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East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

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13 March 1984

EAST EUROPE REPORT

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INTERNATIONAL AFFAIRS

EXPANDED RAIL, FERRY TRANSPORTATION BETWEEN GDR-USSR

Bonn INFORMATIONEN in German No 1, 31 Jan 84 pp 19-20

[Article by FRG Ministry for Inner-German Relations: "Rail-Ferry Connections Between GDR and the Soviet Union"]

[Text] The GDR is currently pushing ahead at full speed with the construction of a permanent rail-ferry link between the GDR and the Soviet Union. The "largest integration project ever between the GDR and the USSR in the area of transportation" is to commence operations in the fall of 1986. Six rail ferries are to provide a permanent commuter link between the ports of Mukran on Ruegen, which is presently being expanded into an efficient terminal, and Klaipeda (Memel) in the present-day Lithuanian Soviet Socialist Republic and they will take care of most of the exchange of goods which has been carried by land until now. According to GDR press reports, 5.3 million tons of goods will be transported annually when full capacity is reached. No information is available at present about possible military use of the ferry link by the Soviet Union.

For both the GDR and the Soviet Union the other nation is its most important trade partner. In both 1981 and 1982 about 38 percent of the GDR's foreign trade earnings was accounted for by the exchange of goods with the USSR; in the other direction, the GDR takes about 10 percent of Soviet foreign trade. The construction of the rail ferry between Mukran and Klaipeda is, according to the GDR's ZEITSCHRIFT FUER DEN ERDKUNDEUNTERRICHT, "a conclusion based on the assessment of leading CEMA organs that the member nations' ability to allow goods to pass through is no longer adequate for the requirements of the times." According to the GDR periodical POSEIDON, it is --"not infrequent that the capacity limits of existing links in rail and sea traffic are reached. The consequences are backups in transport, the tying up of freight space beyond normal periods and delays in delivery. A more efficient and stable solution had to be found that is based on a long-term view."

According to other GDR newspapers, the railroad network in Poland and the CSR was no longer able to handle the "constantly swelling streams of goods."

With the signing of a government agreement between the GDR and the Soviet Union on the occasion of the 30th Congress of the Government Commission on Parity from both nations on 18 June 1982 in Moscow, the starting signal was given for the construction of two ferry ports and six rail ferries. The model was a ferry operation in the Black Sea that has been established between the Soviet port of Ilyitschovsk on the Crimea and the Bulgarian port of Varna; just as this ferry by-passes Romania, the new ferry link on the Baltic will in the future by-pass Poland, which will suffer substantial monetary losses when it is deprived of transit charges for goods.

The small fishing village of Mukran, which is located in an environmental preservation area in the north-east part of Ruegen, was chosen as the end point of the ferry link on the GDR side for several reasons, according to GDR sources:

- the distance between Mukran and Memel is 273 nautical miles (about 506 kms), the shortest sea link with the Soviet Union;
- because of its location close to deep water in the Baltic, no new channel has to be dredged aoutside the harbor;
- from Mukran conditions are favorable for the construction of a link to the GDR's rail network, which will be of importance after the electrification of the Rostock-East Berlin-Dresden route is completed in 1985.

On the Soviet side efforts are being made to complete a link between the Memel ferry port to the second Transsiberian Railway route (Baikal-Amur main line/BAM), which opens up improved possibilities for trade for the GDR in the Far East and South East Asia.

More than 3,000 workers, among them engineer units from the People's Army with heavy equipment, are presently involved in the construction of the port facilities in Mukran. The facilities include a 210-meter long pier with a ferry bridge, a mole in front of the harbor basin, which is about 9.5 meters deep, but most important, a freight depot which is more than 4 kms long and more than 700 meters wide and for which about 60 kms of track--about one-third of it Russian broad gauge--are being laid. The semiautomatic axle adjustment of the Soviet broad-gauge cars to GDR standard gauge is to be carried out here, since only Russian gauge tracks will be fitted to the ferries.

The construction and assembly combine Industrie- und Hafengebäude [Industrial and Harbor Construction] in Greifswald is responsible for planning and execution. The Rostock combine Seeverkehr und Hafengewirtschaft [Maritime Traffic and Harbor Economy] is involved in the installation of the harbor facilities. The specialist company VEB Stahlbau in Dresden is building the new type of ferry bridges. The six planned rail ferries are all being built at the Mathias-Thesen yard in Wismar, using the ferries commuting in the Black Sea between the Crimea and Varna as models. The ferries are designed as two-deckers, of 11,700 deadweight tons (tdw), and are all 185 meters long, 26 meters in the beam and draw 7 meters. There is space for up to 103 four-axle freight cars (3 complete freight trains) on the 2 decks, each of which has 5 broad-gauge tracks.

Travel time between Mukran and Memel is supposed to be 20 hours, only one-sixth of the time needed for overland transport. Four hours each are scheduled for loading and unloading, so the total round-trip time for a ferry will be 48 hours. This means that after the installations are completed and all six ferries have been put into operation, a ferry can be dispatched every 8 hours in one of the terminal ports. Three of the ferries will sail under the GDR flag (Deutfracht-Seereederei, Rostock), three under the Soviet flag (Litauische Staatsreederei).

Total investments for the project are said to cost more than 1 billion marks. The GDR will receive the major portion of the production contracts: not only will all six ferries be built in a GDR yard, the two-story ferry bridges in both ports are being constructed by the VEB Stahlwerk in Dessau.

According to the FDGB [Free German Labor Union Federation] newspaper TRIBUENE the ferry project on the Baltic must be seen in conjunction with the long-term CEMA program objective of improving transport links between the member nations of CEMA. In this program, 14 east-west rail routes and 4 north-south routes are to be modernized by the year 1990, that is to say, electrified and have broad-gauge track laid in part outside the Soviet Union as well. Since the "load on the main railroad lines between socialist countries is continuing to increase," increasing amounts will be diverted to the sea lanes.

In Mukran itself, where about 9 kms² will be built over after the project is completed, about 3,000 new jobs will be brought in for the operation of the ferry and the port. All the buildings, according to GDR press reports, are to "blend harmoniously into the coastal landscape." A complex of environmental protection measures are linked with the construction of the port and freight yard facilities, in the words of the ZEITSCHRIFT FUER ERDKUNDEUNTERRICHT, "so that when the several years of construction work are completed, the recreation area used by many thousands of holidaymakers will be preserved."

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RAW MATERIAL, ENERGY SUPPLY PROBLEMS OF CEMA EXAMINED

Budapest KULGAZDASAG in Hungarian No 1, Jan 84 pp 14-25

[Article by Istvan Dobozi, Hungarian Academy of Sciences Research Institute of the World Economy: "Timely Questions of CEMA Cooperation in Supplying Raw Materials and Energy"]

[Text] In the 1980's, emphasis within CEMA has shifted from investment projects undertaken through joint effort, to the coordination of investments that do not involve any substantial redistribution of investment resources and manpower among countries. There were basically three reasons for this change. First, it became obvious that the long-range target program for raw materials and energy reflects a demand-side approach, and that within CEMA there are not enough resources to finance the proposed plants to be built in cooperation. Secondly, the smaller European member nations have become heavily indebted to the Soviet Union as a result of the considerable worsening of their terms of trade, and this strongly limits their ability to provide investment credits. Finally, there are also certain unfavorable experiences, on both sides, with the establishment of plants in which the member nations have a joint interest. The difficulties in importing raw materials and energy within CEMA will probably continue. These are related basically to the specific problems of developing Soviet extractive industry, and to the inadequacy of CEMA cooperation. A greater geographic diversification of the provenances than at present seems likely in the long run. The generally more difficult conditions of importing raw materials and energy raises, with greater emphasis than ever before, the need to expediently modify internal development policy and the economic management system.

From Production Integration Toward Coordination of Investments

By the mid-1970's, CEMA cooperation in the supply of raw materials and energy became more complicated because the net importer countries' costs of procuring raw materials and sources of energy from the Soviet Union (the main provenance) had risen sharply, and the expansion of import under the traditional (clearing) system of procurement had become more difficult. In spite of these circumstances, the overwhelming majority of the member nations generally strived to cover through imports of raw materials and sources of energy from socialist countries the widening gaps between demand and domestic supply. For under the traditional system of procurement, import from socialist provenances was still more advantageous economically than import from alternative provenances would have been. With the introduction in 1975 of CEMA's so-called "moving-average"

pricing principle, the prices of certain raw materials and especially of energy sources (petroleum in particular) began to catch up with the level of the much higher world-market prices, but for several years the net importer countries still enjoyed a substantial, although diminishing, price difference.

Besides the adoption of CEMA's new pricing method and the rising prices, another significant change in the mid-1970's was related to a further hardening of the Soviet standpoint that regarded domestic accumulation (capital) as the basic factor limiting an increase of the Soviet Union's raw-material and energy deliveries to the other CEMA countries, and made the expansion of Soviet export contingent to a large extent on a reduction of this limiting factor. Accordingly, the Soviet Union urged the other member nations to ease its investment costs for the export-oriented development of the extraction of minerals, and of several areas within the related transportation infrastructure. It was due largely to this Soviet standpoint that the CEMA countries adopted their "plan of multilateral integration measures" in 1975. Within the framework of CEMA cooperation in the supply of raw materials and sources of energy, this plan calls for investment participation by the importing countries. The overwhelming majority of the investments financed jointly by the interested member nations have been built on the territory of the Soviet Union. Outstanding among them in terms of size and capital requirement are the Orenburg gas pipeline, and the high-voltage transmission line connecting Albertirsa [in Hungary] with Vinnitsa [in the Soviet Union].

The plan of multilateral integration measures called for the temporary rechanneling of substantial resources from the importing countries to the exporting country. In their five-year plans for the period 1976-1980, the individual CEMA countries in Eastern Europe targeted the following proportions of their total national economic investment as their participation in the joint investment projects for the supply of raw materials and energy: Hungary, 4 percent¹; the GDR, 3 percent²; Bulgaria, 3 percent; and Poland, 2.5 percent³. Even in themselves, and especially in comparison with the preceding period, these proportions represent transfers of resources that can be regarded as substantial. In the case of the GDR, for example, this proportion of total national economic investment rose from 1.4 percent in 1966-1970 and 1.6 percent in 1971-1975, to 3.3 percent in 1976-1980, which is more than what had been planned.⁴

The concept of intensifying integrational relations on the basis of transfers of resources is reflected in the long-range target program for raw materials and energy that the CEMA countries adopted in 1978. This target program calls for coordinated multilateral measures over a period of 10 to 15 years, primarily to expand the export of raw materials and sources of energy within CEMA.⁵ The measures proposed in the long-range target program for raw materials and energy are first elaborated in detail, then they are harmonized in the process of coordinating the national economic plans, and finally the bilateral and multilateral agreements pertaining to them are concluded. Thereby these measures are included in the reconciled plan of multilateral integration measures for the given five-year planning period. This is the plan that contains the CEMA countries' mutual obligations stemming from the concluded contracts. To meet these obligations, the member nations (in compliance with the resolutions adopted by CEMA) have included a so-called integration chapter in their

national economic plans. Reflecting the characteristics of each country's planning practice, this chapter links the domestic systems of planning with the mechanism for the elaboration of the reconciled plans of multilateral integration measures.⁶

The second plan of multilateral integration measures, adopted in 1981 for the 1981-1985 period, again places great emphasis on promoting Soviet exports of raw materials and energy, and to a significant extent also the target program for machine building and transportation serves to support the expansion of such export.

In comparison with the first plan, the second plan of multilateral integration measures contains more modest objectives regarding jointly financed investment projects and the transfer of resources from the smaller CEMA countries to the Soviet Union. The guidelines that CEMA adopted in 1982 for the coordination of the plans for 1986-1990 likewise confirm that emphasis has shifted from jointly financed investment projects to their coordination that does not involve any significant redistribution of investment resources among the countries, i.e., the transfer of the importing countries' resources to the exporting countries.⁷ This change is reflected in the analyses of Soviet economists. Instead of advocating joint investments, in recent years they have been placing ever-greater emphasis on, among other things, the need to formulate at the CEMA level a structural policy of a complementary nature, under which material- and energy-intensive activities would be expanded in the future primarily in the Soviet Union (mainly in its eastern part), while the smaller CEMA countries would specialize in activities that are less material- and energy-intensive. The form of such complementary specialization is conceived as either intersectoral or intrasectoral. The chemical industry is frequently cited as an example of intrasectoral investment coordination of a complementary nature. The purpose of such investment coordination in the chemical industry is to let the Soviet Union produce the highly energy-intensive chemicals (ammonia, methanol, polyethylene, etc.), while the other socialist countries produce the less energy-intensive chemical-industry products (for example, plant protectants and dyes), taking into consideration one another's demand that is supplied through foreign trade.⁸

The mentioned change can be linked to the following factors.

1. When the plan of multilateral integration measures was being drafted for 1981-1985, it was already obvious that the long-range target program for raw materials and energy had been based one-sidedly on a demand-side approach, CEMA lacked the investment resources to finance the joint projects that the target program had originally called for, and large-scale reliance on resources from outside CEMA would have meant a sharp rise in foreign indebtedness.⁹

2. From the mid-1970's on, the terms of trade shifted permanently in favor of the Soviet Union, and this led to the smaller CEMA countries' growing balance-of-trade deficit and indebtedness to the Soviet Union. Whereas in 1971-1973 the six CEMA countries jointly had a balance-of-trade surplus totaling 1.7 billion rubles, in 1974-1981 their cumulative deficit amounted to 9.1 billion rubles, which equaled about 7.7 percent of the six countries' combined export to the Soviet Union (13 percent in 1981).¹⁰ Under these conditions the six

European CEMA countries' indebtedness to the Soviet Union showed a rising trend, which limited considerably the ability of these countries to provide long-term credit (investment participation) for the integrational investment projects in the Soviet Union. According to N. Inozemtsev, deputy chairman of Gosplan USSR: ". . . when most European CEMA countries are permanently indebted to the Soviet Union as a result of clearing their commodity trade, their deliveries to the Soviet Union under special-purpose credits no longer make any economic sense."¹¹

3. Both sides have encountered unfavorable experiences in conjunction with some aspects of cooperation in building plants jointly. In this context the countries providing special-purpose credit point out (among other things) the following: occasionally the specific investment costs of the plants and their related facilities are too high; the other cooperating countries have little influence over the investor country's investment-cost calculations and the operation of the completed plant; the rising contractual prices inflate the credits provided in transferable rubles, and since the ruble is increasingly overvalued--because the interest rates are substantially lower than what the money market would charge, and the necessary exchange-rate corrections are absent--this gives the debtor a one-sided advantage in that the credit fixed in terms of its nominal value has a lower real value with each year, and an ever-smaller performance is needed to service the debt; uncertainty regarding the prices of the products that the participating countries will receive as their share in the investment, and for the creditor country these prices significantly influence the profitability of participation; commodity shipments under special-purpose credit indirectly divert convertible currency from the creditor nation, partially because certain capital goods can be procured only in capitalist markets, and also because even the capital goods produced domestically may contain a substantial amount of import from capitalist countries.¹² In most cases these factors, in combination with the paucity of investment resources that could be transferred abroad, have a negative effect on the importing countries' interest in investment participation.

In the debtor country that attracts investment participation, usually the following unfavorable aspects of cooperation are pointed out: in most cases the creditor countries are unable to ensure the "target" nature of the deliveries of machinery and materials necessary for the investment project (in other words, they cannot ensure the necessary inputs), or delivery is made at the expense of deliveries subject to traditional clearing; the interested countries usually are reluctant to make manpower available for the investment, and the host country is therefore obliged to divert manpower from other areas whose expansion is adversely affected thereby; occasionally the undertaken obligations are not fulfilled entirely and on time.¹³

Long-Range Possibilities and Conditions of Procurement Within CEMA

Our analyses indicate that in the period through the year 2000 it will be more difficult to import raw materials and energy from within CEMA.¹⁴ The shortage of raw materials and sources of energy, which is already typical of the CEMA market, will intensify; these products will retain their "hard" nature; and the possibilities and conditions of procurement will remain relatively strict.

In the case of the exporting country that is in a strong structural creditor position, however, the "hardening" tendency is limited to some extent by the requirement to reduce the trade surplus (in the final outcome, the volume of credit outstanding), and this will compel it to make compromises regarding the commodity structure of its import from the debtor countries. In general the quantitative restrictions on import from within CEMA will be felt more strongly than up to now, and the comparative economic advantage of this import over procurement from capitalist markets or the development of domestic mineral extraction will show a declining trend or may cease in some instances.

The fact that import from within CEMA will become more difficult in the long run is related basically to the specific difficulties of developing the extraction of minerals in the Soviet Union, and to unsatisfactory CEMA cooperation.

The growth rates of most exporting sectors within Soviet extractive industry will decline in the period through the year 2000, which in most cases could slow down significantly also the expansion rate of export, and in some instances could act in the direction of curtailing the allocations for export.¹⁵ This new trend is already noticeable in the 1981-1985 period: as a result of the negotiations on the coordination of national economic plans, the Soviet Union has planned to increase its energy export to the six European CEMA countries by 20 percent during this period, as compared with an increase of 43 percent in 1976-1980. The reduction of Soviet oil export in the early 1980's below the volume originally pledged will foreseeably not permit fulfillment of even the targeted 20-percent increase. The significant and presumably permanent decline of the growth rate of Soviet raw-material and energy exports to the other CEMA countries, and in some instances the complete cessation of export growth, can be attributed to the following principal factors.

1. In the period through the year 2000, the shifting of the main areas of production in the basic sectors of Soviet extractive industry to beyond the Urals will further accelerate, which generally will mean a sharp rise of capital intensity and of marginal cost. An addition of 1 ruble to extractive industry's output required only 2 rubles of investment in 1960, but 3 rubles in 1970 and about 4 rubles in 1980, and in the long run--assuming the same production technology--this investment cost will increase to 5 or 6 rubles.¹⁶

According to one Soviet estimate, Siberia's share in the output of basic energy sources will increase from 43 percent in 1980 to between 57 and 60 percent by 1990, and thereafter could reach between 64 and 68 percent within a relatively short time.¹⁷ This process of the shifting of the main production areas creates such a huge demand for development resources that the Soviet Union itself --at a moderate growth of national income and a rate of accumulation that could hardly be increased--will foreseeably be unable to supply. Assuming political conditions more favorable than at present, the influx of foreign capital from certain advanced capitalist countries could be considerable, but it would hardly ease significantly the Soviet Union's capital accumulation burden so far as the other CEMA countries are concerned, especially in a situation when these countries are permanently indebted to the Soviet Union. As a result of the preceding, the export-oriented expansion of mineral extraction in the Soviet Union in the investigated period will probably encounter an essential limit on development resources.

2. Gradual depletion of the relatively low-grade deposits of raw materials results in rising capital intensity or diminishing return and thereby is an important factor that limits the expansion of production. It is typical of just about most sectors of Soviet extractive industry and appears to be an unstoppable trend. In some instances the trend of the raw material's worsening quality is especially pronounced. From 1960 to 1977, for example, the copper and zinc content of the crude ore dropped by more than 50 percent; and lead content, by 40 percent. In the case of iron ore the decline in quality between 1961 and 1978 amounted to 9 percent. That the worsening geological conditions boost the capital intensity of extraction strongly applies to petroleum production as well. In some of the old oilfields the production rate of the wells declined on average by 5 to 10 percent a year during the past two decades. In 1960-1980, the volume of water injected to maintain reservoir pressure increased more than sixfold, but the average production rate per well only doubled. As a result of the extensive water-flooding, the other costs of petroleum production also increased significantly. In West Siberia during 1976-1980, by placing less productive wells in operation, the production rate of the new wells dropped to less than half, while the volume of drilling increased 3.5-fold. Projections for 1981-1985 anticipate a continuation of this general trend. In the case of iron ore and most nonferrous ores, for example, quality is expected to decline by 10 to 15 percent more.¹⁸

3. In some instances the mineral reserves also limit the expansion of export. This is true of petroleum where the petroleum sector's production-centered development, aimed at maximizing production in the short run, led to a relative neglect of geological exploration in the 1970. In combination with the sharply declining efficiency of geological exploration,¹⁹ this limits the long-range possibilities for the expansion of petroleum production in the Soviet Union.²⁰ Since the mid-1970's, the Soviet Union has not been able to find a supergiant field or giant fields²¹ that could provide the reserves for a substantial expansion of production in the long run.

Production in the overwhelming majority of the giant fields is showing a declining trend (especially sharp in the Volga-Urals district) or is near the peak (as in the West Siberian petroleum district). Under these circumstances, production is inevitably shifting toward relatively small fields with worsening geological formations and substantially lower specific production rates, which results in substantially higher production costs.²² Parallel with this the Soviet Union is forced to step up geological exploration of new areas, primarily in Northeast Siberia and in the Arctic Ocean. Some Soviet experts are urging that with accelerated geological exploration it is necessary to develop in East Siberia a petroleum district whose potential will eventually be similar to that of the West Siberian district.²³

Probably the slowdown of Soviet petroleum production's average annual growth rate from 4.2 percent in 1976-1980 to between 0.5 and 0.8 percent in 1981-1985, as targeted in the 11th Five-Year Plan, is already related to the limitation that reserves place on the expansion of production. Whereas the average annual increase in petroleum production was 27.6 million tons in 1971-1975 and 22.4 million tons in 1976-1980, under the current five-year plan it will be only 3.4 to 8.4 million tons.²⁴

The trend in Soviet oil production in the second half of the 1980's can be expected to be one of maintaining the production level. Present reserves do not permit any significant expansion of production through the year 2000. The Economic Commission for Europe estimates that the Soviet Union's petroleum production will be 645 million tons by 1990, which would mean average annual growth rates of 0 to 0.8 percent in 1986-1990, provided the targets for 1985 are fulfilled.²⁵ As evident from Table 1, the official Soviet production estimates through 1990 and the year 2000 that were submitted to the ECE are spread over a very wide range. For the reasons already discussed, attainment of the upper limit of this range may be regarded as impossible. So far as the lower limit is concerned, it is noteworthy that even the official Soviet organs do not exclude the long-range possibility of an absolute decline in petroleum production, since the lower values of the forecasts for both 1990 and the year 2000 are below the average of the production targeted for 1985 in the 11th Five-Year Plan. In the long run Soviet petroleum production will foreseeably remain within the lower domain of the range specified in the official forecasts; in other words, the trend through the year 2000 will be one of maintaining the production level.

Table 1. Official Soviet Forecast of the Foreseeable Development of Petroleum Production Through the Year 2000 (million tons)¹

	(1) Szovjetunió összesen		(2) Nyugat-Szibéria		(3) Egyéb térségek	
	Teljes (4) termelés	(5) évi változás	Teljes (4) termelés	(5) évi változás	Teljes (4) termelés	(5) évi változás
1980 ²	603,2	-17,6	312,6	-29,1	290,6	-11,5
1985 ³	630	+5	385-395	+13/+15	245-253 ⁴	-8/-10
1990	620-700	-2/+14	450-500	+13/+21	170-200 ⁴	-15/-7
2000	615-720	-1/+2	480-500 ⁴	+2/0	135-220 ⁴	-3/+2

Key:

- | | |
|-----------------|---------------------|
| 1. USSR total | 4. Total production |
| 2. West Siberia | 5. Annual change |
| 3. Other areas | |

Footnotes to Table 1:

1. Based on the data that the Soviet Union submitted to the United Nations Economic Commission for Europe. The original Soviet figures were in million tons of coal equivalent. These were recalculated, using a conversion factor of 1 million tons of coal equivalent = 0.704 million tons of petroleum equivalent.
2. Report data.
3. Production target of the 11th Five-Year Plan.
4. Estimate of the International Energy Agency.

Sources: "USSR Submission to the ECE," Senior Advisers to ECE Governments on Energy, 1980; "World Energy Outlook," International Energy Agency, OECD, 1982, p 185.

4. While encountering more and more complicated geological, formation and climatic conditions, mineral extraction has unsolved technological problems. On the one hand, these unsolved technological problems reinforce the trend of declining production rates (and of rising specific production costs). On the other hand, they are hampering the expansion of production in marginal fields and are accelerating the decline of production from older deposits. The large-scale influx of advanced foreign technology is restricted by the limits of the purchasing power that the Soviet Union can allot for this purpose, and also by the governments of the leading advanced capitalist countries (primarily of the United States) that maintain control over the export of the most advanced extraction (mainly petroleum) technology to the Soviet Union. Even now the United States is maintaining a selective technological embargo against the Soviet Union in many areas of petroleum production.

5. As a result of the growing bottlenecks in the transportation of raw materials and energy, geographically the main areas of extraction are shifting increasingly eastward. Large-scale technical modernization of the transportation system, which is overburdened and in many areas not sufficiently modern, cannot be expected in the next decade, essentially because of the huge amount of resources that such modernization would require. The bottlenecks in rail transport, where they are especially pronounced,²⁷ could be alleviated significantly in the long run if, for example, the coal mined in the Central Asian basins (Ekibastuz, Kansk-Achinsk) were converted into electricity and then supplied in that form to the European part of the Soviet Union and the other CEMA countries. Aside from the huge investment resources that several thousand kilometers of high-voltage transmission lines would require, their construction at present still encounters formidable technological problems. In addition, huge conventional thermal power plants would have to be built to convert the eastern basins' coal into electricity at the mine mouth. Another possible solution for easing the burden on the railroads would be to build a long-distance coal pipeline to transport coal slurry from the huge lignite mines of Central Asia to the European part of the Soviet Union, thereby alleviating its energy shortage. However, the construction of such a coal-slurry pipeline would be possible only with large-scale importation of the necessary foreign technology.²⁸

6. The Soviet Union can be expected to maintain also during the investigated period the ratio of its capitalist to socialist export of raw materials and energy that evolved in the 1970's. Although no significant change in the overall ratio is expected, this does not exclude the possibility of substantial changes of the ratios in the case of individual products. In the case of natural gas, for example, the advanced capitalist countries' share of Soviet export will foreseeably rise. (Table 2 indicates this trend, based on the ECE's estimate.) The export of natural gas to the advanced capitalist countries rose at a faster rate than its export to the socialist countries already in the 1970's, and in 1980 the advanced capitalist countries' share of total Soviet natural-gas export was 56 percent, as compared with 41 percent in the case of petroleum export. Rapid expansion of natural-gas export to the advanced capitalist countries will compensate for the dropout of export earnings due to the expected long-term decline of petroleum export.²⁹ Table 3 shows the ECE's forecast regarding the Soviet Union's petroleum sector. According to this forecast, Eastern Europe's share of the declining total petroleum export will increase,

while Western Europe's share will drop significantly. Whether or not such a large-scale rearrangement of the ratio of export shares occurs will depend, to an extent that foreseeably will not be negligible, on whether the export of natural gas to the advanced capitalist countries can be expanded at the planned rate, and thereby the declining earnings from petroleum export can be offset.³⁰ And this in its turn will depend decisively on whether it will be possible to export, from 1984 on, the planned 40 billion cubic meters of natural gas (the equivalent of 33 million tons of petroleum) over the gas pipeline connecting Urengoy in West Siberia with Western Europe. By the spring of 1983 the Soviet Union had contracts for 20 billion cubic meters, and certain Western experts estimate that the volume which can be exported later over this pipeline will be at most between 30 and 35 billion cubic meters a year.³¹ In view of the prospects of the business cycle's development in Western Europe, it appears unlikely that for several years after the commissioning of this gas pipeline the volume of natural gas exported over it will approximate 40 billion cubic meters a year.

Table 2. Development of the Soviet Union's Natural-Gas Sector Through 1990
(1018 joules)

	<u>1973</u>	<u>1980</u>	<u>1990</u>
Production	8.3	15.3	26.4
Consumption	8.5	13.7	22.2
Export	0.3	1.8	4.5
Export to Eastern Europe	0.2	0.8	1.6
	(67%)	(44%)	(36%)
Export to Western Europe	0.1	1.0	2.9
	(33%)	(56%)	(64%)

Comment: The numbers in parentheses are shares of total export, in percent.
Source: "The Energy Economy of Europe and North America. Prospects for 1990," ECONOMIC BULLETIN FOR EUROPE, The Journal of the United Nations Economic Commission for Europe, June, 1981, Oxford, Pergamon Press, p 167.

Table 3. Development of the Soviet Union's Petroleum Sector Through 1990
(million tons)

	<u>1973</u>	<u>1980</u>	<u>1990</u>
Production	432	602	645
Consumption	328	443	513
Export	117	160	132
Export to Eastern Europe	55	70	80
	(47%)	(44%)	(61%)
Export to Western Europe	48	66	25
	(41%)	(41%)	(19%)

Comment: The numbers in parentheses are shares of total export, in percent.
Source: As for Table 2, p 233.

7. Amidst the declining growth rate of the production of raw materials and energy, in the future the Soviet Union will be forced, more so than in the past, to consider the alternatives when deciding whether to expand its export or to supply the domestic demand that will be growing at a relatively fast rate. In the Soviet economy, whose consumption of raw materials and energy per unit of output is high, artificial curtailment of domestic consumption in favor of export (or costly substitution within domestic consumption) could inhibit

economic growth. Growth-inhibiting curtailment of domestic consumption would, in the final outcome, reduce the national economic (direct and indirect) efficiency of exporting raw materials and energy. In the case of most raw materials and sources of energy, therefore, in the long run the Soviet Union would probably be able to give preference to export only at the cost of greater economic sacrifices than up to now. Thus the priority of export can be expected to relatively lose ground in those areas where the mentioned problems arise the most intensively. In principle, the extent (and even the very fact) of this loss of ground will be a function of whether the curtailment of domestic consumption or the loss of export earnings will have a greater inhibiting effect on overall economic growth.³²

8. Because of the factors discussed above, in the period through the year 2000 we cannot expect any intensification of extractive industry's integration with-in CEMA on a scale that could accelerate the growth rate of Soviet export of raw materials and energy to the other CEMA countries.

In 1990-2000, the European CEMA countries' supply with raw materials and energy will continue to be based predominantly on domestic production and CEMA import. If we consider the paucity of domestic raw-material and energy supply, the extremely high costs of developing domestic extractive industry, the relatively high growth rate of the demand for raw materials and energy in most of the countries, and the discussed increasing difficulties of socialist import, however, it seems likely that in the long run the provenances will become more diversified than at present, and developing countries' share in supplying the CEMA countries' additional import demand will show a rising trend.³³ This trend was clearly evident already in the 1970's when the developing countries' share of the CEMA countries' total import of raw materials and energy, in value terms, increased from 9.9 percent in 1970 to 21.1 percent in 1980. But in 1981 --due to the CEMA countries' growing liquidity problems--this share dropped to 13.4 percent, mostly as a result of a 43-percent drop in the value of petroleum imports.³⁴

A critical regulating factor of how far this trend of gradually turning outward advances will be the development of the CEMA countries' solvency, and of the relative profitability of procurement from the developing countries. In our opinion, it would be a mistake to judge on the basis of the CEMA countries' temporarily very unfavorable solvency in the early 1980's the long-range prospects of importing raw materials and energy from the developing countries. Such an approach would necessarily lead to pessimistic conclusions regarding the procurement of raw materials and energy from outside CEMA. Certainly an external economic opening toward the third world cannot be sustained that considers one-sidedly only the importation of raw materials and energy, but does not establish in due time the conditions of an opening also in export (particularly of finished products) to the developing countries. The need to urgently create such conditions is supported also by the unfavorable trends that reflected in the past decade the weakening of the CEMA countries' competitive position in the markets of the principal energy-exporting countries of the third world.

