

129062

JPRS-EEI-84-037

29 March 1984

# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

DISTRIBUTION STATEMENT A

Approved for public release;  
Distribution Unlimited

19980306 059

DTIC QUALITY INSPECTED 4

**FBIS**

FOREIGN BROADCAST INFORMATION SERVICE

REPRODUCED BY  
NATIONAL TECHNICAL  
INFORMATION SERVICE  
U.S. DEPARTMENT OF COMMERCE  
SPRINGFIELD, VA. 22161

7  
81  
A05

#### NOTE

JPRS publications contain information primarily from foreign newspapers, periodicals and books, but also from news agency transmissions and broadcasts. Materials from foreign-language sources are translated; those from English-language sources are transcribed or reprinted, with the original phrasing and other characteristics retained.

Headlines, editorial reports, and material enclosed in brackets [] are supplied by JPRS. Processing indicators such as [Text] or [Excerpt] in the first line of each item, or following the last line of a brief, indicate how the original information was processed. Where no processing indicator is given, the information was summarized or extracted.

Unfamiliar names rendered phonetically or transliterated are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear in the original but have been supplied as appropriate in context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by source.

The contents of this publication in no way represent the policies, views or attitudes of the U.S. Government.

#### PROCUREMENT OF PUBLICATIONS

JPRS publications may be ordered from the National Technical Information Service, Springfield, Virginia 22161. In ordering, it is recommended that the JPRS number, title, date and author, if applicable, of publication be cited.

Current JPRS publications are announced in Government Reports Announcements issued semi-monthly by the National Technical Information Service, and are listed in the Monthly Catalog of U.S. Government Publications issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Correspondence pertaining to matters other than procurement may be addressed to Joint Publications Research Service, 1000 North Glebe Road, Arlington, Virginia 22201.

29 March 1984

## EAST EUROPE REPORT

### ECONOMIC AND INDUSTRIAL AFFAIRS

#### CONTENTS

##### CZECHOSLOVAKIA

- Increasing Initiative in Agricultural Cooperatives  
(Arnost Bak; PRAVDA, 7 Feb 84) ..... 1

##### GERMAN DEMOCRATIC REPUBLIC

- Goals, Effects of Agrarian Price Reform on State Budget, LPG's  
Discussed  
(Karl Hohmann; FS-ANALYSEN, No 7, 1983) ..... 4

##### HUNGARY

- Change in Financial Institution System Proposed  
(Nandor Rott; KOZGAZDASAGI SZEMLE, No 11, 1983) ..... 17
- Hegedus Calls Large Enterprises Anti-Reform  
(Andras Hegedus; KOZGAZDASAGI SZEMLE, No 1, 1984) ..... 31
- Article on Reform, Property Elicits Comment  
(Tamas Bauer; KOZGAZDASAGI SZEMLE, No 11, 1983) ..... 42

##### POLAND

- Sejm Passes Resolution on 1984 Balance-of-Payments Target  
(MONITOR POLSKI, No 43, 30 Dec 83) ..... 49
- Idled Capacities Necessitate Costly Imitation Leather Imports  
(Mieczyslaw Kaca; TRYBUNA LUDU, 22 Feb 84) ..... 51
- Reasons for Rising Birth Rate Viewed in Statistics Bureau Organ  
(Zbigniew Smolinski; WIADOMOSCI STATYSTYCZNE, No 1, Jan 84) 53

ROMANIA

Minister Calls for Improved Financial, Accounting Activity (Petre Gigea; REVISTA ECONOMICA, No 7, 17 Feb 84) .....	61
---	----

YUGOSLAVIA

Data on Increased Tax Revenues in 1983 (Miodrag Jankovic; PRIVREDNI PREGLED, 17 Feb 84) .....	67
Plans for Money Issuance in 1984 (Miodrag Janovic; PRIVREDNI PREGLED, 10 Feb 84) .....	70
Economic Chamber Reports on Supply Status, Outlook (BORBA, 25-26 Feb 84) .....	74
Constitutional Court Examination of Federal Laws Reported (Viktor Meier; FRANKFURTER ALLGEMEINE ZEITUNG, 28 Feb 84) .....	76

## INCREASING INITIATIVE IN AGRICULTURAL COOPERATIVES

Bratislava PRAVDA in Slovak 7 Feb 84 pp 1-2

[Report by editor Arnost Bak: "Brigade Khozraschet a Cure Against Self-Complacency"]

[Text] The Mier Agricultural Cooperative in Sol has been retaining its Order of Labor for more than 20 years and is one of the best agricultural cooperatives in Vranov Okres. It must be said in praise of the cooperative's members from Sol, Rudlov and Hlinne that no other cooperative has been able to match for nearly 20 years their crop- and livestock-production results, not even such okreses as Michalovce and Trebisov.

### The Plan Should Not Lull

The drought last year was no less severe on the cooperative's land in Sol, Rudlov and Hlinne than elsewhere. And yet in crop production, with the exception of spring barley, the cooperative was able to exceed the yields per hectare specified in the plan. As in the preceding years, also last year the cooperative ranked first in the okres. The cooperative's highest yield was 4.72 tons of shelled corn per hectare. In comparison with the plan's target, however, fulfillment was only 100.4 percent, whereas plan fulfillment for winter wheat, at a yield of 4.37 tons per hectare, was 120.7 percent. Oats "boast" of 168-percent plan fulfillment, at an average yield of only 4.20 tons per hectare! There are incomprehensible planned targets also in livestock production. For example, the annual milk yield per cow that the plan called for was 55 liters lower than the actual milk yield per cow the preceding year, and thus the 3,785 liters per cow last year meant 104-percent plan fulfillment. It can be said that one of the crying incomprehensible targets was, for example, the consumption of 0.35 kg of feed grain per liter of milk produced, despite the fact that actual consumption was 0.29 kg the year before last, and 0.26 kg last year. Similarly in beef production the target for the consumption of feed grain per kilogram of weight gain was more benevolent by 0.10 kg than the actual consumption the year before last, and by as much as 0.19 kg than the actual consumption last year. In hog production this incomprehensible benevolence amounts to as much as 0.31 kg of feed grain per kilogram of pork produced.

From the preceding it might appear that it was easy for the collective of the Mier Agricultural Cooperative in Sol to rank first in production for more than 20 years when their plan targets limped noticeably behind the actual results. The fact remains that they lulled creative initiative, rather than encouraged it. But the Solians, as the members of the Mier Agricultural Cooperative are called, achieved the first place mentioned in the introduction not on the basis of the percentual fulfillment or overfulfillment of the state plan's targets, but for their output in physical units; for a gross output of 12,770 korunas and a commodity output of 10,283 korunas per hectare of farmland, even though pastures in categories I through IV account for nearly a fourth of their acreage; and for high sales prices, i.e., for the quality of their crops and livestock products.

### "Mobilizing" Rivals Appear

The Solians remained on the first-place pedestal also last year. They ensured their standing with, among other things, average yields per hectare of 4.37 tons of wheat, 3.62 tons of winter rye, 4.20 tons of oats, 3.65 tons of spring barley, and 4.72 tons of shelled corn. As every year up to now, they had an abundant harvest of bulk fodder that is reflected in the livestock yields: an annual average milk yield of 3,785 liters per cow, and average daily weight gains of 0.88 kilogram in raising beef cattle, and of 0.57 kilogram in hog production. In addition to 25 raised heifers and 644 brood sows, they were thus able to sell 181 kilograms of meat and 556 liters of milk per hectare of farmland.

Andrej Demcak, the chairman of this agricultural cooperative since 1959 who is also a member of the CPCZ Central Committee and a laureate of the Order of Labor, said: "These results are proof of our members' diligent work--or more accurately, of their conscious creative work and initiative--in the Sol, Hlinne and Rudlov fields. However, we are fluctuating at the level of these results or have increased output only slightly during the past few years."

The near certainty of achieving first place manifested itself in a certain self-complacency. Especially when they knew that hardly anyone could surpass them in terms of order, technological and labor discipline, and the members' know-how and skills, while problems persisted in the neighboring agricultural cooperatives.

"Although we belonged and still belong among the foremost producers, the attained results are not in accord with the possibilities. Regrettably, it seems that someone can be first and still be stagnating," established Comrade Demcak. "Only in the past two years did we begin to perceive this gap between the actual results and possibilities also as a threat to our first place. I frankly admit that we started to become aware of this only when some of the other agricultural cooperatives began to approximate our results, after the okres party committee purposefully concentrated attention on stepping up the activity of the party locals in the agricultural cooperatives and the okres agricultural administration, and then on making the managers more active and on providing help to solve the problems directly in the production collectives. In the end even the cooperative farmers in Secovska Polianka and especially in the CSSP [Czechoslovak-Soviet Friendship] Agricultural Cooperative in Mala Domasa began to

threaten our 'safe' lead. We were obliged to mobilize our forces. Under the old method of work organization and remuneration, however, we were unable to catch our breath."

#### No Shame To Learn From Your Betters

"We were not ashamed to visit Mala Domasa. Not to spy on them, but to consult them. When we established the essence of their rapid progress in crop production and livestock production," explained Comrade Demcak, "we asked for their help. The Mala Domasa tractor operators, led by the chairman of the cooperative, also came. There were even stormy debates with our tractor operators about the advantages of the brigade form of work organization and remuneration, as reflected in the final results of the collectives' work."

The Sol tractor operators did not want to believe that Mala Domasa, after two years of using brigade khozraschet, turned around from a loss of Kcs 4,817,000 in 1981 to a profit of Kcs 1,800,000 in 1983, including a flat one million of profit in crop production. But in practice this means an increase of 6,617,000 korunas in output and its efficiency. The yields of the densely sown grains lag behind the Sol results not by tons but only by quintals. And the corn yield, at 6 tons per hectare, is even higher. With 3,614 liters of milk a year, they are close on the heels of the Solians also in the average milk yield per cow, and their 12.8-percent profitability is lower by only a tenth of a percentage point than in Sol.

No wonder, therefore, that the Solians decided in favor of the brigade form of work organization and remuneration, once they became convinced of its advantages not only from what they heard, but also from what they saw with their own eyes. The preparations took nearly 6 months. During this period the performance norms in preparing the seedbed for various crops were objectivized; norms were set for fuel consumption; the costs of manufactured fertilizer were determined; likewise the costs of machinery repairs and maintenance; and the bonuses were set for attaining the specified yields, exceeding the planned output, and for better quality and cost reductions. Mostly the tractor operators participated in these preparations. At the same time they became fully aware that they were the only true farmers with moral and economic incentives linked directly to the work results of the brigade's collective as a self-managed production and social unit within the cooperative.

The recent annual membership meeting of the Mier Agricultural Cooperative in Sol approved the complete changeover to brigade khozraschet in crop production as of 1 January. And what about livestock production? "Together with the keepers of dairy cows and beef cattle in Mala Domasa, our keepers will go to the Mier Agricultural Cooperative in Kamienka. I am confident that we will follow their example and change over to the brigade form of work organization and remuneration also in livestock production. According to the Kamienka example, every barn will have its own khozraschet brigade. Only in this way will we be able to maintain also this year our position among the leading agricultural enterprises in the Okres," emphasized Comrade Demcak.

GOALS, EFFECTS OF AGRARIAN PRICE REFORM ON STATE BUDGET, LPG'S DISCUSSED

West Berlin FS-ANALYSEN in German No 7, 1983, (signed to press Nov 83) pp 49-69

/Article by Karl Hohmann: "The Agrarian Price Reform: A Stimulant for Productivity"

/Text Table of Contents

1. Objectives and Content of the Agrarian Price Reform
2. Effects of the Agrarian Price Reform on the Budget
3. Effects of the Agrarian Price Reform on the LPG's
4. Summary

1. Objectives and Content of the Agrarian Price Reform

At the Tenth SED Congress in April 1981, Honecker intimated that an agrarian price reform was in preparation to take effect by the end of the five-year plan.<sup>1</sup> Subsequently this was often referred to as "one of the most thorough-going political and economic measures in the history of our agriculture,"<sup>2</sup> and said to be "far more comprehensive as to extent and qualitative effect than various former changes in economic regulations."<sup>3</sup> In view of the considerable propaganda efforts made in connection with the agrarian price reform taking effect on 1 January 1984, it is hard to understand the restraint exercised by the SED with regard to its publication of the legal regulations involved. The only possible explanation is provided by the assumption that, from the standpoint of the SED, these regulations are of interest neither for the GDR public nor for public opinion in other countries-- with the exception of producer prices<sup>4</sup> applicable to individual producers (individual smallholdings, small gardeners) and social organizations of a noncommercial nature.

Due to the price and subsidy provisions in and for the agrarian sectors, decided in the 1970's to operate gear-like and featuring a great deal of interdependences, any amendment of any order affects many other regulations in the manner of a chain reaction. That is why college cadres, together with managers and bookkeepers in selected enterprises of the various production divisions have been at work since 1981, calculating and analyzing the effects of the proposed price/cost structures in the agrarian sector. That is also why all enterprises must do their planning for 1984 and reporting for 1983 on the basis of both the former and the new prices.<sup>5</sup> Up to this point 187 orders are set to take effect on 1 January 1984.<sup>6</sup> They do not by any



means represent the entirety of the necessary changes but do exemplify both the multilayered problems of agrarian price reforms and SED efforts to get a grip on them.

We may describe as follows the salient points of the agrarian price reform that, incidentally, is not supposed to affect the level of consumer prices:<sup>7</sup>

- a) Fixing new producer for farm produce corresponding to the actual social costs in GDR agriculture and, in addition, effectively stimulating the steadily growing output of farm produce;
- b) The total deletion of subsidies for means of farm production, the amount of which had risen from M0.4 billion to M6.9 billion in the years 1974-1982 due to the steadily rising prices of energy and raw materials on the world market and in CEMA trade (keeping sales prices of the means of production to agriculture unchanged);
- c) The attempt by means of the agrarian price reform to improve the cost/profit ratio in the farm sector and thus achieve a greater agricultural contribution to the national income.

