have noticed a considerable rise in some contracted prices, unjustified wage rises translated into production costs, and so on.

Hence the recently introduced changes designed to correct the inconsistencies that have been noticed, involving action to regain equilibrium and the liberation of society's production capabilities. The point is for the economic reform mechanisms to act as a greater encouragement for increasing production by guaranteeing savings in raw materials and energy, technological progress, better work organization, more economic cooperation especially with the socialist countries, and also essential structural alterations to the economy.

[Leszczynski] However, do you not think that society has certain doubts about the economic reform and that there is even criticism? Why is this, since so much hope was once placed in the reform?

[Messner] There can be various reasons, in particular, the deep crisis in Poland and the complex international situation. Part of society, including economic activities, expects rapid results, immediately if possible. The pressure of

such expectations does not encourage rational assessment and optimal activity, in fact it results in a return to the system of issuing directives. It is true that quicker results can sometimes be achieved by issuing administrative directives, but these are only superficial results. On the other hand, one has to wait longer for the results of systematic activity, but these results are permanent.

Instead of slogans and concepts, the reform is presenting a systematic tidying-up activity designed to gradually strengthen the state's economic organism. We believe that society's reception of the reform has also been affected by certain psychological characteristics, especially by the tendency to regard the reform as a way of satisfying the needs of society more quickly while at the same time eliminating more severe features of the reform.

[Leszczynski] Perhaps we have been talking about daily difficulties too much, so that now we are incapable of looking ahead.

[Messner] What I have said does not mean that we do not see the need to create a vision of the future. We have ended a period dominated by activity designed to quickly ease the most severe signs of the recession. Now it is time to work out a long-term development strategy. Preparations for the 1986-90 socioeconomic development program and more distant programs are continuing. The basic problems when working out this strategy are to define a rational growth rate of production and national income, and to specify a relationship between economic development and state social policy.

[Leszczynski] Perhaps too little is being said about these preparations.

[Messner] The government does not want to give empty assurances. As long as the preparations are continuing, the time is not ripe to talk about details. The principles of this program will be the subject of discussion by citizens. The program should contain ways of solving the great social problems spoken about during the 14th Plenum by Army General Wojciech Jaruzelski, PZPR Central Committee first secretary. The point is to improve the feeding of the nation, guarantee more housing, provide economic backing to the increasing population, guarantee Poland a proper place in the international division of labor, reduce the technological gap, achieve economic integration with the socialist countries within the CEMA framework, and protect the natural environment in which we live--our Polish soil.

These are ambitious and difficult tasks, but ones that are fully possible to perform.

CSO: 2600/737

INDUSTRY EXECS CALLED ON GAPS BETWEEN ENTERPRISE, NATIONAL PLANS

Warsaw RZECZPOSPOLITA in Polish 16 Feb 84 pp 1,2

/Article by CH: "The 1984 Central Annual Plan: Between Needs and Possibilities"

/Text/ About 800 directors of enterprises, industry groups and scientific research institutes in the metallurgy and machine industry took part in a conference on 15 February devoted to the review of production plans at individual enterprises, and the compatibility of such plans with goals set in the Central Annual Plan /CPR/ for 1984.

The conference, under the chairmanship of Minister of Metallurgy and the Machine Industry Edward Lukosz, included Deputy Prime Minister Zbigniew Szalajda, deputy chairmen of the Government Planning Commission Jerzy Gwiazdzinski and Stanislaw Wylupek, and directors of several interested ministries and central administrative agencies.

With the implementation of economic reform the premises of the annual plan lost their status as directives. They are being used by the enterprises as information to aid the formulation of their own production plans. There is, however, no doubt that full harmonization of the CPR for 1984 with the plans of individual enterprises is a condition for the realization of every decision set in the annual plan. This has a particular significance in the current year, because the course of economic processes so far indicates that 1984 may be the year in which a small but visible improvement of the economic situation may come about as a result of GNP growth and achievement of a relatively stable balance between supply and demand.

The Central Annual Plan for 1984, by directing the interest of enterprises towards production intended primarily for internal consumption, housing and export, forecasts growth of production by 6.6 percent, growth of domestic market supply by 11 percent, and growth of exports by 13 percent. Nevertheless, there are still discrepancies between the CPR and enterprise plans which involve 63 categories of goods out of 280 included in central plans. This creates a real danger that CPR directives will not be carried out, and is especially disturbing since the quantities that have not been reconciled involve many consumer goods.

For example, production plans of the electronic and electrical industries forecast supplying 125,000 fewer TV sets and 229,000 fewer radios than the CPR. Enterprises making lighting intend to deliver 0.4 million fewer fluorescent and 8.6 million fewer incandescent lightbulbs in the main product line.