In conclusion we wish to point out, in conjunction with what has been said above, that the general worsening of the conditions of importing raw materials

and energy, from both socialist and capitalist provenances, raises more emphatically than ever before the need to solve the problem of raw-material and energy import through expedient modification of domestic development policy (and within it of structural policy) and the economic management system. For the CEMA countries' raw-material and energy problem is only superficially an import problem; essentially it is a problem of the economic mechanism and of development policy. The policy on raw materials and energy in most of the CEMA countries is still excessively supply-oriented, and the system of instruments for effectively controlling demand is relatively undeveloped, inspite of its great potential savings. It can be demonstrated empirically, for example, that in nearly a decade from 1973 to 1982 the developed capitalist countries' performance in energy conservation was substantially better than that of the European CEMA countries. The causes of demand's inadequate and delayed response, and of the persisting propensity to overconsume, stem from the pursued development policy and from the structure of the employed regulators and institutions. Studies show the advantages of purposefully regulating demand (reducing consumption) over a raw-material and energy policy that aims for the one-sided expansion of supply (domestic production plus increased import). Accordingly, it is in the national economic interest of the CEMA countries to create an economic climate in which the conservation of raw materials and energy becomes an attractive business opportunity in the sphere of consumption.³⁵

FOOTNOTES

1. Rezso Nyers, "The Effect of CEMA Multilateral Integration Measures on the Hungarian National Economy in 1976-1980," KOZGAZDASAGI SZEMLE, No 3, 1977, p 525.
2. "Excerpts From the Law on the Five-Year Plan for the Development of the GDR National Economy in 1976-1980," NEUES DEUTSCHLAND, 17 December 1976.
3. The figures for Bulgaria and Poland are our own estimates.
4. Christa Luft and Lutz Maier, "International Investment Cooperation Within the CMEA Area," in "Seventh World Congress of the International Economic Association," 5-9 September 1983, Madrid, p 9.
5. The target program's investment projects to be built on the territory of the Soviet Union through investment cooperation include, among other things, two nuclear power plants (Khmelnitskiy and Konstantinovka), four ferrous metallurgical combines, and two pulp plants. (Yu. Golovnin, "Long-Range Target Programs for Cooperation and the Location of Production in the CEMA Countries," VOPROSY EKONOMIKI, No 10, 1980, pp 100-101.
6. A. G. Aberkin, "CEMA Cooperation in Planning," SOVETSKOYE GOSUDARSTVO I PRAVO, No 1, 1982.
7. In the Soviet literature the "high efficiency of coordinating investments without any redistribution among the countries" is emphasized by A. Belovich in "The Basic Forms of Coordinating the CEMA Countries' Capital Investments," PLANOVOYE KHOZYAYSTVO, No 2, 1982, pp 93-96.

8. PRAVDA, 30 June 1979;

A. Zubkov, "The Fuel and Energy Problem in the CEMA Countries," VOPROSY EKONOMIKI, No 10, 1981;

A. Zubkov, "The Fuel and Raw-Material Problem Under the Conditions of Socialist Economic Integration, OBSHCHESTVENNYE NAUKI, No 4, 1980;

Yu. F. Kormnov, "Mezhdunarodnaya sotsialisticheskaya spetsializatsiya i kooperatsiya" (International Socialist Specialization and Cooperation), Moscow, 1981;

A. N. Nekrasov (editor), "Razvitiye mezhdunarodnogo razdeleniya truda i razmeshcheniye proizvodstvennykh sil SSSR: teoriya, metody, praktika" (Development of the International Division of Labor and the Location of the Soviet Union's Productive Forces: Theory, Methods and Practice), Moscow, 1981.

The last two works are cited in the given context by Marie Lavigne, "The Soviet Union Inside COMECON," SOVIET STUDIES, No 2, 1983, p 148.

9. Kalman Pecs, "A KGST energiaellatas fobb kozgazdasagi osszefuggesei es perspektivai" (Main Economic Interrelations and Prospects of CEMA Energy Supply), manuscript, 1979, p 64.

10. Based on various issues of the yearbook "Vneshnyaya Torgovlya SSSR" (Foreign Trade of the USSR) and Marie Lavigne's cited study. In 1975-1981, a cumulative balance-of-trade deficit in trade with the Soviet Union was typical of every country, with the exception of Romania. It should be noted that in 1981 Poland accounted for more than half of the six countries' combined balance-of-trade deficit.

11. N. Inozemtsev, "Pursuing the Policy of Economic Integration," PLANOVOYE KHOZYAYSTVO, No 8, 1981, p 19.

12. Kalman Pecs, "A KGST termelesi integracio kozgazdasagi kerdesei" (The Economic Problems of CEMA Production Integration), Publishing House for Economics and Law, Budapest, 1977, pp 197-200;

L. Csaba, "Some Problems of the International Socialist Monetary System," ACTA OECONOMICA, No 1-2, 1979, p 32;

Balint Balkay and Istvan Dobozi, "The Prospects of Soviet-Hungarian Cooperation in Raw Materials," manuscript, Hungarian Academy of Sciences Research Institute of the World Economy, February 1977, p 15.

13. N. Inozemtsev, op. cit., pp 18-19.

14. Cf. "Az asvanyi nyersanyagok es energiahordozok vilagpiaci helyzetenek alakulasa 2000-ig, kulonos tekintettel a vilagpiaci beszerzes tavoli lehetosegeire es felteteleire" (Development of the World-Market Situation of Mineral Raw Materials and Sources of Energy Through the Year 2000, With Special Attention to the Long-Range Opportunities and Conditions of Procurement in the World Market). Istvan Dobozi directed the study and compiled the report. Hungarian Academy of Sciences Research Institute of the World Economy, Budapest, 1980.

15. According to Oleg Bogomolov, "For objective reasons (depletion of the large deposits, and the remote location of the new ones), the Soviet Union is unable to increase its export of energy and raw materials at the same rate as before. It is obvious that in the case of petroleum, other raw materials and sources of energy, export has reached its limit, perhaps with the exception of natural gas and electricity. This new situation must be taken into account in the long-range strategy of economic development." ("CMEA and Global Problems," INTERNATIONAL AFFAIRS, No 5, 1983, p 27.)
16. N. Feytelman, "The Mineral Raw Material Base of the Soviet Union and the Prospects of Its Development," VOPROSY EKONOMIKI, No 12, 1982, p 65.
17. Yu. I. Maksimov, "The Fuel and Power Complex of Siberia," EKO, No 10, 1982, pp 99-105.
18. These figures are from N. Feytelman, op. cit., p 66.
19. According to N. A. Mal'tsev, the minister of the petroleum industry, a net increase of 1.0 million tons in Soviet oil production required 265,000 meters of exploratory drilling in 1970, but 866,000 meters in 1980, and foreseeably will require 7.0 million meters in 1985. (NEFTYANOYE KHOZYAYSTVO, December 1982.)
20. Not only most Western analyses, but also certain Soviet experts come to this conclusion. According to Academician A. P. Kirilov, if the forcing of production's rapid expansion, and the use of production methods permitting it continue, then ". . . the country's rate of petroleum production will reach its peak within a short time and will then begin to decline." ("About the Rates of Developing Petroleum Deposits," EKO, No 1, 1980.)
21. The professional literature denotes as "supergiants" the fields whose initial reserves exceeds 5.0 billion barrels (about 660 million tons), and as "giants" the fields with initial reserves from 0.5 to 5.0 billion barrels (between 66 and 660 million tons).
22. Yu. I. Maksimov, op. cit., p 105; N. Feytelman, op. cit., p 62.
23. Yu. I. Maksimov, op. cit., pp 105-106.
24. Based on various issues of "Statisticheskiiy Yezhegodnik Stran-chlenov Soveta Ekonomicheskoy Vzaimopomoshchi" (Statistical Yearbook of the CEMA Countries), and NEPSZABADSAG, 3 December 1980.
25. "The Energy Economy of Europe and North America. Prospects for 1990," ECONOMIC BULLETIN FOR EUROPE, The Journal of the United Nations Economic Commission for Europe, June, 1981, Oxford, Pergamon Press, p 233.
26. "World Energy Outlook," OECD, International Energy Agency, Paris, 1982, p 256.
27. Sources of energy accounted for 40 percent of the freight shipped by rail in 1976-1980. ("World Energy Outlook," p 179.)

28. In October 1982, Occidental Petroleum chairman Armand Hammer presented a concrete proposal to the competent Soviet organs, regarding a coal-slurry pipeline to transport Kansk-Achinsk lignite to the European part of the Soviet Union. Basically this pipeline would have used American technology. It was reported that the Soviet Union showed interest in this proposal, because of the difficulties and high costs of transporting coal by rail. The United States government has adopted a negative attitude toward the project. (PETROLEUM ECONOMIST, November 1982, p 466.) We wish to note that the Soviet Union and the GDR are cooperating on research into the hydraulic transport of coal.
29. In 1981, petroleum accounted for 65 percent of the Soviet Union's export to capitalist countries; and natural gas, for 17 percent. Thus the combined share of the two products was 82 percent. (According to "Vneshnyaya Torgovlya SSSR v 1981 Godu" [Foreign Trade of the USSR in 1981], Moscow, Publishing House for Finance and Statistics, 1982.) In the long run we can expect a significant decline of the present share of petroleum, and a sharp rise in the present, relatively low share of natural gas.
30. The importance to the Soviet Union of the total convertible foreign exchange it earns by exporting hydrocarbons is underscored by the fact that in 1982--presumably to offset its loss of earnings due to declining petroleum prices--the Soviet Union increased very significantly (by 32 percent) the volume of its petroleum export to the advanced capitalist countries, and at the same time it reduced by about 10 percent its petroleum export to the European CEMA countries, below the quantity it had pledged earlier. (THE ECONOMIST, 16 April 1983, p 73; PETROLEUM ECONOMIST, April 1983, p 138; QUARTERLY OIL STATISTICS, No 1, 1983.) It can be demonstrated empirically that in the short run the breakdown of export by socialist and capitalist destinations depends to a certain extent on how the Soviet Union's balance of trade with capitalist countries is developing. This relationship helps to explain why the Soviet Union occasionally increases its capitalist export when prices are falling, and reduces it when prices are rising. (For details on this see Edward A. Hewett, "Soviet Primary Products Export to CMEA and the West," in "Soviet Natural Resources in the World Economy," edited by R. G. Jensen, Th. Shabad and A. W. Wright, University of Chicago Press, Chicago and London, 1983, pp 639-657.)
31. PETROLEUM ECONOMIST, April 1983, p 138.
32. This comparison arises with greater emphasis primarily in the case of export to capitalist countries. Although the growth-inhibiting effects of a drop in export earnings are presumably less serious in the case of export to socialist countries, the negative economic and noneconomic consequences of a possible forced slowdown of the economy in the importing countries are not negligible.
33. For details on this see Istvan Dobozi, "The CEMA Countries' Raw-Materials Cooperation With the Developing Countries," KULGAZDASAG, No 1, 1982.
34. MONTHLY BULLETIN OF STATISTICS, May 1977, May 1982 and May 1983 issues.

35. For a detailed analysis of the problem of slowing down consumption see Istvan Dobozi, "Comparative Energy Policy: West European and East European Responses to the Energy Crisis," MTA X. OSZTALYANAK KOZLEMENYEI, No 3-4, 1982.

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CSO: 2500/209

MORE POLITICAL INDOCTRINATION SAID NEEDED TO IMPROVE ECONOMY

Bratislava PRAVDA in Slovak 24 Jan 84 p 1

[Editorial: "It Depends on Everyone"]

[Text] The entire history of building socialism and the vivid practice of our present efforts prove that specific action and real deeds that contribute effectively to the cause of socialism are the best example, the most important force in agitation.

While greatly appreciating the positive results, the recent 9th session of the CPCZ Central Committee simultaneously emphasized that it was essential to increase personal responsibility at every level of management, to strengthen discipline and order, and to improve the quality of managerial work. In the closing speech at this session, Comrade Gustav Husak said: "The more challenging tasks demand further intensification of the party's leading role, more consistent assertion of party control, and better work in political organization and education."

At the membership meetings, which will be held successively in January and February at every party local, the communists will evaluate their activity in the light of these intentions. The main purpose of the membership meetings is to evaluate, in a critically demanding manner, fulfillment of the tasks in 1983; to analyze the effectiveness of party work in implementing the program of the 16th CPCZ Congress and the resolutions adopted at the annual meetings; to formulate more accurately the main tasks; and to outline the specific ways of further ensuring the congress resolutions, primarily the objectives of society's economic and social development this year. And what is particularly important, to adopt measures for increasing the activity of communists, for coordinating their course of action in all areas of the party locals' activity and within the working collectives.

This approach focuses attention on the requirement to further strengthen the role of the party locals as the party's base and the political core of the working collectives.

It is a profound truth, tested in living practice, that the party's authority is enhanced and strengthened not only by a proper program and policy, but primarily by how the communists are able to implement such a program and policy, by what example they set in fulfilling the party's program and policy.

As the 15th session of the CPCZ Central Committee emphasized in March of 1980, assertion of the party's leading role, its ability to take action, and the party organizations' political influence directly depend on the communists' ideological level and theoretical training. Marxist-Leninist ideology, and its organic linkage with the revolutionary practice of the working class and with building socialism are the source of the party rank and file's strength, of its ideological staunchness and organizational discipline. In his well-known article, entitled "The Teachings of Karl Marx and Some Questions of Building Socialism in the Soviet Union," Yuriy Andropov wrote: "Marxism is not a dogma, rather a vivid guide for action, for independent work on the complex tasks that every new turn in history sets for us. If the communists are not to lag behind life, they must develop and enrich Marx's teachings in every direction and creatively apply in practice his method of dialectical materialism, justifiably called the soul of Marxism."

The unity of politics, economics and ideology is a cardinal question for the world's revolutionary transformation, for educating the masses in the sense of the principles and objectives of socialism and communism. Parallel with ensuring the socioeconomic tasks, therefore, it is essential to systematically improve the party's ideological and political-education work. First of all it is necessary to fight for and strengthen more consistently the unity of political education, organization and economic activity.

Ideological work cannot be separated from everyday struggle to pursue the strategy of improving the efficiency of production and the quality of all work, from ensuring the tasks of the plan for the social and economic development of our society. This demands focusing attention on improving further the effectiveness of ideological work so that it may be reflected even more in the growth of socialist awareness and may lead to the wide creative activity of the people, the tightening of discipline, the strengthening of responsibility and of the socialist attitude to work, and the development of the socialist way of life.

Economic propaganda and agitation play a unique role in this area. One of the key tasks of this important instrument in the party's ideological work is to explain, thoroughly and in a dedicated manner, the objectives of the party's economic policy and the ways of solving them, primarily by accelerating the economy's growth and applying more efficiently to practice the advances in science and technology. The effectiveness of this work depends on how specific it is, and on the force of its arguments and conviction. Only such an approach can help the working collectives find ways to solve the specific problems in the individual areas, and overcome the obstacles that often stem from narrow departmental interests. This fact requires singling out the positive examples of the results produced by the honest, creative and dedicated efforts of the blue-collar workers, foremen, designers, planners, inventors, managing officials and others; acquainting the public with them; spreading the progressive experience of the best collectives so as to improve efficiency and workmanship; and creating an atmosphere that will not tolerate superficiality, loafing, lack of responsibility, routine, various shortcomings, and antisocial abuses. Effective development of this attitude means starting out from practice, being in close and specific contact with the everyday struggle for the solution of the tasks, and drawing from it real facts, the convincing force of the will

and actions of man who has found the main content and meaning of his life in honest work of good quality for the cause of socialism.

Ideological work, which starts out from the revolutionary theory of Marxism-Leninism and from a Marxist-Leninist world outlook, has never been or will be an aim in itself. Communists always conduct their ideological work on at least two fronts: against the class enemy, and simultaneously for the awareness of man who is the creator of communism's achievement. As the 16th CPCZ Congress emphasized, "on how our citizen understands the scope and complexity of the problems that our society must solve, and on how clearly he is able to understand what is happening in the world depends his contribution to society, and also how enthusiastically he fights for the ideals of socialism." Therefore ideological work does not tolerate stereotypes; as it is figuratively said, and justifiably so, ideological work must win man's mind and heart.

No instrument, not even the most perfect one in a technical sense, can be a substitute for the communists' direct and live contact with the workers. Decisive for every party local and communist must be systematic political work among the people, learning their views and thoughts, being able to adopt standpoints on them, and gaining the confidence of the masses through constant struggle for the realization of the party's policy. The point is to create everywhere a political atmosphere that will help develop an offensive approach to the tasks and the solution of the problems. This requires also systematic and thorough work with the party resolutions, which are an important instrument for increasing the activity of the party as well as of the working masses.

The new, more complex conditions and tasks set high requirements for everyone, wherever he may work. The 15th session of the CPCZ Central Committee in 1980 emphasized comprehensively in this sense the importance of raising the effectiveness of ideological work. The conclusions of this session provide a long-term program for ideological work. If we wish to increase the contributions of ideological work, and of its individual instruments and forms, toward fulfilling the program for building a developed socialist society, then we must develop the offensive nature of ideological work, improve the quality of its content, and make ideological work among the workers more effective, combining it with the solution of specific political and economic tasks. In this context the ideas presented at the June 1983 session of the CPSU Central Committee are very timely for us as well: "Our entire ideological, educational and propaganda work must be raised decisively to the level of the great and complex tasks that the party is solving in the process of perfecting developed socialism. We clearly see how much harm mistakes in this work, and the inadequate maturity and awareness of the people, are causing. On the other hand, we clearly perceive already now that progress is much faster when ideological work is more effective, when the masses better understand the party's policy and regard it as their own, because it is in agreement with the basic interests of the people."

The level of awareness, of practical actions, and mainly of the actual work results, is the main criterion of the effectiveness of our struggle for socialist man. And in this struggle we are aiming to win over everyone. That is the essence and purpose of socialism.

STATE OF ECONOMY AT YEAR END 1983 ANALYZED

West Berlin DIW-WOCHENBERICHT in German Vol 51, 2 Feb 84 pp 51-58

/Article by Doris Cornelsen: "Consolidation at the Expense of Private Consumption" A translation of the New Calculation Guidelines for Formation of Industrial Prices, cited in Footnote 1, is being published in a JPRS issue of this series

/Text In 1983, too, the GDR's economic development was dominated by compelling foreign trade requirements: Production suffered from energy and materials shortages, exports enjoyed top priority in the distribution of production. However, official reports talk of remarkable advances. According to them, economic growth speeded up, energy and materials consumption were again reduced. As in 1982, the foreign trade balance with the Western industrial countries registered a surplus; net debts to the West were lowered. Once again, though, foreign trade success was achieved at the expense of the domestic consumer. Private consumption stagnated in nominal terms and declined in real terms.

It seems safe to assume that the fundamental changes in economic organization and mechanisms were concluded in 1983--at least for the time being. Toward the end of the year, the calculation guideline for enterprises and combines was revised.¹ The most important alteration was the abolition of the principle of the price/performance ratio at the time of price formation for new and further developed products; this principle had been introduced as recently as 1976. It was a complicated regulation, providing for prices to be fixed following comparison with other, already available products. At the same time prices were not oriented to costs but to the performance value of the new product relative to comparable products. Discussions in the technical press had indicated that this introduced some considerable uncertainty to the pricing system, because it was found almost impossible objectively and accurately to measure and compare performance values. The new calculation guideline abolishes this provision and once again basically links price to costs. Accordingly the principle of the connection between cost and profit has again become the uniquely dominant principle at the level of prices. The old problem--that costs do not adequately reflect shortages--has not, though, been brought any nearer resolution.

The constantly promoted manpower savings represent a significant aspect of the GDR's intensification strategy. In addition to the rational use of raw materials,

fuels and basic assets, this is one of the predominant issues in the "economic strategy for the 1980's." The annual economic plans provide for manpower savings in the form of plan targets; they are reported as success figures in the plan fulfillment accounts (savings of many million man hours) and a constant demand on the enterprises in the socialist competition ("Schwedt initiative: Fewer people to produce more"). The new "tax for social funds," payable since the beginning of 1984 by industrial enterprises and from 1985 by the construction industry, point in the same direction: This adds 70 percent to the cost of labor as a production factor, and its stated intent is that of encouraging rationalization in the enterprises.

On the Labor Market Situation

Economic and sociopolitical considerations must be taken into account to explain these measures. From the economic aspect we note that, up to now, the growth of the GDR's produced national income has regularly exceeded the rise in productivity. The development differs a great deal from that in the FRG where the scissors between productivity increases and economic growth resulted in a decline of jobs. On the contrary: In the "producing sectors" of the GDR economy, the figures for jobs and workers have risen each year--including 1983. The numbers of employees have risen even more in the "nonproducing sectors" of the economy, in other words private and public services. Due to the specific circumstances of this sector, the rise in productivity is much smaller than in the producing sector. It transpires that GDR economic leaders consider this sector not to be adequately supplied with manpower at the present time.

Assuming similar age and gender specific employment rates, the manpower figures will continue to rise in the 1980's. The increase amounts to an annual average of 0.3 percent; the labor force will amount to 250,000-300,000 more in 1990 than in 1980 (the difference between 1970 and 1980 was + 500,000). Evidently it is perfectly possible for this increased manpower supply to be absorbed by the GDR economy:

- If the earlier growth model continues (productivity improvements less than growth), this figure will be just enough to meet the needs of the producing sectors of the economy.
- If productivity improves at a faster rate (productivity rise equaling growth),-- possibly as the result of effective campaigns for manpower savings-- , it will be feasible to supply more manpower to the nonproducing sectors.
- If productivity improves at an exceptional rate (rise in productivity greater than growth), the result will be an arithmetic manpower surplus. In that case it might be possible to cut working hours (at the present time standard GDR working hours amount to 43 3/4 hours). In fact the topic of cuts² in working hours has recently been officially addressed--after a long silence.

It is a characteristic feature of the GDR that manpower is less productively used there than in the FRG, for example. According to their own admission, the arrears in the standard of productivity amount to an estimated 30 percent.³ The reasons for this state of affairs are many; to be mentioned first and foremost are the enterprises' tendency to hoard manpower so as to be able more easily to accomplish their

plan tasks, and the lack of an incentive to cut costs, especially because price fixing proceeds on the basis of the costs incurred. People in the GDR are quite aware that jobs could be eliminated if production processes were rationally organized (hidden unemployment). In fact this is at the origin of the "contribution to social funds" and all those measures by which the economic leadership now interferes more decisively in manpower control. The operations of the labor offices, for example, were activated and the opportunities for enterprises hiring new personnel more strictly limited. The aim is more closely to control efficient deployment, restrain worker turnover as undesirable from the national standpoint, and stimulate employees to accept shift work. However, no fundamental change in the system-related waste of manpower seems likely despite some successes here or there.

From the economic aspect, therefore, the GDR is not confronted by a phase of open unemployment. This state of affairs is also helped by the sociopolitical framework. In the GDR the right to work is among the primary constitutional rights; the legislative provisions in the labor code (broad protection from dismissal, obligation to get another job in the same or another enterprise if the original job is eliminated due to production-related events) guarantee the individual a great deal of social security. In any event the GDR will protect this right, even if that required the preservation of less productive jobs.

Although, for economic and sociopolitical reasons, unemployment in the GDR is unlikely to arise, the situation on the labor market is not the same as before. Like other countries, the GDR is currently confronting particular pressures to adjust and the compulsion to change structures. It is therefore conceivable that, despite a general sufficiency of jobs, the job structure may not correspond to the manpower supply in terms of regions or skills. Consequently very different demands on manpower mobility are likely to arise.

Main Results of 1983

The economic plan and the Central State Administration for Statistics' report on its implementation⁴ yield the following development with respect to important indices (percentage growth by comparison with the previous year):

	1982	1983	
	Actual	Plan	Actual
Produced national income	2.5	4.2	4.4
Industrial goods production	3.6	3.8	4.1
Retail trade turnover	1.0	3.0	0.5
Foreign trade turnover	9.2	13.0	12.0

The speed-up in growth despite restrictive conditions indicates that the changes in the economic mechanism--a combination of incentives and controls--have evidently taken hold. On the other hand a slight improvement in the conditions for growth must also be ascribed to the fact that imports have increased once more. Production conditions were therefore better than in 1982.

Indicators on GDR Economic Development--Percentage Growth by Comparison with the Previous Year

	1976/ 1980*	1981/ 1985*	1981	1982	1983 (1)		1984
	(1) Ist	(2) Plan	(1) Ist	(2) Plan	Ist	(2) Plan	(2) Plan
(3) <u>Produziertes Nationaleinkommen</u>	4,1	5,1	4,8	2,6	4,2	4,4	4,4
Industrie							
(4) Warenproduktion	1) 4,7	5,1	1) 5,5	1) 3,6	3,8	4,1	3,6
(5) dar.: Industrieministerien	5,5	5,5	5,9	4,3	4,5	4,6	4,2
(6) <u>Nettoproduktion (Industrieministerien)</u>	.	.	.	5	.	6,6	8,0
(7) Arbeitsproduktivität (Basis Warenproduktion)	2) 4,6	5,2	2) 4	2) 3	3) 4,0	3) 4,0	3) 3,5
(8) Arbeitsproduktivität (Basis Nettoproduktion)	3) 5,8	3) 7,3
(9) Bauwirtschaft							
(10) Bauproduktion der Volkswirtschaft	4) 2,3	3,4	4) 3,9	4) 3,1	1,4	4,3	2,1
(11) Fertigestellte Wohnungen)in 1000	162,6	188,0	185,4	187,1	187,7	197,2	197,2
(12) davon: Neubau)Wohnungen	111,9	120,0	125,7	122,4	117,5	122,6	117,6
(13) Modernisierung)	50,7	68,0	59,6	64,6	70,2	74,6	79,7
(14) Landwirtschaft							
(15) Bruttobodenproduktion ⁵⁾	6) 0,5	7) 2,2	1,0	-2,1	5	8) 0,9	6
(16) Viehbestand ⁹⁾	6) 0,5	.	0,6	-2,1	.	10) 2,4	.
(17) Tierische Marktproduktion ¹¹⁾	6) 3,8	7) 0,9	2,8	-6,6	12) 2,8	2,9	12) 1,6
(18) <u>Verkehr</u> Gütertransportmenge	5,0	.	-3,2	-7,4	.	8) -2	.
(19) davon: Eisenbahn	1,4	.	1,2	2,3	4,0	1,1	2,3
(20) Binnenschifffahrt	1,2	.	1,9	1,2	6,9	8) 3	10,2
(21) Übrige Verkehrsträger	6,7	.	-5,0	-11,7	.	8) -4	.
(22) <u>Einzelhandel</u> Umsatz,gesamt ¹³⁾	4,1	3,7	2,5	1,0	3,0	0,5	2,2
(23) davon: Nahrungs- und Genussmittel	3,4	3,7	2,9	2,1	.	.	.
(24) Industriewaren	4,8	3,7	2,1	-0,1	.	.	.
(25) <u>Außenhandel</u> Umsatz,gesamt ^{13),14)}	15) 10,3	.	10,7	9,2	13,0	12	5,0
(26) davon: Einfuhr	15) 10,3	.	6,4	4,3	.	16) 12,4	.
(27) Ausfuhr	15) 10,2	.	15,4	14,1	.	16) 11,6	.
(28) <u>Nettoqeldeinnahmen der Bevölkerung</u>	3,7	3,7	3,1	2,7	3,0	2,3	2,2
(29) <u>Investitionen, insgesamt</u> ¹⁷⁾	15) 4,6	18) -2,1	2,7	-6,4	19) -5	20) 4	21) .

1) Errechnet aus monatlichen Indexangaben; tatsächliches Ist, d.h. unter Rückrechnung der offiziellen - arbeitstäglich bereinigten - Angaben.- 2) Bruttoproduktion je Arbeiter und Angestellten.- 3) Im Bereich der Industrieministerien.- 4) Aus Indexangaben errechnet.- 5) Gesamtheit der pflanzlichen Produktion je Flächeneinheit; ermittelt unter Zugrundelegung des Getreide-Einheiten-(GE)Schlüssels der DDR.- 6) Durchschnittliche jährliche Veränderungsrate unter Berücksichtigung aller Jahreswerte (1976 bis 1980) gegenüber dem Durchschnitt der Jahre 1971 bis 1975.- 7) Durchschnittliche jährliche Veränderungsrate ausgehend vom Durchschnitt der Jahre 1976 bis 1980 im Hinblick auf das geplante Volumen des Jahres 1985.- 8) Vorläufige Schätzung.- 9) Auf der Basis von Großvieheinheiten (GV); ermittelt unter Zugrundelegung des GV-Schlüssels der DDR.- 10) Errechnet aus den angegebenen Bestandszahlen per 30.11. von Rindern, Schweinen, Schafen und Legehennen.- 11) Summe des staatlichen Aufkommens an Schlachtvieh, Milch, Eiern und Wolle; bewertet in GE nach dem GE-Schlüssel der DDR.- 12) Mengenmäßige Planung.- 13) Jeweilige Preise.- 14) Einschließlich innerdeutscher Handel.- 15) Unter Einbeziehung aller Jahreswerte.- 16) Vorläufig.- 17) Ohne Generalreparaturen und Auslandsbeteiligungen; konstante Preise des Jahres 1980.- 18) Unter Berücksichtigung des geplanten Gesamtvolumens von 256 Mrd. Mark.- 19) Der Finanzminister nannte in seiner Rede zur Begründung des Staatshaushaltsplanes 1983 ein Investitionsvolumen von 53,1 Mrd. M (zu laufenden Preisen). Zu 80er Preisen gerechnet dürften die geplanten Investitionen dieses Jahres mithin bei ca. 50 Mrd. M liegen.- 20) Das im Erfüllungsbericht genannte Volumen von 58 Mrd. M dürfte zu 80er Preisen gerechnet eine Höhe von gut 54 Mrd. M erreichen.- 21) Der im Volkswirtschaftsplan 1984 angeführte Wert von 49 Mrd. M enthält vermutlich nicht die Investitionen, die aufgrund geltender Rechtsvorschriften zusätzlich über die staatlichen Aufgaben des Volkswirtschaftsplanes hinaus durchgeführt werden können.

*Fünfjahresdurchschnitt.

Quellen: Statistisches Jahrbuch der DDR 1983; Statistical indicators of short term economic changes in ECE countries, Genf; Volkswirtschaftspläne (zuletzt: GBl. der DDR, Teil I/1983, Nr. 3); Planerfüllungsberichte (zuletzt: Neues Deutschland vom 19. Januar 1984); Berechnungen und Schätzungen des DIW.

Key on following page

Key:

- | | |
|---|---|
| 1. Actual | 15. Gross crop production ⁵⁾ |
| 2. Plan | 16. Livestock holdings ⁹⁾ |
| 3. Produced national income | 17. Animal market production ¹¹⁾ |
| 4. Goods production | 18. Transportation freight volume |
| 5. Of which in the scope of the industrial ministries | 19. Including: Railroad |
| 6. Net production (industrial ministries) | 20. Inland shipping |
| 7. Labor productivity (basis goods production) | 21. Other carriers ¹³⁾ |
| 8. Labor productivity (basis net production) | 22. Retail trade--total turnover ¹³⁾ |
| 9. Construction industry | 23. Including: Essential and nonessential food |
| 10. National building output | 24. Industrial goods ^{13),14)} |
| 11. Completed housing units) 1,000 | 25. Foreign trade--total turnover ^{13),14)} |
| 12. Including new construction)housing | 26. Including: Imports |
| 13. modernization) units | 27. Exports |
| 14. Agriculture | 28. Net cash incomes of the population ¹⁷⁾ |
| | 29. Total investments |

Footnotes: 1. Computed from monthly index data; actual figure, that is figuring back the official data, adjusted by working day.-- 2) Gross output per white and blue collar worker.-- 3. In the scope of the industrial ministries.-- 4) Calculated from index data.-- 5) Total of crop production per area unit; ascertained on the basis of the GDR grain unit (GE) key.-- 6) Annual average rates of change, taking into account all annual values (1976-1980) compared with the average of 1971-1975. 7. Annual average changes based on the average of 1976-1980, considering the planned volume of 1985.-- 8) Preliminary estimate.-- 9) Based on large cattle units (GV); ascertained on the basis of the GDR's GV key.-- 10) Calculated from the stock figures reported as on 30 November of beef cattle, pigs, sheep and laying hens.-- 11) Sum total of the state yield of slaughter cattle, milk, eggs and wool; valued in GE as per the GDR GE key.-- 12) Quantitative planning.-- 13) Prevailing prices. 14. Including inner-German trade.-- 15) Including all annual values.-- 16) Preliminary.-- 17) Excluding major overhauls and participations abroad; constant 1980 prices.-- 18) Taking into account the planned total volume of M256 billion.-- 19) In his speech justifying the 1983 state budget plan, the Minister for Finance mentioned an investment volume of M53.1 billion (at current prices). Calculated at 1980 prices, the planned investments for that year should therefore be around M50 billion.-- 20) The volume of M58 billion mentioned in the fulfillment report is likely to be about M54 billion at 1980 prices.-- 21) The value of M49 billion reported in the 1984 economic plan probably does not include investments that, according to valid legal regulations, may be carried out in addition to the state targets of the economic plan.