Moreover, a change in taxation is designed better than before to equalize the LPG's economic advantages and disadvantages resulting from external conditions (location, climate, type of soil), in other words the extra profit earned by LPG's incurring relatively lower costs. This is to standardize the initial economic conditions of LPG's.<sup>8</sup>

Generally the agrarian price reform is intended to effectively stimulate the rise in output in every LPG, intensify farm production and increase profitability in the farm sector as well as "more directly interest" cooperative farmers and workers "in raising output, labor productivity and efficiency."<sup>9</sup>

We note from the few concrete data so far available, that the agrarian price reform is coupled with the changes in the price of the most important agrarian products and some means of production shown in Table 1. Producer prices of grain and sugar beet, for example, are to be raised by about 60 percent, of potatoes by 75 percent, of fruit by an average of 30 percent and of vegetables by an average of 53 percent. The sharpest price rises for livestock products are envisaged for beef cattle products (milk, slaughter cattle) at just about 70 percent, followed by slaughter pigs (55 percent) and poultry (43-63 percent).

It should be noted that producer prices for those crops and livestock products have been raised most sharply, that are normally typical for lower yield locations (sandy soil, meadow land), while the produce typical for more favorable locations (grain, sugar beet and fattened pigs) has been awarded far lower price increases.

By comparing price ratios rather than price levels of comparable farm produce in the FRG (Table 2), we see that comparable ratios did and largely continue to prevail in the GDR for the most important crops and also for products of livestock processing. As prices of farm produce in the FRG are also administratively fixed or strongly influenced (with the exception of potato prices), we are bound to conclude that cost ratios for the production of the respective crops and livestock products are also

comparable. The relatively greater importance of milk production in livestock product processing for the domestic supply of edible fats and animal proteins (skim milk powder) in the GDR is shown up in a price ratio for beef cattle production, that is relatively unfavorable by comparison with the FRG.

Table 1--Probable Price Changes Consequent on the GDR Agrarian Price Reform

Feature	1983	1984	Percentage Price Increase
<u>Producer Prices</u>			
Grain	M39.00 dt*	M63.00 dt	60
Potatoes	M27.00 dt	M47.00 dt	74
Sugar beet (16-16.5 <sup>o</sup> sugar)	M 9.50 dt	M15.20 dt	60
Milk (4 percent butterfat)	M 1.03 kg	M 1.70 kg	67
Beef (slaughtered)	M10.00 kg	M16.80 kg	68
Pigs (slaughtered)	M 6.20 kg	M 9.60 kg	55
<u>Prices of Means of Production</u>			
Diesel fuel	M 0.55 l**	M 1.40 l	154
Electricity	M 0.16 kWh***	M 0.23 kWh	47
Nitrogen fertilizer	M 1.20 kg N	M 2.20 kg N	83

\* dt - deciton; \*\* l - liter; \*\*\* kWh - kilowatt hours

Sources: Bernd Helmich, "For a Production Better and More Efficient in Terms of the National Economy and Management, for a Better Cost/Profit Ratio," DER PFLUEGER (The Plowman), East Berlin, No 11/1983, pp 34-38, here p 35; KOOPERATION, East Berlin, No 10/1983, pp 460-462; GB1 Special Issues No 1114, 1099, 1055 and 808 as well as other sources.

Ratios of prices of crops and livestock products, on the other hand, differ considerably for the FRG and GDR--even though these differences are to slightly decrease following the agrarian price reform. If we assume that the producer price ratios here also reflect the cost ratio in the production of these items, GDR costs of livestock production would have to be assessed as double those in the FRG. To be mentioned as features of the relatively higher costs are the estimated 25 percent poorer feed utilization in GDR livestock production, due to large losses of stock and the shortage of protein feed, the excessive manpower used in livestock LPG's and the relatively high level of prices of construction investments by comparison with the FRG.

The SED evidently expects the agrarian price reform to provide incentives for more conservative handling of (especially) imported protein feed and feed grain by somewhat narrowing the price ratios between feed and livestock products. This is to help reduce the need for imports and thereby relieve (albeit marginally) the foreign trade deficit with the Western industrial countries.

Table 2--Price Ratios in the Farm Sectors of the FRG (1981) and the GDR Before and After the Agrarian Price Reform

Products	FRG	GDR	
	1981	1983	1984
Sugar beet/wheat	1 : 4.1	1 : 4.0	1 : 4.1
Potatoes/rye	1 : 2.1	1 : 2.2	1 : 2.1
Milk/beef	1 : 12.6	1 : 10.3	1 : 10.2
Pork/beef	1 : 1.8	1 : 1.6	1 : 1.8
Grain/pork	1 : 9.3	1 : 20.0	1 : 18.2
Crushed soybeans/milk	1 : 0.9	1 : 2.0	1 : 1.8

Sources: My own computations based on data in the "Statistisches Jahrbuch ueber ELuF 1982" /Statistical Yearbook on ELuF 1982/, Muenster-Hiltrup and the sources mentioned in Table 1

Also deleted is the freeze (in some instances reduction) of prices of means of farm production, introduced in 1973 to encourage farm output and, especially, to promote the transition to industrialized production methods.<sup>10</sup> Consequently, as of 1 January 1984, GDR agricultural enterprises must pay the going industrial prices of the energy, fertilizer, machines and other prior industrial performances they need.<sup>11</sup>

As we know, this freeze of prices of means of production, coupled with largely stable producer prices of farm produce, resulted in an increase in subsidies paid by the state budget for means of farm production from M0.4 billion in 1974 to roughly M6.9 billion in 1982.<sup>12</sup> Though, in 1982, some M0.8 billion subsidies were saved by comparison to the planned amount, this was by no means due to a reduction in subsidies but to the reduction in the quantitative consumption of these means of production brought about by the rationing of fuel, heating oil, fertilizer and machinery.

Consequent upon the deletion of the former subsidies and freezes and as the result of the price increases on the world market and in CEMA trade in the 1970's and early 1980's, the use of means of farm production becomes variously more expensive (see Table 1). The sharpest rises in price now are to be expected for imported energy sources (heating oil, diesel), imported raw materials (protein feed) and prior industrial performances, production of which requires the use of imported raw materials (phosphate fertilizer) or large amounts of energy (nitrogen fertilizer). Assuming that all former freezes and subsidies will really be canceled from 1984 on, the price of diesel fuel, for example, will rise by 154 percent, of crushed soybeans by at least 90 percent, and of nitrogen fertilizer by 83 percent.

Less noticeable price increases are to be expected with respect to prior industrial performances by the metal processing industry and construction investments. Here we must assume price rises ranging from 40 percent to 80 percent (the lower limit applying to construction investments, the upper limit to (especially) the machinery and barn equipment reduced in price in 1973). The relatively lowest price rises will be recorded for replacement parts and repairs, because the subsidies made available for these items were already radically cut in early 1981.<sup>14</sup> These prices will therefore show only about half the increase of machine and equipment prices, in other words some 20-40 percent.

It seems the SED did not consider useful the changes in taxation levied on GDR farming<sup>15</sup> as a result of the 1981 economic measures. Crop production LPG's operating on good soil, for example, are in future to pay a fixed amount per hectare LN /agricultural area/, graduated according to natural locations; this is regarded as a "minimum state claim on the efficiency" of the enterprise.<sup>16</sup> The fixed amounts range from M20 per hectare LN for locations with alluvial soil to M600 per hectare LN for locations with loamy soil<sup>17</sup> and apply to some 65 percent of the GDR's agricultural areas. Enterprises located on land poorer than "D3/D4 North" do not pay any tax but in fact receive location-related subsidies<sup>18</sup> of up to M350 per hectare LN. Enterprises producing in locations roughly corresponding to D3/D4 North do not pay any fixed tax, because producer prices for farm produce here are set "as before," so as to be based on "prime costs and economically warranted profits to ensure the expanded reproduction of the enterprises producing on D3/D4 North locations."<sup>19</sup>

Moreover, in future the fixed amounts to be paid by crop production enterprises or the subsidies they receive are to be taken into consideration when agreed prices for (crude) feedstuffs are fixed by the crop and livestock production enterprises, to the extent that the fixed amounts are incorporated in production costs and the subsidies deducted from them. Consequently the effects of the natural location factor yield differential are felt also in the livestock production enterprises with regard to the land used to produce what they need for livestock processing.

As recently as 1980 Hoell wrote in one of the textbooks on the "Politische Oekonomie des Sozialismus" /Political Economics of Socialism/ that "the separation of livestock production from crop production in the GDR results in the fact that yield ratios arise only in the crop production LPG's, because the yield differential is clearly linked to the land."<sup>20</sup> Now the SED seems to acknowledge that this concept is wrong, at least as long as feed prices are not standardized. Actually Hoell had pointed out just this in 1980. Nevertheless, the 1981 amendment of the taxes payable by livestock production LPG's was justified as follows in the GESETZBLATT:<sup>21</sup>

"The current gradation of the taxes payable by livestock production enterprises in accordance with the natural conditions of crop production in the region no longer corresponds to the status of economic relations between enterprises for crop and livestock production."

The current terms for the formation of feed prices agreed between crop and livestock production LPG's make the yield differential effective for livestock production also. As crop production LPG's in better locations generally obtain higher yields at comparable costs than do enterprises in low yield locations and are therefore able to agree lower feed prices with their respective livestock production LPG's while livestock products can be sold at standardized livestock production prices, those LPG's benefit, which have partners operating on better land. Analyses in LPG's in different locations showed the following:

"If the agreed prices in locations D1 North to D3 North equal 100, current agreed prices in locations ruled by conditions Lo 1 to Lo 6 /loam locations/ with regard to feed grains are around 86 percent, to feed root crops 94 percent, to green feed 85 percent and to fresh silage 82 percent."<sup>22</sup>

Taking into account the fixed amounts to be paid consequent upon forming agreed prices, a price increase for feed occurs at the better locations. At the worst

locations the agreed price of feed is corrected downward by taking into consideration the subsidies received. Apparently cooperation is to achieve a far reaching standardization of agreed prices. Nor does it seem impossible for the agreed prices at better locations (that is at a high yield level of crop production) in some circumstances to end up being higher than at poor locations. In addition to the fixed tax amount, all crop production LPG's must pay a progressive tax to the state budget, based on the profit earned. "This portion of the tax fluctuates between 17.5 percent at M200 profit and some 60 percent at profits exceeding M2,500 per hectare agricultural area."<sup>23</sup> "For LPG's and VEG's [state farms] of livestock production taxes are levied depending on the profit per M1,000 gross production,"<sup>24</sup> that is both the former regulation on paying over VEG net profits and the orientation of taxes to the prime costs of production have been canceled.<sup>25</sup> The taxes payable by livestock production enterprises are graduated progressively from M0.5 at M56 profit per M1,000 gross production to 55 percent at M350 profit per M1,000 gross production.

## 2. Effects of the Agrarian Price Reform on the Budget

The probably effects of the price regulations linked with the agrarian price reform to the GDR state budget, hitherto heavily burdened by farm and food subsidies, are to be quantified by means of a largely statistical model. It is assumed that:

- a) The state yield largely corresponds to the public consumption of foods, does not in 1984 unduly diverge from 1981 and 1982 yields, while the relatively small GDR food exports can be neglected or require subsidies reasonably comparable with those for domestic food consumption,
- b) Consumer prices definitely remain unchanged--as is constantly reaffirmed,
- c) The producer prices agreed largely remain in effect for a long period--that is up to the end of the 1980's.

A calculation carried out on the basis of these assumptions shows that, initially, about M13-14 billion more would have to be made available from the state budget for the purchase of farm produce and--assuming stable consumer prices--subsidies for essential foods would therefore rise from M11.7 billion (1982) to approximately M25 billion (1984).

This higher spending is to be offset by savings on subsidies for means of production. Assuming that all former subsidies are really going to be abolished, these savings will amount to about M7 billion. The initially surprising result of the agrarian price reform would thus be an increase in costs to the state budget in the amount of M6-7 billion. In view of the GDR's economic situation, this raises the question whether our "model calculation" can possibly be considered reliable. As I personally do not doubt its reliability, I will hereafter more closely examine the sources of the money needed to meet these additional expenses.

As far as one can see at this time, the additional costs (M6-7 billion) for 1984 will be mainly though not exclusively compensated by higher taxes and payments by the farm enterprises. These will arise from the fact that, when fixing the agrarian prices in effect from 1 January 1984, "the new industrial prices and their planned changes in subsequent years (were) fully taken into account."<sup>26</sup>

We may therefore calculate that--even after deducting the subsidies for poor yield locations--the fixed amount of the tax on crop production LPG's alone will provide more than M1 billion in farm taxes for the state budget. This amount approximately corresponds to the taxes paid by all GDR farm enterprises in 1982 (M1.1 billion). The state revenues resulting from the profit tax payable by livestock and crop production LPG's able by the new agrarian prices to "realize a much higher profit than before"<sup>27</sup> thus diminish the above mentioned additional expenses by an amount that, depending on weather and harvesting conditions in 1984, may be estimated at M0.4-0.6 billion.

The major portion of the additional costs to the state budget remaining after deduction of these estimated additional revenues also derives from the agrarian sector--from the payments of farm enterprises arising due to the fact that the producer prices for farm produce were fixed on the basis of the prices of means of farm production expected to prevail around the late 1980's. Enterprises will therefore earn extra profits in the first years following the agrarian price reform as the result of "anticipating" producer prices, not as that of the enterprises' own performances.<sup>2</sup> The enterprises' payments will diminish to the extent that industrial prices for means of farm production are going to rise by price changes on the world market and in CEMA trade, in other words the farm sector's insulation from foreign trade influences is going to be maintained--albeit by other means. Instead of--as hitherto--keeping stable the prices of means of production and producer prices in the agrarian sector by subsidies for means of production, the economic costs of farm production (rising net subsidies from performances of other economic sectors), due to annually declining payments by agriculture, are being skillfully disguised by foregoing steady prices of means of production, "anticipatory" producer prices and--presumably--excessive but steady subsidies for consumer prices.