Compared to the quantities planned in the Central Annual Plan, we may be short of 35,000 refrigerators and freezers, 7.4 million enamel kitchen utensils, 12,500 washing machines, 8,000 sewing machines and 135,000 bicycles, even though some of these products are included in government orders. There is also a possibility that insufficient quantities of steel piping, cold-rolled steel sheets and coking coal will be produced. The danger that the goals set by the CPR for 1984 will not be attained can still be averted since the deadline for contracts and bids concerning products included in government orders will not pass until the end of February.

Directors of enterprises, questioned by Minister Edward Lukosz about the reasons for setting production plans lower than the CPR would indicate, pointed above all to the lack of correlation between deliveries of raw materials and parts, and the needs for increased production. This is especially the case in enterprises where planned production has not been secured by guaranteed deliveries. One example is the Zeran Automobile Factory /FSO/ in Warsaw, which intended to increase production of its FSO 1500 and Polanez models but does not have enough promised deliveries of its basic material, i.e., cold-rolled steel sheets.

Labor shortages were also cited. The voice of a representative from the Lenin Shipyard was virtually dramatic when he offered free lodging and loans of 100,000 zlotys that will not be subject to repayment to welders who sign up for at least 5 years. During the 3 years starting in 1979 employment in the shipyard fell about 5,000, resulting in underutilization of productive capacity.

While in many cases one may believe that the reason for lowered production plans is insufficient work force, explanations offered by some executives, e.g., from Romet in Bydgoszcz or Polar in Wroclaw, sounded unconvincing. The former indicated that lower production for the domestic market has been set because of prospects for the increase in production for export; the latter said that the reason lay in foreign exchange accounting which was too low. Similarly, explanations delivered by the representative of Polam in Pila, who pointed to low wages as the reason for setting lightbulb production lower than in the CPR, were unsatisfactory.

It was pointed out during discussion that the new guidelines for setting the payments to the State Fund for Professional Activization were an excessive burden on enterprises.

Summing up the conference, Deputy Prime Minister Zbigniew Szalajda called attention to the fact that enterprise managers who are familiar with the demographic situation ought not to try to increase production through growth of employment. Nor should they expect any decisive improvement in deliveries of raw materials and parts. The entire growth of production should come first of all as a result of diminishing the quantity of materials used per unit of production, lowering production costs, improvements in productivity, and the robotization and automatization of most production tasks.

Referring to voices raised in the discussion, Deputy Prime Minister Zbigniew Szalajda informed about the work on a project to ease the progressiveness of tax rates, and a draft of a law on inventions, as well as modifications of economic reform which adapted its principles to the specific situation of certain branches of industry, such as shipbuilding.

12503

CSO: 2600/657

## BRIEFS

LIMITED ZLOTY DEVALUATION--Last Monday (6 February) the zloty was devalued by 28 percent in relation to the currencies of the other socialist countries. However, this depreciation of the zloty exchange rate applies only to so-called non-commercial transactions (tourist travel payment transactions, pension and annuity payments, authors' honorariums, and so on). Conversely, as far as commercial transactions within CEMA are concerned, the zloty exchange rate will remain unchanged. We inquired about the reasons for this devaluation at the Ministry of Finance. Here is the explanation obtained by ZYCIE WARSZAWY reporters from the Office of the Minister of Finance: The change in the zloty exchange rate in relation to the currencies of the other socialist countries, with whom Poland settles its accounts in transfer rubles, covers non-commercial payments transactions only. These transactions involve expenditures associated with foreign travel, the maintenance of foreign missions, and other types of payment transactions effected in the national currencies of these countries. The last time the exchange rate was changed was in February 1982. Since then only minor rate adjustments have been made. However, the current updating of this rate is attributable to the price fluctuations which have occurred in Poland. The change in the zloty exchange rate will make travel by Polish citizens to other socialist countries somewhat more expensive due to the higher costs of purchasing the currency of these countries. At the same time, this will serve as an incentive to the citizens of the other socialist countries to make vacation trips to Poland. [Text] [Warsaw ZYCIE WARSZAWY in Polish 13 Feb 84 p 1]

SHODDY IRON AND STEEL INDUSTRY OUTPUT--The quality of the steels, semifinished and finished metal goods manufactured by the iron and steel industry leaves a great deal to be desired. This is a cause of major economic losses. Metallurgical engineers are still not convinced of the need to turn out fewer products, but products which are of better quality, more durable and hence more cost effective. The iron and steel industry product features which most often give rise to complaints are corrosion, substandard hardness, irregular chemical composition, shape flaws, cracking and fissuring and even the mixing of different steel grades. [Text] [Warsaw ZYCIE GOSPODARCZE in Polish No 10, 4 Mar 84 p 2]

DEFENSE MINISTRY ECONOMICS SEMINAR--On the initiative of the Ministry of National Defense Council for the Social Sciences, the Polish Economics Society, and the Feliks Dzierzynski a symposium was held in Warsaw on 28 February at the Warsaw Garrison Club on the subject of "Economic Sciences, the Economy, and Education." The symposium was attended by the chairman of the Economic Advisory Council, Professor Czeslaw Bobrowski, vice minister of national defense and chief inspector of engineering in the Polish Armed Forces, general of arms Zbigniew Nowak, and first deputy chief of the Main Political Administration of the Polish Armed Forces, gen div Tadeusz Szacilo. [Text] [Warsaw ZYCIE WARSZAWY in Polish 29 Feb 84 p 2]