* Five-year average.

Sources: 1983 GDR Statistical Yearbook; Statistical Indicators of Short Term Economic Changes in ECE Countries, Geneva; economic plans (latest: GB1 DER DDR Part I/1983 No 33); plan fulfillment reports (latest: NEUES DEUTSCHLAND, 19 January 1984); DIW computations and estimates.

According to the plan fulfillment report, the growth in production consumption per unit of national income declined by 3 percent. This means that the 4.4 percent total economic growth was achieved with an increase of a trifle more than 1 percent of materials use. An even more important reduction in specific consumption is claimed for the "nationally important energy sources, raw materials and other materials" (7 percent in industry). However, there has never been a definition of the raw materials deemed to be "nationally important." Presumably they represent only a small selection of largely imported materials. The lowering of the specific consumption of these products is explicable mainly by structural shifts in materials use toward domestic raw materials. It was reported, for example, that the consumption of primary energy has remained almost static, while more domestic natural gas and raw brown coal were used. As for details--the reports point out the switch of thermal output from heating fuel to other energy sources and the ongoing shift of traffic to railroad and inland shipping. In 1983 brown coal achieved a 71 percent share of total primary energy consumption (1980: 54 percent).

Industrial Goods Production¹ (Percentage Growth Compared with the Previous Year)

	(1) Jahr		Januar-September		
	1981	1982	1981	1982	1983
(2) Energie- und Brennstoffindustrie	4,0	3,1	3,7	3,8	3,9
(3) Chemische Industrie	3,8	5,3	2,5	4,1	3,7
(4) Metallurgie	7,3	3,3	6,4	2,6	4,0
(5) Baumaterialienindustrie	1,2	-1,0	0,6	-2,2	1,0
(6) Wasserwirtschaft	4,8	3,7	5,1	3,7	1,9
(7) Maschinen- und Fahrzeugbau	6,6	4,4	5,9	4,4	4,8
(8) Elektrotechnik, Elektronik, Gerätebau	10,1	7,1	9,6	7,0	9,1
(9) Leichtindustrie	4,1	2,9	3,4	2,1	3,4
(10) Textilindustrie	4,0	3,4	3,6	2,1	3,3
(11) Lebensmittelindustrie	2,3	-0,4	2,6	-1,2	4,0
(12) Gesamte Industrie	5,5	3,6	4,7	3,7	4,4

1) Errechnet aus monatlichen Indexangaben; tatsächliches Ist, d.h. unter Rückrechnung der offiziellen - arbeitstäglich bereinigten - Ursprungsdaten.

Quelle: Statistical Indicators of short term economic changes in ECE countries. Economic Commission for Europe, Genf.

Key:

- | | |
|--------------------------------|---|
| 1. Year | 7. Machine and vehicle construction |
| 2. Energy and fuel industry | 8. Electrical engineering, electronics, device construction |
| 3. Chemical industry | 9. Light industry |
| 4. Metallurgy | 10. Textile industry |
| 5. Building materials industry | 11. Food industry |
| 6. Water supply | 12. Total industry |

Footnotes: 1) Computed from monthly index data; actual figure, that is figuring back the official data, adjusted by working day.

Source: Statistical Indicators of Short Term Economic Changes in ECE Countries. Economic Commission for Europe, Geneva.

Production

Industry recorded a speed-up in the development from the first to the second half of 1983. The plan targets were exceeded in the average of the year: The growth achieved amounted to 4.1 percent; the plan had provided for 3.8 percent. Unfortunately, once again only the extent of the respective plan fulfillment for the various industrial sectors is cited, a useless datum because we do not know the initial plan nor the usual amendments during the course of the year. The monthly statistics provide some indications on industrial development; they are available through September. According to them growth stabilized in all industrial sectors. Machine and vehicle construction is the only industry where the growth achieved (5 percent) lagged behind the plan target by 1 percent.

Structural changes with a view to the advanced refinement of products were reported mainly by the chemical industry and metallurgy. Both sectors recorded a 4 percent increase in output, coupled with a distinct change in the production profile. In the chemical industry this was due in particular to the two major oil processing combines -- Schwedt and Leuna --; both of them more extensively processed crude oil to produce high-quality products. The same two combines are also the centers of carbon chemistry--once again expanding. The metallurgical industry has increased the proportion of more highly refined products in rolled steel output. Both sectors were equipped with new plants at the beginning of the 1980's.

Other industries have been hard put to it to cope with the shortage of materials, and the demand for greater refinement appears unlikely to be met. This even applies to some branches of the chemical industry outside oil processing, for example plastics processing, the output of synthetic fibers, varnishes and colors. In fact we cannot exclude the possibility of a drop in quality due to the greater use of domestic raw materials. The entire sector of light industry, too, was badly hit by the materials shortages.

A 6.6 percent increase is reported for the net production of industry in the scope of the industrial ministries (goods production less consumption of materials and productive performances less depreciations). Evidently the numerous measures to lower the unduly large consumption of materials and energy have been successful.

The construction industry has for some time past been governed by the slogan "more reconstruction, less new construction." The five-year plan requires the planned output of the construction industry to be achieved with 15 percent less materials use, mainly by changes in the structure of the construction industry that is now aimed at maintenance. The plan fulfillment report deals in great detail with the successes achieved here. Total construction output is claimed to have risen by 4.3 percent, net output by 10 percent. This was done in industrial construction by more reconstruction and less new construction, and in housing construction, too, the proportion of modernization has risen. In 1983 a total of more than 197,000 housing units were completed, 38 percent by modernization (1981: 32 percent). Low-cost building heights were favored in new constructions. Costs were further reduced by preponderantly building on sites previously developed. Residential building repairs also recorded rising performances.

The shift of freight from road to rail and inland shipping continued in 1983. According to the plan fulfillment report, 79 percent of the total performance in inland traffic were handled by these two carriers (1980: 70 percent). Since the beginning of 1984 additional penalties have been in effect (long distance surcharges for public freight traffic, tax on long-distance freight handled by the enterprises' own trucks, ceilings on all transportation performances), aimed at compelling both this restructuring and the reduction of all transportation performances.⁵

Just as in 1982, farming recorded divergent results. The grain harvest was satisfactory and is said to have equaled the 1982 record of more than 10 million tons. Yields of feed crops and hay were higher than in 1982, those of potatoes and sugar beets lower. The total crop production (gross land production) of the previous year was slightly exceeded. After the sharp drop in 1982, the situation in livestock production has more or less returned to normal. Cattle stocks and animal market production were larger than in 1982. This was achieved mainly by lowering stock losses.

The replacement of grain imports by increased domestic production is still a distant goal. The figures for 1982 now to hand show that grain imports were reduced (from 3.2 million tons in 1982 to 2.4 million tons in 1982), with definitely adverse consequences on livestock and animal production. At this time it is still difficult to estimate the dimensions of 1983 farm imports. Grain and protein concentrates are likely to have been imported in roughly the same volume. Canada is a new grain supplier. In 1983 the GDR purchased 1 million tons Canadian grain; in September 1983 a medium term contract on future supplies was concluded (1 million tons each in 1984-1986).

The growth successes of 1983 were not reflected in supplies for the public. According to the plan fulfillment report, retail trade turnover amounted to M104 billion, just slightly more than 1982 (M103.5 billion). Even if we are extremely conservative in taking account of the rise in prices of higher quality goods, real private consumption declined by comparison with the previous year. On the other hand and in contrast to 1982, no abrupt supply bottlenecks occurred; instead supplies seem generally to have stagnated.

Yet the industrial part of the plan fulfillment report expressly praises the output of consumer goods and stresses that the combines in the scope of the industrial ministries "made available 6.5 percent more finished products for the public" by comparison with 1982. Lauded also is the campaign for consumer goods production by the combines primarily manufacturing means of production. According to official targets these are expected to devote some 5 percent of their production program to consumer goods. The discrepancy between the turnover achieved and these reports of successes is somewhat mysterious. A possible explanation may be the effect of foreign trade, in other words the drop in imports of consumer goods.

The net cash incomes of the population rose by 2 percent. As social and miscellaneous incomes have presumably almost stagnated, earned income is likely to have risen by slightly above 3 percent.

The economic plan and plan fulfillment report data on investments have not been entirely comparable in the past few years. Data for the economic plan are adjusted by price; not included are investments that may legally be carried out beyond the state targets of the economic plan. Plan fulfillment reports, on the other hand, record

investments at current prices and including all completed projects. This explains the fact that the 1983 economic plan showed an investment volume of only M47 billion, while the plan fulfillment report records M58 billion in investments. When we attempt to convert these figures to yield the same demarcation and on the same price basis, we arrive at a real approximate 4 percent growth of investments in 1983. Indicated, therefore, is a slight revival of investment activity--in part by the much promoted approach of "enterprise internal construction of rationalization aids." As many of the 23 percent of industry equipment investments are already the result of such enterprise internal construction. Here industrial enterprises manufacture the necessary plant in specially equipped departments.

Foreign Trade Aspects

This plan fulfillment report provides a little more foreign trade data than the reports of recent years. Foreign trade turnover is claimed to have risen by 12 percent, exports to the socialist countries by 12 percent also (USSR: 16 percent), and exports to the "nonsocialist monetary area" (Western industrial countries--including FRG--and developing countries) by 11 percent. Imports must therefore have risen by 12 percent, too, and foreign trade yielded an export surplus of 5.4 billion VM /valuta mark/6 as in the previous year.

According to Soviet statistics, the GDR's trade with the USSR rose by a little more than 10 percent in the first three quarters. GDR exports increase more than imports. Consequently, while we must expect another deficit in this trade for 1983, it is likely to be much smaller than in 1982 (2 billion VM). The four socialist countries reporting periodically (CSSR, Yugoslavia, Poland, Hungary) record a somewhat weaker trend of foreign trade turnovers with the GDR, in particular a much smaller rise in GDR imports.

The figures for trade with the Western industrial countries vary enormously. The monthly OECD reports (excluding the FRG) show that GDR imports from most countries continued to decline. Significant exceptions were Belgium/Luxembourg, Austria, Japan and Canada. GDR countries from these four countries have risen so much that they account for a total increase of more than 10 percent in imports from the West. GDR purchases in inner-German trade grew by 9 percent. The overall indications are that the GDR's restrictive import policy has reached its limit with respect to goods required for its production.

As for exports to the OECD countries (excluding the FRG), the partner country data currently available show another rise. The surplus in goods traffic for the GDR is likely to equal that of 1982. In inner-German trade, deliveries to the FRG have not risen much (4 percent); primarily due to the declining trend with regard to oil products. This goods traffic concluded with a slight GDR deficit (DM67 million). Including services, the 1983 GDR deficit amounted to just about DM500 million; the GDR's accumulated debit balance must therefore be estimated at DM4.2 billion.

The positive result in trade with the OECD countries is confirmed by the trend of debts to Western banks. The latest available data of the Bank for International Settlements show that the GDR has reduced its gross debts by just under \$600 million from end 1982 through September 1983. At the same time it built up deposits. Net debts declined by \$1.5 billion.

GDR Foreign Trade by Groups of Countries¹⁾

		1971 ²⁾ 1975 ²⁾	1976 ²⁾ 1980 ²⁾	1981	1982	1983 ³⁾	1976 ²⁾ 1980 ²⁾	1981	1982
		(1) in Mrd. VM ⁴⁾					(2) Struktur in vH		
(3)	Einfuhr, gesamt	28,79	53,18	67,00	69,88	78,54	100,0	100,0	100,0
(4)	Sozialistische Länder ⁵⁾	18,71	35,00	44,66	47,59	.	65,8	66,7	68,1
(5)	RGW-Länder ⁶⁾	17,88	33,42	42,79	45,77	.	62,8	63,9	65,5
(6)	dar.: UdSSR	9,77	18,61	25,81	28,58	.	35,0	38,5	40,9
(7)	Westliche Industrieländer ⁷⁾	8,91	15,45	19,76	19,06	.	29,1	29,5	27,3
(8)	Entwicklungsländer	1,17	2,73	2,57	3,22	.	5,1	3,8	4,6
(9)	Ausfuhr, gesamt	27,39	47,42	65,93	75,23	83,98	100,0	100,0	100,0
(4)	Sozialistische Länder ⁵⁾	19,92	34,33	43,25	47,43	53,12	72,4	65,6	63,0
(5)	RGW-Länder ⁶⁾	18,87	32,65	41,55	45,73	.	68,9	63,0	60,8
(6)	dar.: UdSSR	10,01	16,80	24,08	26,58	30,83	35,4	36,5	35,3
(7)	Westliche Industrieländer ⁷⁾	6,35	10,40	18,08	21,79	30,86	21,9	27,4	29,0
(8)	Entwicklungsländer	1,12	2,69	4,60	6,01	.	5,7	7,0	8,0
		(11) Salden der DDR ⁸⁾					(12) Struktur des Umsatzes		
(10)	Insgesamt	-7,00	-28,80	-1,07	5,35	5,44	100,0	100,0	100,0
(4)	Sozialistische Länder ⁵⁾	6,06	-3,34	-1,41	-0,16	.	68,9	66,1	65,5
(5)	RGW-Länder ⁶⁾	4,94	-3,83	-1,24	-0,04	.	65,7	63,4	63,1
(6)	dar.: UdSSR	1,22	-9,06	-1,73	-2,00	.	35,2	37,5	38,0
(7)	Westliche Industrieländer ⁷⁾	-12,84	-25,27	-1,68	2,73	.	25,7	28,5	28,1
(8)	Entwicklungsländer	-0,21	-0,21	2,03	2,79	.	5,4	5,4	6,4

1) Zu jeweiligen Preisen; Wertstellung fob; Verkäufer- bzw. Käuferland.- 2) Fünfjahresdurchschnitt.- 3) Vorläufig.- 4) VM = Valutamark, statistische Recheneinheit zum Ausweis des Außenhandels der DDR; Umrechnungskurs: 4,67 VM = 1 TRbl (Transfer-Rubel) der Umrechnungskurs zu den westlichen Währungen schwankt mit den Paritätsänderungen zwischen dem Rubel und den konvertierbaren Währungen; für 1982 galt: 1 VM = 0,713 DM; Differenzen in den Summen durch Runden der Zahlen.- 5) RGW-Länder und sonstige sozialistische Länder, vor allem VR China, Jugoslawien, Nordkorea und Laos.- 6) Albanien, Bulgarien, CSSR, Kuba, Mongolei, Polen, Rumänien, UdSSR, Ungarn und seit 1978 auch Vietnam (bis 1977 in sozialistischen Ländern enthalten).- 7) Alle sogenannten "kapitalistischen Industrieländer", d.h. OECD-Länder.- 8) "1971-1975" sowie "1976-1980": Summen der Einzeljahre.

Hinweis: Seit 1980 wird in den methodischen Anmerkungen im Statistischen Jahrbuch der DDR auf eine detaillierte Aufstellung von Ländern und Ländergruppen verzichtet.

Quellen: Statistische Jahrbücher der DDR; Außenhandelsjahrbücher des RGW und der RGW-Länder; Partnerlandangaben; Berechnungen des DIW.

Key:

1. Billion VM⁴⁾
2. Structure as a percentage
3. Total imports
4. Socialist countries⁵⁾
5. CEMA countries⁶⁾
6. Of which the USSR
7. Western industrial countries⁷⁾
8. Developing countries
9. Total exports
10. Total
11. GDR balances⁸⁾
12. Structure of turnover

Footnotes: 1) At prevailing prices; value date fob; seller or seller country.-- 2) Five-year average.-- 3) Preliminary.-- 4) VM = valuta mark, statistical calculation unit to show GDR foreign trade; conversion rate: 4.67 VM equal 1 transferable ruble; the conversion rate with respect to foreign currencies fluctuates with the parity changes between the ruble and the convertible currencies; in effect for 1982 was 1 VM equaling DMO.713; divergences in the totals due to rounding off.-- 5) CEMA countries and other socialist countries, mainly the People's Republic of China, Yugoslavia, North Korea and Laos. -- 6) Albania, Bulgaria, CSSR, Cuba, Mongolia, Poland, Romania, USSR, Hungary and, since 1978, Vietnam (included among the socialist countries up to 1977).-- 7) All so-called "capitalist industrial countries," in other words the OECD countries.-- 8) "1971-1975" and "1976-1980": Totals of the various years.

Sources: GDR statistical yearbooks; CEMA and CEMA countries' foreign trade annuals; partner country data; DIW computations.

Planning for 1984

The 1984 economic plan is also totally dedicated to "intensification": The cost/profit ratio is to be further improved in all sectors of the economy; scientific-technological advances, the greatest possible refinement of products and improvements in productivity are to contribute. Basic economic concepts are therefore no different from the strategy pursued for some time past. Quantitative targets, on the other hand, have been altered in some respects.

This does not apply to the produced national income; its growth has again been targeted for 4.4 percent. This rate corresponds to the result achieved in 1983 and must presumably be considered the new medium-term growth target for the GDR economy. We do, however, note the divergence of the new plan figures for industrial goods production (gross production) from earlier plans and the realized development of industrial production. The plan targets are particularly cautious for the chemical industry and two ministries in the sector machine construction.

Planning for retail trade turnover has turned more realistic. In the past 3 years the plans still reiterated the targets of the five-year plan (3-4 percent) though actual turnovers increasingly lagged behind. The current plan provides for a 2.2 percent rise. Its realization would signify a speed-up by comparison with the development of the preceding years.

A M49 billion volume is targeted for investments. The demarcation problems described earlier hinder proper appraisal. In any case, the investments targeted in the plan represent a 4 percent rise (adjusted by price); it is conceivable that investment activity as a whole will increase.

The major surprise of the 1984 plan is the development envisaged for foreign trade turnover. Exports and imports together are to rise by 5 percent. In recent years the plans regularly involved two digits, and usually they were in fact fulfilled. The new configuration may be interpreted as meaning that the economic leadership no longer considers justifiable or necessary any further extreme foreign trade efforts. On the basis of earlier results, a foreign trade surplus may be earned even with a moderate and approximately parallel development of imports and exports.

Plan Estimates for Industrial Goods Production in the Scope of the Industrial Ministries (Annual Percentage Growth)

(1) Bereich des Ministeriums für ...	(2) Fünfjahrplan 1981-1985	(3) Jahrespläne			
		1981	1982	1983	1984
(4) Kohle und Energie	.	3,8	3,7	3,7	2,8
(5) Erzbergbau, Metallurgie und Kali	.	5,8	3,3	2,6	3,7
(6) Chemische Industrie	5,9-6,2*	6,3	6,0	3,3	2,9
(7) Elektrotechnik, Elektronik	9,6	8,9	7,7	8,5	8,8
(8) Schwermaschinen- und Anlagenbau	6,7	5,9	5,7	5,2	2,7
(9) Werkzeug- und Verarbeitungsmaschinenbau	9,3	9,1	8,7	8,4	6,5
(10) Allgemeiner Maschinen-, Landmaschinen- und Fahrzeugbau	7,0	7,8	6,7	5,1	5,2
(11) Leichtindustrie	4,7-5,1*	4,0	3,7	3,1	3,1
(12) Glas- und Keramikindustrie	.	5,1	4,2	5,2	5,9
(13) Bezirksgeleitete Industrie und Lebensmittelindustrie	.	6,2	4,6	3,7	3,0
(14) Industrieministerien, insgesamt	5,6	5,8	5,1	4,5	4,2
(15) nachrichtlich: Istergebnis	.	5,9	4,3	4,6	.
(16)	*Angaben aus der Direktive.				

Key:

- | | |
|--|--|
| 1. Scope of the ministry for | 9. Construction of machine tools and processing machinery |
| 2. 1981-1985 Five-Year Plan | 10. Construction of general machinery, agricultural machinery and vehicles |
| 3. Annual plans | 11. Light industry |
| 4. Coal and energy | 12. Glass and ceramics industry |
| 5. Ore mining, metallurgy and potash | 13. District managed industry and food-stuffs industry |
| 6. Chemical industry | 14. Total industrial ministries |
| 7. Electrical engineering and electronics | 15. Reported actual result |
| 8. Construction of heavy machinery and equipment | 16. Data from the directive |

FOOTNOTES

- "Order on the Central State Calculation Guideline for Formation of Industrial Prices of 17 November 1983," (GB1 DER DDR Part I/1983 pp 341ff).
- See interview with Erich Honecker, SED general secretary, by the French weekly REVOLUTION. NEUES DEUTSCHLAND, 6 January 1984, p 3.
- Concluding address by Erich Honecker, SED general secretary, to the Fifth CC Plenum, NEUES DEUTSCHLAND, 27/28 November 1982, p 3.
- NEUES DEUTSCHLAND, 19 January 1984, pp 3ff.
- "Order on Further Economic Measures for the Reduction of Economic Transportation Expenditure of 14 November 1983" (GB1 DER DDR Part I/1973 pp 336ff).

HOUSING: ACCOMPLISHMENTS, REMAINING PROBLEMS

Two-Million Mark Reached

East Berlin NEUES DEUTSCHLAND in German 10 Feb 84 p 3

[Article by Dr. J. Zimmermann and O. Meyer]

[Excerpt] Chroniclers have much to report on the Berlin tenements dating back to the city's earliest days which are not fit for human habitation and which stand downtown and on Mt. Prenzlau, around Arnim Square and Arkona Square. Around 1980, 117,000 persons were living in 28,000 basement apartments. Around the turn of the century, Karl Liebknecht pilloried these scandalous conditions. The 1853 construction regulations had been quite popular with the speculators during the early years: The "courtyards" needed to measure only a minimum of 28 square meters (5.3 x 5.3 meters!). As many as six rear wings rose around Arkona Square, always grouped around such "light shafts." So much for the record.

Careful Renewal for Preservable Units

On Thursday, 100-year-old Arkona Square in the Berlin-Center district, looked youthfully fresh with its flag decorations. The houses around the square and on the surrounding streets looked pleasing as if they had been dipped into a fountain of youth by builders and architects. Since 1971, about 3,000 apartments have been modernized or repaired here, near Kastanien and Schoenhauser parkways. Large apartment wings with trees, grass areas, and benches, with playground equipment for children sprang up in those places where in the past there were only hopeless rear wings.

Erich Honecker began his tour of this tradition-rich worker section on Wolliner Street. Guenter Kaiser, first secretary of the Berlin-Center kreis directorate, and City Borough Mayor Horst Kreuter explained how the reconstruction effort was launched according to the housing construction program adopted by the Eighth Congress of the SED. More than 40 percent of the apartments had once upon a time been intended only as efficiency apartments for the proletarians and almost three quarters of the buildings had no basements. There were countless laundries, stables for horses, and sheds in the narrow courtyards and 94 percent of the apartments had privies.

The area was redesigned according to a blueprint supplied by the Construction Academy. Everything that was worth preserving was carefully rebuilt, such as the richly decorated building facade of the "Berlin Coffee Houses" on Arkona Square, on Wolliner Street at the corner of Fuerstenberger Street.

As a result of reconstruction around Arkona Square, the network of stores also became thicker, the guests learned. The HO [Trade Organization] supermarket, which was opened in 1976 on Fuerstenberger Street, also made things much easier for the inhabitants; it has a sales surface area of 715 square meters. At this time, there are 20 sales outlets in this area for industrial goods, food, fish, game, and poultry. There are 10 restaurants, including two cafes and six beer halls. Another restaurant and a sales outlet for dry goods will soon be added.

Achievement Not Without Compromise

Munich SUEDEUTSCHE ZEITUNG in German 7 Feb 84 p 3

[Article by H. Loelhoeffel]

[Text] Berlin, GDR, 6 February--Everything looked to be in tip-top shape around Arkona Square in the East Berlin district of Mt. Prenzlau: The sidewalks are freshly paved, the streets are swept, the lamp posts have been painted, the facades and windows have been cleaned, street signs have been put up in the turn-of-the-century style, and even an 80-year-old urinal has been polished to a high gloss. Construction workers, craftsmen, painters, and landscape workers prepared everything for many weeks working in special shifts and even on weekends. According to the plan target, everything had to sparkle and glitter on Arkona Square by 9 February. That is the day on which the 2 millionth new apartment completed in the GDR since 1971 will be dedicated. On top of all this, State Council Chairman Erich Honecker will come in person to the old worker section on Mt. Prenzlau where, during the last elections in Greater Berlin on 20 October 1946, the SPD [Social Democratic Party of Germany] with 32,061 votes beat the SED by more than 10,000 votes.

To spare the SED secretary-general--whose Unity Party today regularly can be assured of almost 100-percent election results--the sight of grey, dilapidated tenements (while riding in his Citroen official limousine, the curtains are always drawn), all specialists were ordered to Arkona Square even if work had to be suspended somewhere else. The party boss was to get a tremendously beautiful impression, cost what it may. The gutted rear wing, which he was shown, is a prestige unit which is entirely tailored to our day and age and which is indeed exemplary.

Rent Gouging--no such word in the dictionary. Through his presence at the dedication of the renovated anniversary apartment, Honecker wants to prove to the citizens of the GDR that he keeps his word. Shortly after he took office at the Eighth SED Congress, he announced the housing construction program which he called the "nucleus of our social policy." He said: "We will solve the housing problem as a social problem by 1990."

Honecker, who by then would be almost 80 years old, still has 7 years to make good on his promise. The way it looks now, this ambitious undertaking of newly building or modernizing around 3 million apartments within 2 decades for M200 million is entirely feasible. More than 10 million GDR inhabitants would then have an opportunity "of having an apartment available which, considering the size of the family, facilitates decent living--including well-working heating systems, drinking water supply, and the necessary sanitary facilities." The main attraction of the housing program in the "worker-and-peasant state" of course consists of the enormously low rents which will remain steady at least during this decade--and this is something else Honecker has pledged. A newly-built four-room apartment (76 square meters) with a balcony, including hot water and heat, costs M132.10 per month; a two-room apartment in an old building, in the rear wing, with privy, costs about M35. On the average, a GDR household needs to spend only 5 percent of the family income for rent and secondary costs (in the FRG the figure is more than 20 percent). The subsidies which the state provides to support steady rents this year come to almost M11 billion.

Comparisons of rents and references to the number of homeless persons in the United States supply good arguments for their state to many GDR citizens. In point of fact, the GDR is in the process of reducing social and territorial differences in housing conditions. Only a privileged minority--top officials and prominent artists--live under privileged housing conditions. Rent gouging, land speculation, and profits derived from building ownership are foreign words in the GDR. Here are the disadvantages of the subsidy policy: Old private and government buildings are neglected because the low rents cannot cover the maintenance costs and even in many new developments, the first repairs become necessary right after completion because quantity entirely too often comes at the expense of quality.

Huge satellite cities are springing up everywhere in the GDR: Berlin-Marzahn, Leipzig-Gruenau, and Halle-Neustadt ("Ha-Neu") were designed for 100,000 inhabitants, each; Magdeburg-Olvenstedt (45,000), Dresden-Prohlis (40,000), and Rostock-Luetten Klein (37,000) are other mass quarters that sprang up "out in the meadows." These erector-set apartments, put together with pre-fabricated concrete panels, carry synthetic type names such as WBS 70 and IW 8 (WBS means "apartment building construction series," IW means "industrial housing construction"). Anybody who lives in these blocks, whose hopeless-looking uniformity cannot be hidden, yearns for nature and green spaces. Typical is an advertisement here from the newspaper WOCHENPOST: "In Halle-Neustadt, offering beautifully situated 2-room apartment, seeking equivalent or similar 2-room apartment in Mecklenburg."

Other persons dwelling in new buildings, who simply cannot wander off into forest-rich and water-rich Mecklenburg, are trying to simulate a beautiful world for themselves in the midst of the Alps or on Hawaii through individual balcony designs. The city architect of Schwedt on the Oder had to reprimand the citizens in the new Julian-Marchlewski Section in public because "they are confusing the buildings especially in the area around the balconies with a bower without any orderly system. They failed to understand," the architect criticized the tenants, "that they disfigure the city's image with their ugly

color schemes or their even dangerous structural changes." He probably did not read an article in the East Berlin magazine WELTBUEHNE where it says rather hopefully: "Perhaps we will some day discover an alternative offer to our entirely too planned housing complexes where in addition to some roses we are also growing quite a few neuroses." The architect from Schwedt presumably is not familiar either with the book entitled "Franziska Linkerhand" by Brigitte Reimann in which a young lady city planner complains that imagination in building activities was displaced for the sake of economizing.

While the construction industry in the West again and again complains about the shortage of orders and while luxury apartments which nobody can afford to pay for stand empty, the GDR--which still has a serious housing shortage--keeps relentlessly assembling prefabricated concrete panels. Here and there, an attempt has been made to replace the industrial cell construction method with some more interesting house types and to enrich the rather rigid assortment. But good ideas of city developers again and again have to yield to pressure of plan fulfillment or to the compulsion to save money. Many grandiose planning efforts were deleted in Magdeburg-Olvenstedt because agriculture prevailed with its need for making sure that the fertile soils in the Boerde area must not be covered with concrete. Here is the consequence of this justified objection: The houses had to be squeezed together in a narrower area.

In July 1978, 7 years after the proclamation of his program, Erich Honecker in Marzahn dedicated the millionth apartment. Since then, barely 6 years have passed and people are now moving into the 2-millionth apartment. But this time it is not a newly-built apartment; rather, it is a modernized apartment. There is a program behind this. The slogan for the years until 1990 is this: Less new construction, more renewal. Construction activities are being shifted from the outskirts of the cities into the downtown areas. This shift is by no means surprising, as many people thought when the new trend became obvious. The transition from massive new construction to the reconstruction of urban residential areas was prepared years ago and can today be favorably fitted into the altered economic situation. The fact is that opening up the outskirts of cities and commodity transportation as well as mass transportation going to the huge new developments involved considerably higher costs today. Besides, the East Berlin Construction Ministry has figured out that remodeling requires 40 percent less steel and 80 percent less cement than new construction while transportation costs decline even by 85 percent and one-third of the construction sum can be saved in terms of the total expenditures. Nevertheless, there are still considerably more new apartments being built in 1984 (120,000) than old apartments are being modernized (77,000).

Just how urgent the renewal of old buildings is can be seen by a glance at the statistics: About three-quarters of the 6.6 million apartments now available in the GDR were built prior to World War II, while in the FRG not even half date back to prewar times. Moreover, 40 percent of the GDR apartments do not have inside toilets and 30 percent do not have a bathtub or shower. The overage building inventory keeps crumbling more and more: Many roofs leak, fungus keeps spreading, chimneys are cracked, plaster keeps crumbling, and balconies tilt down.

Improved and Beautified

The reconstruction of that "which capitalism has left to us" is beginning, it appears, just in time--so the SED politicians complain about the sad-looking tenements in the big cities. Admirable things have already been achieved in Erfurt and Dresden and in Schwerin and Stralsund in order to renew old buildings in a meaningful manner. Entire streets and sections in East Berlin likewise have been improved and beautified inside and outside. After urban renewal, rents mostly go up only a couple of Marks. The tenants are often asked to pitch in and to do some of the work themselves.