In order to quantify the payments to be made by farm enterprises in 1984, I am assuming that the SED aims at a 5-10 percent reduction in the agrarian sector's absolute consumption of means of production in the 1980's, while expected or planned industrial price increases in this period are based on the rise in subsidies for means of farm production in the period 1976-1982. Following such a calculation, farm enterprises would have to pay at least M4 billion (M4.5 billion less M0.23-M0.45 billion) in 1984. It is interesting to note that a calculation including an annual (planned) 3 percent rise in industrial prices (such as set for energy sources in the current five-year plan)<sup>24</sup> produces a comparable result. When we project this increase forward from 1984-1990 and relate it to the "consumption of materials and productive performances" of the agrarian sector in 1981,<sup>30</sup> the minimum LPG payments in 1984 would again amount to M4 billion (M4.4 billion less M0.22-0.44 billion).

In the final effect, "only M1.5-M2.5 billion" of the additional 1984 state budget spending due to the agrarian price reform would have to be met by revenues from other economic sectors. To the extent that payments by agriculture diminish due to rising industrial prices, this net subsidy from other economic sectors will increase without anything necessarily changing with respect to consumer price subsidies, because these latter would in any case be shown as being excessive by at least M4 billion due to the "anticipation" of 1984 agricultural producer prices.

The M1.5-M2.5 net subsidy tied to the agrarian price reform is evidently meant to benefit the "improvement in the cooperatives' reproductive strength,"<sup>31</sup> and to further raise agriculture's contribution to the GDR's national income."<sup>32</sup> Despite

largely unchanged prices for means of production and producer prices, the profitability of the GDR's agrarian sector obviously and seriously worsened in the 1970's, because production consumption (energy, fertilizer, machines) rose faster than yields. When we consult Professor Tillack (Karl Marx University, Leipzig), profits of crop production LPG's declined by 24 percent and of livestock production LPG's by 15 percent in 1980 compared with the average of the years 1973-1975.<sup>33</sup> According to him this could be "demonstrated also by the larger share of long-term loans in the financing of investments."<sup>34</sup>

Lastly we should not forget that agriculture has been given the assignment "by 1985 to raise its contribution to the national income by M1 billion."<sup>35</sup> By virtue of the subsidies from other economic sectors, it is possible at any time to statistically demonstrate such a growth--even without improved performance.

It would thus require a rather unlikely event for the agrarian price reform to proceed in 1984 without causing additional expense to the GDR state budget. It could happen if, in addition to the expected or planned increases in industrial prices, the SED were to take into account at the time of the formation of producer prices the possibly planned increases in the incomes of the people employed in the agrarian sector, in other words if these were to be planned to be greater through 1990 than the 1976-1982 earnings of the labor force employed by the VEG's and the "additional" revenues of enterprises resulting therefrom in the initial years were also having to be paid to the state budget. However, we do not so far have knowledge of any such intentions.

### 3. Effects of the Agrarian Price Reform on the LPG's

Up to now the GDR has always mentioned the following as the basic objectives of the agrarian price reform (provided the respective statements are relieved of their ideological embellishments):<sup>36</sup>

- a) More effectively to direct the material interests of cooperative farmers and workers to the steadily rising production of foodstuffs for the people and of raw materials for industry.
- b) Together with the most conservative use of all funds to improve the cost/profit ratio, intensify production, improve product quality and generally produce more cheaply so as to raise agriculture's contribution to the national income.

However, the agrarian price reform evidently also links the new regulations published up to now with changes that raise the question whether they were in fact and in every case intended to be exactly the way they are. The above proportional price increases of energy and protein feed (above proportional compared with producer prices--see Table 1) may be explained by the objective to provide incentives for their more conservative or more appropriate handling, but in view of the existing enterprise structures, the long-standing general shortage of protein feeds and the cuts decreed in motor fuel rations for the enterprises--more savings are hardly feasible unless output losses are to be incurred. The effects of the price changes for other means of production (especially machinery) must be assessed with even greater skepticism.

The new prices for construction and machinery, for example, increase the purchase cost by at least 40-50 percent. Consequently, if the nominal investment volume is to be held steady, only about two thirds in real terms of the former investments can be effected. At least M2 billion more investment money would be required to keep investments in real terms comparable with former years. It is possible that the calculated net subsidy of M1.5-M2.5 billion might serve to make available the money needed for reasonably steady investments in the agrarian sector--not, as assumed hitherto, to lastingly improve the enterprises' profit situation. The latter would then indeed be achieved by an improvement of the cost/profit ratio, and as a issue of principle it does not matter whether this is accomplished by cost reductions alone, earnings increases alone or the conjunction of both elements.

The "basic extension of the standard period of utilization of machines by at least 30 percent,"<sup>37</sup> decreed for all economic sectors, does admittedly soften the effects of the price increases on depreciation and, consequently, the cost of machinery. On the other hand it necessarily involves more spending on repairs and overhauls. We cannot disregard the fact that the new costs of investments and machines shift the labor/capital cost ratio to the extent that the use of manpower will be relatively cheaper than the use of machines. In total contrast to the increase in manpower costs by the wage tax on industry, this phenomenon is so far being glossed over by the claim that "the use and efficient utilization of embodied labor (...)" assumes "considerably greater importance."<sup>38</sup> In contrast to industry, it is not really possible in the agrarian sector to deduce therefrom the motivation--let alone pressure--to save manpower or rationalize farm production in the enterprises.

Nor can we expect economic pressure on LPG's and VEG's to exercise "thrift and prudent calculation" by the prospect that production costs in agriculture will generally rise less sharply than earnings (at least in 1984). Even without raising production and productivity standards, they will probably not need to expect lower profits. Still, from the aspect of maximizing profits, the agrarian price reform has certainly provided incentives for the enterprises to raise output and improve profitability. From the standpoint of the SED it is also quite understandable that it should set the framework terms for the enterprises in such a way that the motivation for LPG output increases seems stronger than the motivation to conserve means of production. If necessary, the latter would be achievable by further cuts in allocations, while output and productivity increases are far harder to obtain (if at all) by means of state decrees.

While it is almost impossible to forecast how badly such incentives for output increases may be blunted if not made entirely ineffective in socialist enterprises, too, by the progression of the rate of profit tax, 70 percent tax rates seem unlikely to provide much motivation for improved performance.

On the other hand and disregarding all ideological embellishments, the agrarian price reform seems definitely to have provided incentives for cooperative farmers and VEG workers, and these involve not only the motivation to raise output but also the motivation to conservatively handle means of production. Deleted as of 1 January 1984, for example, is the former consumption tax<sup>39</sup> charged enterprises paying more than M7,200 per full employment unit (VBE) and year to the labor force employed.<sup>40</sup> Furthermore, provided the premium rates for energy and materials savings, innovations and excess plan fulfillment remain unchanged, workers may improve their incomes by the premium calculation to be based on the new prices of means of production and produce prices.<sup>41</sup>



Assuming the same savings as hitherto, the premiums--calculated at the new prices--would be increased 2.5-fold for energy savings and doubled for protein feed savings, while "only" about 60 percent more premium payments may be expected for output increases. Still, the likely effects should not be overestimated in view of the past 2 years' radical cuts in allocations of means of production.

Altogether it seems that the SED has lately made greater efforts to exploit individual potentials and reserves for the achievement of its planned economic objectives. This is also demonstrated by the producer prices for individual producers, VKSK /Union of Small Gardeners, Settlers and Small Livestock Breeders/ members and other part-time (private) small-scale producers,<sup>42</sup> published in the GESETZBLATT. They will also receive higher producer prices from 1984 for their livestock products.<sup>43</sup> Even though these are lower than the prices paid to socialist enterprises (because, with the exception of prices for feed and young livestock, they will continue "to pay stable public consumer prices for all production prerequisites such as energy, fertilizer, seeds and assorted minor materials"<sup>44</sup>). Individual livestock breeders will, on balance, record additional tax-free earnings as a consequence of the agrarian price reform.

Disregarding the fact that the agrarian sector will thus have neither standardized producer prices nor standardized prices for means of production (as had up to now been largely the case),<sup>45</sup> the price hike of feed prices, in particular, must be considered to involve undesirable side effects for individual producers.

Following the summer 1982 cuts in feed allocations granted at the conclusion of feeding contracts,<sup>46</sup> more and more reports received since the beginning of this year complain that feed is being stolen from the socialist enterprises for individual livestock keeping, and that food for human consumption (bread, oat flakes, and so on) is being fed to small livestock. Feeding food for human consumption is at least being stimulated by the imminent rise in prices of feed payable by these producers. We may well ask whether it would not have been more sensible to increase prices of all other means of production payable by individual producers and to leave the price of feed unchanged.

#### 4. Summary

A preliminary appraisal of the likely effects of the agrarian price reform, in preparation since the Tenth SED Congress and taking effect in 1984, leads to the conclusion that the preparations--evidently carried out with an enormous expenditure of personnel, paper and computer time--include many correct and sensible provisions but do not represent the ultimate wisdom in every respect.

Definitely achieved was the fixing of prices of means of production in the farm sector appropriate to actual social costs. The new producer prices also provide incentives for increasing production from the aspect of maximizing profits for the enterprises. On the other hand, the reforms failed to fix producer prices appropriate to the current costs of the agrarian sector. Still, fixing producer prices at a level corresponding to the price level of the means of production expected at the end of the 1980's means that, for the foreseeable future, GDR agriculture will disappear from the GDR budget as a recipient of subsidies.

However, this certainly does not mean that the agrarian sector in the GDR will not cost the national economy a lot of money. The amounts hitherto shown as subsidies to farming were merely "grafted" on food subsidies--since consumer prices are not to be changed.

At the same time producer prices anticipate the amounts expected to result from the increase in the price of means of production in the 1980's and reflected in consumer price subsidies also. Consequently 1984 "social performances" will show excessive amounts. In fact these largely represent production subsidies for the farm sector and/or costs that have actually not yet been incurred on a national scale. In any event, the "subsidies" for essential foods--probably doubling to about M25 billion--<sup>47</sup>, while deserving of this description to certainly no more than 50 percent, "make a good sociopolitical showing" both vis-a-vis the GDR's own people and other countries.

#### FOOTNOTES

1. Erich Honecker, "SED CC Report to the Tenth SED Congress," NEUES DEUTSCHLAND, 12 April 1981, p 8.
2. Wilhelm Cesarz, "Agrarian Price Reform Encourages the Growth of Performance," NEUES DEUTSCHLAND, 17 May 1983, p 3; Ernst Mecklenburg, "Top Performances by All Party Members to Strengthen Socialism and Peace," BAUERN-ECHO, 25/26 June 1983 (supplement), p 13.
3. Ibid.
4. GB1 /GESETZBLATT DER DEUTSCHEN DEMOKRATISCHEN REPUBLIK/ I 1983, No 8.
5. Wilhelm Cesarz, see note 2.
6. "Order No 473 on the Taking Effect of the Valid Industrial Prices to Enterprises and Facilities of Agriculture in Implementation of the Agrarian Price Reform," (GB1 I 1983, No 20.
7. Erich Honecker, see note 1, p 8; Wilhelm Cesarz, see note 2.
8. Dieter Sachse/Rosemarie Sachse, "On the Importance of Marx's Income Theory for the Settlement of Topical Issues of SED Agrarian Policy," WIRTSCHAFTSWISSENSCHAFT, East Berlin, No 9/1983, pp 1301-1316.
9. Bernd Helmich, "For a Production Better and More Efficient in Terms of the National Economy and Management, for a Better Cost/Profit Ratio," DER PFLUEGER, East Berlin, No 11/1983, pp 34-38.
10. GB1 II 1983, No 55.
11. Erich Honecker, see note 1; Wilhelm Cesarz, see note 2.

12. "Price Supports in the GDR Serve Economic Encouragement and the Improvement of Purchasing Power," INFORMATIONEN DES BMB, Bonn No 20/1982, pp 11-14; BAUERN-ECHO 28 October 1983, East Berlin, p 5.
13. "Law on the 1982 State Budget Plan," GB1 I No 35.
14. GB1 I 1981, No 16; see also Karl Hohmann, "The New Economic Measures...", in Karl C. Thalheim, Doris Cornelsen, Karl Hohmann, Achim Beyer, "GDR Economy at the Beginning of the 1980's," FS-ANALYSEN, No 5/1980, pp 55-88.
15. Ibid.
16. Bernd Helmich, see note 9, p 36; Wilhelm Cesarz, see note 2.
17. Dieter Sachse, Rosemarie Sachse, see note 8, p 1314.
18. Ibid.
19. Ibid; also Guenter Hoell, "Die Agrarverhaeltnisse im Sozialismus" Farming Conditions in Socialism, East Berlin 1980, p 29.
20. Ibid, p 30.
21. GB1 I 1981, No 16.
22. Dieter Sachse, Rosemarie Sachse, see note 8, p 1316.
23. Ibid, p 1314.
24. Ibid, p 1315.
25. GB1 I 1981, No 16.
26. Joachim Lehmann, Hans-Peter Berger, Evelyn Viertel, "Survey of Legislation in the Third Quarter 1983," NEUE JUSTIZ, East Berlin, No 11/1983, pp 456-458.
27. Bernd Helmich, see note 2, pp 35/36.
28. GB1 Special Issue No 1114.
29. Kurt Erdmann, "The New 1980 Price Base--Changes in GDR Statistics," FS-ANALYSEN, No 6/1982, p 44.
30. "Statistisches Jahrbuch der DDR 1982" 1982 GDR Statistical Yearbook, p 91.
31. Wilhelm Cesarz, see note 2.
32. "Magnificent Achievements on the Fields and in the Barns," NEUES DEUTSCHLAND, 18/19 June 1983, pp 1/2.
32. P. Tillack, "The Influence of Scientific-Technological Measures on the Organization and Efficiency of Livestock Production Processes and Enterprises," INTERNATIONALE ZEITSCHRIFT DER LANDWIRTSCHAFT, Moscow/East Berlin No 1/1983, pp 13-16, here p 14.