CSO: 2600/746



## PLANS FOR OBTAINING MORE CRUDE OIL, NATURAL GAS

Bucharest SCINTEIA in Romanian 11 Jan 84 p 1

Article by Dan Constantin: "More Petroleum and Natural Gas to Increase Raw Materials Resources and Assure Energy Independence of the Country"

Text One of the major economic problems which is constantly the center of attention of our Party's leadership is that of providing raw and energy materials primarily through use of domestic resources. This idea is reflected in the message addressed to the people at the end of the year by Comrade Nicolae Ceausescu, Secretary General of the Party.

"In 1984 we must devote priority attention to carrying out the energy program and program for development of our own raw materials resources, so as to ensure energy independence for the country within the shortest possible time and to meet needs for raw and other materials to an increasing extent with domestic production," Comrade Ceausescu stated on this occasion.

As is quite natural, very special effort will be applied to petroleum and natural gas production in 1984 as well. Reduction of oil imports and continuing increase in the extent to which hydrocarbon needs are met with domestic production in fact represent one of the main courses of action in the complex process of ensuring the energy independence of Romania. The plan targets for 1984 relating to increase in the production of energy carriers ensure balancing of the energy budget; the primary energy requirements will be met to the extent of around 94 percent with domestic resources. In this way a new and important step will be taken toward assuring the energy independence of the country, in keeping with the resolutions of the 12th Congress and the programs established by the National Party Conference.

What are the tasks assigned to units of the Ministry of Petroleum in 1984? According to the 1984 plan, 13 million tons of petroleum and 33.48 billion cubic meters of usable methane gas, including uncombined gases, are to be extracted.

Since oil and natural gas figure largely in the production of electric energy, and are at the same time basic raw materials in the manufacture of petroleum products and many other chemical products, reaching the plan

targets precisely in the petroleum branch is of particularly great importance in ensuring efficient conduct of activities throughout the economy. As was pointed out by the Secretary General of the Party and as is demonstrated by the results logged by a number of producing oil wells which have reached and exceeded the planned extraction level at the beginning of this year, the plan targets for 1984 and the entire five-year plan are entirely within reach and rest on a solid foundation. What are the arguments for this assessment?

First of all, activities in the oil and gas extraction branch are based on priority programs which establish, by a unified approach, the main objectives of oil production development. Thus the minimum production level of 13 million tons of crude oil is based on the results of geological research and drilling programs, especially those involving drilling to great depths, and also on detailed analyses of the potential of each deposit and well and on the geological and technological measures established.

It is pertinent to point out at this juncture that, in view of the more than 125 years of operation and tradition of the Romanian petroleum industry an uninformed person might think that a stage has been reached in which all the petroleum and gas reserves of the country are fully known. Such an assumption would be erroneous. Despite the particularly high investments and the enormous volume of geological research conducted during the years of socialist construction, all the potential underground resources of Romania have not yet been discovered. The geological research carried out during this five-year plan has led to the discovery of new crude oil deposits at Stoina, Stoenita, Virteju, Ciumeghiu, Mihai Bravu, Ileana, Vilcele, and elsewhere. This confirms as correct the orientation established by the Party of continuing development of geological research and extension of knowledge of the subsurface structure of the country by new research and exploration methods and techniques.

In carrying out the highly responsible tasks assigned to them this year, the petroleum workers of the country have powerful modern equipment available to them. The equipment resources will continue to be enhanced by application of the equipment production programs, to which units of the mechanical engineering industry, metallurgy, and chemistry are making the major contribution. At the same time, many well trained personnel--drillers, foremen, and engineers--are at work as a team in the petroleum industry. Romania enjoys well-deserved prestige throughout the world in this area.

In addition, in 1984 the results achieved by units in the petroleum branch should reflect the optimum framework for organization and encouragement of activities developed by application of the measures established by the Party and State leadership in 1983. These measures have led to strengthening of the basic units in which production proper is carried out, and particularly the oil production brigades, in which the outcome of plan fulfillment is in fact decided.

Consequently, all the organizational and technical requirements have been met, and we have a large number of specialists and workers to implement the

resolutions of the National Conference in the direction of more rapid increase in oil and gas production in keeping with the needs of the national economy for ensuring energy independence of the country. While reviewing the conditions available to the Romanian oil industry, it should be pointed out now, at the beginning of the year, that in every unit steadfast action must be carried out day to day, with the highest sense of responsibility, to raise all oil and gas extraction activities to the level of the high standards set by the Secretary General of the Party for the teams of workers in this important branch. Model fulfillment of the plan, which has been thoroughly substantiated for every production brigade, producing well, and drilling and extraction trust, can be achieved through application of all the measures established to ensure efficient operation of the production units and each well. On the basis of the existing capacities and production reserves, everything must be done to obtain the maximum amount of oil from each well and each deposit, through efficient organization and conduct of activities.