Around Arkona Square, where Honecker this week is to perform (the People's Police "on this special occasion" ordered the "removal of motor vehicles from this section" for Thursday), the buildings look as neat as nowhere else. They did not spare any paint for the facade; the "Zur Laterne" corner bar is to be reopened; a "service enterprise" is displaying small advertising notices in a neatly arranged window: Somebody wants to sell a yawl for M20,000; the Berlin Symphony Orchestra is looking for an orchestra attendant "from the non-working population"; and somebody is offering his old "Ines" TV set for M200.

Light and sun fall into the former rear wing which Honecker will inspect. Where dark tenements used to stand, we today find kindergartens, playgrounds, and green spaces. The brand-new wooden benches ("let us hope they stay here after Erich has left," said an old lady), and the abundantly planted beds of course cannot be seen anywhere else. In general, all the glitter stops precisely where Honecker's field of vision ends. Around the corner, on Rheinsberger Street and Schoenholzer Street, the buildings are as run-down as almost everywhere else on Mt. Prenzlau. And barely 200 meters away from Arkona Square, East Berlin comes to an end anyway. Bernau Street runs on the other side of the Wall.

5058

CSO: 2300/299

BRIEFS

SHORTER DELIVERY TIMES ANNOUNCED--"To improve the flexibility of the economy," the GDR Government has ordered procurement and delivery times for raw materials, other materials and components to be cut, the order to take effect on 1 February. It is explained that foreign trade circumstances require a faster response to changes in demand. The shorter order and delivery times apply mainly to "priority projects and objectives," in other words performances needed to carry out nationally important research projects and exports of plant. An enterprise exceeding the stipulated date will have to pay contract penalties. Explicitly exempted from the shorter delivery times are supplies for the trade in consumer goods. /Text/ /West Berlin
IWE-WIRTSCHAFTSDIENST in German No 6/7, 10 Feb 84 pp 1-2/ 11698

SECOND-HAND GOODS IN DEMAND--Second-hand goods are enjoying a boom in the GDR. According to reports from various GDR districts, the trade in second-hand goods (which gained importance only in recent years and is now being systematically expanded) scored record turnovers in 1983. Turnover in Magdeburg Bezirk, for example, climbed to roughly M27 million. That represented an "above plan increase" of about M8 million, reported an official of the state trade organization (HO) in Magdeburg. Due to the heavy demand, the network of stores dealing in second-hand goods is being expanded in all GDR kreises. In Magdeburg Bezirk, for example, 15 such trade establishments are to be added, including a so-called superstore in Magdeburg proper, where a broad range of second-hand merchandise is to be offered. Turnover is set to rise to around M34 million. Customer service is being improved to make the trade in second-hand goods even more attractive. /Text/ /West Berlin
IWE-WIRTSCHAFTSDIENST in German No 6/7, 10 Feb 84 p 1/ 11698

MORE APPRENTICES NEEDED--The apprentice situation in GDR crafts occupations is not yet satisfactory. According to local press reports, not enough apprentices are being trained in several craft occupations that are much in demand. These include bakers, turners, shoemakers, butchers and chimney sweeps, for example, although the situation varies according to locality. On the other hand enough apprentices are training to be cabinetmakers, plumbers, fitters, electricians, locksmiths, tailors and beauty parlor operators. In some occupations in fact applicants definitely outnumber the vacancies for apprentices. Beauty parlor work, for example, continues to be among the fashionable occupations in the GDR. /Text/ /West Berlin
IWE-WIRTSCHAFTSDIENST in German No 6/7, 10 Feb 84 p 1/ 11698

CSO: 2300/307

AGRICULTURE, FOOD INDUSTRY FACE EXCESSIVE DEMAND, LIMITED RESOURCES

Budapest KOZGAZDASAGI SZEMLE in Hungarian No 1, 1984 pp 53-61

[Article by Dr Ferenc Vagi, department head of Karl Marx University of Economics: "A Long-Term Socio-Economic Look at Agriculture"]

[Text] I would like to offer a few remarks on Janos Illes' interesting and thought-provoking article by examining it primarily from the point of view of agriculture.* By making some highly significant statements regarding the relationship between national economic and agricultural growth the author has underscored the importance of this question. This is one of the issues to which I wish to add some additional comments. The other question I would like to address concerns the role of agriculture in today's difficult economic situation. Most of our agronomists, but also many of our agricultural economists are of the opinion that only agriculture can help our, from the point of view of growth, bogged down national economy out of its present difficult situation. Hence they also suggest that in view of its achievements in promoting production growth, improving food supplies to our population and expanding our capitalist exports the expedient thing for us to do would be to focus our scarce resources on the development of agriculture. Others, using the same argument, however, hold that agriculture should be made to bear even more of our economic burdens for it has the ability to endure them, usually also implying that there are many more possibilities to produce additional revenues in agriculture than there are in industry. It would also be interesting to find out (and this is the main question which I intend to address in my discussion) as to what extent agriculture can contribute to the improvement of our economic situation, and to what degree and under what conditions it can give our national economy the necessary impetus to get it back

*Janos Illes: "The Conditions of Our Long-Term Socio-Economic Development" KOZGAZDASAGI SZEMLE No 12, 1984

on the course of development. Going beyond Janos Illes' article, I will also address the development concept that has been prepared for agriculture.

Delays in Our Recovery and the Need to Retarget Our Agricultural Growth toward the Foreign Market

Our workers, including also the intelligentsia, often wonder why our economy has been at a standstill for so long, why their standard of living is being constantly threatened and when they can expect a more tangible increase in their real income. They wonder because for more than 10 years now we have been facing the recurring necessity of having to transform the structural make-up of our economy, improve our international competitiveness and (also repeatedly) define trying to meet these needs as an economic policy task. We should add here: our economic leaders had felt that this task could more or less be solved within a short time of not more than one or two five-year plan periods. Yet--especially in the area of competitiveness--in international terms we have not only not made any headway in catching up but have actually fallen further behind. As Janos Illes put it: "...until the early 1970's we had been successful in partially offsetting our technological and structural backwardness, however, during the past 10 years this gap has once again begun to widen." (1466.1) It is debatable whether we have succeeded in closing the efficiency gap between us and the leading capitalist countries and enterprises which play a determining role in the world market. For it is well known that one of the main reasons behind launching the reform of our economic management had been to ensure the gradual dissemination of technological achievements and to bring about intensive economic growth. The continued deterioration of our backward position during the 1970's has played a determining role in the development that has led to our present situation and it has been the result of the consequences of mistakes and shortcomings that have characterized our management so far and of the difficulties that have plagued our short- and long-term development. This is why within just a short time our country's foreign economic balance has broken down, our foreign debts have skyrocketed and the steps that have been taken to restore our still fragile economic equilibrium have been based not on growth resulting from efficiency but on substantial reductions in the domestic utilization of our national income which have also had an effect on our standard of living.*

There is no denying that in the past few years we have made some progress in bringing about structural changes in reducing our per unit material and energy use and, therefore, also in improving our efficiency. In connection with our growth problems which

*It should be noted that the improvements in the standard of living during the 1970's were in part also due to foreign credits.

are much like those experienced in the capitalist countries, the daily press makes frequent comparisons between "here" and "there", stressing among other things that despite our similar economic problems we do not have unemployment, unlike in the capitalist world where it has reached unprecedented proportions. This, however, is only one, albeit important social aspect of this issue. For the increase in unemployment and in the number of small businesses forced to close down at the same time also signals a complete break with outdated product structures and with the obsolete methods and technologies connected with them. As a result of the involuntary elimination of products and technologies from production "...even under conditions of slow growth"--writes Janos Illes--"there is an extremely strict selection process and rapid technological development taking place in the capitalist world.." (Ibid.)

In order to avoid any misunderstandings I want to make it clear that I do not consider any form of unemployment to be an acceptable and expedient method for bringing about improved efficiency under socialism. Nor can the use of unemployment be called a deliberately set goal under capitalism, after all historically speaking it has caused tremendous damage to that system. There is one thing, however, of which I am convinced: we have made a mistake when in our efforts to promote economic development and full employment we have virtually ignored the importance of efficiency and its effect on our development and competitiveness. Consequently, the unfavorable changes that have affected the international market conditions have not only aggravated the consequences of having neglected the importance of efficiency but by causing our international competitiveness to deteriorate they have even compounded them. As of today we still have not been able to bring about an improvement in efficiency that is so vital for increasing our competitiveness while at the same time maintaining full employment. For this reason, and because of other--among other things supply-related--obligations, our inability to adjust and revitalize our production, etc., the compromises that have been made and the actions that have been taken in enterprise management have been at the expense of efficiency which as a result has not improved enough to provide the income surplus and income growth necessary for modernizing our enterprises and raising our standard of living.

Full employment not properly backed by efficiency may be just as costly and may lead to similarly substantial losses of revenue as unemployment. The burden this places on our workers is not direct but indirect. And they manifest themselves not so much in the wages and surplus wages paid out to those employed in inefficient workplaces as in the energy and raw-material expenses incurred by the resources utilized there. In his article Janos Illes correctly points out that growth in our given efficiency situation could only unfold on a strictly defined course. He

sees several alternatives that may eventually be realized, all of which agree in that while they will be able to establish the necessary conditions for some moderate development and will even make possible some improvement in consumption, in the 1980's even under the best of conditions they will only be able to maintain the present level of real earnings.

First of all, the transition to growth will be rather drawn out and only the stabilization of our foreign economic balance will be realized. Our foreign debt obligations will use up the resources necessary for raising our standard of living. The only way we can expect to attain even our more modest goals is by providing our workers with broader incentives in improving efficiency which given the wage regulation forms we have had in effect so far have not and could not have been possible.

Secondly, keeping real earnings at their present level will also mean an end to the domestic-market generated impetus behind growth in our agricultural production which, especially until the mid-1970's, has forced us to press for increased production. Since we do not expect a notable increase in the demand for food stuffs, further increases in agricultural production may become a source of growth in our national income, depending on how well and at what price the resulting increment of production can be sold on the foreign markets. In order to bring about growth it is essential for prices to offset production costs which given today's conditions of oversupply is by no means easy to achieve.

Industry Is a Vital Part of Growth but Agriculture Should also Be Given a Greater Role in It

We often find that the extent of economic growth is judged according to the nature of the change, i.e., an increase or decline in production, even though it is best indicated by the change in the national income versus population ratio, that is to say in the direction of movement in the per capita national income. It is on the basis of this relationship that the various branches of our national economy, including industry and agriculture, can become directly involved in bringing about growth.

The Per Capita National Income in 1981

Item	In the National Economy	In Industry	In Agriculture
1950	423	727	98
As a % of 1960	255	340	103
1970	156	176	111

For some it is perhaps surprising and unbelievable, but it is hardly a disputable fact that if we look at the period between 1950 and

1980 as a whole we see no direct contribution on the part of agriculture to our economic growth. During this same period there was an almost sevenfold increase in industrial output. The reason for this big difference is that in industry nearly every investment has brought with it greater capacities and a corresponding growth in the number of jobs. In agriculture, on the other hand, most of the investments that have been made have been aimed at eliminating and replacing jobs. But the data also show that in the 1960's agriculture began to take a more direct part, and in the 1970's it even increased its direct participation in economic growth. In spite of this, agriculture's share of the total contribution by industry and agriculture to economic growth in the 1970's was still not more than 12 to 13 percent. On the one hand, therefore, there is a chance that agriculture's direct contribution to economic growth will increase, provided that we can ensure foreign markets for its increased production and that we can fulfill our long-term goal of increasing its national-income producing capacity and improving its efficiency. In the past 2 to 3 years this latter goal has been partially realized. It is also obvious, on the other hand, that direct participation by agriculture in bringing about economic growth can only materialize on a limited scale, for even with its auxiliary activities it does not account for more than 16 to 17 percent of our national income. It goes without saying that the elimination of our national economy's growth difficulties and the unfolding of its more or less satisfactory development cannot become a reality without the long-wanted structural transformation of industry or without a fundamental improvement--based on the rationalization of per unit material utilization--in the efficiency of its production.

Agriculture's direct part in bringing about growth and its possible and actual role are not one and the same. Furthermore, we also get a different picture when we look at agriculture's contribution to our national income as a function of our total population than when we examine it in terms of the number of workers that have taken part in making that contribution possible. The per employee growth in our national income calculated at constant prices in 1980 was 240 percent higher than in 1950, 201 percent greater than in 1960 and 140 percent more than in 1970. Compared with the number of workers employed in agriculture, in every decade there has been a strong increase in the contribution of agriculture to the national income; only this could simultaneously ensure the financial conditions necessary for the technical transformation of agriculture and for raising the standard of living of our agricultural workers. One of the decisive factors in bringing about this change has been the constant and vast decline in the number of workers employed in agriculture.

In 1981 the physical volume of agriculture's contribution to our gross national income was 113 percent higher than in 1950, 111 percent greater than in 1960 and 115 percent more than in 1970.

All we need to do is compare these data with those above and we can already see how manpower declines have affected the growth in agriculture's contribution to our per capita national income. Manpower declines were responsible for 91 percent and 89 percent, respectively, of the growth attained in 1950 and 1960, and this ratio is over 60 percent even when we use 1970 as our basis for comparison.

As for the future development of agriculture, we will no longer be able to tolerate further declines in manpower the same way we did in previous decades, and the only (or virtually only) way we will be able to bring about an increase in our per capita national income is by making improvements in our specific data. In this context, however, today's situation presents us with new requirements. Coupled with the above shown increase in the physical volume of the contribution of agricultural production to our national income has been a gross production increase of 207 percent compared with 1950. 173 percent compared with 1960 and 140 percent compared with 1970. There has been an enormous gap between the increase in agriculture's contribution to the national income and its growth of production. Behind the rapid, in the 1970's as much as 3.5 to 4 percent annual increase in production there has been, on the one hand, a constant and vast rise in the turnover and export of foodstuffs, while on the other its contribution to the national income has only modestly increased, in fact we could even say that it has essentially stayed on the same level. Given the lack of domestic demand and the intensification of foreign market competition it would not be realistic to expect a continued rapid rate of growth. The long-term concept of agricultural and food industry development anticipates an annual growth rate of 2 percent. This reduction in the rate of production will have a moderating effect on its contribution to our national income. With respect to the future this makes it even more imperative for us to thoroughly improve the ratio between agricultural production and the financial expenditures connected with it, if only to increase agriculture's contribution to our national economic growth. In other words, it is essential that we reduce the per unit equipment and material use of production--or as our agricultural and food-industry development concept has put it, increase the national-income producing capacity of agriculture--if we are to bring about growth in agricultural production that can satisfactorily reflect the needs of our development and living standard. However, we must also take into account that--due to our difficulties in keeping agriculture supplied with industrial equipment--our possibilities for reducing per unit equipment and material costs are rather limited. This circumstance--together with the moderate demand for our agricultural products--cannot ensure the conditions that are necessary for our agricultural enterprises to achieve sufficient growth in their agricultural production. They must continue to be able to develop their auxiliary activities. For in the final analysis this will not only benefit our

agriculture but it may also help to improve the organizational structure of industry and the efficiency of industrial activities. Our well-organized auxiliary activities have already provided clear evidence of this.

The Goal and Burden of Export Orientation in Food Production

The possibility of making improvements in agriculture has been radically changing. On the one hand, demand has been stagnating or only moderately rising, on the other, the stockpiling capacity of our agricultural enterprises has become increasingly strained. It is expected, therefore, that the balance of supply and demand in the case of agricultural products and foodstuffs will evolve at a lower rate of production growth. Preferably, most of the increase in the supply of agricultural products should--according to the preconception--be sold abroad, especially on the Western markets, while food economy imports during the 1980's should be kept constant and if possible even reduced. This foreign-market oriented increase in food production output will enable us to earn surplus hard currency which is vitally important for obtaining equipment that can be used to bring about a technological revitalization that would provide the foundation for improving the exporting ability and competitiveness of our processing industry.

The food economy is expected not only to attain a one-time active foreign trade balance but also to improve it regularly and significantly. One important factor in making this possible will be our food economy's ability to cut back its imports from the capitalist countries. Just what consequences this latter may bring I will return to later. Otherwise the basic situation I have outlined here with respect to the relationship between industry and food production is acceptable. Nevertheless, I would like to add a few comments here. On the one hand, agriculture's participation in the revitalization of our national economic development, and as it happens also in the redirection of our national economy onto a course of growth, cannot be greater than the share it has enjoyed owing to its specific potentials of the productive forces, production and revenues of our national economy. The development of our national economy cannot be improved by expecting agricultural products and foodstuffs to make up for industry's backwardness in competitive production and exports. Nor can we expect any results from placing excessive restrictions on the food economy in the interest of enhancing industrial development, for this food hinder the economical utilization of the resources of our agricultural industrial sphere. On the other hand, in order to ensure the growth of our agriculture and food industry the enterprises and small producers of these branches should be allowed--within the limits of demand--to manage their industrial resources and infrastructural services according to their needs, mainly to ensure that the expected production increase

provides them with sufficient revenues. This industrial growth will, even if not overnight, help to increase the purchasing power of our non-agricultural workers which is one of the main, if not the most important factor in the development of domestic demand for food-stuffs.

For objective reasons, therefore, the export-oriented development of our agriculture and food industry appears to be a promising road for our agriculture and food industry to follow between now and the year 2000. In order, however, to bring about an improvement in the competitiveness of our processing industry, food production must also assume a share of the burdens that may result from the redistribution of our resources, on the one hand, by improving the balance between its contribution to and share of our resources, and on the other, by strengthening the equilibrium of its hard-currency commodity turnover. In turn--according to our long-term concepts--once the processing industry has been effectively developed as required by the market situation, in the 1990's the food economy could once again receive greater attention. That is when we will be able to start focusing on the implementation of technological reforms and more resource-intensive developments, and at the same time on making significant improvements in the working and living conditions of our peasantry.

There are already signs that our producer cooperatives and state farms are finding growth on the basis of export-oriented development extremely difficult. During the first 2 years of the 1980's our food economy's capitalist imports suddenly declined and the positive balance of agriculture's budgetary relations improved. In the opinion of our enterprise managers the burdens that have been placed on enterprise incomes are excessive. They feel that the difficulties of industrial growth have already caused the overburdening a significant number of our agricultural enterprises. It is difficult to make a fair decision in this question. It is a fact, however, that the reproductive tensions experienced by our agricultural enterprises have been due to various different manifestations of this burden which have also increased the number of enterprises that have proven to be incapable of regenerating and accumulating resources, and which eventually have put an end to any real increases in the real value of per capita gross enterprise income.

The Basic Condition of Export-Oriented Development: Improved Efficiency

It is unquestionable, therefore, that the above described need for improving the relationship between food production and the processing industry and the beginning of its practical implementation have already made the growth of our agricultural enterprises more difficult.

Despite this difficulty, the course and manner of the export-oriented growth outlined in our agricultural and food industry concept is possible to follow and should never be abandoned. It appears, however, that just as before the concept--as well as the broad spectrum of our economic management and public opinion --is based on the idea that although under more difficult circumstances the development of our food economy will proceed in basically the same way and under essentially unchanged conditions. The assumption behind this idea is that the development of our food economy can continue even under conditions of deteriorating efficiency as long as that deterioration can be less severe in the future than it was between 1960 and 1980. But can we be satisfied with extensive growth or are we facing an urgent need for intensive development? In my opinion, without the latter, that is without shifting to a course of improved efficiency we cannot expect to make adequate progress or to realize one of the main goals of our long-term concept, i.e. an improvement in the income-producing capacity of agriculture. This is why we can no longer put off making improvements in the external circumstances and structure of our food economy and establishing conditions that will make it possible for our enterprises and workers to have a greater material interest in improving their efficiency.

The Development of a Market of Supply is More Likely than the Continuation of a Market of Demand

According to the agricultural and food industry concept, by the early 1980's demand for foodstuffs have begun to stagnate and will forseably continue to do so in the coming years. This conclusion also holds true for Western foreign market demand which has already caused prices to fall. On the one hand, therefore, it could indeed be said that, looking at it from the production side, there will be plenty of agricultural products to be sold on foreign, including Western markets if we can only find enough buyers for the products which we can offer. The signs of a supply market are already recognizable, and in a peculiar way they have first begun to show in the shortcomings of our marketing organization. If the development possibilities of our food economy do not become overly restricted then given a 2 percent increase in agricultural production, the supply market which has become one of the necessary and basic conditions for ensuring secure and selection-rich food supplies must become even more complete. In this situation, taking advantage of our export possibilities requires that our agricultural products and foodstuffs also include competitive staples of stable market demand. Some of the ideas that might be worth considering in this regard include the possibility of raising poultry under natural conditions and the perspective of exporting non-chemically grown fruit and vegetable products. It is also well known that our food industry is completely unprepared to satisfy the peculiar demands of the Western markets. In order to help our food industry enterprises develop such capabilities and become

competitive we also need--just as in the case of our processing industry--to better concentrate our resources and to procure and utilize capital equipment from the Western markets. Only by doing this can we expect to have a production structure that can take full advantage of the export orientation of our food economy.

Still another respect in which the supply market has forced our agricultural producers to adjust to demand requirements is by compelling them to sell their products at lower prices and in greater volumes. Even in--according to our experiences so far only temporary and partial--supply market situations this has not been absorbed by intermediate trade. In the final analysis, the marketing losses that have resulted from bigger crops have caused substantial damage to our producers. This is undoubtedly a reflection of the organizational deficiencies of trade. We can assume, therefore, that the introduction and broadening of producer participation in trade can bring better results and operate more efficiently under the conditions of a sellers' market, at the mutual satisfaction of producers and consumers.

In the Sectorial Linkages of the Agricultural Industrial Sphere Our Aim Should Be to Reduce Costs

In the production of the agricultural industrial sphere branch relations have not really been adjusted to the demand for the final product. The unfavorable effect of these relations on the efficiency of management has increased to the same extent as the agricultural utilization of industry-manufactured capital equipment has broadened. Due to the weakness of management the efficiency of agricultural production has deteriorated, mainly because the valuable industrial equipment they have used has not produced sufficient production values to recover the costs involved in obtaining that equipment. Post-production prices and price support subsidies, however,--although with some delay but eventually always--have made it possible to make increased use of industry-produced capital equipment. Every time a cost increase has been acknowledged in terms of prices or subsidies, the cost increase--at least most of it--has been reflected in the state purchase prices or carried over to the food industry which has further aggravated the cost-increasing effect of the technological equipment used there. The autarkic price and price support system of capital goods, agricultural products and food articles has made it acceptable to produce industrial capital equipment without taking into consideration the budgetary possibilities of the sphere of utilization. The excess costs this has incurred have been returned to our agricultural and food industry enterprises in the form of subsidies. An autarkic system which returns all expenses can give rise to a sense of indifference toward the value of the capital equipment used and to an attitude of insensitivity toward the costs which their use incurs. Such an autarkic system is clearly unsuited for improving our efficiency.

Just as our national economy as a whole, the agricultural industrial sphere also needs prices which make cost recovery contingent on market-oriented value judgements. This could also hold true for agriculture even when the selection of production justifies its efforts to fully meet domestic demand. In agriculture it is not possible to simply follow the so called world market prices. Nor can we disregard them, however, even in the case of products which only reach the domestic market. Industrial and agricultural prices must both reflect the cost recognition of the market with the difference that agricultural prices must also recognize the effects of branch characteristics and natural potentials.

The reason I have dwelled on the price question for this long is because one of the essential conditions for efficiency to assert itself in the agricultural industrial sphere is to have prices which are suitable for communicating investment-related real market value judgements and social recognition both among and within the commodity relations of our various branches. Without a standard-setting price and in the absence of commodity trade (market) price effects and price orientation would both be inconceivable. The absence of these two factors has become so imbedded in our system of management that we cannot even predict when we will be able to make up for it once and for all. The reason why our food industry enterprises have not defined any demand requirements either for themselves or for their raw material and capital-equipment producing partners is because they have neither had the incentive nor the economic need to do so. Their situation has neither made it possible nor has it given them any reason to comprehend and communicate the interest of the market. The earnings and results of our food industry enterprises have had nothing to do with how much of their raw materials and capital equipment they have been able to redeem. And industry-produced capital goods have never been available in large enough supplies for either our agricultural nor our food industry enterprises to take prices into account in making their choices.

Undoubtedly, the autarkic characteristic of prices and price supports have been undermined by repeated price adjustments, and it is also probable that the agricultural price level has gotten closer to the one recognized by the market. How this question looks according to a breakdown of individual products has not been explored well enough and should be further studied. It is probable, however, that in forming the price of certain products our market and marketing conditions have been given greater consideration. Every time such price changes have been introduced they have been justified as having been made in order to improve the efficiency of management. This argument, however, has never been supported by a more or less acceptable explanation. Even though experience shows that these price adjustments have pushed so much higher that despite quite significant increases in output production has become more expensive. First of all, price increases

always add more to the price of industrial capital goods than to those of agriculture. As a result of these price adjustments the disproportions that had once been eliminated between the high value of industrial equipment and the value which it can produce have returned once again. Secondly, accompanying the general price increase among capital goods has been an unchanged sellers' market for those goods. As a result we have not been and are still not able to bring about the necessary technical-technological revitalization and renewal.

Given our present conditions the efficiency of agriculture depends mostly on the way we utilize our capital goods. Our limited availability of resources has proven to be a virtually insurmountable barrier for our agricultural and food industry enterprises.

The Improvement of Efficiency as a Condition for Increasing Enterprise Income

The income conditions of increased production, both on the enterprise and small producer levels, are contingent on the realization of efficiency. If efficiency remains at its present level real enterprise income can only increase in proportion with the volume of production. Even a small decline in our per unit material-related investment costs will lead to an increase in the rate of income growth as compared with the growth of production. Understandably, it will be fundamentally important for us to ensure that our enterprises and individual workers have an interest in improving efficiency.

As far as enterprise interest in improving efficiency is concerned, it is also fundamentally important that our external environmental conditions (among them the capital equipment market) make it possible for us to cut production costs by way of technical and technological development. Furthermore, our enterprises should have an opportunity to take part in helping to increase their workers' personal interest in cutting costs. Taking our present production cost levels into account, lowering them does not appear to be an unrealistic expectation. It is all the more realistic when we consider that there are plenty of unused reserves even in the way we presently utilize our capital goods. It is imperative, however, that the growth of income resulting from a reduction of costs not be tapped by the budget. Our enterprises must be given the opportunity to use it for improving their development conditions and for encouraging worker participation in reducing costs.

The internal organizational make-up of our agricultural enterprises--our state farms and producer cooperatives--must be improved in such a way so that workers will have a natural interest in helping to reduce costs. The fact that this can be done in many different ways has already been proven by several enterprise initiatives. Inevitably, our enterprises' very existence, their

interests and growth, hence their good or bad fate will also be determined by the efficiency of their management. Obviously, not all of our enterprises will be able to meet their efficiency requirements equally well. The differences among them will become greater, for a considerable number of them even their mere existence may become uncertain, and it may mean having to give up their enterprise independence or having to radically transform their structure. Even the expansion of integrated small-scale production or a more widespread undertaking of auxiliary activities will not be able to solve this completely.

Today we can already be certain that it will be another decade before our national economy can once again begin to grow at a more rapid rate. As one of the basic conditions and determining factors for making this possible we must constantly exploit the mutual benefits which stem from the common ties between industry and agriculture. Agriculture cannot assume the role of industry either in increasing our competitive Western exports or in giving our national economy the necessary impetus to grow, but it can be of great value in helping industry achieve these goals. The success of our industry in doing so is in the basic interest of agriculture and of everyone connected with it. For another industrial upswing is imperative if we are to have a genuine increase in demand for our agricultural products and if having achieved this we want to strengthen and continue to improve the living conditions of our agricultural population.

9379

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VARIETY OF INCOME REGULATIONS BEING TESTED IN AGRICULTURE

Budapest HETIVILAGGAZDASAG in Hungarian 1 Feb 84 pp 4-5

[Interview with Rezso Kostyal, department chief of the Ministry of Finance, by Peter Bonyhadi; date and place not specified]

[Text] How could we achieve that everyone in agriculture be paid actually in proportion to his work, increasing the money-in-pocket interest of both the managers and the workers? It is almost 4 years ago that with the approval of the Ministry of Finance a number of tsz's [agricultural producer cooperatives] and state farms began experimenting with income regulation forms basically different from those generally in effect in agriculture. Why are these experiments necessary, and what conclusions can be drawn from them? Among other things we asked this of Rezso Kostyal, department chief of the Ministry of Finance.

[Question] Perhaps the most disputed element of the regulatory system is the regulation of earnings. What is the reason that progress is so slow despite the barrage of criticism?

[Answer] The eternal dilemma of earnings regulation is to determine whether its primary function is purchasing power regulation that is a distributive function, or incentive to more effective production. In many respects these two functions are in contradiction with each other, and at the best we can always emphasize one or the other. On one hand, the central rules on earnings--particularly nowadays--are designed to help see that in a given period the income share devoted to consumption from the national income is quantitatively in consonance with the total personal income issuing from enterprises and cooperatives. On the other hand, farms should be able to differentiate workers' income according to achievements. It is obvious that in order to do this they must be oriented in such a way that the manpower commitment should be rational as compared to the given activity and the savings should be expressed in personnel management. According to the experiences of our economic management system thus far, distribution also delimits the possibilities for incentive, which narrows the possibility of wages being paid according to achievements.

[Question] The question may appear naive to you but why is it necessary to circumscribe the use of income created by the large-scale farms and the tsz's, why cannot this be entrusted to them?

[Answer] This is a very timely question today because it affects not only the large-scale farms but also producer enterprises as a whole. Among the causes, in my opinion, we must stress, above all, that in the present economic political phase consumption cannot expand in proportion with the national income because of the strict equilibrium requirements. Therefore, income production and development of personal incomes must be in different channels. The other cause is that some of the enterprises and cooperatives, and in final analysis the state, are also financing deficit and inefficient activities because of which they cannot adequately remunerate more profitable, valuable and outstanding work. Actually, one of the consequences of this is that possibly ill-founded decisions do not generally have an effect on the survival of the decision makers, or in given instances on the enterprise, the cooperative, or their collectives and the individuals.

Among the causes we must also mention that we have not yet found precise measurement methods tied to the principle of achievement. Among other reasons this is a difficult task because the achievements of enterprises and cooperatives and the attained income derives from the combined effect of their own activities and external endowments--their economic environment, monopoly situation, and the intensity of state intervention. In recent years the income usable also in agriculture has been based not only on differentiation according to efficiency and profitability; compulsory state measures on purchasing power regulation have withdrawn or frozen large incomes where these may have risen.

[Question] If this is so, then the extent of the withdrawals is a matter of decision. Why then is there need for experiments?

[Answer] I think you are oversimplifying the question! One of the vital questions of our development is better manpower management and the essential improvement of work discipline; without genuine incentive relations this is inconceivable. Therefore it is urgent for us to develop material incentive regulation into our present social and economic conditions. We have no trodden paths to follow, we ourselves must discover those forms which are in harmony with our social goals and other elements of the guidance system. Thus the goal of the experiments is to acquire experiences that may be generalized for the introduction of such earnings regulation as will make the workers more strongly interested in the efficient development of production.

Despite the fact that since 1983 our large-scale farms have been able to choose between two general earnings regulation forms, our earnings regulation has not adjusted adequately to the rapid tempo of development in production technologies, and to rapidly changing internal and external conditions. Therefore, we have looked for better forms, and for this we need experiences.

[Question] Can we regard the experiments as a criticism of the wage or earnings regulation that has been used thus far?