34. Ibid.
35. "Exploit All Reserves for the Needed Growth of Performance," NEUE DEUTSCHE BAUERNZEITUNG, East Berlin, No 26/1981, p 5.
36. Wilhelm Cesarz, see note 2; Bernd Helmich, see note 9.
37. "Order on the Review and Revision of the Normative Period of Utilization and Rates of Depreciation for Basic Assets," GB1 I 1983, No 23, p 236.
38. Bernd Helmich, see note 9, p 35.
39. Joachim Lehmann et al, see note 26, p 456.
40. "DDR-Handbuch" [GDR Manual] (term: "agrarian taxes"), Cologne 1979, p 27.
41. GB1 Special Issue No 1114.
42. "Order No 430 on Producer Prices for Fresh Fruit, Vegetables and Potatoes of Individual Producers," GB1 I 1983, No 8.
44. Wilhelm Cesarz, see note 2.
45. Up to now fruit, vegetables and milk have been exceptional sectors; producer prices for individual producers were either higher (fruit, vegetables) or lower (milk) than those paid socialist enterprises.
46. "To Develop More Feed Reserves for Individual Producers," BAUERN-ECHO, 13 August 1983, East Berlin, p 7.
47. The study by a French scholar of the GDR agrarian price reform refers to semi-official sources to assume a rise in essential food subsidies of M11 billion to M33 billion (Benoit Petit, "Theoretical Reflection Concerning the Agrarian Price Reform in the GDR," Lyon 1983, p 5).

11698

CSO: 2300/332

CHANGE IN FINANCIAL INSTITUTION SYSTEM PROPOSED

Budapest KOZGAZDASAGI SZEMLE in Hungarian No 11, 1983 pp 1368-1379

[Article by Nandor Rott, chief researcher of the Research Institute for Agricultural Economics: "The Further Development of the Financial Institution System: Proposal for Establishing a Food-Agricultural Bank"; superscript numbers refer to footnotes, bracketed numbers to references; passages enclosed in slantlines are printed in italics]

[Text] In the following, we will attempt to outline a /possible alternative/ for the further development of the financial institution system. The essence of the concept is the creation of sectorial agricultural banks (commercial banks) and the introduction of new organizational and management elements associated with this.<sup>1</sup> We will make our ideas tangible with the example of the foodstuff-agricultural bank.

We must mention in advance that numerous elements of the alternative of the expansion of the financial institutional system to be outlined here have been raised by others, perhaps even repeatedly, and worked out in greater detail. Nevertheless, we thought that their reformulation was warranted since from another viewpoint and with the emphasis on different interrelationships we arrived at partially different proposals for solutions. In our proposal, the necessity for the distinct separation of commercial banks and state proprietary organizations is especially important. The expansion of the financial institutional system is also all the more timely since it will be more in harmony with the numerous elements of the guidance system which had been modernized during the last few years. The interrelationship and close interaction between development of the financial institution system and the economic mechanism is verified by the history of the institutional system.

Macroeconomic Management and the Development of the Banking System

The present-day development of the institutional-organizational structure of the banking system is attributable to several historical factors<sup>2</sup>--thus, primarily to the fact that during the time of the direct planning directive guidance system the activities of the banks extended, so to speak, exclusively to the supervision of plan fulfillment occurring through the circulation of currency. At this time, the official functions of the banking system were dominant. In addition to centralized macroeconomic management, the most

effective instrument for supervision through money proved to be a centralized financial institution embodied in the monopoly of a single bank.

The socialist state's monopoly was embodied in the credit monopoly of the National Bank in the same way that the state's foreign trade monopoly was embodied in the foreign trade organizational solutions. However, in our opinion, the possibility for the assertion of the state monopoly is not dependent on whether the state exercises it either through one or more organizational entities. If the exclusivity of the monopoly and the implementation of its exercise in a single organizational body would coincide, the logical form of the monopoly would be that the state could have only one foreign trade enterprise or bank<sup>3</sup>. However, an organization which is monolithic to this extent is non-functional or only weakly effective<sup>4</sup>; therefore, in practice, the organizational structure broke through the foreign trade and credit monopoly principles. Several foreign trade enterprises, depending on which branch they belong to, or rather, differentiated according to product spheres, and several functionally separated independent banks have even to this date given an organizational framework to the state monopoly.

Following the reform of the economic mechanism and the strengthening of the economic role of credit, the banks represented an important institution of /indirect/ guidance--especially in the areas of investments and developments. It is more or less justifiable to say that the direct planning directives were replaced by directives asserted through the distribution of credit. It is obvious, that when the banking system with its loans served as an instrument for the implementation of /central goals/, the "central bank" seemed to be the single institutional form in harmony with this. Although the roles of the banks and the "central bank" have been modified, the financial institutions, even following the reform, have in essence remained the organizations of central macroeconomic management. Under these circumstances, there could hardly be a realistic basis for the financial interest of the bank, of its directors or of their workers. However, with this, a schism set in between production enterprises and the monetary interest relations of the banking system. While at least in principle success became the yardstick for evaluating the activities of enterprises, in the case of the banks, profitability did not become a consideration.

The banks may only be judged on the basis of the economic success of the loans they have given when credit granting no longer consists of distributing central allocations, but when the decisive criteria in the bank's decision becomes the profitability of the credit goal.

The idea of having a banking system consisting of several banks is not new. At the time of the mechanism reform, numerous economists already thought the elimination of the one-bank system desirable. Without wishing to be complete, let us cite these views.

/Bela Csikos-Nagy/, in connection with the necessity of developing a suitable institutional framework for the movement of money and capital, concluded that, "...it would also be practical to examine the /one-bank system of the state./ It seems that a multi-bank system can more flexibly adjust to the various

financing tasks, and the financial policy principles drawn from the plan could be more effectively served by an issuing bank separated from the commercial banking system which, on the one hand, exercises the state's monopoly on issuing bank notes and which, on the other, directs and controls the banking system's commercial policy."<sup>5</sup>

A banking system consisting of several banks could operate either on the basis of a functional or sectorial division of labor or not. In the case of a functional division of labor, the financial institutions would specialize in particular banking activities, such as providing long-term (usually) development credit or granting credit for current production. In essence, up until the beginning of the 1970's, the Hungarian banking system was of this nature. In the case of a sectorial division of labor, the banks would become the banks of each sector (industry, agriculture, etc.). It is possible to have a banking system consisting of several banks without this type of specialization, that is, when every bank deals with (nearly) every type of bank operation and "serves" the enterprises of any sector.

The notion urging the expansion of the banking system along sectorial lines was already raised at the end of the 1960's. According to this, "The fulfillment of bank tasks associated with the various areas, above all else, with regard to the state industry, agriculture and the councils and institutions, requires the operation of banks with each having a different organization and network...", and these are the sectorial banks ([3] p 861). According to this, the major advantage of the sectorial banks is their specialization and comprehensive knowledge of the totality of the enterprise's operation--from the expansion of productions to marketing. In a two-tiered banking system, the lower tier would be composed of the sectorial banks and their activities would be coordinated and directed by the issuing bank--as the "bank's bank"--with monetary instruments. "The position of the banking system is essentially an /equal-ranking business relationship/ with the outer circle, despite the seeming contradiction, is suitable for simultaneously making the banking system one of the effective agencies of central influence and the realization of central will " ([3] p 855). (Italics mine-N.R.)

As a result of the 1968 reform, the role of the credit- and money-issuing mechanism has expanded. It became increasingly obvious that the structure of the Hungarian National Bank does not conform to this role. As others have also pointed out, the merging of the activities of the issuing bank and credit bank into a single financial institution was worrisome even from the viewpoint of banking techniques<sup>6</sup>. If a single bank issues currency and grants credit as well as finances the budget, specific problems of liquidity and profitability arise. "In a technical sense...this type of bank is /unrestrictedly/ liquid ([6] p 1011).<sup>7</sup> In the case of a two-tiered banking system it is possible, within the framework of the issuing bank function, to "...regulate the credit bank's limits of liquidity and thus its credit-granting possibilities with /'banking-type' instruments/ providing suitable insurance against the credit expansion of these banks, which would perchance endanger the economic interest" ([2] p 734). The above quoted authors considered the organizational (and accounting) separation of the departments performing issuing bank and credit bank functions within the National Bank sufficient for the security of the

banking technique of the "two-tiered" banking system.<sup>8</sup> In the end, the latter idea was implemented at the beginning of the 1970's.

In actuality, the modification of the banking system's organizational framework at the beginning of the 1970's resulted in the strengthening of the National Bank's monopoly--with the dissolution of the Investment Bank--even the financing of enterprise investments became part of the central bank's activities. Already the legal heir of the Investment Bank, the State Development Bank, only financed the ever shrinking circle of state investments. This "mini-reform" of the banking system was justified primarily by the conspicuous deficiencies appearing in the area of investments as well as by the advantage of having the same bank finance the investments and the current production (working capital credit).

The separation of the organizations financing investments and working capital credit (Investment Bank-National Bank) was already attacked while the mechanism reform was being worked out with the reasoning that this is a concomitant of the direct planning directive method [4]. In actuality, this functional division of labor was developed in the banking systems of the advanced capitalist --primarily Anglo-Saxon--countries and is still operating today. The most important actual argument for handling the financing of investments (development) as well as of current production through a single bank was that "...the banking system was the 'first signalling system' and source of information for short- and mid-term planning but at the same time it was the most important indirect instrument for operational intervention that the state had. For precisely this reason /there is a need for a centralized, efficient banking organization/ ..." ([4] p 1039).

#### In Defense of the Idea of a Single Commercial Bank

At the beginning of the 1970's--during the time views opposing the further development of the economic reform gained ground--a theoretical "counterattack" developed against the banking system composed of more than one bank, or rather against proposals according advantages to the two-tiered banking system. Tamas Bacskai found that the proposals regarding a banking system composed of one or more than one bank represented two trends. "one trend considers credit a part of the economic regulatory system and an instrument for the assertion of central will...The second trend, with eyes toward expanding available credit, desires more banks competing with each other and serving market stimuli" ([1], pp894, 894). The first standpoint is not logically air-tight. That is, credit could be considered a part of the economic regulatory system even if the central will wishes to effect the granting of credit to the economy through several banks. Here the subject is merely a greater or lesser degree of organizational centralization or decentralization of the regulatory operation. The contrapositioning of central will and market stimuli is unfounded. /If the most important goal of the central will is precisely the consistent assertion of market stimuli in every sub-system of the economy, this could be satisfied precisely by a banking system consisting of several banks which asserts the market stimuli more directly. It is not necessary to connect the transmission of market stimuli with the expansion of available credit. An attractive argument /against/ a banking system consisting of several banks is that this would expand



available credit, especially in a situation where the "cooling down" of a supercharged economy makes credit-restrictive measures necessary. It is not an increase in the volume of credit but rather an increase in the effectiveness of its allocation that could be expected from the operation of several commercial banks (competing with each other)--naturally only if the banks themselves become interested in the profitability of their loans. The expected national economic advantage of the commercial banks lies in the organizational and individual interest in the success of credits--assuming that the stimuli of the market mechanism could be more directly asserted.

The advocates defending the "monobank" concept and the idea of the National Bank as the single commercial bank--disregarding the exceptions--emphasize that in those economically advanced countries where there is a multi-tiered banking system, the central (national) bank also performs the functions of a credit bank when it rediscounts the letters of credit and promissory notes in the possession of the commercial banks. However, this line of reasoning disregards the fact that at these times, the central bank plays the role of the "bank's bank" and /it supervises the credit of the commercial banks like a critical sieve/. Presently, deficiencies lie in precisely the organizational conditions and bank financial policies of the central bank supervision through the monetary mechanism of the credit bank.

The conception, moreover the existence, of a "monobank" was supported by an important--perhaps never openly expressed--fact: namely, the monopolistic structure of the enterprises. A monopolistic banking structure vis-a-vis the enterprise structure which is, to a large extent, monopolized could very much be warranted so that parties of equal rank could face each other in the credit sphere. This is a particularly significant consideration, in our opinion. Namely, even if a monopolistic banking structure could be justified vis-a-vis a monopolistic enterprise structure, the latter is unjustified regarding sectors such as the food-agricultural sector which are typically not monopolized. (This latter assertion is especially true of agricultural production, although in the recent past there have been numerous steps taken to eliminate monopolies in the food industry.)

There is still another important fact which seemed to support the concept of a "monobank". The outstanding success of the Hungarian National Bank and the great prestige it achieved in foreign trade relations (which was also expressed in the international recognition of its directors) precluded, so to speak, any possibility of criticizing its activities and organization structure. This sort of critical approach--believed by many but left unsaid--could have endangered the National Bank's financial policy position and the success of the (often very difficult) work done to attain the equilibrium of our balance of payments. These assumptions neglected two important factors. One is that the banking system in all economically advanced capitalist countries--in connection with which the burden of ensuring the equilibrium of the balance of payments arose--is multi-tiered. The international prestige of the Bank of England or even that of the Austrian National Bank is not in the least diminished because it does not function as a monobank in England or Austria. As a matter of fact, in my opinion, the international prestige of the National Bank presiding over a multi-tiered Hungarian banking system would even grow in economically advanced

capitalist countries. That is, this structure would be less "alien" to them, and at the same time, the problems of internal liquidity also realized earlier by domestic experts, would be even more eliminatable. The /other/ neglected factor is that the efficiency of a bank concentrating on international credit operations and monetary policy could only be expected to increase in these areas if it would be less burdened with tasks stemming from the credit bank role.

A further important viewpoint is that the country's maneuvering room could as a matter of fact be expanded if the commercial banks--in a multi-tiered banking system--could also appear on the international credit market (naturally, only at a later date of their development and under the supervision of the National Bank).