Considering the lessons of 1983, when the persistence of deficiencies occurring especially during the first period of plan fulfillment led to the accumulation of serious arrears in crude oil production, so that special effort had to be exerted over the last three quarters to make up the arrears, starting in the very first month of 1984 fully responsible action must be taken with all resources at all levels, from the ministry to the production brigade, so that the plan will be carried out regularly and in its entirety.

Moreover, the plan targets should be regarded as minimum figures. When a ton of petroleum costs 200 dollars on the world market, extraction of increased amounts of crude oil beyond the plan targets reduces the foreign exchange outlays of the country and provides raw materials for production of additional amounts of petroleum derivatives needed by the economy. The activities of each unit in the petroleum industry must be examined from this viewpoint and this energizing objective must be made the target of the party organizations in petroleum units. Acting with all its forces, through model organization of labor and worker discipline to ensure that all wells will produce the greatest amount possible, at their full capacity, for the sake of daily fulfillment of the oil and gas extraction plan to increase the contribution made to attainment of the objective set by the 12th Party Congress of securing energy independence for the country, the petroleum workers, this leading detachment of our working class and exponent of a strong revolutionary tradition, will give proof by exemplary deeds of labor of their high patriotism placed at the service of uninterrupted progress of Romania.

6115

CSO: 2700/140

NEED FOR MORE, BETTER QUALITY COAL STRESSED

Bucharest SCINTEIA in Romanian 13 Jan 84 p 1

/Article by Ion Teodor: "A Duty of Honor for Miners: More Coal of Better Quality, to Develop the Energy and Raw Materials Resources of the Country and Ensure Energy Independence for the Country"/

/Text/ Now that, at the beginning of the 4th year of the 5-Year Plan, the entire people has been solidly mobilized for exemplary attainment of all plan targets, note should be made again of the especially important tasks assigned to workers in the coal mining industry, since, as we know, efficient conduct of activities at thermoelectric power plants, in ferrous metallurgy, and in many other basic sectors of the national economy depends on fulfillment of the plan in this sphere. All workers underground, workers in open pit lignite mines, specialists, and all labor personnel in the mining industry have it as their highly responsible patriotic duty to contribute actively and as substantially as possible to development of the energy and raw materials resources of the country; this is a priority objective established by the 12th Congress and the National Conference of the Party.

Information coming to the editorial office confirms that, from the very first days of 1984, the necessary conditions have been provided in all mining units for regular and complete fulfillment of the physical coal output plan. This is just as it should be, since thorough preparations were made ahead of time for the 1983 production. One precondition for this production was represented by the performance level of 1983, when coal production was about 18 percent higher than in 1982. A powerful stimulus in energizing all mining activities is represented by the measures taken, on the initiative of Comrade Nicolae Ceausescu, for improvement of work in mining, such as switching to a continuous operation schedule, improvement in the organization of production, and general application of the flat rate. At the same time, in view of the steps taken to provide mining units with modern equipment and installations of high efficiency, there is full justification for stating that the organizational framework and equipment and materials resources have been secured for fulfilling and even exceeding the coal production plan.

The labor of the workers, their full commitment to reaching the plan targets and carrying out the program of measures established, is obviously now essential. Certain figures reveal the extent of the efforts which must be exerted.

To increase the volume of raw materials and energy, a net coal production in excess of 61.7 million tons has been scheduled; this represents an increase of 38.8 percent over last year.

One of the highest rates of growth of actual output will have to be recorded in the coal mining industry. This is a significant reflection of the attention devoted by the party leadership to development of the country's own raw materials and energy resources and indicates the extensive effort which must be exerted both in the coal industry and in other branches of the national economy for exemplary performance of this task. In this context, several major courses of action are greatly needed; they must be followed in order to ensure regular and complete fulfillment of the coal production plan.

#### Concentration of Effort on Better Use of Available Installations and Equipment

The value of the fixed capital available to mining units amounts to tens of billions of lei. As a result of the measures taken by the party leadership, significant progress has been made in recent years toward increasing the degree of mechanization. Practically all underground mines and open pit lignite mines have powerful, modern, high efficiency equipment. Analysis of the results achieved in the year just ended nevertheless show that this equipment is not being efficiently used, at the level of the assigned parameters; the value of the commodity output achieved per 1,000 lei of fixed capital is still too low. The coefficient of work time utilization was only 55 percent in 1983 for the major items of equipment used in lignite mines. For this reason, an output of only 1.2 to 1.5 million tons of lignite has been reached per excavator and production year, as against the 2 to 2.5 million tons planned. Similarly, the coefficient of utilization of coal face cutters varies from unit to unit and is far below the planned level. Also in 1983, on the average only 145 out of 205 mechanized coal face timbering complexes were in operation, and on the average 206 of 293 coal face cutters. In this regard considerable potential exists for increasing coal output in nearly all mining units. Hence it is necessary for specialists, managerial personnel, and all workers in the coal industry, led by the communists, to take more persistent and resolute action to strengthen order and discipline, make up the required manpower complement on each shift and in every workplace, and improve technical assistance, so as to achieve higher efficiency in operation of mining equipment and installations.