[Answer] The experiences that can be generalized from the present average wage type of regulation are of two types. On one hand on efficient farms it restricts achievement proportional payments and in many places--mainly in the basic activities--it is accompanied by personnel retention and often expansion

for which there is no need. On the other hand, it represents standing water on large-scale farms that are stagnant or falling back from the viewpoint of achievements since the tax-free degree of wage development is regarded by many as a "subjective right" even if adequate incomes do not exist for their payment.

On this basis we can in fact regard experimental earnings regulation as a criticism of earnings regulation in agriculture.

[Question] What types of experiments are there, and how many farms have undertaken the role of a medium?

[Answer] Experiments were started in 1980 at the Baksa cooperative and at six additional cooperatives in 1982, the results of which convinced us that we should undertake enterprises more boldly and gain wider experience. The application of an earnings regulation form at one or two farms does not afford sufficient experience results. Therefore in 1983 we announced two more earnings regulation forms, for which applications could be submitted.

Earnings regulation depending on the ratio of consumption and savings is being operated at 38 large-scale farms. The essence of this is that a farm can develop wages if it increases new values and gross income as compared to the previous period, and from the new value it always keeps the development-consumption ratio of the previous period. Moreover, it is of elementary interest to reduce manpower and conduct very rational personnel management.

Since 1983 we have been using so-called large-scale farm earnings taxation on 54 large-scale farms. The essence of this is that the earnings paid out to each worker must be brought together with a tax table. This table determines by earnings brackets the total tax from 6 percent to a maximum of 50 percent. The combined total of the individual taxes calculated in this way is the earnings tax of the large-scale farm. Thus every forint of earnings here is essentially subject to tax but for the payment of one forint in wages a maximum of 50 fillers is owed in taxes. In the case of both forms the large-scale farm pays the tax, the mode of calculation is very simple, and the number of personnel does not need to be taken into account.

One condition for applying is that the large-scale farms must form the internal incentive system by building on their endowments in such a way that the incentive and wage forms which result in achievement proportional payments would be widened. The experiments last for 3 years, and after that it can be decided to what extent and with what kind of corrections it can be put in general use.

[Question] What are the experiences thus far in experimental earnings regulations, and can you draw conclusions from them?

[Answer] The experiences gained in the 1980 experiment started at Baksa and at the six farms in 1982 are very favorable. In 1982 on the average the seven farms increased their profits by about 30 percent, while in producer cooperatives as a whole the profits were 9 percent greater than the year before. In

these seven cooperatives, wages and earnings increased twofold above the cooperative average, and the specific wage cost of production decreased substantially as compared to the previous year.

We still cannot draw far-reaching conclusions from the experiments started at 92 large-scale farms in 1983. This is all the more so because about one-third of the participating large farms suffered a drought which reduced the value of their crop production by more than 20 percent as compared to the average for the previous 3 years. But it tells a lot that of the farms which participated in the experiment only six will show a deficit, and in no instance was a central damage settlement necessary.

Extremes in wage outflow did not occur at the farms participating in the experiment, while the rate of increase in the wage fund was approximately the same as the average for large-scale farms. The increase in the wage level--with variations for the individual experimental forms--exceeds the extent that may be expected for large-scale farms. A role was played in this by the fact that there was an average 2 to 3 percent decline in personnel at the experimental farms, while in the large-scale farm sector as a whole personnel increased somewhat.

Experiences thus far show that among the experiments the earnings regulation depending on the ratio of consumption and savings may not be introduced generally because it cannot handle the consequences of characteristic fluctuations in agricultural production, and it is also insensitive to the production structure. In the taxation form for large-scale farm earnings the wage outflow is the most to be deliberated because every forint that it paid out is taxed. It is a weaker point of the regulation, however, that it does not provide sufficient incentive for rational personnel reduction. It is likely that if in place of the large-scale farm earnings tax the cooperative workers were to pay the tax, there would also be more favorable influences on personnel management.

6691

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OFFICIALS SPAR OVER FOREIGN DEBT SERVICE OPTIONS

Bank Official's Perspective

Warsaw ZYCIE GOSPODARCZE in Polish No 2, 8 Jan 84 p 11

[Article by Kazimierz Glazewski, president, Bank Handlowy: "The Dilemmas of Pessimism"]

[Text] An article by Stanislaw Dlugosz entitled "The Dilemmas of Foreign Debt" was published in issue 50/1983 of ZYCIE GOSPODARCZE [see JPRS East Europe Report: Economic and Industrial Affairs, 18 January 1984, EEI-84-010]. In the article, the author outlined a possible scenario of developments in the world economy which could adversely affect the debtor-creditor relationship between Poland and the capitalist countries. In short, the following developments were brought up: the deterioration of terms of trade, mounting protectionism in international trade, high interest rates and restrictions which were instituted and maintained against Poland. Against this background, the following adjustments were suggested: promoting cooperation with the countries of the socialist commonwealth and subsequently with the developing countries, realistic forecasting of exports, maximum of restraints on the financing of imports, reducing to a minimum the hard currency funds allocated for servicing the foreign debt of Poland within 5 to 7 years, solving the debt problem by spreading the debt service over a dozen years and making repayment contingent on the level of commodity and service exports and the assumption by the creditors of their share of responsibility for the Polish debt. This responsibility, according to the author, is not currently called into doubt by anyone.

Upon reading these words, we were overtaken by profound regret that the author had not published such an article in the late 1970's. Published at that time, it could have come across as a warning. Its publication in 1983 must give rise to a fundamental controversy about at least some of the suggested adjustments.

Carrying on the pessimistic outlook of the author, we can point out further dangers. To give an example, our participation in the integration of socialist countries may still be inadequate in the years to come. Specifically, it will not fully prevent the depreciation of our pool of equipment, which unfortunately was to a large degree procured in the West.

The development of relations with the developing countries will be difficult, due to their balance-of-payments problems if nothing else. We still will not be able to streamline imports and will plan for unrealistic increments in exports, and creditor countries will not agree to a rescheduling over many years.

At this point, somewhat incidentally and with a high degree of probability, it should be called into question whether the creditor countries have matured enough to admit officially to their share of responsibility for the loans given to Poland as well as to assume the obligation of mandatory imports from Poland, regardless of the discussions now under way among these countries. Therefore, the cancellation or drastic further limitations on economic cooperation with the developed countries should be a logical consequence of this view. The suspension of debt service could be fraught with very important consequences in the sphere of commodity trade, as well as an array of negative implications with regard to other CEMA countries. The magnitude of economic difficulties which could arise on account of this cannot be accurately gauged at this point. Therefore, in my opinion, the balance-of-payments situation of the country should also prompt us to consider other means of overcoming the impasse, primarily those means which can bring about an improvement over a relatively short span of time and will not expose us--and probably other countries of our commonwealth--to the threat of further financial difficulties.

It seems to me that the profound pessimism of the author is essentially rooted in a lack of confidence in the realistic improvement of the export capability of our economy. His entire construct is subordinated to the consequences of this phenomenon. This is certainly not an unjustified concern. After all, it is common knowledge that economic sanctions and protectionism are causing us great losses and that many potential customers are not eager to purchase Polish goods due to purely political considerations. However, it is also an undeniable truth that the economy of Poland, especially the manufacturing industries, is still very far from being export-oriented due to objective and subjective reasons. Without solving this problem, we will not only fail to repay our debts but, moreover, will plod on in the lowest positions among other states, as the experience of some Third World countries plagued by a continuous crisis shows.

This is not the place to analyze this phenomenon. Suffice it to say that if 200 out of 6,000 industrial enterprises account for 75 percent of Polish exports, we can speak about blank spots on the export map of our country.

Further paralysis is a danger in the absence of a necessary and urgent discussion on technical progress, on improving the management of export, on the need to adjust our exchange rate policy and on a rapid introduction of differentiated and versatile incentives.

Let us turn to the topic of our hard-currency debts. Polish debt to Western countries consists of two elements, between which the author does not distinguish. Out of the total capital debt in long- and medium-term loans (maturing over more than 1 year) which are the subject of agreements

on refinancing, in the amount of \$23 billion, government-guaranteed loans account for \$12 billion and commercial loans for \$10 billion. As is known, the governments suspended their cooperation with us after the imposition of the state of martial law. Only now are they resuming negotiations. Similarly, the IMF [International Monetary Fund] suspended consideration of the Polish membership application. We expect the governments and the IMF not only to agree on the terms and conditions of repayment but also fully to normalize financial relations and to provide the needed financial assistance in an amount which would enable us to undertake, among other things, the export-oriented reconstruction of our economy. This would also benefit our creditors.

The banks have approached this problem in a more realistic fashion. After the talks with the governments were suspended, the banks have been trying to bring about further agreements.

It should also be remembered that although this was prompted by the creditor banks' own well-understood interest, the continuation of talks after the imposition of the state of martial law nonetheless also meant that the direct threat of an array of restrictions was removed. These restrictions could have impaired the functioning of the Polish economy in that period even more. In the course of negotiations, various obstacles of a legal nature were encountered with regard to, for example, the period of repayment, impediments associated with the varying size of our indebtedness to individual banks and the apprehensions of creditor banks that any concession to Poland that reaches too far would bring to a halt their talks with other banks of debtor states. Despite this, as a result of the agreements signed thus far we have been able to negotiate increasingly better conditions in three consecutive agreements regarding a total quota of \$5.8 billion of installments falling due in 1981 through 1983 (see Table 1).

As a result of interest regulation, the so-called revolving credit for commodity imports was obtained. This credit is a part of the interest we have paid. It should be mentioned in this reference that while the revolving credit was granted by the 1982 agreement on a bilateral basis between the creditor state and Poland, in the 1983 agreement we were able to secure the consent of our partners to use the \$200 million quota left at our disposal globally, regardless of the particular creditor nation to which we are paying the interest. This provides for a substantially better leeway in imports.

The amount and indicators of revolving credit are reflected in Table 2.

It is also instructive to compare the results secured by Poland in the financial negotiations in 1983 to that of other debtor nations (see Table 3).

Nonetheless, it should be borne in mind that unlike other countries Poland did not receive any new funds on the basis of the concluded agreements, aside from revolving credit.

Embarking on the 1984 negotiations which may cover all of our outstanding obligations, we will insist on further normalization of interbank relations, that is to say, the resumption of cooperation in short-term commercial loans, arbitration and arrangements on deposits.

It would seem that the critics of solutions found so far should not be mindful only of the cost of these solutions, which although relatively high still includes only a segment of our obligations and in the light of comparisons with other debtor countries is not the highest. The critics should also bear in mind that in the absence of adequate bank agreements it would be difficult to conceive of the beginning of government-level negotiations or our admission to the IMF. After all, at this stage in the negotiations, before an agreement is reached on a comprehensive settlement of the Polish debt, this is the price of maintaining, both in the community of countries close to us and in the debtor countries, the reputation of a solid payer who is capable of assuming responsibility for the debts incurred in the face of great adversity, who is still interested in every respect in continuing normal financial cooperation. We want to be a partner who has not only been able to learn from the mistakes of the past, but also intends to develop the country at the fastest pace possible. This includes a decided growth in exports associated with the necessary imports, which taken together always amount to an increase in economic activity. After all, we cannot lose sight of the fundamental premise of the Polish economy. In the future, slowing down the growth of debt and reducing the burden of debt service should be such a premise.

In painting ourselves as doomed to passivity and presenting to the outside world the rescheduling of repayments over many years as the only change, we embark on the seemingly easiest path. In essence, however, this prolongs the period of overcoming the crisis. Meanwhile, the time we have been given to accomplish this is not unlimited. At this time, it is difficult to predict future developments in international relations, especially while we are only entering a period of cold political climate. This, however, should not reduce our efforts aimed at increasing our participation in the international division of labor. Other solutions should be taken into consideration only if the other side, despite our good will, still fails to understand that overcoming the problems of Poland lies in the interest of both the creditors and the debtor.

As of now, however, the prospect of total impotence would be most threatening. It would be tantamount to forfeiting the opportunity to raise the standard of living not only of our own but maybe of the future generation as well.

Table 1.

<u>Specification</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Period of refinancing (counting from 1 January of the given year of refinancing)	8 years	8 years	9.5 years

Period of moratorium (counted as above)	4.5 years	4.5 years	4.5 years
Repayment of 5 percent of capital	in 1982	in 1983	in 1984
Repayment of loans (95 percent)	7 half year installments	7 half year installments	2 installments of 5 percent 2 installments of 7.5 percent 2 installments of 10 percent 2 installments of 15 percent
Interest rate	1 3/4 percent above the basic rate	1 3/4 percent above the basic rate	1 7/8 percent above the basic rate
Commission	1 percent of loan	1 percent of loan	1 percent of loan

Table 2.

<u>Specification</u>	<u>1982</u>	<u>1983</u>
The amount of revolving credit relative to the interest repaid (the total of interest due in a given year = 100 percent)	50 percent	65 percent
The amount of revolving credit	360 million U.S. dollars	200 million U.S. dollars
Grace period	3 years	5 years
Interest rate	1 1/2 percent above the basic rate	1 3/4 percent above the basic rate
Commission	-	0.5 lump sum of the amount of credit

*estimated

Table 3.

<u>Specification</u>	<u>Poland</u>	<u>Brazil</u>	<u>Mexico</u>	<u>Argentina</u>	<u>Romania</u>
Period	9.5 years	8 years	6 to 8 years	4 to 5 years	6.5 years
Period of moratorium	4.5 years	2.5 to 3 years	3 to 4 years	3 years	3.5 years
Interest margin	1 7/8 percent	2 1/8 percent	1 7/8 percent	2 1/8 to 2 1/4 percent	1 3/4 percent
Commission (flat)	1 percent	1 1/2 percent	not available	not available	1 percent

Reply From Planning Commission Officer

Warsaw ZYCIE GOSPODARCZE in Polish No 4, 22 Jan 84 p 13

[Article by Stanislaw Dlugosz, first deputy chairman, Planning Commission of the Council of Ministers; "Just the Normalization of Cooperation"]

[Text] I have read with interest the polemical article by Kazimierz Glazewski entitled "The Dilemmas of Pessimism" published in ZYCIE GOSPODARCZE on 8 January 1984. I would like to repond, also polemically, to several of the main ideas of that article.

I shall pass over the tint of denunciation in the opening. Also, I do not take issue "in earnest" with the title, which accuses me of "economic pessimism." I believe that as a direct participant in the arguement I should not be the judge of attitudes. I can only express the opinion that at last we are having to do in our planning procedureds with not only the possibility but with the necessity of using alternative scenarios of domestic and foreign developments based on economic realism. This was stated by the law on socioeconomic planning of 26 February 1982. Incidentally, we have already had to do with official optimism of planners, of the working class and of managers. At present, a new formula of the optimism of bankers may be taking shape.

I would take the liberty of adding a little to the information presented by the author in the tables before I go on to discuss two basic differences between my views and the stipulations put forth in "The Dilemmas of Pessimism."

In my opinion, the problem of Polish debt to Western countries should be considered in the aggregate regardless of whether these are commercial loans without state guarantees or loans guaranteed by state institutions ensuring against export risks. After all, this is a system of "communicating

vessels." Therefore, the data describing conditions of repayment according to the financial agreements should be supplemented by the following details in the interest of completeness.

Period of refinancing: Sudan has secured a 16-year period, including 6 years of moratorium, and Zaire--11 years, including 5 years of moratorium, in the Club of Paris, i.e., for guaranteed loans.

The level of interest rate for refinancing operations is one of the most difficult problems which negotiations have to solve. Incidentally, it cannot be solved only from the point of view of banking techniques.

Readers of ZYCIE GOSPODARCZE should be aware of the fact that other debtor nations are not deprived by the developed capitalist states of the opportunity to use new sources of loans based on state guarantees and, therefore, a preferential interest rate. Unlike Poland, access to the IMF and World Bank loans, i.e., loans at favorable interest rates and repayment conditions, is not denied to other nations. These two modes of credit reduce the costs of refinancing for these nations. Western creditors do not extend to Poland these modes of credit for political reasons within the framework of discriminatory restrictions instituted against Poland after 13 December 1981.

Brazil is an instructive case from the point of view of general tactics in refinancing negotiations. In this case, unlike the Polish one, the extension of the period of repayment from 8 to 9 years was accompanied by a decrease in the spread of the interest margin from 2 1/8 to 2 percent and a decrease in commission from 1 1/4 to 1 percent. New conditions for refinancing the loans extended to Mexico turn out to be still more favorable, as reported in NEUE ZURICHER ZEITUNG, 1 January 1984.

Kazimierz Glazewski states: "The banks have approached this problem in a more realistic fashion. After the talks with the governments were suspended, the banks have been trying to bring about further agreements."

In this matter, I am of a different opinion. I assume that the private banks have acted and are acting not because they appreciate our problems and economic difficulties but because they have assumed the role of a pump syphoning off hard currency from our economy--and very efficiently at that--on the basis of dispositions of the state political centers. I dare say that the intent of this activity will become quite obvious when the negotiations in the Club of Paris get in high gear.

The following assertion of the author of "The Dilemmas of Pessimism" stupefied me: "...With a high degree of probability, it should be called into question whether the creditor countries have matured enough to admit officially to their share of responsibility for the loans given to Poland regardless of the discussions now under way among these countries." After all, it is the task of Polish negotiators to obtain an "official recognition" of that kind on the basis of precedents accumulating in practice and international publications. It is all the more so because today Western

creditors who are using brutal and lawless restrictions against the people and economy of Poland are doubly responsible:

--partly responsible for the inconsiderate extension of loans (for example, in 1975 high-level French negotiators increased the value of a credit investment agreement from 5 to 7 billion francs totally on their own initiative);

--responsible for the damage caused to our economy by credit restrictions. This is stated clearly in the note of the government of the PRL to the government of the United States of 3 November 1983.

In order to convince the author of "The Dilemmas of Pessimism," I will take the liberty of citing several quotations confirming that in the world--and, I would like to say, it would be good if that were the case domestically--it is customary to think that problems of indebtedness are not solely those of the debtor countries and that the responsibility both for the state of affairs and the finding of rational solutions rests with the debtor as well as with the creditor.

In 1979, A. Cizaukas, an expert from the World Bank, stated in a voluminous study on refinancing operations: "What strikes one is the fact that refinancing operations both in the past and at present have been carried out for various reasons and on conditions which do not always meet the needs of the debtor and that they have turned out to be more expensive for the creditor and less favorable for the debtor..."

H.J. Abs, honorary chairman of the board of trustees of the Deutsche Bank, stated unambiguously (HANDELSBLATT, 23 February 1983) that periods of repayment as well as the interest rate should be adjusted to the opportunities of the debtor.

It is stated unambiguously in the "Fourth Report on International Financial Agreements; International Bank Operations" (London, 15 March 1983), elaborated for the British House of Commons by a team of outstanding practitioners and scientists, that many banks acted without due caution, often under pressure from their clients or competition.

Dr W. Guth, a representative of the board of the Deutsche Bank, stated clearly at a meeting of representatives of more than 100 of the largest Western banks in May 1983 that active participation of the governments of creditor states is necessary in refinancing operations, because only in this fashion can an equitable distribution of losses associated with refinancing among all the participants be ensured.

Dr F. Leutwiler, chairman of the BIS [Bank for International Clearing], an authority in the banking community, expressed the opinion that in the 1970's commercial banks went too far in extending loans and thus facilitated the present critical situation.

A.W. Clausen, president of the World Bank, also said in no uncertain terms in his lecture at Harvard University in February 1983 that "it is not difficult to point out examples of inconsiderate extension and acceptance of loans in the 1970's."

In the report of the so-called Brandt Commission 1983, published in London in 1983, the following diagnosis was made: "Certain banks were not cautious in extending loans to certain countries; certain debtors have used the loans for investment with a very low profitability." A general solution was also offered in the report. Among other things, it was stated that the insistence on excessively burdensome methods of repaying the debt can ultimately turn out to be harmful and unproductive.

P.B. Kenen, a well-known American professor of economics, published in THE NEW YORK TIMES (6 March 1983) a three-point assessment of the situation with international debts and suggested some solutions: 1) the interests of bank depositors should be protected; 2) the burden of debt on individual countries should be reduced in order not to cause social and economic difficulties in such countries; 3) normal cooperation in the sphere of credit should be continued.

In a lengthy interview in THE ECONOMIST on 26 February 1983, H. Schmidt, the former chancellor of the FRG and an outstanding pragmatic economist, estimated that the suspicion arose that in the 1970's many commercial banks overstepped their capacity to extend loans, whereas central banks and governments approached their oversight functions injudiciously.

An indirect confirmation of the argument on shared responsibility for the creation of and a solution to the problems of international debt can be found in statements by prominent representatives of American banks. These statements were published in late November and early December of last year. Bankers of unassailable reputation made pronouncements in a matter as delicate from the point of view of banking philosophy as the feasibility and even necessity of encumbering the interest rate required of the debtor nations as a condition for enabling the debtors to repay the debt. Finally, I should express my satisfaction that the author of "The Dilemmas of Pessimism," perhaps unwillingly, subscribes in every aspect to the basic argument of "The Dilemmas of Foreign Debt" on the need for the Western creditors to understand that the full and realistic normalization of economic cooperation, including financial cooperation, is the basic prerequisite for solving our--and, after all, their--problems. I hope that both the author of the "The Dilemmas of Pessimism" and I interpret this normalization identically.

[Rejoinder by Kazimierz Glazewski]: I agree with my opponent in that we interpret the normalization in the interest of Poland identically. However, I am of the opinion that all pronouncements about the inconsiderate extension of credit to the debtor nations so far are not tantamount to the official recognition of partial responsibility of the creditor nations for the situation that has arisen. Also, concessions granted to Sudan or Zaire cover only government-guaranteed loans, not commercial loans. My comparative

tables referred only to the latter. I do not represent a new breed of banking optimists. However, this is in my mind the necessary realism which should prompt us to consider the direction, pace and financial resources needed for the swiftest possible overcoming of the crisis.

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PZPR PLANT SECRETARIES, NATIONAL LEADERS CONFER ON ECONOMY

TRYBUNA LUDU Coverage

Warsaw TRYBUNA LUDU in Polish 4-5 Feb 84 pp 1, 2

[Report prepared by Andrzej Leszczynski and Mieczyslaw Wodzicki]

[Excerpts] We meet in order to talk about party work in 1984 in the large enterprises--said Kazimierz Barcikowski, Politburo member and Central Committee secretary, in opening the conference of the first secretaries of the factory committees of 208 of the country's large enterprises, the provincial committee economic secretaries, party secretaries in the ministries, and managers of central offices and institutions. The conference was held on 3 February at the Central Committee.

--Not just the party, but all of society, ties its expectations to your activities. Let us talk about the needs, hopes and prospects in this new year, Barcikowski said.

It was in this spirit that the conference proceeded. Two reports constituted the introduction to the discussion: a report by the chairman of the Planning Commission in the Council of Ministers, Manfred Gorywoda, who described the crucial economic problems ensuing from the Central Plan for 1984, and a report by the director of the Central Committee Economic Department, Stanislaw Gebala, who presented the tasks of the party organizations in the economic area. The chairman of the Central Auditing Commission, Kazimierz Morawski, also took part in the conference.

Manfred Gorywoda's Report

Many factors influenced the form of the Central Plan for 1984: the assumptions of the 3-year plan, the results of the public consultation on the plan's assumptions, and the economic results of 1983.

--Production during the current year will also be affected by the fact that last year's production for the year rose 6.7 percent, and that there was a certain declining tendency in the second half of the year.

--Uncorrected faults in the structure of industry, causing underdevelopment of market production and excessive materials-intensiveness of manufacture, will also have an adverse influence.

--Agricultural production has increased, but mainly crop production. Unfavorable aspects in livestock production will continue to cause difficulties in supplying the market with meat and can put an extreme burden on imports.

--The fact that the national income has grown for the first time in 4 years is worth noting. But the effects of this in the area of consumption have been reduced because outlays for investment last year exceeded 214 billion zlotys.

--Economic cooperation with socialist countries developed favorably and expanded. However, difficulties in exchange with capitalist countries still remain, which seriously complicates credit-financial relations. In addition, changes in world prices are unfavorable to us.

--Last year the decline in real incomes was slowed down, but on a scale which is still not sufficient and varies greatly.

With all of these entry factors, it is planned that in 1984 the national income will grow 2.6 percent, real income 1.2-2 percent, and industry's sold production 4.5 percent. In replying to questions as to whether these indicators are not too low, Manfred Gorywoda said that they were the result of realistic assumptions. Prospects for the coming year are limited because of the anticipated drop in employment, the necessity for lower investment outlays, and problems in imports of producer goods.

In order to fulfill the assumptions of this year's plan, Gorywoda said, there must be a definite improvement in management efficiency and work quality, and an effort must be made to reduce inflation (to bring it down to 15 to 16 percent, in accordance with the plan).

In the light of all this, Gorywoda presented the following basic areas of strain:

--Foreign trade, especially exchange with capitalist countries.

--The monetary-market sphere, within which pressure is applied for wage increases while labor productivity and amount of production are still disproportionately low.

The speaker announced that the government would increase penalties in cases where factories raise prices without basis.

--The third area of danger is investments. We observe that jobs are being excessively prolonged and investments exceeded. On this, too, the government will make disciplining decisions.

Stanislaw Gebala's Speech

Today's conference, Stanislaw Gebala said, is an important part of the preparation for the PZPR National Conference of Delegates. The exchanges of experience

relating to implementation of the 14th Plenum resolution in the factories and the tasks of the Central Plan for 1984 should improve the efficiency of party work and steer the activities of the enterprises towards the problems of greatest importance to the country and society.

Last year we obtained better results in production, industry, construction and transportation. But much that is unfavorable still exists.

In a significant number of enterprises a decline in export and market production is planned, the level of improvement in management efficiency will be too low, particularly in the reduction of manufacturing costs and materials-intensiveness. Too often solutions are sought in loopholes in financial regulations, rather than through economical management. The right to set prices is abused, waste is tolerated, there is low work discipline, losses are permitted due to poor quality of market and export production. Factories are also working excessive overtime hours and there is lack of progress in work organization. The factory party organizations should firmly oppose these practices.

The most important courses of party work in 1984, insofar as the economy is concerned, are:

--To mobilize the work force to execute the decisions of the Central Plan for 1984 and implement economic reform;

--To strive to implement factory anti-inflationary and economy programs;

--To work so as to increase production for the market and for export;

--To stimulate the application of new wage systems in enterprises;

--To encourage factories to improve the working conditions and living standards of their work forces, and especially to help the employees in the construction of housing;

--To actively participate in the enterprises' cadre policy and make it possible for the young people to be promoted where justified;

--To concentrate all of the social forces in the factory on the PZPR and to increase political activity in the election campaign for the people's councils.

Discussion

The broad panorama of problems which the work forces of the enterprises face was outlined in the discussion. This was an exchange of ideas, viewpoints and opinions. The discussion documented the extent of the work being done on the establishment of new incentive systems. Work in this field is being done in more than just the four experimental plants. Work in this area is also quite advanced in the H. Cegielski Works, Poznan, the "Glogow" steelworks, the Swidnik Transportation Equipment Plant, and many others.

Attention was called to the fact that in the new incentive systems not just wages are important but also how these wages can be set so as to stimulate more productive, honest work.

--In our plants, the May First Widzewski Cotton Industry Plants in Lodz--Karolina Muszynska said--wages rose 20 percent last year. But we did not increase inflation because production rose 39 percent during this period.

Much attention was also given to problems of the financial economy in the light of the modification of economic reform mechanisms. There was no lack of demands or proposals pertaining to tax reductions, payments into the Vocational Activization Fund (FAZ), credits, and foreign-exchange for import of foreign components. This illustrates the scale of the strains, inadequacies and shortages with which we must cope in 1984. The discussion also revealed the amount of consistency which will be needed to apply the so-called "hard money" policy.

The lack of stability in the regulations governing the economy was criticized during the discussion. Questions concerning the method by which sums for the FAZ were computed, how the income tax was constructed, and the division of amortization, kept recurring. Problems resulting from lack of executive acts to revised solutions were brought up. Demands were made that the assumptions for management in 1985 be prepared earlier than they were last year--the possible changes in the mechanisms of reform and the Central Annual Plan.

Economic reform is expressed in a dry, little-understood, legal language, Leszek Drogowski from the "Polfa" Pharmaceutical Plants in Tarchomin said. In order for reform to get down to the administrative level, to the work stations, the language must be made understandable. L. Rogowski spoke also about consistency in the application of reform and stability of its mechanisms. Plants which have passed the test in reform should come out winners as a result, and not lose out because of the constant changes in the rules of management.

Investment and modernizations are facts of life for many branches of the economy. These problems are acutely felt by heavy industry, and were brought up in many of the speeches made by representatives of the Bierut Steelworks in Czestochowa and "Jednosc" in Siemianowice. They said that postponement of modernization of steel mills means weakening the production capability of the entire economy and prolonging the period of recovery from the present difficulties. It was pointed out that in many plants there are 20 to 40 percent shortages in sheetmetal and other materials necessary for this year's tasks. Production of this material can only be increased if we restore the production capacity of the old mills.

But many of the plants cannot afford, out of their own funds, to modernize. And so they will have to be given assistance in the form of credits and tax relief.

Representatives of the Warski Shipyards in Szczecin and the Westerplatte Heroes Shipyards in Gdansk called attention to the need for immediate development of the shipping fleet, ports, and also shipyards. They said that the decisions made at the Central Committee 10th Plenum regarding the development of the marine economy are not being executed. They complained particularly about the failure to fill orders on schedule, price gouging on products supplied, etc.

The serious problem of the flow of materials to the workplaces was reflected in the discussion.

--Our workers at the Jelczanskie Vehicle Factories, Kazimierz Rosiewicz said, are asking why there is such a disparity between the size of the plan for the production of buses and the amount of supplies from which to produce them. How are we supposed to work and earn anything? Representatives of the H. Cegielski Works, Poznan, the PRONIT Plants in Pionki, the Chelm Cement Works, and others, also brought up these problems.

On the other side of the coin are the attempts to be economical and make more effective use of raw and other materials. The many examples cited during the discussion of the results obtained through implementation of economy programs is convincing proof of the fact that something is really changing for the better in this neglected area, even if the changes are slow. In this context, there were demands that there be more interest in the activities of inventors, including those inventing time- and labor-saving devices.

The activities of the trade unions and workers' self-managements were not ignored in the discussion.

We recorded motions indicating that the party should help in the establishment of good relations between the self-management and the trade unions. The role of the trade unions in improving working conditions and maintaining the social facilities in the plants was emphasized. Concern was also expressed about the increase in the union membership. Comrades Galus from "Jednosc" Steelworks and Ciok from the North Shipyard in Gdansk also talked about this. The systematic growth of union membership is not taking place without its problems. The party must explain many difficult matters and struggle with prejudice. It is also necessary frequently to come out in opposition to the hostile speeches from the political underground.

In view of the economic tasks, the party must deal with the problem of the form of its influence on the processes occurring in the factory. Marian Zelazowski from the "Glogow" Copper Works spoke of this, calling attention to the necessity of the party's influence on journeymen and middle supervision, who, to a great degree, shape the atmosphere and attitudes towards work. He also postulated that the party become more involved in creating a cadre reserve.

Waclaw Ludynia from the Chelm Works spoke of the need for the party to evaluate the implementation of the primary economic tasks: the thrift program, the anti-inflationary program, the flow of consumer goods to the market, and the stances and efficiency of the plant management cadres.

Nor was there a lack of problems relating to work-force social matters. It was said that they are no less important than matters of production. Some of the reduction of social benefits is due to the reduced sums flowing into the social fund. Therefore, the factories often have to make a difficult choice: what to spend the money on, and where expenditures must be reduced.

The housing fund is also in danger. And yet, it was stressed in many speeches, lack of housing means inability to attract new workers.

Some of the problems raised in the discussion were addressed by: Stanislaw Majewski, president of the Polish National Bank; the Minister of Light Industry and Chemical Industry, Edward Grzywa; the first deputy chairman of the Planning Commission in the Council of Ministers, Franciszek Kubiczek; and the deputy Government Representative on Economic Reform, Zdzislaw Sadowski.