#### Exercise of the Ownership Function Over the Banks and Enterprises

Shortly after the mechanism reform it already became indisputable that numerous elements indispensable for its undisturbed functioning are missing from the financial institutional system: primarily, the instruments for the /reallocation of resources/. The economists had at this time already suggested various organizational forms for the direct reallocation of resources between enterprises, the issuance of business credit and securities [11], as well as the introduction of stocks, or rather, the creation of holdings and /banks/ performing proprietary functions [10]. The latter--either expressly or implicitly, but tacitly--would have meant the adoption of a banking system composed of more than one bank.

Many saw that the chief institutional deficiency of the economic mechanism reform ([10], [20]) lay in the fact that no enterprise proprietary organization exists which would be free of the negative features of the ministries' hierarchical organization and which would evaluate the enterprise and its management activities with a long-range approach. "The second task" of these organizations as "commercial banks" "...would be the reallocation of resources among enterprises" ([20] p 923).

During the end of the 1970's and the beginning of the 1980's, it became clearer that during the course of the 1968 reform of the macroeconomic management system, the postponement of the reorganization of the institutional system later greatly obstructed the emergence of the expected results. Marton Tardos formulated most precisely the reorganization of the banking system within the framework of resuming the institutional reforms. In Tardos's opinion, "...the banking network is not very suitable for expanding entrepreneurial activities. The fact that the financing of all activities may occur in only one place brings supervision into the foreground to an unjustifiable extent--to the detriment of commercial considerations. Therefore, under the new circumstances it is also warranted to plan the decentralization of the banking system to a significant extent...a clearer separation of functions than at present would not be sufficient nor would it be sufficient if we would organizationally separate the banking system which finances the economy from the issuing bank activities of the Hungarian National Bank. It would be warranted for only the issuing bank activity to remain within the Hungarian National Bank. The State Development Bank could continue to perform the financing of state developments, but the work of supervising the investment activities of the Ministry of Finance should be performed within the ministry itself. However, an entire network of banks

should be created to finance commercial activities" ([21] p 727). Tardos sees the advantage of the changes in his proposal in that enterprises would be provided an opportunity to freely choose among banks which could however, "...strictly assert commercial considerations when setting the terms for financing and granting credit" ([21] p 727). He refers to the fact that the proposed changes are in harmony with placing financial macroeconomic management considerations into the foreground as well as with developing a more effective enterprise structure (non-monopolistic in character).

In our interpretation Marton Tardos's contrapositioning of supervisory and commercial considerations would mean the opposite of economic control which takes into consideration the success of administrative and enterprise activities. In this sense, however, the commercial considerations asserted through the value judgments of the market represent the strictest supervision--even leading to bankruptcy.

From a different premise, Alfred Sinkovics arrives at a notion similar to that of Sandor Kopatsy and Marton Tardos when he sees the necessity of having a professional banking system (sectorial banks) acting as proprietary (state) macroeconomic organizations. Even in the case of Alfred Sinkovics in our view we find the idea of a sectorial banking system important. These banks, despite their sectorial nature, would not be tied to sectors, "...that is, the credit supply and demand competition should not be restricted..." ([14] p 1494).

#### Trusts as "Quasi-Sectorial Banks"

The need for sectorial banks was proven by life and experience when they (in the form of trusts) were created as non-commercial but rather as characteristic proprietary institutions. This development also verified that /there is a very close interaction between the organizational-institutional structure of the banking system and the structure of enterprises./ The credit for the discovery and explicit elucidation of this fact belongs to Gyorgy Tallos who showed that "...in our economic system the majority of trusts perform sectorial bank credit functions..." ([19] p 862), when they reallocate the financial resources of the enterprises under their jurisdictions. Tallos (as vice-president of the National Bank) primarily took exception to the fact that /"...the trust as 'sectorial bank'--similarly to other sectorial banks--strives to reduce the intervention and supervision of the central bank to a minimum..." ([19] p 862).

In our opinion, the trusts did not strive to avoid the intervention of the central banks in a fashion similar to other sectorial banks (since other sectorial banks did not even exist), but they acted precisely not as bank but merely as a "quasi-bank", or in the final analysis, as a proprietary organization. In contrast to this, we find that two facts must be emphasized. One is that in the 1970's, some sort of "quasi-sectorial" banking system was operating in a concealed form (within the trust framework).<sup>10</sup> The other fact is that the actual organizational-institutional system of financing--precisely in the form of the above mentioned "quasi-sectorial" banks--was closely connected to the monopolistic nature of the enterprise structure. The only conclusion to be drawn from this is that a significant modification of enterprise structure will necessarily also precipitate a modification of the banking system's institutional

framework. With the elimination of the monopolistic organizations--or part of them--a whole series of "quasi-sectorial" banks will also be eliminated and their financing functions will remain unperformed. It is no accident that the greatest problem of the entrepreneurial entities which have become independent with the decentralization of the large enterprises is of a financial nature. The central bank is faced with new tasks for which, on the one hand, it has not suitable practice--since to a large extent these were appropriated by the "quasi-sectorial" banks--and on the other hand, it could hardly have suitable detailed technical knowledge regarding sectorial characteristics which it would absolutely need to perform its new tasks.

#### Commercial Banks, But Without Proprietary Functions!

Before we attempt to outline one possible type of commercial bank, we believe that their distinct separation from the proprietary organizations, also proposed by others, is unavoidable. Even for reasons of space, we do not wish to deal with the legal and political questions of state proprietary organizations. Here we only oppose the proposal that these state proprietary organizations become sectorial banks (or, as others have called them, "commercial banks" or "credit banks") or the converse, that these banks should perform proprietary functions--either in part or wholly. We base our viewpoint on practical principles (which could also be drawn from the experiences of the economically advanced countries) as well as on the conflict between the attitudes of bankers and enterprise proprietors.

It is obvious--even in the economically advanced countries--that production (trading, etc.) enterprises are in the /exclusive/ possession of commercial (credit) banks. The roles of the banks or of the various types of financial institutions as stockholders--thus, ultimately, proprietors--in the capitalist countries are diverse. In the German Federal Republic, where the banks are the largest--but by no means the only--enterprise stockholders, represents only one of the solutions and is the exception rather than the norm (mainly Japan follows this method). Traditionally the banks--or rather the financial institutions handling long- and short-term credit and currency circulation--in the Anglo-Saxon countries do not hold significant blocks of stocks, and the banking system of the Latin countries also tends to follow this practice.

The separation of the proprietary and banking /organizations/<sup>11</sup>--which in itself does not contradict the intertwining of production and banking capital--is obviously not accidental in the capitalist countries which are most advanced economically, with special regard to their financial institutions. The resource reallocating function of the commercial or credit banks would be restricted if these organizations would have to simultaneously assume proprietary responsibility for 100-200 enterprises. The enterprise proprietary responsibility consists of the maintenance of the means of production in a condition in which they generate income and expand. The bank also owes proprietary responsibility, but for the /financial/ capital it was entrusted with--in socialist countries for financial instruments or funds--and for their profitable utilization and augmentation. The two proprietary responsibilities and the economic function lurking behind or affecting them do not necessarily coincide; as a matter of fact, they are often conflicting.

Regarding the conflict between the proprietary and banking attitudes, Samuelson cites the words of Ogden Nash almost as a recommendation, according to which woe betides the banker who forgets the single rule, "...never lend anyone even a single penny except if they don't need it."<sup>12</sup> This should be understood to mean that the banker should only lend money if the credit applicant is neither needy nor in reduced circumstances; that is, in the latter event the repayment of credit is in danger and the risk will be unacceptably high--though at such times even the capitalist banks "chase after their money", and making sacrifices, they save their debtor (or at least try to) with new credits--with the goal of avoiding the greater losses caused by bankruptcy; despite this, their basic attitude is that the amortization and repayments be secured. The proprietor would still strive to save his enterprise which is on the verge of bankruptcy but the banks are usually no longer willing to provide credit for this--although not without exception. This is the same type of monitoring and selective mechanism on the part of the banking system and the credit /market/ as may be encountered on the commodity market. If we consistently require the economic mechanism and institutional system to transmit market stimuli, we may not disregard the stimuli of the banking system as the market of credit and money, which are perhaps the strictest and which would presumably weaken with the simultaneous performance of proprietary functions.

This is precisely why the "quasi-sectorial bank" mechanism of trust resource reallocation may be legitimately criticized, since the enterprise proprietary attitude determined its activities in contrast to the conduct which may be expected from a credit bank. It is just this negative attitude that the proprietary combined with credit banking organization would revive, or rather would make continuous and widespread. In this configuration, they could more unanimously and "effectively" grow into monopolistic apical organizations than previously.

In the case of commercial banks which are separated from state proprietary organizations, they doubtlessly could represent clashing interests and come into conflict. One of the goals of organizational separation is precisely that these conflicts become evident in the form of economic movement, that their precipitating causes surface and that the proprietary organization be unable to cover them up (perhaps at great financial cost). If the sectorial bank concludes that the continuation of a given type of production and either the maintenance or development of a production organization is "not business", the self-regulating market mechanism should not provide it with financial support.

#### The Creation of a Food-Agricultural Bank

As it is evident from the above said, a possible road for the further development of the Hungarian monetary (including banking) system could be the creation of commercial banks. /One/ of these could be the food-agricultural bank--in addition to the industrial bank, transportation-trade bank--which would finance the production and investments of the agricultural and food industry enterprises (state enterprises, production cooperatives as well as joint enterprises) and

further, the small producers. The banks could be created by a simple administrative "detachment" of the appropriate sectorial organizations of the Hungarian National Bank and by constituting them as independent financial institutions. Nevertheless, we would still like to raise the possibility of another alternative. That is, the new bank could also be created in the form of a joint stock company or perhaps as a cooperative. /In essence/ there is no difference between the operational mechanism of the two forms, and therefore in the following we will speak about the joint stock company solution.

The new bank could be created as a foundation where, on the one hand, the food-economy enterprises would "underwrite" the bank's starting capital and on the other, (directly representing the state) the Hungarian National Bank and perhaps the National Savings Bank--would transfer the capital. The determination of the proportion of stocks owned by the enterprise and directly by the state could occur by taking numerous factors into consideration. As an upper limit, the amount of the enterprise's development funds which could be tied down for this purpose would determine the stock value of the food-agricultural enterprises.<sup>1</sup>

The creation of the new bank could be implemented so that at the start of its operation, it would assume the available credit of the food economies together with the credit agreements from the previously financing bank(s); from this moment on, the existing debtors would repay their loans to the new bank and the bank would provide new credit in part from incoming repayments and in part from its own resources--fixed capital, or rather the resources stemming from the issuance of stocks.

The bank would pay the budgetary (operational and investment) supports essentially in a system similar to the accounting between the budget and earlier financing banks.

It could collect the savings of the population invested in agricultural production --by using the existing savings cooperative network--and these would in part constitute its own financing capital in the enterprise sphere, and in part, they would finance the consumer (small works) credit for agricultural production. (At present the National Savings Bank does this.) This solution would ease the negative consequences of the lack of competition among banks, even in the case of the National Savings Bank.<sup>14</sup>

The bank's organizational structure could serve as a basis for developing new types of organizational forms. The highest directing organ of the bank could be the /membership meeting/ of the stockholders. (Today too, this is the situation in the case of the Hungarian National Bank; formally the state as shareholder exercises the proprietary function.) The stockholders would elect representatives who would participate in the membership meeting.

The membership meeting would decide on accepting the operational and organizational regulations, on the yearly and long-range plans (business policy plans within the state's credit policy directives), on the financial statement and report of results; the membership meeting would also elect the members of the bank's directorial organ, or rather, the members of the management council and supervisory committee.

Several arguments could be raised against the sectorial bank system, primarily the fact that this solution would further strengthen the sectorial nature of our entire macroeconomic management organization at precisely the time when the promotion and development of the enterprises' intersectorial relations would be one important economic policy task. A further point against the sectorial banks is that they would only seemingly constitute a banking system consisting of more than one bank; in reality the sectors in which the enterprises operate would determine to which bank they would belong. The first objection is by and large eliminated. Namely, the bank of the food-economy could play an important role in the development of the vertical relationship of the raw-material producing agriculture and the food processing industries and business enterprises. The weight of the second counterargument could also be lessened if it would become possible--and in our notion this is how it should happen--to establish several sectorial banks simultaneously (e.g., industrial bank, transportation-business bank) and /the enterprises could freely turn to any sectorial bank, not just their own for credit./

The experience of the economically advanced countries shows that a certain sectorial specialization occurred especially with regard to agriculture. A special agricultural banking system has emerged.<sup>15</sup> This suggests that the particularities of the agrisphere made the creation of sectorial banks even within the "free market" necessary (where this specialization of a sectorial nature within the banking system is not otherwise characteristic).

One of the most important arguments for a banking system consisting of more than one bank--thus for sectorial commercial banks--is that the precondition for independent enterprise management is that the banks should not operate as monopolistic organizations and authorities, but they should have business partnerships with their clients, moreover based on their /own interests/. In connection with the recently established financial institutions--strictly speaking, developmental minibanks--and those to be established in the near future, "The question precipitating the most argument is whether the new financial institutions should be /profit-oriented/ or not.

One possible requirement would be for the financial institutions to be self-financing, that they protect their assets and cover the costs of their operation. This...does not preclude the fact that...they would be working with a minimum of profit, but in the short run, they would regard the attainment of ever higher levels of profit neither as the fundamental goal nor as the basis which determines the interest of the workers. According to the other interpretation, the financial institution selects among the possibilities that come its way in such a way as to place its funds most profitably, so that as a result, it increases its funds in an ever greater proportion. Consequently, the workers' incentive is also tied to the increase of profit.

The new financial institutions are operating /according to the first set of requirements/" ([8] p 6).

The introduction of the success-dependent financial interestedness of the financial institutions and their workers is in itself a heartening move forward. The stipulation of lower success requirements could be warranted at the financial institutions created to finance technical development. However, we feel that

the financial incentive of requirements according to the above quoted interpretation is warranted vis-a-vis the commercial banks.