#### Activation of Production Capacities on Schedule

This represents another essential condition for increasing coal production. The importance of completion of the investment plan on schedule derives from the fact that, according to plan, about 14 percent of lignite output in 1984 is to be obtained on the basis of new capacities to be tapped, especially in the Gorj, Mehedinti, and Vilcea coal basins of Oltenia.

We have precise knowledge at this time of all the new production capacities to be activated by the end of the year, and work has begun at the majority of them. But all necessary measures must be taken immediately to eliminate the deficiencies apparent last year in the activity of equipment suppliers and construction and assembly contractors. These shortcomings created considerable difficulties

in carrying out the investment plan. Specifically, 33 production capacities representing a total of 5 million tons of lignite per year and 680,000 tons of coal per year were not activated in 1983 precisely because equipment failed to be delivered on time or was not delivered in the proper assembly sequence, and because of the unsatisfactory tempo at which certain construction and assembly operations were carried out. These are deficiencies which must be completely eliminated from the activities of suppliers and construction and assembly contractors, if only because of the fact that in 1984 about 80 percent of the increase in output planned for lignite over 1983 is to be obtained from the new capacities to be activated.

Fulfillment of the investment plan, and accordingly of the coal production plan, consequently requires exemplary mobilization of construction and assembly contractors and suppliers of mining equipment, along with perfect organization of work at every construction site.

#### A Decisive Factor: Substantial Increase in Labor Productivity

The measures recently taken to improve activities in mining and general application of the flat rate to increase remuneration and provision of new high output equipment should be translated this year into substantial increase in labor productivity. In fact, almost the entire increase in coal production planned for 1984 is to be achieved by increasing labor productivity.

This is a goal entirely within reach, one for which, as has been pointed out, all the necessary organizational conditions and materials have been provided. Everything now depends on the way in which these conditions are utilized, on the work of the miners, managerial personnel, and specialists at each individual coal face and mine.

On the basis of the especially important tasks to be carried out in 1984, the miners will respond with ever better results to the call made to them by the secretary general of the Party, Comrade Nicolae Ceausescu, to give the country as much coal as possible and thereby increase the contribution they make to ensuring the energy independence of the country.

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CSO: 2700/139

GOALS OF MONETARY-CREDIT POLICY FOR 1984

Belgrade SFRY SLUZBENI LIST in Serbo-Croatian No 70, 30 Dec 83 pp 2059-2062

[Text] On the basis of Article 281 Paragraph 1 Point 5 and Article 286 Paragraph 2 Point 2 of the Constitution of the Socialist Federal Republic of Yugoslavia, in connection with Article 20 of the Law on the Monetary System (SFRY SLUZBENI LIST No 48/76 and 61/82), at a session of the Council of Republics and Provinces on 27 December 1983, the Yugoslav Assembly approved:

A Resolution On Goals and Objectives of Joint Money  
Issue and Monetary Policy and Mutual Foundations for  
Credit Policy in 1984

1. Joint money issue and monetary policy and joint foundations for credit policy in 1984 shall support the creation of basic goals of economic policy established by the Resolution on the Policy for Socioeconomic Development of Yugoslavia in 1984 (hereafter called the 1984 Resolution), in accordance with the Long-Term Program for Economic Stabilization. To that end, measures of monetary and credit policy and corresponding measures from other areas of economic policy shall encourage first of all the more rapid development of goods production and services for export and exports, as essential prerequisites for increasing exports, slowing imports, reducing the inflation rate, easing the cash flow problem in the economy and increasing production of basic agricultural and processed foodstuffs, energy and raw materials, and semimanufactured goods that can rationally replace imports.
2. In order to realize the goals and objectives of Point 1 of this resolution, provisions shall be made for money supply, net domestic operating capital and bank investments, both in volume and structure, so that these economic aspects will be consistent with the Long-Term Program for Economic Stabilization. In accordance with these terms, measures of the monetary and credit policy will assure that the money supply can be increased by as much as 32 percent, while the net operating capital of all banks, corrected for changes in the dinar exchange rate, can increase by up to 14 percent. Growth in total bank investments in dinars shall be permitted to increase by up to 21.4 percent of their status on 31 December 1983.

If the trends established by these measures differ markedly from those based on the provisions of monetary and credit parameters in Paragraph 1 of this point, the Federal Executive Council [hereafter FEC] shall by 30 June and 30 September of 1984, on the basis of established trends, propose a rate of growth to the Yugoslav Assembly based on Paragraph 1 of this point, to an amount determined by that paragraph.