In conclusion, comrade K. Barcikowski took the floor.

List of Participants in the Discussion

Factory Committee secretaries: Andrzej Komosinski, H. Cegielski Works, Poznan; Marian Zelazowski, "Glogow" Copper Works; Karolina Muszynska, May First Widzewski Cotton Industry Plants in Lodz; Zenon Pyda, A. Warski Shipyard in Szczecin; Stanislaw Urban, STILON Chemical Fiber Plants in Gorzow; Kazimierz Rosiewicz, Jelczanskie "Jelcz" Vehicle Factories; Bogdan Borys, B. Bierut Steelworks in Czestochowa; Edward Kustra, PRONIT Plastics Factories in Pionki; Mieczyslaw Ciebien, Swidnik Transportation Equipment Plant; Wacław Ludynia, Chelm Cement Works, Tadeusz Kaczmarek, PONAR in Lodz; Andrzej Galus, "Jednosc" Steelworks in Siemianowice; Zbigniew Ciok; Westerplatte Heroes North Shipyard in Gdansk; Leszek Drogowski, POLFA Pharmaceutical Factories in Tarchomin; Zbigniew Bereza, M. Kasprzak Radio Factories in Warsaw; Janusz Pawlowski, Committee for the Construction of the Mining-Power Basin "Belchatow"; Zdzislaw Rzepka, Truck Factory in Starachowice; Stanislaw Rachwat, "Batory" Steelworks in Chorzow; Antoni Wida, "Podhale" Leather Factories in Nowy Targ; and Edward Baranowski, Mazowiecki Petroleum-Refinery Plants in Plock.

Motions were also submitted for the minutes.

ZYCIE GOSPODARCZE Account

Warsaw ZYCIE GOSPODARCZE in Polish No 7, 12 Feb 84 p 2

[Article by Irena Dryll: "Areas of Dangers and Needs"]

[Text] At year's end there is an inclination to glance backwards, at what happened in the economy during the months past, and to look ahead, at what awaits us. This looks somewhat different from the "top", from the position of the central authority, then from the "bottom", from the standpoint of the enterprises. This was clearly shown in the discussion at the conference (held on 3 February) of the first secretaries of the factory committees from 208 large industrial plants and conducted by Kazimierz Barcikowski, Politburo member and PZPR Central Committee secretary. Two reports served as the introduction to the discussion: the chairman of the Planning Commission in the Council of Ministers, deputy premier Manfred Gorywoda discussed the tasks for the current year which ensue from the Central Plan, in the light of last year's results; and Stanislaw Gebala, director of the Central Committee Economic Department presented the party organization tasks in the area of economics.

As part of the preparation for the conference referred to, the Central Committee Economic Department jointly with the Planning Commission, in January of this year, evaluated the economic and sociopolitical situation in 59 of the 208 enterprises in which the Central Committee is directly interested. In discussing

this analysis, Stanislaw Gebala called attention to the question of the conformity of the enterprises' plans with the assumptions of the Central Annual Plan (CPR), especially in two basic fields: consumer goods output and output for export. Of the enterprises examined, over one-fifth plan a decline in output of goods for export in 1984, as compared with 1983. Insofar as consumer goods output is concerned, only three enterprises: STOMIL in Olsztyn, STILON in Gorzow, and the utensil factory in Olkusz, plan a significant increase. The other enterprises do not anticipate any growth in output of consumer goods, and there are even those who envisage a reduction. Large differences in basic directions and relationships between the enterprise plans and the central plan, as Gebala emphasized, also exist in relation to management efficiency, primarily in the reduction of manufacturing costs and materials-intensiveness of production.

From the statements of some of those taking part in the discussion--first secretaries of the party factory committees--it appears that in many cases the reasons for this are very prosaic. No one knows what the availability of materials, especially imported ones, will be, but at any rate, it will be worse. For example, Kazimierz Rosiewicz from the Jelczanski Vehicle Factories said that this year's allocations of materials are from a few to several score percentage amounts lower than last year. The factory is supposed to receive about 40 percent less body sheetmetal. --All of our production (buses) is distributed centrally, but the materials indispensable for this production are not being allocated to us. The final producer must plead with the coproducer for these materials--the conferee said. And he described this as "lack of coordination in planning".

The Minister of Chemistry and Light Industry, Prof Edward Grzywa, in responding to the comments made during the discussion on plans, said: "What are we doing to bring things into conformity with the CPR? Well, we are persuading, talking with the directors, and with the self-managements. We expect that we will be able to improve the factory plans by several percentage points.

Even more difficult to perceive and define than planning disparities are, if they can be so described, disparities between the areas of dangers in the economy and the needs of the enterprises and hope for improvement. In Gorywoda's opinions, the areas of dangers are primarily: foreign trade, and particularly exchange with capitalist countries, and then monetary-market balance and investments. In listening to the secretaries' speeches reflecting the factories' point of view, it is not difficult to come to the conclusion that each of these dangers can be alleviated, or intensified, by the specific behavior of the enterprises.

Let us take foreign trade, for example. The plants' requirements for exports from capitalist countries may possibly be met more or less halfway, since the possible size of foreign-exchange funds, as the speech made by K. Barcikowski, Planning Commission chairman, in summing up the deliberations stated, depends on too many factors for us to be able to have any concrete data at this time. --I will call anyone a demagogue who yells that he has a good idea but needs two dollars--Barcikowski said. --If he thinks that someone in Poland is sitting on dollars and all he has to do is yell and he will get them, he is mistaken. Foreign exchange must be doled out on an apothecary's scale. Only one thing will sink us during the current year, and that is lack of funds for imports.

Under these circumstances, opinions expressed by the secretaries to the effect that it does not always pay to save or earn foreign exchange are an important signal. And sometimes foreign exchange is not always used where the greatest need exists. Edward Kustra from the PRONIT Plastics Factories in Pionki spoke of the serious difficulties his factory has with sales of its production: synthetic leather (polcorfam) and coated fabrics. This is even more surprising, the secretary said, because "as recently as a year ago, contrary to the position that our enterprise took, the need to complete the investment that had been withheld for the production of synthetic leather, was urged upon us." The speaker suggested that a lot of these kinds of products are being imported and this could be avoided by importing much cheaper components." True, Minister Grzywa pinned down the speaker with an argument on prices, asserting that their polcorfam is too expensive and that is why no one wants to buy it, nevertheless the problem on the profitability of import which was raised does exist. The problem of the profitability of export also exists.

Andrzej Wida from the "Podhale" Leather Factories in Nowy Targ said right out loud what has been whispered for a long time: --Production for export is less profitable than production for the domestic market. We export only as much as necessary: 900,000 pairs of footwear to the capitalist countries (in good years we exported about 2 million pairs). That amount is enough for us to "scrape up" enough foreign exchange so that we can purchase the materials and machinery spare parts that are indispensable for us.

Another, vital question was raised by Edward Baranowski from the Plock "Petrochemia": --Last year foreign-exchange allowances for the Foreign-Exchange Allowance Account (ROD) amounted to 15 percent. In accordance with suggestions from the Ministry of Foreign Trade to economize, we "blocked" what the plant had accumulated for the foreign-exchange allowance account. This year we were told that because you did not produce as much, we will give you a 10 percent reduction. In the anti-import commission we looked at every dollar. And so it paid off. --

Without commenting on these statements, it is worth noting that Gorywoda announced certain measures which would favor export.

Let us take the next area of danger: monetary-market balance. Everything that occurs in the sphere of wages will have a tremendous effect on this balance. What is important is what the implementation of the assumption of a 17 percent wage increase, approved for this year, will be, as well as the application of recently passed law on factory wage systems. --The work forces are regarding this 17 percent raise as a certainty--Andrzej Komosinski from the H. Cegielski factory in Poznan said, reporting also that in their factory consultation on new wage rules is already beginning. From the speeches of others it appears that the 17 percent wage increase is regarded as something that is provided somewhat automatically and in advance. Few regard this figure as one that is a possibility, depending on a growth in production. The expectations, generally speaking, are that this several-percent increase is already in the bag and that further growth in production will be ensured by a so-called wage experiment, or use of the law.

--In order for wages in our plant to be raised 16 percent this year--Andrzej Galus from "Jednosc" Steelworks in Siemianowice said--we would also have to pay 205 million zlotys into the Vocational Activization Fund, and we estimate that our entire profit this year will be only 200 million zlotys. He also mentioned another common occurrence--comparison to the so-called "average". What this real average is, according to the speaker, is not really known. --I asked a colleague in the Warsaw plants: what is the average at your place? And he replied, that depends on who is asking... Stanislaw Rachwal in the "Batory" Steelworks in Chorzow mentioned the disparity between the law and the equalization tax. The law encourages greater effort and makes it possible to pay well for that effort. The tax operates in the opposite direction. --Today, in our mills, we already have 1,350 employees who have "become eligible" for the tax and must pay up from 100 to 29,000 zlotys. Karolina Muszynska from the May First Cotton Industry Plants in Lodz, called attention to a very dangerous, in her opinion, occurrence: --Wage experiments in certain enterprises are written and talked about, using them as an example. But closer examination shows that the same drop in employment took place there, and that labor productivity is on the same level as in the enterprises where no wage experiments were conducted.-- She suggested that overall, systems-type rules of an incentive system be issued, recognizing that leaving this problem for the individual enterprises to solve is a mistake. Replying to this comment, Prof Zdzislaw Sadowski, deputy Government Representative for Economic Reform, expressed the opinion that it is precisely the above-mentioned law which creates the basis for systems-type solutions to this question of wages. It designates the general bases of wage policy, within which the plants can operate.

And finally, the third area of danger: Investments. Last year investment outlays were exceeded by 215 billion zlotys. If this were to be repeated, the consumption plan envisaged for this year would be cancelled out. In order to avoid this danger, as Gorywoda said, the government is undertaking a number of disciplinary measures. But to conduct and expand a "hard-money policy", in his opinion, will not be easy. Almost every appeal for investment, investigated individually, is justified, nevertheless it cannot be considered under present circumstances. The course of the discussion fully confirmed this. --We have buildings, but we need machinery--said a representative of the Cegielski Factories, justifying an application for credit on the "self-payment" principle. The speaker probably wanted to emphasize in this way that they are not seeking a subsidy... Other representatives of shipyards and steelmills: Zenon Pyda from the Warski Shipyard in Szczecin, Zbigniew Ciok from the North Shipyard in Gdansk, the already mentioned secretaries from "Jednosc" and "Batory" steelworks, and Bogdan Borys from the Bierut Steelworks in Czestochowa, stressed two main matters: the drop in employment and the depreciation of enterprises that follows. --I see the shipyard dying before my very eyes-- said Z. Pyda, making an appeal for "fitting" reform to the specifics of a shipyard. Prof Sadowski noted that, as a matter of fact, when someone talks about taking "specifics" into account in reform, this comes down, in fact, to an appeal for money and investment. Regardless of this assessment, a fact remains a fact: the problem of modernizing and developing enterprises is becoming the No 1 problem of our economy. K. Barcikowski announced that this subject will be taken up at a similar meeting in the second half of the year.

Another very interesting theme kept recurring in the discussion. It can be described as the "technology of reform". Tadeusz Kaczmarek from the Strzelczyk Grinding Machine Factory in Lodz, without denying that there is a need for change, urged that there be at least a "minimum of stability" in the solutions. Zbigniew Bereza from the Kasprzak Radio Factories in Warsaw said that "reform is too reformed", and that the new regulations are reaching the factories late. Leszek Drogowski from POLFA in Tarchomin expressed the opinion that the language of reform is still too complex and that the plants are swamped with laws and orders which can in no way be "consumed" in practice. Several speakers pointed to the rebirth of intermediate levels, particularly in the area of distribution. There were voices pointing to the reduction of the independence of enterprises. --It cannot be that the only area in which the enterprises are independent is in the responsibility for the final results of action.

But relatively little was said at the conference about concrete activity. And if there was, it was on the basis of a one-year-to-the-next application of the production growth indicators. In connection with this, K. Barcikowski suggested that there be an examination of the GUS [Government Statistical Office] report which shows that in 1983 we produced 10 percent less than in 1979. --This should sober us up, he said, so that we are not impressed by growth but know in what kind of world we are living--he said.

Insofar as issues connected with reform are concerned, in the opinion of the secretary, there are some who confuse "independence" with "wilfullness", and demand all possible wage-credit preferences, while at the same time they escalate prices and reduce the quality of production. And referring to the problem of reform and stability in the "rules of play", K. Barcikowski expressed the opinion that it would be well if it were possible to avoid frequent changes, and if not, then the intention to make these changes and the regulations connected with them should occur earlier. He also stressed: --We are not building a house out of logs. We are really building reform out of live tissue."

9295

CSO: 2600/652

GOVERNMENT DAILY SPOTLIGHTS FIRMS PENALIZED FOR PRICE GOUGING

Consumer Goods Manufacturers

Warsaw RZECZPOSPOLITA in Polish 24 Jan 84 pp 1, 6

[Article by (an): "Penalties for Unjustified Price Increases--Cheating Does Not Pay"]

[Text] The Skarzysko Footwear Factories (Factory No 2 in Malogoszcz, Kielce Province) overpriced children's and youth's footwear, prices of which are regulated. As a result of a price inspection, the plant had to pay the overages, plus a penalty, totaling over 769,000 zlotys, into the state treasury and refund the product subsidies--115,000 zlotys. Price corrections were made on 29 products.

In the "Hanka" Knitwear Goods Plants in Legnica, during a price inspection on knitwear for children and youth, it was found that the factory, in selling grade 2 products, was reducing the price by only 15 percent instead of the 20 percent required. The plants had to pay 2 million zlotys into the state treasury. The M. Konopnicka Garment Cooperative in Suwalki had to pay approximately 75,000 zlotys for a similar offense. In the "Ewa" Cooperative in Makow Mazowiecki it was found that products were being overpriced in relation to quality. Here the sum paid into the treasury amounted to 2.7 million zlotys.

The examples of overpricing and thus obtaining undue profits given above are not isolated, unfortunately. Recently price inspections confirmed similar practices in 56 percent of the factories investigated. Over 970 price calculations were questioned, including 800 regulated prices. The enterprises are not observing the calculation rules. The items most frequently overpriced are costs of materials, labor, and the so-called "indirect" costs. Often, too, despite the fact that the quality of the products has deteriorated, grade 1 prices are applied.

In any case, not only the producers are attempting to improve their financial situation at the expense of the purchasers. Price inspections in trade and services also revealed cases where higher prices were being obtained than the price list showed, and grades were falsified. Such abuses were detected in every fifth establishment inspected.

On orders issued after the inspections, economic establishments were forced to pay over 570 million zlotys into the treasury and refund 156 million zlotys to purchasers. Of special importance to customers were price reductions on 230 items. Savings to purchasers, over the period of a year, amounted to 278 million zlotys.

In addition, 88 persons were cited and paid fines totaling 170,000 zlotys. Twenty cases were referred to misdemeanor courts and 43 persons were disciplined.

Construction Firms

Warsaw RZECZPOSPOLITA in Polish 27 Jan 84 p 2

[Article by (an): "Sanctions for Overestimating and Overpricing; Estimates in Construction"]

[Text] Quite often we hear that inspections have revealed cases of overestimation or overpricing of consumer goods or services.

Similar practices in the construction industries also have an adverse effect on household budgets. Such industries want to pass their unjustified expenditures on to the investor or improve their financial position by including fictitious costs. As a consequence, all of these unjustified or fictitious costs must be borne by future tenants or users of the buildings.

That is why the Price Inspection Board is always interested in how prices in construction are calculated. The results of inspections are the best proof that these visits are necessary. Many irregularities are found, and as a result not only are prices reduced and corrections made in the calculations, but investors must be refunded their overpayments. In addition, the enterprises, as a penalty, must pay an amount equivalent to the unjustly received sum to the state treasury.

As the Price Inspection Board recently determined, the Construction Combine in Gliwice, by passing indirect costs amounting to 179.6 percent to investors, instead of the 128.9 percent which was applicable, overstated the costs of buildings under construction by 68.5 million zlotys. Of this, 5.3 million zlotys applied to houses already completed and turned over to the investors. After inspection the Combine returned these 5.3 million zlotys to the investors and as a penalty, paid the same sum into the state treasury. Furthermore, it had to revise the calculations and refund the sum wrongfully received (63.2 million zlotys).

The General Construction Combine "Beskid" in Bielsko Biala overpriced general costs and supplements drawn for general construction (3 percent instead of 1 percent). As a result of these irregularities, there was an overcalculation of 36.3 million zlotys (of which 317,000 applied to completed buildings). "Beskid" had to return the wrongfully collected sums (317,000 zlotys) and pay an equivalent amount to the state treasury as penalty. It also corrected the calculation pertaining to uncompleted buildings and returned the overpayments to the investors.

At the "Srodmiescie" Construction Combine in Lodz, the Price Inspection Board questioned 67 calculations. Labor costs were overpriced by including higher bonuses in the estimates than were actually paid, and materials costs were overpriced. Errors in calculations "cost" the Combine 12 million zlotys which it had to pay to the treasury, and it had to return 32 million zlotys to investors. The inspectors also found dishonest calculations in the Construction Combine in Bytom. It had to return wrongfully collected sums amounting to 11.5 million zlotys. And in addition, almost 1 million zlotys was paid into the treasury. The General Construction Combine in Rybnik overpriced labor costs and as a result had to pay 8 million zlotys.

Although such practices, as these examples from the most recent reports of the Price Inspection Board would show, are unprofitable for the enterprises, and the thinking that "maybe we can get away with it" is shortsighted, nevertheless they occur frequently. Perhaps because in the enterprises themselves those who are responsible for these practices are rarely held to account.

9295

CSO: 2600/641

DEVELOPMENT OF NEW IMMUNO-REGULATING DRUG DESCRIBED

New Thymus X-Factor Drug

Warsaw SLUZBA ZDROWIA in Polish 31 Jul 83 pp 1, 6

[Article by Maria Nikitin: "TFX [Thymus X-Factor]--Success and Hope"; date and place not specified]

[Text] Ampules marked "TFX-Polfa-Jelenia Gora" will soon appear in drugstores. The drug with this name has recently passed final approval by the Drug Commission, which allowed its inclusion in the pharmaceutical registry. Physicians will receive a new powerful weapon--an immunoregulating preparation. This is the composition of the preparation in the ampule: Thymus X-Factor 0.01, Thiomersalum 0.05 mb, Natrii chlorati 0.009, Aqua pro injectione ad 1 ml.

The new medicine is capable of functioning as a substitute for the thymus gland. It eliminates the shortage of T-lymphocytes by attracting the immature parent cells and promoting their maturation. As a result, general resistance of the body is improved. The TFX preparation is a polypeptide fraction separated from calves' thymus and free of nucleotides and fats. Importantly, the polypeptide fractions are different from those in thymosin -- to the advantage of the new drug. The production of TFX results from an invention developed by Professor Julian Aleksandrowicz and technicians Jan Czarnecki and Boleslaw Jaskolski at the Pharmaceutical Enterprises of Jelenia Gora. The team has come a long way from their initial idea to the ampules filled with the drug.

The drug will find an application in all diseases with primary and secondary immunological deficiency of T-lymphocytes, which are manifested in a variety of symptoms: prolonged viral, bacterial, and fungal infections and allergic and autoaggressive reactions.

By now, 120,000 ampules of TFX have been produced, which were used in clinical tests. Polfa Enterprises promises to manufacture between 10,000 and 20,000 more before the end of 1983 and estimates its general capacity at half a million.

Studies of individual TFX polypeptides are continuing in the meantime at pharmaceutical enterprises, with the aim of developing a preparation with a long time of action.

The calf thymus used to produce TFX until recently was exported to nations of the second payments domain. Now it is time to start thinking as to how and where TFX can be exported.

Studies in the past decade in many world centers have clarified the function of the thymus in producing the homeostasis of the human organism. From the first weeks in embryonic development until maturity, when its function declines, the thymus produces hormonal effects and makes direct contributions to the formation of elements of the lymphatic system concerned with immunological responses. It takes part in hormonal regulation, and, most importantly, it maintains immunological tolerance and counteracts autoaggressive reactions to structures of the nervous system and other tissue elements through the action of mature T-lymphocytes that exercise the suppressive function.

Studies by the Immunopathology Laboratories of the Institute of Infectious Diseases of the Academy of Medicine in Warsaw, proceeding from evaluation of the condition of cellular mechanisms regulating the immunologic response, have shown that the etiology of various diseases is largely associated with the pathogenic effects of disruptions in the mechanisms of the body's immunologic response system. Among various possible malfunctions of the components of the lymphatic system, a major role seems to be played by the activity and quantity of T-lymphocytes. After the function of the thymus in maintaining the immunologic homeostasis has been confirmed by scientists in Poland and other countries, extreme importance of T-lymphocytes was thus understood. It was suggested that normalizing the quantity and activity of the system by TFX can normalize the immunologic response of the entire lymphatic system and eventually lead to elimination of the pathogenic source of many diseases--namely, the autoimmune reaction.

This is how the mechanism of action of TFX was explained by Dr Marek P. Dabrowski, who took part in developing the drug, in his interview with TU I TERAZ (no 25):

"Thymus hormones," explained Dr Dabrowski, "are responsible for renewal of certain cellular structures of the lymphatic system which are important for the immunologic status of the organism in preventing the autoaggression and ensuring adequate defenses against infection. Here we use a reconstruction: a new therapeutic concept which, abbreviated, can be called immunoreconstruction. It consists in renewal of the lymphatic system, replacing the deficient elements and making general repairs. Extremely positive therapeutic effects have been obtained in a wide spectrum of human pathologies, but these successes caused skepticism on the part of many physicians. TFX provides good results in the treatment of allergies, connective tissue disease and chronic viral diseases. It is also helpful with disease where one of the symptoms is paresis or paralysis, that is, in diseases of the nervous

system. And finally, in diseases caused by fungi and bacterial infections in children and adults, apart from a large number of pathological conditions in various medical specialties, TFX has been shown to be helpful as well.... The thing is that it seemed unlikely that there could exist a medicine that would work as a panacea or cure-all. However, it turned out that there does exist a certain universal effect of TFX on the causative factor of all these diverse diseases.

"Despite all the differences, these diseases had a certain thing in common. Reading about them in textbooks, we often come across one formulation: the etiology or the causes are unclarified, the pathogenic process is unknown and the prognosis is poor. That these statements were repeated when describing so diverse disease conditions was no accident. It has been discovered that the unknown entity contained in these three dreadful statements was the unknown factor associated with the function of the lymphatic system. We can say that the lymphatic system, deprived of regulating cells, becomes a unit of artillery firing cannon shells at diverse targets and wreaking havoc in all ends of the body and its various functions, resulting in quite a varied symptomatology. Therefore, the task was to stop the destructive activity of this artillery unit by giving a commander to each cannon. This again is the T-lymphocyte, which first decides whether or not to fire, second, directs the fire to the proper target, and, third, decides whether or not to repeat the shot if the situation requires, and finally, to give the order for a ceasefire. The T-lymphocyte thus has helped us to unravel therapeutic problems, as well as to understand the etiology, finding the causes and mechanisms of the diseases."

The immunologic research provided a theoretical basis for clinical tests. Tests were conducted at five health centers: the Hematologic Clinic of the Academy of Medicine at Krakow, the Neurologic Clinic of the Academy of Medicine in Warsaw, the Clinic of Infectious Diseases in Poznan, the Institute of Infectious Diseases and Transplantology Institute in Warsaw.

The clinical tests of the TFX preparation indicated its efficacy in substituting various deficiencies of the thymus function.

The physiologic mechanism of the drug's action, by reconstructing the deficient links in the neural-endocrine-lymphatic chain, provides an effective barrier to the development of pathologies in the human organism that have various symptomatic manifestations, but are of a similar pathogeny. This mechanism of action places TFX in a unique position vis-a-vis immunoregulating drugs used until now. Its immunostuctural properties allow classifying it as a major means of immunologic prevention and effective medication for immunologic intervention.

According to its mechanism of action, the preparation should be used in repetitive therapeutic cycles with monitoring and tests to evaluate the adequacy of cellular mechanisms of regulation of immunologic response.

Based on tests, clinicians suggest TFX administration for hepatic diseases, especially in cases of severe hepatitis. It is also indicated in such neurologic entities as all kinds of polyneuropathy, inflammation of brain tissue and spinal cord and early lateral sclerosis; finally, in the clinical blood diseases and in entities associated with pathology in the renal area.

In view of the absence of side effects with treatment and high tolerance, even when the medication is used for several years, clinicians predict that the indications for the use of the drug will be extended also to lymphatic proliferation, collagenosis, conditions caused by deficiency of immunoglobulins and allergic states, as well as secondary decline of resistivity due to acute viral, fungal and bacterial infection, or primary treatment such as by antibiotics or radiology.

Further studies on the components of the drug and its interaction with the neural-hormonal system of metabolic regulation of bodily functions are envisaged.

Physicians have been given a powerful weapon--a preparation that permits them to control extremely sensitive processes in the human body. No doubt they will try to use it according to the principal of *primum non nocere*, but it is questionable whether the limited knowledge in immunology derived from medical school would be sufficient for this. Information given in the package insert describing the immunostructural properties of the medication is no substitute for a profound knowledge. The new drug has caused new interest among physicians, which is a good sign, but this interest should be directed, or else it will boil down to a fad in TFX use. When a new drug produces effects, the physicians must ask why, and they must receive an answer to this question.

An article or interview with an eminent scientist sheds some light on the issue but does not clarify it completely. This means that it is necessary to introduce immunology on a large scale into educational programs, both in medical school and in continuing medical education. This is an area of the future, and the future graduates of medical school will operate within it. The greater their knowledge, their greater their confidence in doing so. A great contribution to this can be made by the Polish Medical Association by promoting knowledge in this area at its conferences, meetings and events. TFX opens bright prospects for doctors as well as for patients. It gives a therapeutic chance as well as a chance for enlarging the intellectual horizons of the medical community. We should take advantage of this opportunity.

(Materials of the Drug Commission have been used in preparing this article.)

TFX Drug Production, Application

Krakow GAZETA KRAKOWSKA in Polish 5 Aug 83 p 4

[Interview with Dr. Michal Juszchynski, Head of the Second Surgery Clinic in Krakow, by Tomasz Ordyk: "On TFX and the Secrets of the Thymus Gland"; date and place not specified]

[Text] A few weeks ago, we published a report by Tomasz Ordyk from Jelenia Gora on the production in the local Polfa Enterprises of a new drug called TFX. This is a preparation produced from extracts from calf thymus discovered by serendipity. Experiments with TFX so far indicate the possibility of its effective use in treatment of many diseases. Against the background of general enthusiasm, skeptical voices were heard, and such was the tone of our report. Today we return to this issue. Tomasz Ordyk interviews Dr. Michal Juszchynski, the Head of the Second Thoracic Surgery Clinic of the Academy of Medicine in Krakow about the secrets of the thymus gland and uses of TFX.

[Question] The word "thymus" in Greek meant "soul." Is it possible that the fact that in ancient times this organ was considered the dwelling-place for the soul is somehow related to any exceptional importance of the gland in the human body?

[Answer] In ancient times, people certainly felt that intuitively, but the great importance of the thymus gland in the human body was discovered just recently. This organ is active until the period of maturity and then gradually loses importance. They say that the thymus is the biological clock. As it weakens, the process of aging sets in. There is clinical evidence to this effect. The thymus has a definite influence on the development of the lymphatic system and antibodies, which is associated with the production of vitamin B6, which takes part in the synthesis of proteins. A shortage of this vitamin impedes the growth of lymphocytes in the marrow. Therefore, the thymus operates as a training school for the defensive forces of the body. Specifically, it determines the activity of T-lymphocytes. The thymus is responsible for organizing the shield of immunologic defense which protects us from invasion of various foreign bodies.

[Question] Since when has medicine become interested in clarifying the secrets of the thymus?

[Answer] The human body is still full of mysteries. For a long time, for instance, we didn't know that the spleen produces important hormones or that brain tissue generates morphine-like substances. This latter fact was discovered by Nobel Prize winner Dr. Schally, originally from Wilno. A similar situation existed with the thymus gland. It was known that decay of this gland causes biochemical changes in the body, but for a long time it was believed that this organ did not produce any biologically active substance. It was only in 1960 that the American biochemist White of the Einstein College of Medicine separated from the thymus a biologically active substance, named thymosin. His studies were continued by another American biochemist,

Allan Goldstein, who began clinical tests with thymosin. Back in 1965, Goldstein suggested giving it to children born with an underdeveloped thymus. His results were positive.

[Question] Can we say that this was the appearance of a new drug?

[Answer] In the United States, thymosin was included in the nomenclature of drugs only after years of research--in 1974. In the meantime, studies with thymosin were conducted in many countries, including Poland, where they were done by Professor Julian Aleksandrowicz. Polish studies of this drug have found worldwide recognition. Goldstein, the acknowledged authority, cited Professor Aleksandrowicz and his colleague Dr Skotnicki in many of his publications. Major results were also obtained from experiments conducted by the research group led by Professor Zbigniew Chlap at the Pathophysiology Institute of the Academy of Medicine in Krakow. Mice with removed thymuses died soon but stayed alive if given thymosin. Progress with this research certainly had a major significance for the fact that for several years now in Poland we have had medication from the thymosin group. I am speaking, of course, of TFX; a process or production of this drug has been developed at Jelenia Gora.

[Question] What specifically is TFX?

[Answer] It is a medication consisting of a series of biologically active protein bodies. We still do not know, however, whether or not it is the substance we have been trying to extract as the ultimate goal.

[Question] Media reports about its effects have caused public interest and given hope to many patients, which I had a chance to observe myself in Jelenia Gora.

[Answer] It is regrettable that, from the start, a sensational atmosphere was fanned up around TFX. The diversity of applications that have been described is by no means certain yet. This is not the first case of a new drug initially seeming to be a miraculous cure-all for many conditions, all until it is found that its application range is much more limited. Presumably, this would happen with TFX as well. Giving patients unjustified hopes is unethical.

[Question] What can be said about TFX applications thus far? We have mentioned children with atrophied or underdeveloped thymus.

[Answer] In many such cases, thymosin helps them to survive. We don't know, however, what will happen to them in the future and what probable effects of the thymosin treatment can be expected. Clinical experiences at the California Medical Center show that children given thymosin injections develop an increased quantity of T-lymphocytes, with the resulting improvement of resistance.

[Question] Certain hopes are also pinned on TFX applications in oncological patients.

[Answer] Thus far it has not been confirmed whether the medication cures or simply restores immunological balance with this group of patients.

Thymosin can be used after removal of the tumor as a medication helping to restore immunological balance disrupted by the disease and thus support the effects of surgical treatment. Thymosin can also be given to patients with lung carcinomas, an extremely malignant neoplastic disease. Although a cytostatic treatment prolongs the patient's life in these cases, these medications produce side effects damaging partially to other healthy organs. Thymosin treatment, after completion of the cytostatic course, according to Goldstein, prolongs the patient's life expectancy to double the figure he would have if left to fend for himself. So thymosin is not yet an anticancer medication. We do not have evidence to this effect as yet, but giving it to patients restores immunological balance in the course of the oncological condition.

[Question] Are there any other indications that it will be a drug for the treatment of cancer in the future?

[Answer] All over the world 150 centers are working on that, including our Krakow Center, where, in works by Professor Aleksandrowicz, signs are being discovered that this drug can be used in autoimmune rheumatic conditions. They are caused by disruptions in immunologic memory when the body's own cells are attacked as foreign tissues. When TFX is given to such patients, their condition is normalized. It has also been established that some of the thymosin components have a favorable effect on female fertility. There are many possibilities, but the work proceeds by trial and error. Years of research and discovery will be needed before definitive conclusions as to the thymosin properties are clarified.