#### The Guidance System and the Preconditions Contained In Its Other Elements

In the foregoing we outlined one possible alternative for the further development of the financial institution system--one which we find necessary. However, the success of the functioning of the commercial banks would to a large extent depend on other elements of the macroeconomic management system. The outlined version could successfully interact with the transmission of market stimuli and the assertion of the requirements of economic efficiency if the /prices themselves would also express the value judgments/ and trends /of the market/. The precondition contained in the price system or rather, in the functioning of prices, sets as a general requirement before economic policy the gradual tightening of the sphere of direct price determinations by the authorities. In special cases, /a possible exception /to this general requirement would be the food economy and within it mainly agriculture, for which state support is general even in its largest foreign markets. From this viewpoint too, the particular situation of agriculture could be used as an argument for a sectorial bank specialized for the food economy.

Another precondition for the successful operation of the sectorial commercial banks is the /further tightening of groups of regulations causing monopolistic organization and monopolistic situations/ and the elimination of overcentralization. That is, the economic organizations existing in a monopolistic situation are able to distort in their own interest precisely those market judgments whose prevalence should be assisted primarily by the prices but also by the sectorial banking system. In addition, the overcentralized enterprises enjoy a position of advantage vis-a-vis the decentralized banking system.

On the organizational-managerial side the precondition for the successful operation of the commercial banks is to allow economic success to be the deciding factor in the judgment of the enterprises (and their managers) and to allow its assertion including the acknowledgment and also acceptance of differences in efficiency recognized by the market/. The market control and selection transmitted by the commercial banks could in the case of certain enterprises have unfavorable consequences. The loss of the banks' credit support could lead to the elimination of the enterprise. In a socialist economic system, this does not (nor need not) result in the dissolution of the material forces of production and the "letting go" of labor. /It would be necessary to develop suitable planned compulsory mechanisms<sup>16</sup>/ (bankruptcy proceedings, dissolution, reorganization) for the organizations performing proprietary functions--today, the ministries--to reallocate productive instruments, create new production organizations, and deal with the retraining of labor under new--presumably more adept--leadership, etc.

A further prerequisite for the further development of the banking system is the redefinition of credit functions as well as the institutionalized ordering of the various modes of allocating, increasing and withdrawing funds. For this it is also indispensable that banks grant credit by assessing return security and



risk, and in addition, that they promote the successful work of their clients with varied services, especially with expert advice and information.

The above outlined ideas--we believe--are in harmony with the modernization of the organizational and guidance systems insofar as they, with the creation of the direct interest of the banks, are directed at "...more effective utilization of resources than in the present, aiding the reallocation of resources serving the development of a more favorable economic structure, and inspiring a more responsible entrepreneurial conduct..." ([7] p 791).

#### FOOTNOTES

1. The author is chief researcher of the Research Institute for Agricultural Economics; however, in the article he is explaining his own views.
2. Bela Sulyok's remembrances of the facts stretching back to the nationalization of these banks in 1948 are of historical documentary value.
3. The example of the feudal salt monopoly readily presents itself, which led to the satirical recognition of the figurative usage of "salt office" in the wisdom of popular speech.
4. Except in extraordinary situations, for example, war (war communism).
5. As justification he adds, "The adoption of overwhelming indirect regulators from overwhelming direct regulators among other things, assumes the utilization of financial instruments in a way by which they could also prove to be effective instruments of price and income policy--aside from certain exceptions. However, the financial regulators are only effective if the money's laws of self-movement could be suitably asserted" ([5] p 811).
6. "The modification of the role and significance of money and credit in connection with the new economic mechanism necessitates the transformation of the central bank's issuing functions, or rather, their strengthening. To this end it seems practical /to separate the issuing bank functions/ from the credit bank activities which directly finance economic organizations" ([2] p 730).
7. Italics mine-N.R.
8. Jozsef Bartha's interesting comment on this: "...this sort of solution with regard to the credit banks would primarily have certain advantages /during the initial phase of the new mechanism/. A system of independent credit banks would only make sense if they could compete with each other. However, the precondition for this, in addition to renouncing certain advantages stemming from the specialization of credit banks, would be that the circulation of money and capital should occur more freely, and further, that the formation of prices which reflect market relations...should enable a realistic orientation regarding the profitability of money and capital investments" ([2] p 732).

9. Julia Zala also advocates an organizationally separated proprietary institutional system and, in the final analysis, a banking system consisting of more than one bank ([23] p 906-907).
10. Istvan Jeszenszky and Matyas Bohus demonstrated its operation with the example of the Aluminum Industry Trust [9].
11. The largest shareholders of English banks are the so-called institutional investors. The stocks of about half the enterprises listed on the stock exchange are owned by institutional investors (insurance companies, pension institutions, and the so-called unit or investment trusts) ([12] p 59).
12. "...One rule which woe betides the banker who fails to heed it, ...Never lend any money to anybody unless they don't need it" ([13] p 275). These lines have been misunderstood at times; their real meaning lies in the paradox that a banks should not lend money precisely to those who most desperately would need it. (The Hungarian translation of Samuelson's book is deplorable in this respect; this misunderstanding also appears there. The editors.)
13. An alternative solution would be to tie the obligation of subscribing to long-term higher priced stocks--perhaps to be paid over several years--when subscribing to relatively lower priced stocks.
14. "The attitude which makes a bank into a bank is missing, thus the inclusion of the risk which could be assumed when serving a client which could always be easily brought into a probability relation with the bank's profit. The position of convenience also plays a role in this and /stems from the monopolistic situation of the National Savings Bank/" ([22] p 6).
15. The Land Banks in the United States and the financial institutions, etc. of the Credit Agricole in France [17]. However, we must note that these specialized financial institutions finance only about half of all the agricultural credit. Thus, competition could freely thrive even with banks that are not sectorial in nature.
16. In this case, purposefulness should be understood to mean that we take the consequences into consideration, only we don't know which will occur in the case of specific enterprises.

#### REFERENCES

1. Tamás Bacskai, "Questions About the Development of the Banking System In Our Country", PENZUGYI SZEMLE, No 11, 1971.
2. Jozsef Bartha, "To the Question of Strengthening The Issuing Bank Function", PENZUGYI SZEMLE, No 8-9, 1969.
3. Imre Barta and Laszlo Kadar, "About Certain Questions of the Further Development of the Hungarian Banking System", PENZUGYI SZEMLE, No 10, 1969.

HUNGARY

HEGEDUS CALLS LARGE ENTERPRISES ANTI-REFORM

Budapest KOZGAZDASAGI SZEMLE in Hungarian No 1, 1984 pp 62-67

[Article by Andras Hegedus: "Large Enterprises and Socialism: Thoughts While Reading Erzsebet Szalai's Book"]

[Text] I. One of the most characteristic features of the vulgarization of Marxist economics--from Kautsky to the present--is the assumption that the large enterprise is at an advantage in every economic aspect vis-a-vis the mid- and small-sized enterprises, and that socialist property relations are qualitatively on the highest order here.

The latter was successfully questioned by the reform movement of the 1960's when the handling of state and cooperative property as equal-ranking socialist property forms was "fought out". However, the mystification of output and possibilities of the large enterprises did not in the least cease with this; on the contrary, the instruments of the mass media reinforced these beliefs day after day.

In the technical literature, it is very rarely possible to read realistic analyses dealing with the actual accomplishments of large enterprises and the relations of power which have evolved in them. This is why Erzsebet Szalai's book deserves special attention.\* For perhaps the first time in the Hungarian technical literature it proposes that not only individual enterprise interests but also large enterprise group interests exist, which are "...the stabilization of their given dominant position, or rather, its further expansion, and the appropriate influencing and determination of the general economic situation--institutional system, economic policy and regulatory system--within this framework" (p 26).

The author admits that as yet she has been unable to empirically prove the existence of this clearly perceptible group interest in her book. Despite this, however, she reliably shows the consequences of the existence of group interest.

At most, her conclusions about the future seem illusory; that is, according to

---

\*Erzsebet Szalai, "Kiemelt vallalat--beruhazasi erdek" [Advantaged Enterprise--Investment Interest], Akademiai Kiado, 1981.

her, "A polarizing trend begins...among the large enterprises; group interest fades and the interests of those who have grown stronger may no longer be unambiguously linked to the maintenance and expansion of the system of individual criticism--they are able to preserve their stability within the framework of a general regulatory system, and, in fact, even in one which is growing harsher, and they are capable of growth even amidst general conditions which are becoming more stringent" (p 270). However, for the time being, we must remain in the factual realm.

Erzsebet Szalai's book--despite the technically sounding title--very comprehensively shows one of our greatest economic problems: consistent economic reform is unimaginable while the structure of the large industrial enterprises remains unchanged. From this viewpoint, she legitimately criticizes the 1968 reform which left this structure intact. Since they successfully fulfilled this anti-reform function between 1968 and 1972, the leading managers of the large enterprises received, as it were, "prominence" as a reward; in addition, they received a greater degree of support and security than in previous years, along with the 1973 wage settlement for their workers. This radical transformation of the redistribution process did not increase the dynamism of the large enterprises; however, it significantly reduced the pace of the development of sectors which were discriminated against after 1972.

One of the generally acknowledged factors for the postponement in time of the Hungarian economic crisis was that enlightened economic leaders and specialists signalled the seemingly unavoidable consequences of the CC's November 1972 anti-reform resolution in time, before there was irreversibly serious damage.

The political response to this notice, which was actually of a technical nature, i.e., not openly critical or oppositional, was not negative although it took a long time for the inevitable, apparently necessary self-criticism for the introduction of the anti-reform to come, and also the lessons to be drawn. This is how the initially very timid, but later accelerated return to the reform policy which dragged on for years developed. This process produced the most spectacular changes in the area of small commodity production and small enterprises. An example of the radical change in attitude is illustrated by the story of our study, jointly co-authored with Maria Markus (entitled "The Small Entrepreneur and Socialism") which we completed in 1972. In 1973, the editors of our leading economic journals unequivocally refused to publish it. Five years later, in 1978, the study was published in the KOZGAZDASAGI SZEMLE --although only after some delay. Today, however, even ideas, no matter how heretical they seemed at the beginning of the 1970's, appear in various decrees and directives by virtue of their recognized expediency. Anyone who does not subscribe to the principle of "the worse the better", or rather, who is not bound with obstinate dogmatism to the notion of "war communism", could only be delighted with this development.

However, in addition to being pleased, sociologists must naturally also critically survey the present-day situation. These changes could in no way be considered as the culmination of the reforms, but merely a very modest beginning which did not avert the maturing and increasingly imminent economic and political crisis; it only postponed it. Naturally, this is no small feat, especially if we consider that the economic crisis would have occurred long ago in the event of the unbroken continuation of the November 1972 anti-reform policy.

II. One of the most serious chronic illnesses of our economy is that large enterprises, which could be legitimately called enterprise empires compared to the size of a small country, are situated within it in almost changeless immobility (perhaps in "quasi-dynamism") and whose managers invariably weave and nurse their ambitious plans and continue to hold their "seminars" for visiting economic and political leaders as if it were still 1972. Although some minor measures were enacted--sporadic mergers have ceased; in fact, certain mid- and small-sized enterprises left the mammoth empires and some were even dissolved--the internal structure of the large enterprises is unchanged, and the position of large enterprise management has remained essentially unchanged.

This situation necessitates that the sociohistorical role of large enterprise management be made the subject of critical examination; Erzsebet Szalai's book provides a very good starting point for this.

Every observation verifies one of Szalai's fundamental theses which holds that in the 1960's the large enterprises--which existed previously but were as yet non-institutionalized in their particular interests, and were to a rather great extent also exposed to political effects injurious to their various self-interests--gained dominant positions and since then have influenced the economic policy processes to a rather considerable extent.

The managers of the large enterprises, precisely because of their economically dominant positions (notwithstanding their close bonds to the technostructure) may personally exert significant influence on economic policy, not in the least because they possess significant, unsupervised personal authority and money. This also has an effect on economics, in relation to which they appear as self-satisfied customers playing the role of patron. (It is no accident that while there are innumerable pseudo-scientific apologetics reflecting the large enterprise management in our organizational science, critical approaches like Erzsebet Szalai's work are very rare.) There is no doubt that, above all else, the large enterprise managers will direct their influence on:

- bringing a significant redistribution into existence to the detriment of the mid- and small-sized enterprises to the benefit of the large enterprise;
- the evolution of protectionism benefiting the large enterprises whereby enjoying various preferences (i.e., in investment and in the labor market), they receive vigorous state protection;
- the maintenance of the indicated redistribution and the widespread degree of protectionism even where the restructuring of market relations on the basis of rational principles would be imperative.

Thus the majority of large enterprise managers--independent of their personal disposition--are anti-reform for /structural/ [in italics] reasons. Those who move in the commodity market with great assurance and wish for economic independence rather than the security offered by the technostructure represent the exceptions to this. However, this type of manager, even according to the evidence of Erzsebet Szalai's book, is very rare.

However, the large enterprise managers are not only anti-reform, but because of their particular interests, are also the obstacles to the attainment of presently actual economic policy goals. And nothing could be more characteristic of this--we read in Erzsebet Szalai's book--than the fact that although the increasing of export capability already played a prominent role in the last 5-year plan, success of the large enterprises was measured in the percentage of the profit per net income. A negative rather than positive correlation exists between the two indicators. In certain instances it is precisely the increase in capitalistic exports which play a role in the development of poor profitability because their profitability was less than what was planned. Thus, if large enterprise management were to have followed the state interest it seemingly would have acted against its own interest. However, in the present case their interest is composed of a far more diversely intricate fabric than the artificially created interestedness relationship associated with increasing the percentage of profit per net income. And in addition to this, the state--according to all observations--has proven to be rather lenient precisely with those mammoth enterprises which, as a result, were even able to follow economic policy goals to the detriment of their own particular interests.

III. Although the large enterprises have been playing a dominant role from the beginning of the 1960's, they already influenced economic policy prior to this, primarily through the intervention of the county (capital city) party committees.

Their first clearly recognizable intervention emerged following the 1953 government program, and their efforts were directed at the reallocation of investments implemented for economic policy reasons. However, no one questioned the operational principles--the system of planning directives, the formation of producers' prices based on production costs, etc.