Measures of the monetary and credit policy implemented by the Yugoslav National Bank, national banks of the republics and autonomous provinces, and bank commercial policies shall provide for the coordination of the volume and dynamics of growth in the money supply, net domestic operating capital and bank investments during the year, in accordance with Paragraph 1 of this point, taking into account seasonal needs of associated labor organizations.

3. To provide for necessary capital to finance production, and within that framework to take care of priority needs, regulations and measures of the monetary and credit policy and bank commercial policies shall provide:

A. that in bank commercial policy, priority shall be assigned to bank investments to finance current production, primarily for exports of goods and services to convertible foreign exchange zones, exports of goods and services to clearing zones governed by international agreements, production of other goods and services for export, production and reserves of basic agricultural and processed foodstuffs and formation of stockpiles of necessary material reserves of those products, production of energy, energy raw materials, other raw materials and semimanufactured goods that can replace imports, and production of domestic rail rolling stock for the needs of the Yugoslav railroads;

B. that bank investment credits in basic capital investments cannot be increased above the amount of such investments in the balance for 31 December 1983, except for investment credits for the construction of structures that will produce at least 50 percent goods for export with a positive net foreign exchange effect, energy installations based on domestic fuels and installations for gasification on the basis of international agreements that are in effect, and certain installations for production of the scarcest raw and semimanufactured materials, installations for primary agricultural production, including hydromelioration; installations for producing domestic railroad rolling stock for the needs of the Yugoslav railroads; installations for water supply in situations of acute water shortages to prevent economic and social disruption; projects whose financing includes cooperation with the resources of the Federal Fund for Financial Credits and Accelerated Development of Economically Underdeveloped Republics and Autonomous Provinces; installations financed from contributions and special capital funds for use in accelerated development of the Autonomous Province of Kosovo; installations for reconstruction and construction in regions that have suffered earthquakes; structures whose financing is in cooperation with the International Bank for Reconstruction and Development and its affiliates, the European Investment Bank and Eurofime;



C. that banks cannot grant further credits to users of social capital that have not satisfied their due obligations for previously received credits and other investments;

D. that banks cannot give credits for basic organizations of associated labor whose total operating capital does not include a portion from their own resources in a percentage to be determined by a separate regulation;

E. that banks cannot grant credits to associated labor organizations to cover losses, if said organizations have not established and adopted financial recovery programs; and

F. that banks cannot grant new credits to associated labor organizations that hold foreign exchange in their foreign exchange accounts at authorized banks, on the basis of exports of goods and services, for more than 15 days after the import of such foreign exchange, in the sense of the Law on Foreign Exchange Transactions and Credit Relations With Foreign Countries.

Within the framework of Paragraph 1 of this point, in 1984 the policy of limiting use of short-term bank capital for long-term investment will coordinate the existing rate of interest of 15 percent with the effect of converting short-term credits into long-term credits for operating capital and reprogramming part of the bank credits to certain associated labor organizations. In this process, bank investments for credit financing of exports of equipment, vessels and exporting of investment projects abroad on credit, will not be taken into account when setting the interest rate, up to the amount of capital received for such purposes from the Yugoslav Bank for International Economic Cooperation.

4. In accordance with the policy under Point 3 of this Resolution, and in order to assure fluidity of the money supply, the net domestic operating capital and bank investments within the parameters established by this resolution, the Yugoslav National Bank will prescribe limits of the volume and dynamics of growth in net domestic operating capital and bank investments in 1984. Implementation of that policy will not permit exceptions from obligations for bank investment limitations for individual purposes, with the stipulation that, in accordance with the priority policy under Point 3 Paragraph 1 of the regulations listed under subhead 1 of this resolution, various rates of growth may be established for individual types of investment if it is believed to be necessary in order to achieve more successful implementation of the objectives of the monetary and credit policy. In such instances, the measures of monetary and credit policy and bank commercial policies shall provide for the establishment of a policy limiting capital investment credits, in accordance with the policy established in Point 3 Paragraph 1 subhead 2 of this resolution.

As exceptions to the provisions of Paragraph 1 of this point, the obligation for limiting investment growth will not be applied for: bank investments from the funds of the Federal Fund for Credit Financing of Accelerated Development of Economically Underdeveloped Republics and Autonomous Provinces, investments for reconstruction and construction of regions suffering

earthquakes, and investments from supplementary and special funds to be used for accelerated development of the Socialist Autonomous Province of Kosovo, with an upper limit of the total funds available for these purposes. Limits shall also be placed on investments for credit financing of exports of equipment and vessels and exporting investment projects abroad on credit, up to the level of total resources received for that purpose from the Yugoslav Bank for International Economic Cooperation; on investment credits of banks that accompany investments from the permanent reserves of the Federal Fund for Credit Financing of Accelerated Development of Economically Underdeveloped Republics and Autonomous Provinces, consisting of a part formed by pooling the labor and resources of associated labor organizations; bank investment credits that are in cooperation with the International Bank for Reconstruction and Development and its affiliates, the European Investment Bank and Eurofime; and certain investments that by special regulations are exempted from limitation obligations.