[Question] What are your own experiences with TFX?

[Answer] I first tested it on myself. In 1978, when jogging on an asphalt surface I had a contusion of muscles and couldn't walk; using TFX was extremely helpful. Currently I am treating a lung carcinoma patient. I am giving him cytostatics with thymosin and waiting for the results.

[Question] I have heard that if we learn how to sustain the thymus function for a longer time, human life could be prolonged to 200 years.

[Answer] This is mere speculation, flowing from an interpretation of a certain graph drawn by Goldstein which has lately become popular. This graph consists of two curves, one showing the thymus activity and the other the immunologic resistance of the body. The correlation is simple. As the thymus decays, the resistivity drops. Activating the thymus or providing a substitute for it would probably change this correlation, and

hence this hypothesis. I believe that the coming years will be years of immunotherapy. Prospects are great, but it is better to be patient and cautious. There are too many things that still have to be clarified. We must give scientists ample time and not hurry them but expect results with this quiet attitude. Prostaglandins, for instance, were discovered 30 years ago and only now are they beginning to be used in the clinic. Too often a sensational atmosphere results in painful disappointment for patients.

[Question] Thank you for the interview.

9922

CSO: 2600/1203

SHIPBUILDING ORDERS FOR TRICITIES YARDS RUN THROUGH 1990

Warsaw TRYBUNA LUDU in Polish 6 Jan 84 pp 1, 5

[Article by Zb. Wrobel]

[Text] Against the background of a world-wide slump in shipbuilding the contract situation in our maritime shipyards is not bad at all. The yards of the Tricities and Szczecin have the assured markets for their production almost through 1990.

For example, from the Tricities shipyard alone 31 ready-to-sail ships of several types with an overall tonnage of about 750,000 DWT will be launched this year. The same number of hulls of a similar DWT load-carrying capacity will be also launched--this will be an advance on 1985.

The good situation in the Polish shipbuilding industry is chiefly a result of the fruitful cooperation with the shipowners of the Soviet Union who have placed in the Polish shipyards large orders for building many types of ships, ranging from fishing trawlers and refrigerated vessels to the specific "shelf" program vessels.

The shipbuilding industry has also received orders from the domestic merchant fleet, mainly for liner shipping, for the new types of general cargo freighters. In the Polish shipyards vessels are also being built for Scandinavian, South American and Far Eastern shipowners. In sum, the Polish shipyards, and together with them about a thousand other enterprises that cooperate with the shipbuilding industry, have a fair chance to increase steadily their participation in the turnover of our foreign trade.

The greatest increase, as high as 22 percent, in the production being sold is being planned to be achieved by the Paris Commune Shipyard of Gdynia, which specializes in building large load-carrying capacity ships. Five units that the shipowners are to receive this year will have an overall tonnage of 325,000 DWT.

The Lenin Shipyard of Gdansk intends to turn over to operation 14 vessels, that is, 2 more than in 1983. They include some more refrigerated vessels, ship-factory trawlers, multiple-task general cargo ships, delivery tugs, and a school sailing vessel, whose hull after being built in the Paris Commune Shipyard of Gdynia will be fitted at the Gdansk Shipyard.

The task of increasing its production has been also assigned to itself by the Heroes of Westerplatte North Shipyard, which is building vessels of small size but of complex construction and which are being used in the technical sea service and deep-sea fisheries. This shipyard will sell to the shipowners 12 units, among others a fireboat for the Soviet Union and a multi-role fishing trawler for Iceland. This yard will also launch 11 hulls.

The contractually guaranteed tasks of the Tricites shipyard will not be easy to perform. All the shipbuilding enterprises are suffering from an acute labor shortage, and in the most important sectors: those that deal with the hulls and outfit. For example, in the Lenin Shipyard the labor shortage is causing the yard to operate only at 60 percent of its production capacity.

The weak point of the shipbuilding industry, which constantly plagues our production activity, is cooperation: the unreliability of suppliers compels it to resort to various, often very troublesome measures, involving not only the energy and work of many people but also considerable financial means.

The conclusion from this is obvious: to be even better represented by Polish ships on the high seas we must first make a lot of improvements on land.

1015

CSO: 2600/626

CUTBACKS IN FOREIGN TRADE OFFICES DISCUSSED

Zagreb START in Serbo-Croatian No 388, 3 Dec 83 pp 32-33

Article by Mirjana Popovic: "Exports Through a Closed Door"

Text Reorganization of the network of Yugoslav foreign trade agencies abroad is in full swing. In accordance with SIV Federal Executive Council criteria, the less profitable offices are to be gradually closed until some of the agencies greatly increase their business. But is it really necessary to close down agencies not earning enough at the moment, or in the long term might the SIV regulation lead the Yugoslav economy into isolation?

Two traveling salesmen selling shoes have landed among barefooted natives. The first salesman resignedly reports to his employer that "there is no business; the people here go barefooted." But the second salesman, seeing a potential customer in every native, writes to his head office, "send shoes quick; everybody here is going around barefooted." So that no one will think that twists such as this are possible only in anecdotes, we will give a real-life example: Japan has 6,000 foreign trade agents in the Federal Republic of Germany. Drawing up a balance sheet of their trade, the Japanese came to the conclusion that exports to this West European country were declining. One of two things could be done: reduce the number of expensive trade agents, or increase their number. The Japanese decided on the latter option, justifying their decision in this way: the decline in trade showed that the market had not been adequately "covered," and so the agencies should be better equipped and the number of personnel should be increased.

We turn now to the impoverished Yugoslav economy, overburdened with debt. The difference in thinking about what should be done to extract the country from its difficulties has been resolved at least on a few key points. The first is the decision to conduct an expansive--it might even be said aggressive--export policy. At least for the time being, all those have been overruled who were ready to seek a solution in isolating the Yugoslav economy, in insulating it from the unpredictable and difficult to please

and 10 of them sent only one report apiece. Those which have done good work include the combined agency in Trieste, which forwarded 11 reports, the agencies in London and Madrid filing 10 reports each, and the office in Lusaka forwarding 7. The poor practice seems to have continued this year: in 8 months 68 reports reached the Chamber of Commerce service, that is, on the average each agency reported only once. And again in 1983, some filed 7 or 8 reports and others none.

Nor is there trouble just with the number of times reports have been filed. The problem is that the reports often contain nothing of interest to our economy. Rarely are market analyses of the host country sent, rarely do the reports contain information that a country has opened bidding on a major transaction, and changes in regulations are rarely found in information intended for a Yugoslav business partner.

Also, many reports do not reach the persons to whom they are indirectly addressed, through the Chamber of Commerce, but end up in the files of some clerk. It similarly happens that information which should be available to all persons concerned reaches only some of them.

How Much Does an Agency Cost?

The persons employed in the combined agencies have their complaints too: they say that they are not kept fully and currently informed about what is being done and produced in the Yugoslav economy. Hence there is more and more talk of the need for setting up an information center at which information from Yugoslavia and abroad would be received and would intersect. Our combined agencies are now suffering from the same ailments as are the agencies of individual organizations. The employees are elderly people, since the tradition has been continued of persons getting ready for retirement trying to go abroad to raise their earning average. In Serbia, the republic which has gone the farthest in efforts to introduce more order in the foreign trade network, analyses have been published showing that as many as 35 percent of the employees of agencies abroad are well into their fifties.

One job at one of our agencies, according to the analysis in Serbia, costs on the average 50,000 dollars, not counting expenses such as income for wife and children, housing, automobile, and the like. At present Serbia (less the autonomous provinces) has 836 persons in foreign agencies. One out of four employees has only an intermediate school education, and the majority of the people who represent our economy abroad do not know a single foreign language. Quite aside from the question of how it is possible to work in such a job without knowing the language of the host country, there are additional costs for translators and interpreters. But greater

world market. Thus we have agreed on what we are to do, but almost all the questions about the way we are to do it have remained unanswered. Our immediate goal is to increase exports and "take part on an equal footing in the international division of labor." To accomplish this we need links with the world at large; we need information on the world's production and export capabilities, its needs, and its intentions, and, conversely, our potential partners also need all this information. These links and tasks are generally the function of foreign trade and other agencies set up in the countries with whose economies business is conducted.

In the gap between the necessity of increasing exports and our need to save every dollar spent for the operation of our economic links with foreign countries the advocates of restrictions, self-denial, and saving find their argument as the main prescription for emergence from the difficulty. The agencies should be closed; our people should be brought back from markets to which we have not exported enough; we should prevent the outflow of foreign exchange: Only at first glance is the reasoning logical. It seems to be logical to think it foolish to pay for something that is not at the moment yielding corresponding results. But in the long term such an approach, which is in conflict with the announced decision, would lead to isolation of the country and of the Yugoslav economy.

And there are those who argue that we must not move backward, that the solution lies not in closing and abandoning agencies but in introducing better organization, and, if it proves to be efficient, in closing some agencies and opening others. Hence the solution is not to withdraw from markets to which we should export more each day, but rather to qualify ourselves better, from the viewpoint of organization and personnel, to accomplish this task.

There are many reasons for the profound changes which have taken place in Yugoslav economic agencies throughout the world. Each representative of the Yugoslav economy abroad today costs several tens of thousands of dollars a year. Reorganization of the network of our agencies is in full swing, and at the moment it is difficult to estimate how many persons are on the payroll. It is known that before the reorganization there were more than 1,000 economic units (357 enterprises and 727 business units--agencies) in operation abroad, employing more than 16,000 persons. About 4,000 of these were Yugoslavs, and more than 12,000 foreign native employees. (The foreigners in our agencies were, of course, employed in technical administrative positions, not in positions of authority.)

Why Reorganization?

The "Common Criteria on the Appropriateness of Conducting Economic Activities Abroad" adopted at the beginning of this year by the

Coordinating Committee of the SIV which concerns itself with supervision of the work of organizations engaging in foreign trade operations, unlike the earlier criteria (evaluation of the work of agencies has been mandatory since 1977), are very specific. Production organizations may have commercial units of their own abroad, in East European countries, only if they export goods of a value of at least 8 million dollars through these units. The criterion for an agency in a developed country is 5 million dollars, while the minimum for developing countries is 2 million dollars of exports per year. The requirements are more rigid for the commercial units of trade organizations; special rules have been laid down for establishing enterprises abroad, commercial units of banks, and so forth.

The prescribed criteria have met with stiff resistance by the economy, which has felt, and still does, that the figures are too high, and that even agencies which in the long run might yield better results are threatened with closing. It is pointed out that we will be forced to close the 20 existing agencies in Latin America, at a time when the Japanese deem it efficient to have 35,000 of their trade representatives there. Something similar could happen to our relations with all the developing countries, despite the fact that the Coordinating Committee can relax the restrictions imposed "if it is a question of a specific activity, type of goods, or services which are exported, of the level of trade reached with a particular country, of the importance of economic collaboration with specific countries,..." and the like.

Businessmen well know that it is not easy to have oneself singled out for treatment as an exception. After all, precisely in the case of the developing countries is it the easiest to demonstrate how many links with us there have been in the past, that these relations were established by businessmen in these thinly and unevenly distributed markets. The greatest number of links have been with the Arab countries, with which economic relations have been the most highly developed. The links with the countries of Asia and non-Arab Africa have been weaker, and those with the Latin American countries have been the weakest of all.

An Effective Threat

At the beginning of this year we found ourselves with a total of 334 different organizational forms of our presence in the markets of developing countries, from foreign trade units, through production shops, service organizations, and banks, to wholly and jointly owned enterprises. Of the total, 64 percent of our links are with the Arab countries, about 18 with the countries of tropical Africa, 13 percent with countries throughout Asia and the Pacific, and the balance, a virtually negligible residue, links with the countries of Latin America. Are we to open agencies to increase the links

and trade, or should we wait for the economic relations with these countries to grow spontaneously, to gain justification for establishing organized relations?

In spite of everything, however, the criteria are slowly doing their work. The number of economic offices abroad is gradually decreasing. For example, of the 238 agencies in East European countries only 132 have met the criteria, and the fate of nearly 400 offices in 20 West European countries is being decided. We say that it is being decided because the economy, in defense of its foreign outposts, is every day presenting fresh evidence of their export results, in an effort to salvage what ever can be saved. Exporters, especially the smaller ones, do not believe that the large systems or combined agencies will concern themselves with the earnings of these exporters, which are relatively small but are of vital importance to these exporters.

And the object of the reorganization being carried out is to eliminate primarily the small and less profitable offices. The figures show that the threat of abolishing agencies has also yielded certain results: there has been a considerable increase in the volume of work done. For instance, exports through the trade office networks increased 16 percent in 1982 in the Federal Republic of Germany alone. But the bulk of the business, around 60 percent, was accomplished by nine agencies (one-fifth of the total). A similar situation exists on the Austrian market: members of the Yugoslav Combined Agency for this country last year effected 77 percent of the total exports to Austria (42 percent more than in 1981), and only three firms (one-third of the total) accomplished three-fourths of the total exports. In the market of the German Democratic Republic, most business, 80 percent of exports, was done by only 9 (of a total of 32) business units.

More rational organization of Yugoslav economic agencies abroad would call for establishment of the largest possible number of combined agencies which are linked to the services of the Chamber of Commerce of Yugoslavia. To date about 60 have been established, and the process is not yet complete. Among other things, these agencies have the task of sending reports to Yugoslavia at least once a month on the market requirements of the individual countries, any changes in regulations, possibilities of (and obstacles to) promoting economic relations with these countries, and other matters. Assessments made of the work done by these extensions of the Yugoslav economy vary widely. Generally speaking they run the gamut from general praise for the work done to criticism for what has not been done. But it appears that the critical attitude toward all institutions which we have (and pay for) abroad has made the assessments of the work done by the joint agencies more severe. Thus information has come to light to the effect that in 1982 as many as 22 such agencies failed to file a single report with the Chamber of Commerce,

concern is aroused by the fact that "politically unsuitable persons" have been employed in our foreign agencies "and have disrupted relationships in their firms." One of the consequences is that 76 of our representatives (48 from Serbia) simply have not responded to the demand that, after 10 to 15 years spent in agencies abroad, they return home and give way to others. Some of them naturally have made good contacts and have become entrepreneurs themselves.

Rationalizing their network of agencies abroad, the authorities in Serbia have decided to abolish all banking agencies abroad and to close 30 trade offices in East European countries and the same number in West European countries. In the aggregate around 100 agencies are being shut down, about 120 persons will be returned to the country, and around 200 jobs in which foreigners were employed are being abolished. It is expected that another 40 agencies will be shut down by the end of the year in the house-cleaning campaign in the foreign trade network.

In Croatia as well the right to represent the export-import needs of the economy has been conferred on 189 production and commercial organizations; this means that 30 such organizations have been abolished. At the same time, it has been noted that a process has taken place of liaison and greater cooperation between organizations engaging in foreign trade operations. However, the assessment has also been made that better organization has been brought about mainly on paper.

Regardless of how many agencies and costly jobs are abolished or created (without the latter we will also be unable to make much progress in the world), we must not deceive ourselves into thinking that we will manage to put things in order in the foreign sector of the economy before we put things in order at home. The poor organization, the division into small units, and the ineffectiveness of foreign agencies and representatives of the interests of our economy are merely a reflection of conditions at home. Every person, no matter how small, ekes out a bare existence enclosed in his own courtyard, just as every organization, pressed by need, must reach a foreign market, regardless of whether it thereby gains or loses or of whether society gains through it.

Nearly 1,300 associated labor organizations are registered in the country for conduct of foreign trade operations (around 300 in mechanical engineering, 250 in metalworking, 200 in the chemical industry, etc). When we find that around 200 organizations account for nearly 70 percent of exports, we realize how small the others must be.

Who will introduce more order and better organization into the economy and the agencies? Who will force us to join together and place offers and goods on the world market which will yield the

greatest benefit both to the country and to the individual organization? When we speak of agencies--here the Federal Executive Council obviously took a broom in hand, and as regards all the other areas of economic life, packages of measures are to be expected from the same sender. The system of administrative cutting and measuring (even with the proviso that exceptions are possible) does not yield results, at least not the ones we would like to obtain. Not even in dreams is there a state mechanism so perfect that it would be able to foresee, organize, and break down into paragraphs everything that relates to the daily life in which the economy operates. And no matter how much it may be agreed that much of the internal and external (foreign) organization of the Yugoslav economy must be changed, it is impossible to accept--what has now become the rule--that these changes should originate from and be carried out by the state.

This is so not only because of the citation of public decision, in accordance with which the economy has self-management rights as well as duties, but because in a system in which the state also lays down the conditions of operation and distribution of income and the degree of organization of the economy, all that remains for those who create material goods is to play hide and seek with the state, to train people who will cleverly outwit the administration, rather than make a contribution to better organization and greater productivity. The economy ceases to be responsible for poor operation and losses, and the bill for everything is submitted to the state and through it is paid by society at large, and thus the circle in which we have been traveling is completed.

It is a shame that we are tying the hands of producers even tighter rather than loosening the bonds, in that we do not allow associated labor itself to judge what is to be done with its agencies, say, in the Federal Republic of Germany, a country in which Japan has 10 times as many representatives as Yugoslavia, even though it does not export 10 times more than we do.

6115
CSO: 2800/183

CHANGES IN LAW ON FOREIGN EXCHANGE/CREDIT RELATIONS

Belgrade SLUZBENI LIST SFRJ in Serbo-Croatian No 70, 30 Dec 83 pp 2025-2031

[Law enacted by the SFRY Assembly in a session of the Chamber of Republics and Provinces on 27 December 1983 and taking effect as of 1 January 1984: "Law on Amendments and Supplements to the Law on Foreign Exchange Transactions and Credit Relations With Foreign Countries"]

[Text] Article 1

In the Law on Foreign Exchange Transactions and Credit Relations With Foreign Countries (SLUZBENI LIST SFRJ, Nos 15, 1977; 61, 1982; 77, 1982; and 34, 1983) Paragraph 2 of Article 50a shall be amended to read as follows:

"Differences in rates of exchange which arise out of credits taken abroad shall be borne by the user of the foreign exchange originating from those credits."

Article 2

In Article 51, Paragraph 2, the comma after the word "loans" and the words "in conformity with the regulation adopted by the Federal Executive Council" shall be deleted and replaced by the words "also for the purpose of bridging the time gap between the actual inflow of foreign exchange and the outflow of foreign exchange to make payments abroad for members of the bank, in the manner and under the conditions prescribed by the Federal Executive Council".

After Paragraph 2 a new Paragraph 3 shall be added to read as follows:

"The National Bank of Yugoslavia is required at the request of an authorized bank to accept for deposit the foreign exchange of individuals kept in accounts of the authorized bank. The National Bank of Yugoslavia shall prescribe the manner in which the foreign exchange in deposits with the National Bank of Yugoslavia shall be deposited and returned as well as the rates of exchange from which the amount of credit shall be ascertained when the foreign exchange is deposited and when the foreign exchange deposited is being returned."

The previous Paragraphs 3 and 4 shall be deleted.

Article 3

After Article 51a a new Article 51b shall be added to read as follows:

"Article 51b

"In order to ensure that authorized banks make payments in conformity with the provisions of this law, the authorized bank must in agreement with the organizations of associated labor and other civil juridical persons for which it makes payments compile monthly, quarterly and annual plans of the inflow and outflow of foreign exchange for those organizations of associated labor and other civil juridical persons.

"The authorized bank must obtain foreign exchange for the organizations of associated labor and other civil juridical persons referred to in Paragraph 1 of this article on the unified foreign exchange market which those organizations and other civil juridical persons are entitled to purchase, in conformity with the uniform criteria stated in Article 69a of this law."

Article 4

After Article 53 a new Article 53a shall be added to read as follows:

"Article 53a

"Organizations of associated labor and other civil juridical persons shall sell and purchase foreign exchange only on the unified foreign exchange market through an authorized bank, in conformity with the provisions of this law."

Article 5

In Article 60 Paragraph 3 shall be deleted.

Article 6

In Article 68, Paragraph 1, the word "agreed" shall be replaced by the words "socially recognized".

Article 7

Article 69a shall be amended to read as follows:

"Organizations of associated labor shall meet their needs in reproduction with foreign exchange from the inflow of foreign exchange which they realize or by purchasing foreign exchange on the unified foreign exchange market as well as from credits taken abroad, in conformity with this law.

"Out of the inflow of foreign exchange which an organization of associated labor realizes, it shall be entitled to that portion stated in a self-management accord concluded in the framework of the forms of association and linkage

which by applying the uniform criteria has stated the portion of foreign exchange for socially recognized needs in reproduction.

"Socially recognized needs in reproduction encompass the following: obligations under foreign credits, imports of raw materials and production supplies, spare parts for current maintenance of equipment, and invisible payments urgently necessary to maintain current reproduction.

"The organization of associated labor must immediately, no later than 2 days from the date of inflow, sell the amount of foreign exchange exceeding the portion referred to in Paragraph 2 of this article to the authorized bank for it to be included in the flows of the unified foreign exchange market.

"The authorized bank is required to sell the foreign exchange referred to in Paragraph 4 of this article on the unified foreign exchange market immediately, no later than 5 days from the date of its purchase of the foreign exchange.

"That portion of foreign exchange which is sold to authorized banks for inclusion in the flows of the unified foreign exchange market shall be used for the following purposes:

"i. for a portion of the needs in reproduction of organizations of associated labor whose contribution to exports cannot be ascertained or is not sufficient to meet the indispensable socially recognized needs in reproduction;

"ii. for the most urgent needs in reproduction of organizations of associated labor which have established import needs, but do not participate in exports;

"iii. for obligations for transportation services rendered to domestic passengers and postal, telegraph and telephone services which foreign individuals have rendered to domestic persons on the basis of international treaties ratified by the SFRY Assembly or the Federal Executive Council.

"The self-management accord referred to in Paragraph 2 of this article shall set forth the right to purchase foreign exchange on the unified foreign exchange market on the basis of the scales contained in the uniform criteria.

"The aggregate rights to purchase foreign exchange on the unified foreign exchange market of all organizations of associated labor which are members of a particular form of association and linkage, such rights being set forth in the self-management accord referred to in Paragraph 2 of this article, must be within the limits of the amount of foreign exchange to which the organizations of associated labor in that form of association and linkage are entitled for socially recognized needs in reproduction, as calculated on the basis of the uniform criteria.

"In order to ensure that the obligation stated in Paragraph 6, Subparagraph iii, of this article is met, the Federal Executive Council shall as necessary prescribe the priority purchase of foreign exchange on the unified foreign exchange market for those purposes.

"Organizations of associated labor are required to meet their obligations under foreign credits and obligations assumed in international conventions on a priority basis."

Article 8

After Article 69a a new Article 69b shall be added to read as follows:

"Article 69b

"Before establishment of the portion of foreign exchange to which an organization of associated labor is entitled out of the total inflow of foreign exchange, a portion of foreign exchange shall be set aside at the uniform percentage set forth in the act on joint foreign exchange policy or other act of the SFRY Assembly and shall be sold:

"i. to meet the needs of the Federation as stated in Article 25, Paragraph 3, of this law;

"ii. to replenish the foreign exchange reserves of Yugoslavia administered by the National Bank of Yugoslavia;

"iii. to repay credits which the National Bank of Yugoslavia has taken in its name and on its own account;

"iv. for a portion of the agreed imports of goods especially important to supply of the population and other consumer goods;

"v. to import energy raw materials to meet the established needs of society as well as a portion of funds for exploration for energy raw materials;

"vi. for compensation as referred to in Article 22 of this law;

"vii. to pay Yugoslav pensions to recipients living abroad on the basis of international agreements in the field of social security which have been ratified.

"The act referred to in Paragraph 1 of this article shall also state the total annual amount to be set aside and distributed among the various purposes in sum certain and in percentage, not to exceed the amount which has been fixed, as well as the manner in which the foreign exchange is to be used for those purposes. That act may establish exemptions from the obligation to set aside this portion of the inflow of foreign exchange.

"Authorized banks shall transfer the foreign exchange set aside in the context of Paragraph 1 of this article to a special account in the National Bank of Yugoslavia.

"The National Bank of Yugoslavia shall sell the foreign exchange referred to in Paragraph 1 of this article to authorized banks at the interbank meeting of the unified foreign exchange market on the account of organizations of

associated labor and other civil juridical persons for the purposes referred to in Paragraph 1 of this article up to the amount of the inflow of foreign exchange actually realized.

"The Federal Executive Council shall prescribe the order of priority in use of foreign exchange for the purposes stated in Paragraph 1 of this article."

Article 9

In the heretofore Article 69b, which becomes Article 69c, Paragraph 1 shall be amended to read as follows:

"The uniform criteria referred to in Article 69a of this law must be brought into conformity with the proportions of Yugoslavia's balance of payments and Yugoslavia's foreign exchange balance, with the goals and tasks of joint foreign exchange policy, and with the rate at which the inflow of foreign exchange is realized. The total volume of payments abroad, on the basis of the scales contained in the uniform criteria, may not exceed the limits established for the respective positions in Yugoslavia's balance of payments and Yugoslavia's foreign exchange balance."

In Paragraph 3 the words "set forth" shall be replaced by the word "enacted" ["utvrđiti" replaced by "doneti"].

Paragraph 6 shall be amended to read as follows:

"The portion of foreign exchange to which organizations of associated labor in special-purpose production are entitled shall be used to pay for imports of special-purpose products, raw materials, production supplies and equipment for development and prevention of special-purpose products for export, to meet obligations under foreign credits, to pay for spare parts for current maintenance of equipment, for invisible payments to maintain current reproduction, and for other specific needs in order to maintain production of special-purpose products for export, which shall be set forth in more detail in the enactment referred to in Paragraph 5 of this article."

Article 10

The heretofore Article 69c, which becomes Article 69d, shall be amended to read as follows:

"The uniform criteria referred to in Article 69a of this law shall be enacted by the Yugoslav Community in collaboration with the Economic Chamber of Yugoslavia.

"The portion of foreign exchange for socially recognized needs in reproduction to which organizations of associated labor are entitled in order to make payments abroad shall be calculated on the basis of the scales set forth in the uniform criteria within the framework of individual or several linked general associations of Yugoslavia or other forms of association or linkage at the level of Yugoslavia.

"The portion of foreign exchange for socially recognized needs in reproduction shall also be calculated on the basis of the scales set forth in the uniform criteria for other forms of association and linkage which comprise large business entities and entities in reproduction in the Yugoslav economic domain.

"The Yugoslav Community shall in collaboration with the Economic Chamber of Yugoslavia rule on which other forms of association or linkage qualify under Paragraph 2 of this article and which forms of linkage and association constituting large business entities and entities in reproduction qualify under Paragraph 3 of this article for calculation of the socially recognized needs in reproduction on the basis of the uniform criteria, at their request.

"The scales contained in the uniform criteria on the basis of which the socially recognized needs in reproduction are calculated shall be based on the actual ratio between exports and imports of organizations of associated labor over the previous 2 years and the growth rate of exports and imports set forth in the balance of payments of Yugoslavia and the foreign exchange balance of Yugoslavia for the coming year.

"The uniform criteria shall guarantee that the portion of foreign exchange to which organizations of associated labor are entitled is dependent upon the inflow of foreign exchange which they realize.

"The uniform criteria shall guarantee encouragement of export, the equality of organizations of associated labor on the unified Yugoslav market, and broader establishment of association and linkage.

"The uniform criteria shall set forth the scales which shall encourage organizations of associated labor to achieve a larger volume of exports and inflow of foreign exchange within the framework of forms of association and linkage referred to in this article. Those scales shall ensure that organizations of associated labor, within the framework of those forms of association and linkage, may in conformity with the enactment on joint foreign exchange policy retain for their own needs in reproduction and distribute among themselves all or a portion of that part of foreign exchange which they realize through exports to the convertible area over and above the average growth of exports envisaged in that enactment.

"Within 30 days from the date of signing bilateral annual protocols on visible trade with countries in the clearing currency area, organizations of associated labor participating in trade in goods and services with those countries shall distribute in a self-management accord concluded within the framework of general associations the quantities and types of goods envisaged by those protocols for export and import; those organizations of associated labor exporting to that currency area shall have preference in the distribution of those quantities for their own needs in reproduction.

"If the self-management accords referred to in Paragraph 9 of this article are not concluded within the period of time stated in that paragraph, the Federal Executive Council shall issue a regulation within 15 days thereafter to regulate the matters which are the subject of the self-management accord."

Article 11

After Article 69c, which becomes Article 69d, a new Article 69e shall be added to read as follows:

"Article 69e

"That portion of foreign exchange to which organizations of associated labor are entitled shall be calculated on the basis of the uniform criteria referred to in Article 69a of this law and by applying the scales contained in those criteria for every form of association and linkage of associated labor referred to in Article 69d of this law.

"The Yugoslav Community shall ascertain for every form of association and linkage referred to in Article 69d of this law that the portion of foreign exchange to which organizations of associated labor are entitled under Paragraph 1 of this article is calculated in conformity with the uniform criteria, and it shall issue a statement of confirmation to that effect.

"The foreign exchange to which organizations of associated labor are entitled in the context of Paragraph 1 of this article shall be distributed by those organizations among individual organizations of associated labor through a self-management accord. In so doing they shall take as their point of departure the need to guarantee on a priority basis production for export, production at the highest possible level of manufacturing, and production with the largest possible net inflow of foreign exchange.

"The self-management accords referred to in Paragraph 3 of this article shall be submitted to the Yugoslav Community and to authorized banks for purposes of executing orders for payment abroad.

"Authorized banks may not execute orders for payment abroad under the self-management accords referred to in Paragraph 4 of this article if the Yugoslav Community informs them that distribution has not been made among the individual organizations of associated labor within the limits of the portion of foreign exchange referred to in Paragraph 1 of this article.

"An organization of associated labor which by 1 March of the current year does not conclude a self-management accord within the framework of association or some other form of association and linkage as referred to in Article 69d of this law shall be entitled to 50 percent of the amount of foreign exchange computed for that organization by applying the criterion contained in Article 69d, Paragraph 5, of this law."

Article 12

In the heretofore Article 69d, which becomes Article 69f, Paragraph 2 shall be deleted.

The heretofore Paragraph 3 shall become Paragraph 2.

After Paragraph 2 a new Paragraph 3 shall be added to read as follows:

"The foreign exchange to meet the needs referred to in this article shall be stated in a sum certain, but those needs shall be met in proportion to the actual inflow of foreign exchange, not to exceed that amount expressed in percentage which is set for each year in the enactment on joint foreign exchange policy."

Article 13

In the heretofore Article 69e, which becomes Article 69g, Paragraph 1 shall be amended to read as follows:

"The authorized bank may not execute orders of an organization of associated labor to make a payment abroad if it has not first set aside and sold the portion of foreign exchange in the context of Article 69a, Paragraph 4, and Article 69b of this law."

Article 14

After Article 69e, which becomes Article 69g, a new Article 69h shall be added to read as follows:

"Article 69h

"Within the limits of the volume of foreign exchange set forth in the balance of payments of Yugoslavia and the foreign exchange balance of Yugoslavia, the enactment on joint foreign exchange policy shall designate the sources and volume of foreign exchange to import equipment and parts for maintenance of capital assets, as well as the criteria and priority governing those imports."

Article 15

In Article 72 Paragraph 1 shall be deleted.

In Paragraph 2 the words "Paragraph 1 of this article" shall be replaced by the words "Article 69d of this law".

Article 16

In Article 74, Paragraph 2, the word "agreed" shall be replaced by the words "socially recognized".

After Paragraph 2 new Paragraphs 3, 4, 5, 6 and 7 shall be added to read as follows:

"The authorized bank is required to purchase all foreign exchange which organizations of associated labor offer for sale.

"The authorized bank is required to furnish an organization of associated labor which has sold foreign exchange originating in the portion of foreign

exchange which it is entitled to retain for socially recognized needs in reproduction priority in making purchases according to a schedule stated in a contract which has been concluded.