However, the reform efforts which had emerged by the mid-1960's were fundamentally a threat to their own existence, which produced an increase in their defensive activities and compelled them to better articulate their own interests.

Naturally, this did not imply that in what followed, they no longer utilized the "channels" offered by the county party committees (or rather, the Central Committee and its apparatus), but gradually their direct intervention became increasingly spectacular and unanimous, and they became especially active in the anti-reform wave at the beginning of the 1970's when they began to dictate the economic-moral norms; they invariably continue to play this role, although the anti-reform course had been defeated.

A very important aspect of our country's economic history (which hopefully will not escape the attention of the younger generation of economic historians) is that until the end of 1972, the predomination of the interests of the large industrial enterprise managers which were detrimental to agriculture were very successfully obstructed by the cooperation of the economic managers who successfully directed the mass collectivizations at the beginning of the 1960's aimed at creating suitable conditions in the cooperative and state enterprises

for the development of modern production, and eliminating the chasm between word and fact which characterized the 1950's. If the word would not have a pejorative connotation, we could calmly speak about the formation of an agricultural lobby which to a great extent may be credited with the present-day equalization of our food supply. This "team" also became a "sacrifice" of the anti-reform campaign; in part, its members were scattered to various offices and, in part, they were sent into retirement. Thus, the victory was complete: the hated reform was discriminated against, for many years it was not even mentioned in official statements, and the foodstuffs economy became defenseless (and even this truly professional expression became unrepresentable). We must add that it proved to be a pyrrhic victory.

One other aside belongs here. In 1981, various official statements were fond of making Gierek and his immediate colleagues the scapegoats for the catastrophic Polish economic situation. Far be it from me to wish to become their defense attorney, but this "personal anti-cult" moving on the surface of social phenomena does not offer a worthwhile explanation for the causes of the events; it does not answer the question as to which dynamic group's or groups' interests the Gierek policy represented.

There may be no doubt that among these, one of the most significant were the managers of the Polish large industrial enterprises who with their ambitious plans and seemingly realistic developmental conceptions promoted the grandiose "castles in the air" policy of establishing a "second Poland". It is no accident that the anger of the workers was, not in the last place, directed against them.

The enticing road leading to the realization of the large enterprise managers' ambitious plans seemed to be the attainment of capitalistic loans for the modernization of techniques and technology. At first glance, the idea seemed logical: by utilizing modern technology, the relatively cheap Polish labor could guarantee not only the repayment of the loans, but this strategy would also raise the level of technical development of the national economy as a whole by leaps and bounds. These were dazzling prospects with which it was not even so difficult to "dazzle" the economic politicians and politicians who perhaps had already developed a tolerance towards other types of "siren songs" and who wanted to achieve outstanding results without making any actual changes.

Collective responsibility also burdens the large enterprise managers in Hungary for the country's enormous indebtedness and for the development of a situation where an increasingly larger part of the very slowly growing national income must be allocated towards the repayment and interest on loans received from the capitalist countries, whose acceptance had yielded no significant result.

It is hardly possible to explain our indebtedness which occurred after 1972 without mentioning the ambitious plans of the large enterprise management which strove to attain growth at any cost. Without this it is incomprehensible that starting in 1973 and year after year, we imported more goods from the leading western countries than we could export to them. (Even in 1980 when these trends were already more or less well known, we had an import surplus

of 4 billion forints with respect to the United States and nearly 8 billion forints with respect to West Germany.)

This sort of foreign trade policy only became possible for a prolonged time because the large enterprise managers were dreaming of certain success and passed unsecured promissory notes knowing that they would never be submitted, considering that in a system of "organized irresponsibility" it is impossible to identify the individual issuer of a promissory note.

IV. The anti-reform effectiveness of the large industrial enterprise managers was increased to a very great extent by the sectorial ministries. Naturally, the thought of their elimination was also raised before 1968 during the reform preparations, but it was then reassigned as a task to be solved in the second phase, obviously so that in this way the opposition in the Central Committee to the reform could be decreased. However, the time never came for the second phase; instead a general anti-reform attack developed.

Now, one and a half decades later, this notion has been realized; however, doubts remain and Erzsebet Szalai formulates them in a rather pregnant way: "...if there is no change in function, if the ministry does not become an industrial policy ministry but instead remains the agency responsible for industry, it is unavoidable that it will be interested in preserving the pseudo-results of the mammoth empires, and then the industrial ministry will represent large enterprise interests more effectively than its predecessors."\*

Without a doubt, the merging of the sectorial ministries--despite legitimate worries--rather significantly affected the positions of the mammoth enterprise empires; the protectionist lobbying system which developed over a period of many years, and with the aid of which they often quickly solved price and credit problems without consideration for economic interests, has now presumably become intertwined.

At any rate the merging of the sectorial ministries is welcome, but if this is not followed by a redefinition of the industry guidance functions as Erzsebet Szalai suggests--for which there are few indications based on the official statements of the directors of the ministry--the lobbies will reorganize their ranks and the Ministry of Industry could within a short time become the interest safeguarding organ of the mammoth enterprise empires--in particular, one which is perhaps, from the national economic perspective, a worse type than the old sectorial ministries because they, as a consequence of the sectorial separation, more or less served as maneuvering room for the clashes of interests and conflicts among the mammoth enterprise empires which in one way or another frustrated the emergence of a common standpoint, especially at times when they did not see their basic interests endangered.

Here I must make an aside that in my opinion in the case of East European large enterprises, neither monopoly nor oligopoly in the classic sense of the

---

\*The New Phase of the Reform Process and the Large Enterprises. Manuscript, 1982.



terms is applicable to the above characterized cooperation. Both concepts presume competition, moreover, not only in national but also in international markets, or rather--as a result of agreements between multinational enterprises --the restriction of markets.

In the case of East European, and in particular, Hungarian large enterprises, there is nothing of this sort; their agreements are not directed toward market strategies, but rather toward attaining and maintaining large enterprise dominance by providing aid and support for each other within the framework of an economy of scarcity.

Instead of the term "administrative" market, I believe that the use of the term */technostructure/* [in italics], introduced by Galbraith, is more correct; thus we should talk about the position occupied by the large enterprise managers in the technostructure, or rather, this is what we should analyze.

Presumably, a negative rather than positive correlation exists between the commodity market and the position occupied within the technostructure. That is, in macroeconomic management only one type of striving for grotesque egalitarianism succeeds:

--An outstanding commodity market result automatically creates a suspicious appearance--if the explanation does not lie with the prominent position as provided by the technostructure--and for various reasons, it engenders antipathy, as does the striving for autonomy.

--However, a great many explanations could be found for poor market performance which could justify patronage and the extension of aid, or rather, the preservation of those "umbilical cords" which bind the large enterprise managers to the technostructure.

The conduct reigning in the central guidance agencies is in sharp contrast to the requirements of efficiency so often declared in official communiques, which in the final analysis could only be explained by the fact that the leadership is more frightened of the development of autonomy than its desire for the development of economic dynamism.

V. From the economic policy goals of the past few years it might appear to the superficial observer that precisely with regard to the latter, an essential breakthrough has occurred as a consequence of the new system of producers' price formation.

The years after 1968 proved that in the case of the large enterprises in the present-day economic structure, it is not possible to change to a direct market system. However, the price system built on the profit formation proportional with the producers' costs which otherwise does not punish either technological backwardness or disorganization, especially in the case of large enterprises, has been a failure. After all, the exceptional position of the enterprise managers made it possible--with the active support of the sectorial ministries--for society to acknowledge with favorable prices even their production activities which are unfavorable for the national economy.

A miracle cure was born of the realization of this contradictory situation:

world market--"competitive"--prices must be dictated but  
--these are formulated by the same bureaucratic institution, the Price Office,  
which consistently failed when determining cost proportional prices;  
--bargaining continues since there are plenty of matters to assess (and there  
are no unambiguous world market prices but there are domestic considerations),  
and the position of the large enterprise managers has hardly changed. It seems  
that the new Ministry of Industry was also unable to eliminate the functions  
of the sectorial--industry management--ministries, and it is difficult to  
imagine that with its present staff it will become suitable for developing and  
implementing industrial policy within a short period of time.

After these two negative points a third follows. If this is the situation,  
nothing else happened but the fact that the authority of a bureaucratic  
institution--that of the Price Office--has grown. Namely, it is an institution  
which--in contrast to the Ministry of Finance, the Planning Office and the  
Ministry of Foreign Trade--is not burdened by any sort of responsibility for  
the development of the country's economic situation. However, it is hardly  
able to use its authority because of the official opposition which could be  
expected.

VI. The growth of the large enterprise managers' authority within the  
technostructure is also aided by the general assumption directed from above  
which equates the interests of the large enterprise managers with that of the  
factory workers. This was expressed in a particularly plastic way in the anti-  
reform campaign developed in the beginning of the 1970's. However, this is  
refuted by both the simplest sociological studies and the most elementary  
observations.

In the large factories we may distinguish between essentially two large groups  
of workers:

--The first is composed of long-time--perhaps dynastic--employees, the majority  
of whom receive various privileges which, to a certain extent, compensate for  
the relatively low factory earnings. To a large extent, these workers usually  
identify with the factory, the mammoth factories, toward which both their  
loyalty and their striving to protect their privileges is an important motive  
of their linkage to the workplace and simultaneously, of their particular  
conservatism.

--The other group is composed of those young, dynamic workers who primarily  
want to maximize their wages--within the framework of workers' solidarity which  
had been developed. If their expectations are not fulfilled, they leave the  
factory and join a cooperative (or the private sector) which often exists on  
the wage work done for large enterprises, but they can nevertheless pay their  
workers higher wages because they are not bound by such strict wage regulations.

The idea that those "good" workers who want to leave could be paid and the "bad"  
workers could be dismissed points to thinking blinded by "managerial arrogance".  
It is impossible to pay the good workers within the framework of the present  
wage regulatory system because the privileged group prevents this in precisely  
the same way the large enterprise managers oppose the realization of the principles  
of efficiency if they threaten their interests. This fossilized situation could  
only be changed by significant structural reforms within the large enterprises.

Naturally, it does not follow from all this that a radical reform must necessarily be anti-large enterprise; however, it does follow that the reform may not avoid the large enterprise problematic.

We must also conclude from the observations of the 1968 reform that its fundamental mistake was not so much that it left the size of the large enterprises unchanged as much as the fact that the synchronization of large enterprise interests and the opportunities for movement with the goals of the reform did not occur. The position of the Hungarian large enterprises is in need of fundamental change, but their existence is a fact which we must, at all costs, reckon with in the future.

VII. Without striving to be complete, I will attempt to formulate those of my ideas--developed while reading the book--which, I believe, the upcoming reform must deal with.

1. Taking into considerations the observations of the 1968 reform, we should create conditions which provide an opportunity for the large enterprise managers to create for their workers at least the same wage increase possibilities as those offered by the mid- and small-sized enterprises. This, in part, would mean that they must also be offered the possibility of undertaking smaller or larger ventures where actual market prices would develop instead of bureaucratic regulations, and in the case of sectors where cost proportional prices absolutely remain, the assertion of the average large enterprise rate of profit must be made possible--by stipulating strict qualitative regulations. This is an indispensable precondition for making the large enterprises assume actual responsibility for the dynamic development of production. By all this, I do not wish to assert that in the case of the large enterprise, there could be no room for bureaucratic price determinations oriented toward world market prices. However, this should be placed under strict social control, because without it the authority of a bureaucracy which does not assume actual responsibility of the economy will spread out over the large enterprises (in the above mentioned sense).

2. An immediate solution for the social control of the large enterprise managers which is independent of lobbies must be found. For this, supervisory committees should be created in which independent industrial (economic) experts, in addition to the representatives chosen by the large enterprise workers, would participate. With their aid, it is definitely possible to prevent the large enterprise managers from expanding their authority to the detriment of the economy and the interests of their own workers (as a result of uneconomical mergers, developmental concepts having no prospects from the start) and to prevent them from placing the most important participants of the central decision-making mechanism in the service of their ambitious long-range plans which are free from external expert control.

3. I am firmly convinced that in the East European type of society, the development of the personal composition of leadership, in the case of large enterprises, is also a long-range state task. Only competent state authorities

may decide the dismissal, exoneration and appointment of new personnel in the place of individuals performing the most important tasks. All other solutions are accompanied by functional disturbances. In this respect, the task of the above mentioned elected supervisory committee supplemented with independent experts could only be to evaluate, using the interests of the workers as the premise, the operation of the enterprise management, including the initiation of personnel changes--but not the decision itself.

4. The manipulated information given to the public about the activities of the large enterprises should be radically stopped. Society, which either intentionally or unintentionally pays for the megalomania of the large enterprise managers (with all due respect to those managers who do not fall prey to this temptation) could lay claim to receiving decent information, and to not read in the press and hear on the radio and TV only the explanations of the large enterprise managers.

5. Large enterprise should be permitted to develop flexible work organization and wage systems based on their own observations. If the present environment tolerates the fact that agricultural cooperatives perform not only services but also perform (often quite profitably) wage work with their own instruments of production, why shouldn't associations within the enterprise be accorded this opportunity which, free of bureaucratic restraint, could become a very important source of internal dynamism? (Recently there have been initiatives of this sort, but to date they lack suitable institutionalization by law, nor does domestic organization theory pay appropriate attention to them.)

All this would mean that the large enterprises would also join the reform, and there would be an end to the megalomaniac striving prevailing to this day. The large enterprise managers should set their own houses in order, and they should not be allowed to solve their problems by incorporating newer and newer enterprises.

We must also count on the fact that viable mid- and small-sized enterprises will break away from the artificially improvised large enterprises--as a result of a natural process and not because of administrative measures initiated from above. And those mid-sized enterprises which today are striving in an irrational way to attain large enterprise status should give up this pursuit and concentrate their energies on working more effectively and economically within their own means.

As a result of all this--during the course of a long process--a more rational structure would develop in the Hungarian national economy and also with respect to factory size which would ease the flexible adaptation of the economy to external circumstances which are becoming increasingly more difficult and to the ever more complicated internal conditions.