5. Primary money issue shall be used to regulate the necessary growth in the money supply and bank investments specified under Point 2 Paragraph 1 of this resolution and to tie the flow of money to production currents of the social economy.

Within the framework of Paragraph 1 of this point, primary money issue shall be used to purchase short-term negotiable instruments issued by associated labor organizations in economic sectors or their internal banks for commercial buy and sell transactions for goods and services provided in Yugoslavia, for granting credits to banks on the basis of such instruments and for supporting the implementation of selective goals and objectives of the monetary and credit policy.

Implementation of selective goals and objectives of monetary and credit policy by primary money issue shall be supported by funding negotiable instruments and other valuable papers with selective notations; these shall be issued or acquired by associated labor organizations in economic sectors or their internal banks on the basis of financial goods transactions of said associated labor organizations, on the basis of exports of goods and services, preparations of goods production and acquisition of services for export, production, storage and reserve maintenance of wheat, corn, sugar beets and sugar, oil crops including soy beans, raw oil, rice meal and rice, organized stock fattening (of cattle, swine, sheep and poultry), fish, meat in coolers, milk and milk products of domestic manufacture and tobacco, grapes and wine in vineyard cellars in the social sector, apples in cold storage, coal reserves, purchase or sale of domestic equipment for vessels and railroad rolling stock on credit domestically and import of the most important products (raw materials) from developing countries and other countries of certain foreign exchange regions.

Use of primary money issue for the purposes under this point shall seek to influence more lasting bonds of production, processing and commercial associated labor organizations and to stimulate pooling of labor and resources on profit foundations, and pooling of resources of participatns in sales transactions. In accordance with that, pooled resources provided for by

self-management agreements or other appropriate documents can serve as the basis for using primary money issues.

In 1984, measures of the monetary and credit policy shall provide more favorable conditions for using primary money issue for producing and preparing goods and services for export, for exports of goods and services and for production and stockpiling of basic agricultural and processed food products, for establishing reserves of those products and for stockpiling coal, according to conditions for use of primary money issue for other selective purposes, in accordance with guidelines for growth of primary money issue determined by the Resolution on Implementing the Goals and Objectives of Joint Money Issue and Monetary Policy and Joint Foundations of Credit Policy in 1984.

Use of primary money issue for import transactions shall be regulated restrictively so that primary money issue will be used only for supporting imports of the most important products (raw materials) from developing countries and other countries of determined foreign exchange areas, according to the product and country list that will be established on the basis of agreement between responsible republic and province agencies, by the FEC. Conditions for using primary money issue shall be used where the rediscount rate is unfavorable relative to other purposes, other than credit financing of imports of petroleum whose rediscount rates should be in a corresponding relationship to rediscount rates established for other purposes specified in the guidelines of Paragraph 5 of this point, and the periods of use are to be coordinated with the time needed for import, shipping preparation and sale.

Primary money issue shall also be used to give credits to banks on the basis of credits given by the banks to citizens for apartment construction, purchase of apartments and construction and equipping of craft workshops, agricultural buildings and other commercial structures for the performance of regular activities of citizens on the basis of definite sales of foreign exchange from their foreign exchange regular and savings accounts.

6. On the basis of a special federal law, the Yugoslav National Bank shall convert a portion of the short-term credits from primary money issue to associated labor organizations into long-term credit for operating capital and on the basis of the effect of such conversion, shall change the rediscount rate. Rates established in this manner in the course of the year shall be adjusted in dependence on and in accordance with changes in the monetary and credits guidelines under Point 2 of this Resolution. In this process, the rediscount rates for credit financing of exports of goods and services, production and stockpiles of certain agricultural and processed food products and coal reserves shall receive the most favorable treatment, in the sense that these selective purposes shall enjoy higher rediscount rates than those for other purposes.

7. Measures of monetary and credit policy shall prevent banks from granting new credits to associated labor organizations for which the responsible market inspection agencies have confirmed violations of the regulations governing

public price control and provisions shall be made to ensure that the banks are paid for credits already granted to those associated labor organizations.

If the banks do not perform in accordance with Paragraph 1 of this point, the Yugoslav National Bank and the republic and province national banks shall employ measures of monetary and credit policy to prevent said banks from making further use of and issuing any credits and other investments from primary money issue, and shall endeavor to collect from said banks all outstanding accounts payable based on credits previously granted and other investments from primary money issue.

Measures of monetary and credit policy shall make it impossible to establish reserves of goods if they are held for the purpose of causing artificial shortages of goods on the unified Yugoslav market and to cause upward pressure on prices. In the case of shortages on the market of products for which stockpiles are selectively maintained, the associated labor organizations that hold those reserves shall be prevented from further use of bank resources for those products, and the banks prevented from using primary money issue on that basis.