"If for whatever reason an authorized bank is unable to meet its obligations promptly under the contract referred to in Paragraph 2 of this article, it must meet that obligation by taking a temporary loan from the National Bank of Yugoslavia and must bear all the costs arising out of the taking of that loan.

"The National Bank of Yugoslavia shall define the conditions and manner of making temporary loans to authorized banks as referred to in Paragraph 5 of this article.

"The National Bank of Yugoslavia shall furnish foreign exchange to pay the obligation in the case referred to in Paragraph 5 of this article with the proviso that it shall block the foreign exchange account of the authorized bank to which it has extended such loans by the amount of the foreign exchange with which it intervenes by issuing the temporary loan referred to in Article 167a of this law."

Article 17

In Article 80 a new Paragraph 3 shall be added after Paragraph 2 to read as follows:

"As an exception to the provision of Paragraph 1 of this article, the Federal Executive Council may grant permission to certain federal bodies and agencies and federal organizations to hold foreign exchange abroad."

Article 18

In Article 81 Paragraph 2 shall be replaced by two new paragraphs to read as follows:

"Banks may not grant new credits for preparation of production for export, for production for export, or for export to organizations of associated labor and other civil juridical persons who hold a portion of foreign exchange for socially recognized needs in reproduction in a foreign exchange account longer than 15 days from the date when the foreign exchange is posted to the foreign exchange account.

"The National Bank of Yugoslavia shall suspend the use of credit from note issue by authorized banks who act contrary to the provision of Paragraph 2 of this law."

Article 19

In Article 91 the words "in foreign exchange" shall be replaced by the words "in dinars" and the following added at the end of the sentence: "except on foreign exchange accounts and foreign exchange savings accounts of Yugoslav

citizens employed abroad temporarily during their stay abroad, on which interest shall be paid in foreign exchange or, at their request, in foreign exchange and in dinars, or in dinars." [Adapted by translator to fit the English text]

Article 20

In Article 96 a new Paragraph 1 shall be added to read as follows:

"Yugoslav nationals, except during temporary employment abroad, may not have current or other accounts abroad, may not possess foreign savings account passbooks or money cards (novcana kartica) nor may they purchase foreign securities or borrow abroad."

In Paragraph 1, which becomes Paragraph 2, the words "foreign savings account passbooks" shall be followed by the words "possessed by foreign nationals and Yugoslavs employed abroad temporarily and which are" and the words "into and" deleted. [Adapted by translator to fit the English text]

The heretofore Paragraph 2 shall become Paragraph 3.

Article 21

In Article 98, Paragraph 1, after the words "foreign savings account passbooks" the words "domestic persons" shall be replaced by the words "Yugoslav nationals during temporary employment abroad even after their definitive return to the country".

After Paragraph 1 a new Paragraph 2 shall be added to read as follows:

"Yugoslav nationals residing in Yugoslavia who on the basis of inheritance or on some other basis have acquired the right to foreign securities, coupons of foreign securities and foreign savings account passbooks may redeem them through fully authorized banks."

In the heretofore Paragraph 2, which becomes Paragraph 3, the words "in Paragraph 1" shall be replaced by the words "in Paragraphs 1 and 2".

Article 22

In Article 110 a new Paragraph 2 shall be added after Paragraph 1 to read as follows:

"Authorized banks shall conduct payments traffic with countries with which a treaty has been concluded on the clearing method of payment through the clearing account of the National Bank of Yugoslavia."

The heretofore Paragraph 2 shall become Paragraph 3.

Article 23

In Article 113 a new Paragraph 4 shall be added after Paragraph 3 to read as follows:

"Yugoslavs employed abroad temporarily must bring the foreign exchange which they possess abroad into the country within 90 days from the date of their definitive return to the country."

The heretofore Paragraphs 4, 5, 6 and 7 shall become Paragraphs 5, 6, 7 and 8, respectively.

Article 24

In Article 124 the words "a commodity quota, a foreign exchange quota" shall be replaced by the word "quotas".

Article 25

In Article 127 Paragraphs 2, 3 and 4 shall amended to read as follows:

"Organizations of associated labor which are users of freight services in exporting are required within the period stipulated in the contract for payment of freight services between foreign points to transfer to the organization of associated labor referred to in Paragraph 1 of this article foreign exchange in the amount of the value of transportation services.

"Organizations of associated labor which are users of freight services in importing are required within the period stipulated in the contract for payment of transportation services between foreign points to transfer foreign exchange to the credit of the organization of associated labor which is the carrier in the amount of the actual costs of transport between foreign points.

"Organizations of associated labor which render services in international freight and passenger traffic and postal, telephone and telegraph service shall be guaranteed the right to purchase foreign exchange up to the amount of contractual obligations referred to in Article 69a of this law."

After Paragraph 4 a new Paragraph 5 shall be added to read as follows:

"The Federal Executive Council shall prescribe the conditions and manner of the transfer of foreign exchange to those rendering the services referred to in Paragraphs 2 and 3 of this article and the manner in which the right referred to in Paragraph 4 of this article shall be exercised."

Article 26

In Article 140 a new Paragraph 3 shall be added after Paragraph 2 to read as follows:

"Commercial credit also encompasses the export and import of goods and services on credit."

Article 27

In Article 141 a new Paragraph 5 shall be added after Paragraph 4 to read as follows:

"The level up to which authorized banks may conclude credit transactions with foreign countries and issue guaranties for credit transactions with foreign countries shall be monitored by the National Bank of Yugoslavia."

The heretofore Paragraph 5 shall become Paragraph 6.

Article 28

In Article 168 a new Paragraph 5 shall be added after Paragraph 4 to read as follows:

"The National Bank of Yugoslavia--Military Service may issue operational (cinidbene) guaranties independently."

Article 29

In Article 215, Paragraph 1, after Subparagraph 1b three subparagraphs, 1c, 1d and 1e, shall be added to read as follows:

"1c) if for an organization of associated labor or other civil juridical person for which it makes payments it does not compile, in conformity with the agreement attained, a monthly or quarterly or annual plan of the inflow or outflow of foreign exchange (Article 51b, Paragraph 1);

"1d) if it does not take action to ensure the organization of associated labor or other civil juridical person for which it makes payments the purchase of foreign exchange on the unified foreign exchange market to which it is entitled under the uniform criteria referred to in Article 69a of this law (Article 51b, Paragraph 2);

"1e) if it does not sell or does not buy foreign exchange on the unified foreign exchange market through authorized banks (Article 53a)."

After Subparagraph 4 a new Subparagraph 4a shall be added to read as follows:

"4a) if an organization of associated labor does not discharge its obligations assumed by a foreign credit or under international treaties on a priority basis (Article 69a, Paragraph 9)".

Subparagraph 5a shall be amended to read as follows:

"5a) if an authorized bank executes the orders of an organization of associated labor to make payments abroad when that organization has not set aside

in advance or sold the portion of foreign exchange in the context of Article 69a, Paragraph 4, and Article 69b of this law (Article 69g, Paragraph 1)".

After Subparagraph 5b Subparagraphs 5c and 5d shall be added to read as follows:

"5c) if it does not purchase all the foreign exchange which an organization of associated labor has offered for sale (Article 74, Paragraph 3);

"5d) if it does not secure for the organization of associated labor which has sold it foreign exchange in conformity with this law the repurchase of foreign exchange on a priority basis and according to the schedule contained in the contract concluded up to the limit of socially recognized needs in reproduction, or if it does not take steps to discharge that obligation by taking a temporary loan of foreign exchange from the National Bank of Yugoslavia, if for whatever reason the authorized bank cannot promptly discharge its obligations under the contract referred to in Article 74, Paragraph 2, of this law (Article 74, Paragraphs 4 and 5)".

Subparagraph 17a shall be amended to read as follows:

"17a) if as a user of transportation services in exporting it does not transfer within the payment period stipulated by the contract foreign exchange to cover the value of transportation services to the organization of associated labor which performed the service or if in exporting goods it does not within the stipulated period transfer foreign exchange in the amount of actual transportation costs between foreign points to the credit of the organization of associated labor which was the carrier (Article 127, Paragraphs 2 and 3)."

Article 30

In Article 216 the expression "5c)" shall be added after the expression "Subparagraph 5b)".

Article 31

In Article 218, Paragraph 1, three subparagraphs, 1a, 1b and 1c, shall be added after Subparagraph 1 to read as follows:

"1a) if immediately, no later than 2 days after its arrival, it does not sell the foreign exchange which exceeds the amount it is entitled to hold under the provision of Article 69a, Paragraph 2, of this law to the authorized bank for inclusion in the flows of the unified foreign exchange market (Article 69a, Paragraph 4);

"1b) if no later than 5 days from the date of purchase of foreign exchange from an organization of associated labor the authorized bank does not sell that foreign exchange on the unified foreign exchange market (Article 69a, Paragraph 5);

"lc) if the authorized bank extends new credits for preparation of production for export, for production for export, or for export to an organization of associated labor or other civil juridical person who keeps a portion of foreign exchange for socially recognized needs in reproduction in a foreign exchange account longer than 15 days from the date when the foreign exchange was posted to the foreign exchange account (Article 81, Paragraph 2)."

Article 32

After Article 218 a new Article 218a shall be added to read as follows:

"Article 218a

"The person responsible in the National Bank of Yugoslavia who has not suspended the use of credit from note issue by authorized banks in accordance with Article 81, Paragraph 3, shall be subject to a fine of not less than 2,000 and not more than 20,000 dinars for a misdemeanor."

Article 33

The forms of association and linkage which constitute large business entities and entities in reproduction and other forms of association and linkage at the level of Yugoslavia, referred to in Article 10, Paragraph 2, of this law, which choose not to have their socially recognized needs in reproduction within the framework of general associations of Yugoslavia calculated in 1984, shall submit to the Yugoslav Community no later than 25 January 1984 a documented application for a determination to be made as to whether they meet the conditions stated in Article 10, Paragraph 2 or Paragraph 3, of this law.

The Yugoslav Community, in collaboration with the Economic Chamber of Yugoslavia, shall rule on the application referred to in Paragraph 1 of this article within 10 days from the date of receipt of the application, but no later than 5 February 1984, and for those forms which meet the conditions it shall calculate the portion of foreign exchange for their socially recognized needs in reproduction.

The Yugoslav Community shall calculate the portion of foreign exchange for socially recognized needs in reproduction of organizations of associated labor which do not comprise forms of association and linkage in the context of Paragraph 1 of this article by 5 February 1984.

The Yugoslav Community shall adopt a decision whereby it will fix the portion of foreign exchange to which organizations of associated labor and other civil juridical persons are entitled as an advance or which they may purchase on the unified foreign exchange market to meet their socially recognized needs in reproduction from 1 January to 1 March 1984.

For forms of association and linkage which constitute large business entities and entities in reproduction and which are formed in 1984 later than 1 March 1984, the Yugoslav Community, in collaboration with the Economic Chamber of Yugoslavia, shall ascertain at their request whether they meet the conditions

stated in Article 10, Paragraph 3, of this law, and for those which do meet those conditions it shall calculate the portion of foreign exchange for their socially recognized needs in reproduction, guaranteeing in so doing the proportions in the balance of payments of Yugoslavia and the foreign exchange balance of Yugoslavia and bearing in mind the relations already established in the forms of association and linkage to which those organizations belonged up to that point.

Until they meet the conditions stated in Paragraph 5 of this article organizations of associated labor shall meet their socially recognized needs in reproduction within the framework of the forms of association and linkage referred to in Article 10 of this law.

Article 34

The Federal Executive Council shall issue the regulations referred to in Article 51, Paragraph 2, and Article 52, Paragraph 1, of the Law on Foreign Exchange Transactions and Credit Relations With Foreign Countries within the period of 30 days from the date when this law takes effect.

Article 35

Yugoslav nationals who have been employed abroad temporarily and have definitively returned to the country, if they have claims abroad which came into being before this law took effect, must collect those claims within 90 days from the date when this law takes effect and bring them into Yugoslavia.

Article 36

The Legislative and Legal Commission of the Chamber of Republics and Provinces of the SFRY Assembly is hereby authorized to establish the emended text of the Law on Foreign Exchange Transactions and Credit Relations With Foreign Countries.

Article 37

This law shall take effect on 1 January 1984.

7045

CSO: 2800/200

CHANGES IN LAW ON PAYMENTS IN CONVERTIBLE CURRENCY

Belgrade SLUZBENI LIST SFRJ in Serbo-Croatian No 70, 30 Dec 83 pp 2031-2033

[Law enacted by the SFRY Assembly in a session of the Chamber of Republics and Provinces on 27 December 1983 and taking effect on the day after publication in SLUZBENI LIST SFRJ: "Law on Amendments and Supplements to the Law on Payments in Convertible Currencies"]

[Text] Article 1

In Article 3 of the Law on Payments in Convertible Currencies (SLUZBENI LIST SFRJ, No 34, 1983) Paragraphs 8 and 9 shall be amended to read as follows:

"Within 3 days from the date the proceedings referred to in Paragraph 7 of this article are instituted, after having obtained the opinion of the national bank of the republic or national bank of the autonomous province, the National Bank of Yugoslavia shall issue an order to all authorized banks in the republic or autonomous province in which are located the headquarters of the authorized bank whose obligations are being discharged that in proportion to the balances in foreign exchange accounts and the inflow of foreign exchange which they are realizing, in the amounts, by the dates and in the manner which it shall state in the order, they shall discharge payment obligations for the other authorized banks or shall transfer the corresponding amount of foreign exchange from their accounts abroad to the account of the other authorized bank.

"As an exception to the provision of Paragraph 8 of this article, the National Bank of Yugoslavia may issue an order to the authorized banks referred to in that paragraph that they shall use all resources in accounts abroad and the inflow of foreign exchange which they realize in a period of time which the National Bank of Yugoslavia states in the order to discharge the payment obligations of the other authorized bank or transfer foreign exchange from their accounts abroad to the account of the other authorized bank."

After Paragraph 9 a Paragraph 10 shall be added to read as follows:

"The National Bank of Yugoslavia shall ascertain the amount of foreign exchange referred to in Paragraphs 8 and 9 after subtracting the amount necessary to pay fixed and guaranteed obligations of the authorized bank to which

the order has been issued and the amount on the basis of setting aside and transferring a portion of the inflow of foreign exchange, in conformity with this law and other laws."

Article 2

In Article 5 Paragraph 1 shall be amended to read as follows:

"If they have not obtained foreign exchange in the manner envisaged in Articles 1 through 4 of this law, the National Bank of Yugoslavia shall issue an order to all authorized banks that in proportion to the balances in foreign exchange accounts and the inflow of foreign exchange which they are realizing, in the amounts, by the dates and in the manner which it specifies, they shall discharge the payment obligations for other authorized banks or transfer the corresponding amount of foreign exchange from their accounts abroad to the account of the other authorized banks and the National Bank of Yugoslavia."

In Paragraph 2 the words "and Article 3, Paragraphs 8 and 9, of this law" shall be added after the words "in Paragraph 1 of this article".

After Paragraph 2 a new Paragraph 3 shall be added to read as follows:

"The National Bank of Yugoslavia shall ascertain the amounts of foreign exchange referred to in Paragraph 1 of this article after subtracting the amount necessary to pay fixed and guaranteed obligations of the authorized bank to which the order is being issued and amounts based on setting aside and transferring a portion of the inflow of foreign exchange, in conformity with this law and other laws."

Article 3

After Article 5 an Article 5a shall be added to read as follows:

"Article 5a

"The authorized bank to which foreign exchange has been transferred or on whose account a payment obligation has been discharged (hereinafter the 'debtor bank') is required as of the day following the date of transfer of foreign exchange or the date when the payment obligation was discharged on its account, unless the banks agree otherwise, to issue an order to the Social Accounting Service to transfer from its giro account to the authorized bank which transferred the foreign exchange or which discharged the payment obligation on its account (hereinafter the 'creditor bank') the dinar equivalent of that foreign exchange.

"If the funds in the giro account of the debtor bank are not sufficient to pay the dinar equivalent referred to in Paragraph 1 of this article, the debtor bank shall in the amount of the funds which are lacking use the funds of its reserve fund and its legal reserves kept in the National Bank of Yugoslavia up to the entire amount of funds in that reserve, and it shall issue an order for the transfer of those funds to the giro account of the creditor bank.

"If the debtor bank does not issue the order in the context of Paragraphs 1 and 2 of this article, at the request of the creditor bank the Social Accounting Service shall transfer the dinars to the creditor bank under the condition that the creditor bank prove that it has transferred the foreign exchange or has discharged the payment obligation on the account of the debtor bank.

"If the funds in the giro account, the reserve fund and the legal reserves of the debtor bank are not sufficient to pay the dinar equivalent referred to in Paragraph 1 of this article, the Social Accounting Service shall block the giro account of the debtor bank until the creditor bank is paid the amount of funds which are lacking and until the funds of the legal reserves and reserve fund used in the context of Paragraphs 2 and 3 of this article are replaced.

"The provisions of Article 17, Paragraphs 6 and 7, of the Law on the National Bank of Yugoslavia and on the Uniform Conduct of Monetary Transactions of National Banks of the Republics and National Banks of the Autonomous Provinces shall apply to the debtor bank which uses the funds of the legal reserves in the context of Paragraphs 2 and 3 of this article and therefore is unable to meet the prescribed average of the legal reserves.

"As of the date after the date when the foreign exchange is repaid the creditor bank is required to issue an order to the Social Accounting Service to transfer from its giro account to the debtor bank the amount previously received of the dinar equivalent of the foreign exchange which has been returned, unless the banks agree otherwise.

"If the creditor bank does not have sufficient funds in its giro account to pay the dinar obligations referred to in Paragraph 6 of this article, it is required to use to cover the amount of funds which are lacking the resources of its own reserve fund and its legal reserves kept in the National Bank of Yugoslavia, that is, it shall issue an order for the transfer of those funds to the giro account of the debtor bank.

"If the creditor bank does not issue the order in the sense of Paragraphs 6 and 7 of this law, the Social Accounting Service, at the request of the debtor bank, shall transfer the dinars to the debtor bank provided the debtor bank proves that it has returned the foreign exchange to the creditor bank.

"If the funds of the giro account, reserve fund and legal reserves of the creditor bank are not sufficient to pay the dinar equivalent referred to in Paragraph 6 of this article, the Social Accounting Service shall block the giro account of the creditor bank until payment to the debtor bank of the amount of funds which are lacking and until restoration of the funds of the legal reserves and reserve fund used in the context of Paragraphs 7 and 8 of this article.

"The provisions of Article 17, Paragraphs 6 and 7, of the Law on the National Bank of Yugoslavia and on the Uniform Conduct of Monetary Transactions of National Banks of the Republics and National Banks of the Autonomous Provinces, as well as penalties related to use of the legal reserves envisaged by the

measures of monetary and credit policy shall be applied to the creditor bank which uses the funds of the legal reserves in the context of Paragraphs 7 and 8 of this article and for that reason is unable to meet the prescribed average of the legal reserves."

Article 4

In Article 6 Paragraph 2 shall be deleted.

Article 5

After Article 6 an Article 6a shall be added to read as follows:

"Article 6a

"As an exception to the provisions of Articles 2, 4 and 6 of this law, organizations of associated labor and other civil juridical persons shall not set aside a portion of the inflow of foreign exchange when they realize an inflow of foreign exchange on the following basis: investment of foreign persons in domestic organizations of associated labor; long-term industrial cooperation with foreign countries, except for the portion which represents the excess of the inflow over the outflow of foreign exchange related to that cooperation; from work done on capital investment projects abroad, except for the inflow that represents the profit in those operations; a canceled outflow; agency transactions, except for commissions realized on them; collection of damages from insurance on capital assets in use; the use of foreign financial credits; Article 8 of the Law on Taking Certain Commodity Credits Abroad in 1983 and 1984; international treaties concerning trade and postal, telephone and telegraph services, except for the net surplus; exports of goods covered by an obligation to import in conformity with a social compact on furnishing foreign exchange to pay for the priority imports of certain products or raw materials for their production on the unified Yugoslav market up to the amount under that compact and only those compensation transactions and local border traffic in which payments and settlements are made through special accounts, except for the net balance at the end of the year."

Article 6

In Article 11 a Paragraph 4 shall be added after Paragraph 3 to read as follows:

"If the National Bank of Yugoslavia ascertains on the basis of information concerning the inflow and outflow of foreign exchange of the authorized bank and other information which it possesses that the authorized bank will not be able to meet the fixed and guaranteed obligations coming due for payment, it shall suspend all that bank's current payments abroad."

Article 7

In Article 12 a new Paragraph 2 shall be added after Paragraph 1 to read as follows:

"If an authorized bank does not discharge the obligations of setting aside and transferring a portion of the inflow of foreign exchange in conformity with this law, the Law on Foreign Exchange Transactions and Credit Relations With Foreign Countries, the Law on Conduct of Exchange Office Business and Transactions With Foreign Currencies in Yugoslavia (SLUZBENI LIST SFRJ, No 61, 1982) and regulations enacted on the basis of those laws, the controller of the National Bank of Yugoslavia may not certify for that bank orders for payment from the current inflow."

The previous Paragraphs 2 and 3 shall become Paragraphs 3 and 4, respectively.

Article 8

In Article 13 a new Paragraph 3 shall be added after Paragraph 2 to read as follows:

"The authorized bank is required at the request of the National Bank of Yugoslavia, within a period of 2 days from the receipt of the request, to authorize its correspondents abroad to discharge the orders of the National Bank of Yugoslavia charged to its accounts with those correspondents."

In Paragraph 3, which becomes Paragraph 4, the words "Paragraph 2" shall be replaced by the words "Paragraphs 2 and 3".

The heretofore Paragraph 4 shall become Paragraph 5.

Article 9

Article 14 shall be amended to read as follows:

"An authorized bank whose obligation abroad has been met by another authorized bank or by the National Bank of Yugoslavia is required to transfer its current inflow of foreign exchange up to the amount of the payment made from its accounts abroad to the accounts of the National Bank of Yugoslavia or the authorized bank abroad, in such manner that it shall first discharge the obligations of repaying the foreign exchange referred to in Article 5 of this law.

"If payment was made from the accounts of several banks, the foreign exchange shall be transferred to the accounts of those banks on a proportional basis."

Article 10

Article 15 shall be amended to read as follows:

"If an organization of associated labor fails to repay a foreign credit on time, the authorized bank which met the payment obligation abroad shall issue an order to the Social Accounting Service to transfer to it from the giro account and other accounts of that organization of associated labor the dinar equivalent of the foreign exchange of the obligation come due under the foreign credit, which shall remain in the account of the authorized bank without interest until that obligation is met.

"If the National Bank of Yugoslavia discharges an obligation come due of an authorized bank under a foreign credit, it shall issue an order to the Social Accounting Service to transfer from the giro account and other accounts of the authorized bank to the National Bank of Yugoslavia the dinar equivalent of the foreign exchange of the obligation come due under the foreign credit, which shall remain without interest in an account of the National Bank of Yugoslavia until the obligation of transferring the foreign exchange has been discharged.

"The National Bank of Yugoslavia shall issue an order to the Social Accounting Service to transfer to the giro account of the National Bank of Yugoslavia the dinar equivalent from the giro account and other accounts of an authorized bank which has failed to pay it within the specified period the dinar equivalent for foreign exchange sold or sold temporarily."

Article 11

In Article 16, Paragraph 1, after the words "authorized bank" the words "or does not make payment for that bank" shall be added, and after the word "or" the words "does not transfer foreign exchange" shall be added.

The second sentence in Paragraph 2 of that article shall be deleted.

Article 12

After Article 16 an Article 16a shall be added to read as follows:

"Article 16a

"If in the context of this law the National Bank of Yugoslavia has suspended an authorized bank's conduct of current payments abroad, it may in exceptional cases allow a certain payment under the conditions defined by the Federal Executive Council on the proposal of the National Bank of Yugoslavia."

Article 13

Article 18 shall be deleted.

Article 14

After Article 21 an Article 21a shall be added to read as follows:

"Article 21a

"Authorized banks are required to execute the orders of the National Bank of Yugoslavia.

"The National Bank of Yugoslavia shall issue orders to authorized banks under this law on the basis of documentation which it possesses. Orders may not be issued by teletype.

"No appeal is allowed against an order of the National Bank of Yugoslavia or against the decision to undertake the measures referred to in Article 16 of this law."

Article 15

Article 24 shall be amended to read as follows:

"Organizations of associated labor and other civil juridical persons entitled to a portion of the inflow of foreign exchange or which realize the right to purchase foreign exchange in conformity with the Law on Foreign Exchange Transactions and Credit Relations With Foreign Countries may use the foreign exchange and exercise the right to purchase foreign exchange in accordance with that law, but the authorized bank shall make current payments abroad only after obligations have been met under this law."

Article 16

The provisions of Article 3 of this law shall also apply to authorized banks which pursuant to Article 21, Paragraph 3, of the Law on Payments in Convertible Currencies have paid the obligations of another authorized bank or transferred foreign exchange to the account of an authorized bank whose obligation is being paid, but by the date when this law takes effect have not concluded the contracts referred to in Article 21, Paragraph 4, of this law, or which have not discharged obligations under those contracts.

The provisions of this law shall be applied commencing on 15 February 1984.

Article 17

As an exception to the provision of Article 4, Paragraph 2, of the Law on Payments in Convertible Currencies, the percentage stated in that paragraph for 1984 may be even less than 5 percent.

Article 18

The regulation referred to in Article 6, Paragraph 1, of the Law on Payments in Convertible Currencies (SLUZBENI LIST SFRJ, No 34, 1983), shall be issued by the Federal Executive Council within 30 days from the date when this law takes effect.

Article 19

This law shall take effect on the day after publication in SLUZBENI LIST SFRJ.

7045

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DIFFICULTIES OF DESIGNATING ENERGY PRICES DETAILED

Belgrade NEDELJNE INFORMATIVNE NOVINE in Serbo-Croatian No 1721,
25 Dec 83 pp 13-14

/Article by Dragan Nedeljkovic/

/Text/ Preoccupied with the new electricity coupons, in addition to the already existing gas coupons, meteorological changes and forecasts, many citizens have paid little attention to the announced changes of energy prices. Radical price changes of all kinds of energy have been announced by several official places; task forces have already prepared proposals, and commissions are preparing the decisions. It is not certain whether this part of the job will be completed by the beginning of 1984, although this possibility should not be excluded, but it is certain that decisions on new prices will be taken in the first quarter of the coming year.

Even when a journalist has an opportunity to learn the proposed price levels for petroleum and petroleum products, coal, gas and electricity, he cannot inform the public about them before they are officially announced due to professional ethics. While they are being prepared, such decisions are highly confidential for understandable reasons. This is an established practice in all countries. At this time we can talk about principles and criteria for energy prices, and there is a short distance between them and concrete prices.

Basing their proposals on the Long-Term Program of Economic Stabilization and Anti-Inflation Program, task forces have concluded that basic criteria for future energy prices in our country should be world energy prices. In order to avoid the economists' discussions and rambling about the very concept of world price, it has been specified: Prices of domestic oil and natural gas will be coordinated with the prices of imported oil and gas, prices of petroleum products with thus formed oil prices, coal and electricity prices with prices in Western European countries. It seems that the authorities stand firmly on these positions, "firmly committed" to implement these criteria, and nothing can be changed here.

Yet one can receive and interpret this "firm commitment" of the authorities in various ways, under the condition that it is known who the competent authorities are. Until now, energy price policy and competence for prices of different kinds of energy in Yugoslavia have created a jumble in which it is difficult to orient oneself. According to the letter of the law, the authority for oil and oil products prices is at the federal level, while republics and provinces determine prices for all the other kinds of energy. This rule was valid when prices were not frozen or put under control, viz when no special procedure for decision coordination was prescribed. Although there were few such intervals in recent years, actual prices of electrical energy, coal and natural gas in republics and provinces were so varied that they seriously jeopardized the constitutional principle of the unity of the Yugoslav economic space and market. This is however a special topic, with which the economy has dealt for years.

It seems that it will be much easier to bring domestic energy prices to the level of world prices than to prevent our prices from surpassing world prices. Illuminating experience has been acquired with other merchandise. As an energy consumer, the citizen does not have many reasons to get nervous. We will live, if the authorities decide so, with world energy prices. Let us trust authorities, thank God there are many of them. But one can also reason like this: in September, the Federal Executive Council announced that there were no reasons for the electricity price increase, and in October the price went up 16 percent; at the beginning of December we heard "firm commitment" about world energy prices. Who knows whether prices or commitments will change at this time of dynamic changes.

To tell the truth, in each serious analysis of energy price policy it is easy to spot the illusions accompanying it. They simply impose fundamental changes. One of the basic errors, from which it is difficult to free oneself because it has taken such deep roots, is the idea that low energy prices create comparative advantages for the economy and preserve the population's standard of living. This illusion has bred many energy consumers in the economy; in complete disagreement with the real energy situation in the country, it has led to an irrational consumption of energy in most enterprises, and it has, in the last analysis, led to scarcities (new consumers were arriving faster than energy sources were built). Low energy prices, and the idea that "society" must recognize every expense, eliminated every effort and every concern about the kind and consumption of energy, from technology to specific products. The belief that we can ignore the world led to such a situation in Yugoslav economy that we consume much more energy per unit of social product than other countries with similar energy characteristics.

With the population, the same as with the economy, the policy of low energy prices was an illusion which has done a lot of harm. Low energy prices, even in social policy elements, did not protect the standard but led to the waste of energy and irrational usage. Low prices did not protect those whose existence was menaced; they gave much greater advantage and privilege to the wealthiest strata which are the greatest energy consumers. The reason is simply that one must pay full price for energy, and when this is not done through consumption there appear taxes, contributions, the difference between the real price of energy and what the consumer paid, it must be kept in mind that all of us are this "society." The difference consists in the fact that in the case of energy prices dictated by the economy everybody would be paying as much as he was consuming, while in the case of administrative illusions we pay depending on how much and when we get hooked.

Let us take a power plant as an example. The machinery, technology, fuel in each of our power plants are exactly the same as in Western European countries. Most often, machines are even imported from one of these countries. Can the production of electrical energy in our country be cheaper? In order to find the answer, we must know some basic things. The equipment for our power plants is more expensive than when they are built in the country which produces the equipment, because custom duties and other taxes must be paid for the imported goods. The building of the power plant, including construction, organization, terms, is also more expensive. The terms of financing--electrical industry funds, credits, terms, interest rates--are also less favorable. There are only two items where domestic power plants can be less expensive: fuel and people working in it. If the fuel costs less, this influences the production cost, but if fuel is imported, even this item disappears. It only remains to achieve "savings" at the cost of employees' salaries. In spite of the widespread conviction that workers in the electro-industry are fabulously paid, the fact is that they do not earn enough, especially for the work in some kind of mobile condition which has been going on for a number of years. But even if these people were working without pay, if they were not paid at all, most Yugoslav electro-industry organizations would still have great losses. Employees' salaries are so insignificant among other electrical energy production costs that their elimination would not change the situation at all.

It is worth thoroughly analyzing the case when the power plant uses domestic fuel, or more precisely, coal: The mine which supplies the power plant is in exactly the same position; in other words, lower price of coal can be obtained only at the cost of the miners' salaries. Is it necessary to explain that such a situation impoverishes power plants and mines and that it makes the development which would answer the consumers' needs impossible? It is thus relatively simple to arrive at the conclusion that energy must

have economic prices and that this is the justest way to the equality of producers and consumers.

The question remains, how to arrive at such prices? The simplest solution may seem to consist in copying world prices, if it were not for the cursed inflation and constant drop of the value of the dinar. A simple calculation shows that electric power prices, for example, had they had parity with Western European prices at the beginning of the year, would have to be doubled today because the dinar has been so much "depressed." Obviously, many things have to be settled in our country beforehand or simultaneously in order to introduce world energy prices and blow away the illusions that have accompanied energy prices for years.

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END