If purchase of basic agricultural and processed food products is carried out in violation of the provisions of concluded agreements on organized purchase of those products or of regulations for establishing prices, the final user shall be prevented from using credit for those purposes, and the banks prevented from using primary money issue based on those credits.

The FEC shall prepare regulations to indicate when the situations described in Paragraphs 3 and 4 of this point have emerged and what agency will make such determination.

8. In order to implement the goals and objectives of joint money issue and monetary policy and joint foundations for credit policy as stipulated in this resolution, the banks are obliged in accordance with the law, within 60 days after it becomes effective, to instigate procedures for self-management negotiations of:

A. provision for capital for credit financing and other forms of financing of priority purposes that under the terms of this resolution are to be supported with primary money issues;

B. provision for capital for supplementary credit funding of exports of equipment and vessels and completion of capital investment projects abroad on credit through the Yugoslav Bank for International Economic Cooperation; and

C. pooling of resources for providing lasting operating capital for the economy of the Socialist Autonomous Province of Kosovo in 1984, in accordance with Article 26 of the Agreement on Special Measures for Implementing a Policy of Accelerated Development in Kosovo from 1981 to 1985.

9. In their cash flow policy, the banks are obliged to assure priority for satisfying foreign obligations, for providing for regular payment of domestic obligations and for taking effective measures for the payment of all their notes within the specified time periods. For that purpose, the banks shall, in carrying out their commercial policy, see that investments are made only to users of public funds who satisfy all credit obligations and financial discipline requirements, who regularly cover their obligations both at home and abroad, who assure their goods and monetary transactions with instruments that guarantee payment in accordance with the Law on Guaranteeing Payments Between Users of Public Funds, and whose payment-guarantee instruments are issued exclusively on the basis of actual goods and monetary transactions.

10. Measures of the monetary and credit policy and other regulations shall encourage the banks' responsibility for proper execution of accepted payment obligations at home and abroad, and shall prevent the creation of obligations without coverage, and shall support strengthening of financial discipline.

In accordance with Paragraph 1 of this point, the Yugoslav National Bank and the national banks of republics and autonomous provinces shall prevent use of primary money issue by banks that:

- a. do not satisfy the prescribed conditions for creditworthiness;
- b. do not carry out their obligations based on self-management agreement at the level of Yugoslavia;
- c. do not monitor the use of resources for the purposes requested; or
- d. grant credits to associated labor organizations in a way contrary to the provisions of Point 3 of this resolution.

11. Resources of sociopolitical communities deposited at republic and province national banks shall be handled in 1984 in accordance with the credit policy of the involved republic or province with the stipulation that investments shall be within limits of available funds.

12. In harmony with the interest rate policy established by the Resolution for 1984, the gradual coordination of the interest rate with the rate of inflation will continue.

The gradual coordination of bank interest rates according to Paragraph 1 of this point shall also be assured by introduction of minimal interest rates on new credits that are approved from the resources of commercial banks in 1984, with the exception of selective credits in which primary money issue is involved and credits for communal housing construction. In 1984 the minimum interest rate will be corrected by at least one-third of the difference between the 1983 inflation rate and the minimum interest rate. As an exception, if foreign exchange approved by commercial banks from their resources for long-term credit financing of primary agricultural products are involved, the minimum interest rate shall be corrected by at least one-fifth of the difference between the 1983 inflation rate and the minimum interest rate.

Credit financing of investment in the remaining priority purpose categories specified in Point 20 Paragraphs 2 through 9 of the Resolution for 1984 shall be assigned a minimum interest rate by the banks that shall not be less than the average reproductive capacity rate of the country's economy, increased by one-fifth of the difference between the 1983 inflation rate and the interest rate established on the basis of the reproductive rate of the country's economy.

Credits with a favorable interest rate for investments in priority categories listed under Paragraphs 2 and 3 of this point cannot total more than 70 percent of total dinar investment credits in 1984 at any bank. To coordinate interest rates of commercial banks in accordance with this point, the banks shall conclude a self-management agreement on interest rate policy for 1984.

If the hypotheses governing the establishment of interest rates change significantly, the FEC shall propose suitable adjustments of interest rates to the Yugoslav Assembly.

13. To support pooling of labor and resources and reduction of credit usage in the economy, associated labor organizations, as founders of banks, shall employ general self-management acts and bank commercial policy, in accordance with the goals of developmental policy established by the Resolution for 1984 to anticipate conditions for more effective use of pooling of labor and resources on profit foundations on the unified Yugoslav market.

In harmony with the joint foundations of credit policy, the credit policy of the republics and autonomous provinces shall undertake suitable measures and activities to support the pooling of labor and resources on profit foundations on the unified Yugoslav market.

14. This Resolution takes effect on 1 January 1984.

Assembly Act No 282

Belgrade, 27 December 1983

President of the Yugoslav Assembly  
(signed) Vojo Srzentic

President of the Council of Republics and Provinces  
(signed) Antun Bubic

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CSO: 2800/202

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