\*

Orthodox Marxist precepts and the economic literature influenced by them played a very large role in the assertion of the large enterprise managers' expansionist

desires and megalomania. Erzsebet Szalai's book and study confronts this fossilized thinking, with, it seems, a type of inverted "quixotry". But she's not fighting windmills. This is even a more formidable task than she sets forth in her book.

In any case, respect is due not only to the author but also to those who promoted the publication of the book. And we readers would commit a serious mistake if we were to participate in "burying the book alive".

I censored many ideas from my article which--from my own set of values--would be desirable developments in the outlook of our further socialist development. I limited myself to that realistic mode of thought which characterizes Erzsebet Szalai's book and study.

9956  
CSO: 2500/225

ARTICLE ON REFORM, PROPERTY ELICITS COMMENT

Budapest KOZGAZDASAGI SZEMLE in Hungarian No 11, 1983 pp 1381-1386

[Article by Tamas Bauer, member of the Institute of Economics of the Hungarian Academy of Sciences: "Notes on Comments by Sandor Balazsy"]

[Text] In issue No 11 of 1982 of MOZGO VILAG [MOVING WORLD] Sandor Balazsy deals in a calm, objective debate article with my article published with the title "The Second Economic Reform and the Ownership Conditions."<sup>1</sup> He agrees with a number of my statements, adds supplements to several of my reasonings, and expresses his lack of agreement on some central issues. In this reply article I will cover three of his most important critical observations. I will try to go beyond repeating what the reader may already know from the MOZGO VILAG--perhaps I will succeed in this.

I

One of the groups of questions where obviously there is disagreement between us is the way we evaluate the economic mechanisms of the CEMA member countries and the role these play in our foreign trade relations. If I understand Balazsy correctly, he does not disagree with what I have written about the evaluation of the past and of the present, but he does not agree with my prognosis for the future.

In that portion of my article dealing with the economic situation of the CEMA countries I gave a pessimistic opinion about the chances of changing the mechanisms and--what follows from this--also about the expected directions of economic growth itself: I predicted stagnation, strengthening the characteristics of shortages in the economy and further rigidification of the economic mechanism. According to Balazsy "...this--even if it cannot be considered out of the question--is not necessarily so. The very example of Hungary proves that the socialist society's system and ideology are compatible with the effective reform process" (p 601).

I also consider the Hungarian example as proof that thorough reforms are possible under our circumstances--with forms of ownership by the state and cooperatives, in a political system built on the one party system. Were this not my opinion, I myself would not be taking part in the state's reform work either--as Sandor Balazsy also indicates in his article. The very reason

I dare--along with many other economists--try to come up with additional reform proposals is because I know that a conscious transformation of the economic system began in Hungary in the 1960s--like very few others known to international growth.

However, the Hungarian example also warns about other things. Even if our circumstances are compatible with the reform policy, achieving this compatibility is very difficult. According to economic analyses the path of the reforms is very bumpy and there is a great danger that the traditional elements of the system will reject the new elements that were planted among them by the reform. Studies of the economic history, first of all the new book by T. Ivan Berend<sup>2</sup> (about the conclusions of which I have written in more detail elsewhere<sup>3</sup>), indicate that the favorable coincidence of foreign and domestic circumstances in the mid-1960s was the precondition for deciding in favor of the reform. the "mandate of need"--which had already been recognized a decade earlier by Hungarian economists, Sandor Balazsy among them at that time--in itself does not even "sooner or later" necessarily compel embarkation on "...the path of reform which truly leads to the necessary results, that is, one which is (relatively) consistent" (p 601). There is no way to detail in this reply article, why I do not see the conditions in the majority of the CEMA countries as favorable for this today. Therefore I can only indicate that Balazsy lines up only hope and not reasons against what I have said. Of course I too, hope that things will develop more favorably than what I have indicated. But it is not proper to build the reform strategy and foreign trade strategy on hopes. That alternative must be taken into consideration as a possibility with high probability that in the decisive majority of the CEMA countries there will be no reforms "which truly lead to the necessary results, that is, which are (relatively) consistent."

In the last 20 years our economic science has shown in many ways what obstacles the mechanism of plan directives, and the cooperative mechanism of natural theory, operating with contingencies based on it, places in the path of the efforts of intensive integration. This cannot and must not be accepted--Balazsy is right in this. But it has to be considered as a given condition which we can change only a very little.

But it does not follow from this that we should endeavor to atrophy our economic links with the CEMA countries. And it also does not follow that we should not exploit every realistic advantage which can be realized in the economic relations linking us to the Soviet Union and the small CEMA countries--in a broad spectrum due to geographic and cultural-technological proximity. However, the mechanism of CEMA cooperation creates a situation where a portion of the potential advantages cannot be realized or can even become disadvantages! This refers first of all to the sharing of labor in the processing industry, and the sharing of labor in the processing industry is the very motor of the modern international sharing of labor.

It is no accident that only the Soviet Union's share has been increasing in our foreign trade for a longer period of time among the European CEMA countries (to be specific, by 5 percentage points in import and 10 in export

between 1960 and 1981<sup>4</sup>), where until most recently the trade of machinery for materials and industrial consumer goods for materials could be increased, and in part these were replaced by the trade of food for materials. At the same time the share of the small European CEMA countries in our foreign trade is steadily decreasing. (Between 1960 and 1981 the combined share of Bulgaria, Czechoslovakia, Poland, the GDR and Romania decreased by 9.5 percentage points in our import and 8 percentage points in our export.) The known reasons for this must not be left out of consideration.

## II

In my article I tried to grasp the characteristic nature of the Hungarian economic mechanism after 1968 through the formula of "neither plan nor market," or more precisely "neither plan (with directives) nor a (self-regulating) market." When I was dissatisfied with the more compact "neither plan nor market" formula but decided in favor of the more awkward but more precise variation to characterize the situation, I would have liked to have avoided the very same kind of misunderstanding which can be sensed in Sandor Balazsy's observations.

There is a market in this country (as well as in the other planned economies) in the sense that products change owners by means of sales-purchases. This is also true in the sense that those who purchase, do so from their incomes, and those who sell, obtain an income through the sale. However, the regulating role of the market prevails to only a limited extent even within the circle of simple reproduction: if less of something is produced than there is demand for, the extra demand is not indicated by a price increase and there is no favorable price, above average profitability to encourage increasing the supply and eliminate the shortage. The system of relationships between supply, demand and price which is the essence of the market's self regulation, is not functioning or is functioning to only a limited extent. When a shortage occurs and the state apparatus notices it, they investigate the reasons for it, weigh the methods of solution, and perhaps [in italics] decide to authorize the price change. But if this requires approval by the state apparatus, it is no longer self regulation of the market. And what is even more, this is only one half of the mechanism, and the other half of it, the retroeffect of price movements on demand is almost completely absent. And also for the most part the real competition, an indispensable precondition of market self regulation, is absent.

On the one hand Balazsy is critical of my formula, stating that "Simple reproduction...in our country is now rather clearly regulated by the market" (pp 602-603). On the other hand he elaborates that the market does not and cannot regulate the developments, and "It would even be awful to imagine what would happen if we were once to take normativity absolutely seriously" (p 603). He does not cover the area that--in connection with the persistence of the economy's shortage characteristics--the conformity of production to demand, without investment, is receiving so little emphasis in this country, which actually belongs still within the sphere of simple reproduction. And his explanation we can read a few pages later, which considers it to be the task of the owner--considered to be outside the enterprise--in a way



to neutralize the changes in the external conditions for the enterprise; this creates the impression as if Balazsy did not even consider it fair and justified that the regulatory role of the market--the external market--should have a direct effect (pp 606-607). (He guesses correctly, as this thought of his could really trigger contradiction in many--for example, in me.) Balazsy here returns to the well known problem of eliminating the foreign effects independent of the work of the enterprise. The "filtering out" of such effects has never been easy to implement, but in the system of plan directives which considered the enterprise only an organization for production, it had its own rationality. But if we consider the enterprise to be an undertaking which enters the market, then one of the main functions of the enterprise is to adjust to the conditions independent from itself. And this looses its sense if the owner who is positioned outside the enterprise "...in the case of objective outside circumstances (fluctuation in the business cycle, price changes independent of the enterprise, etc.) generally modifies...the ownership requirements made on the enterprise" (p 606).

It seems that Sandor Balazsy also sees the market's desirable role to be narrower than I do, and considering in this light the situation which has been in effect since 1968 his opinion is that simple reproduction in this country "...is regulated rather clearly by the market..." (p 603). For me (as I have also indicated by the formula) the market's self regulation is the yardstick--the precondition for which is realistic competition--and in my article I have pointed out the absence of this.

I would like here--even if only briefly, as an observation--to dispell a widespread misunderstanding. In recent months we have often met definitions that those who suggest self-regulation of the market are denying the state's role to direct its economy, or wish for the state to "withdraw from the economy." Gyorgy Varga has correctly pointed it out in the FIGYELŐ that such a suggestion has not come up in the domestic debate on reform.<sup>5</sup> The realistic regulatory role of the market assumes that authorization and approval by the state apparatus does not get wedged into the interrelation system of supply, demand and price. Thus in this sphere the state's apparatus must really retreat, and participation by the state's administration must become the exception. The state apparatus can follow with attention and observe the market processes, and in case of need it may even intervene, but it has to avoid undermining the market's value judgment and the functioning ability of the market's automations by an overgrowth of interferences. (The reform's 1966 guidelines have also more or less outlined this already.) But this is not equivalent to renouncing the planning and regulation of the macroeconomic processes and the fundamental structural changes. Quite the contrary: the Hungarian science of economic reform has been professing ever since Gyorgy Peter that if the state apparatus abandons, for example, by itself trying to take care of the sugar beet equilibrium or the equilibrium of bolts and nuts, then perhaps even without "fireman" interventions it will be able to achieve balanced foreign trade or the equilibrium of purchasing power and the merchandise base.

### III

In his debate article Balazsy pays most of his attention to taking care of the ownership function. He endeavors to dispell the misgivings defined in my article in connection with the detached ownership organization, then reasons against practicing the functions of ownership within the enterprise and the self-governing variation of this by stating: these solutions cannot substitute for the ownership institution which is outside the enterprise.

I am ready to agree to that extent with Sandor Balazsy's finding that "...in no way can the self-governing enterprise be considered the ideal implementation of the social ownership function" (p 606), that the self-government format may have serious disadvantages, which by the way is also mentioned in my criticized article. I am ready to accept also that the imaginary independent ownership organization can be an efficient, profitability oriented institution. It can be--but is it probable that it would be such in case it were to be introduced?

An "ideal" format is not worth searching for because every solution has advantages as well as disadvantages. But when these are being weighed it is worth returning to the question of how did, after all, the issue of placing the ownership functions come up in this country? It was brought into the limelight by the experience that proved that the desirable extent and type of enterprise independence cannot be achieved as long as the top management of enterprises are in functional subordinate situation with the branch ministries. (This is not the only obstacle but it is one of the important obstacles.) What should the alternative be? Is it perhaps sufficient to transfer this role to a governmental organ free of divisional restrictions (supervisory ministry), or should it be given to buisness-type organizations which have interest in increasing capital (holding firm, bank), or perhaps to the collective of the enterprise (self government)? This dilemma was completed by the question that if once the 1968 termination of the rights of the ministries to regroup capital did--so it is said--rigidify the capital structure, should not those organizations outside the enterprises which (in one of the variations) would take over the role of the divisional ministries, be also invested with the right to regroup capital? But if we use the concept of ownership broadly, in essence in the sense of acquisition in its entirety (and there is such a concept widely spread in our literature), then it is justifiable to pose these questions as questions concerning the concrete format of the ownership conditions.

For me the criteria of choice is, which organizations can in what way be the best establishments for the efficient and profitable utilization of the resources, and which format promises the best chance for a radical break with avoidance of responsibility, and with the dominance of viewpoints which differ from efficiency. To put it differently: In which format can we realistically hope to become independent of the state's economic administration which is not necessarily business or enterprise oriented, and create a business and enterprise sphere which can form a counterpoint in contrast with that? I consider this to be the decisive question.

I am attracted to solutions which place the ownership functions with the enterprise itself because I think that those who make the enterprise's decisions cannot be without the pressure of responsibility toward the collective interested also in its profits, when they have to represent business viewpoints different from this. Since the decisionmakers of the visualized independent ownership organizations do not have this restriction, but the managers of the enterprises which belong to them depend on them, I doubt that the business and capital increasing viewpoints would prevail with this solution also to the same extent that they actually do prevail in the decisionmaking processes of holding firms in the West--on the soil of entirely different traditions, and in a different economic operating environment. I am therefore afraid that on the soil of our traditions, in our economic environment the principle--mentioned by Balazsy, and often really prevailing in Western holding companies--that "the offered profitability cannot just be mere words" will in the same way fail to prevail in internal capital regrouping just as it failed in the external one: it has not prevailed in the relationship of banks and enterprises for the last 15 years.

One more note belongs here in connection with self-governing: according to Balazsy "...self-governing is not an alternative to the ownership organization; we are dealing here with two functions which differ from each other, and complement each other" (p 606), because the role of self-governing "has to be active participation in the enterprise, and not the exercise of ownership rights" (p 606). The collective's participation in the "enterprise", the way Balazsy is ready to accept it, is not self-governing but merely participation. When the enterprise's top management selection and the enterprise's strategy determination will be placed within the collective's sphere of authority, then self-governing will be an ownership alternative.

\*

I have dealt so much in my response with the debate about the allocation of ownership functions only because Balazsy also places this issue into the limelight. In my critiqued article I did not consider this to be the central question, but rather that in which--I believe--we agree with the disciples of the "holding" concept: the need for thorough, radical reform.

In Sandor Balazsy's article to me the most important thing appeared to be the following declaration: "Bauer endeavors to prove the necessity of reform (a new reform). We can easily agree with the things written here--even if his rhetorics deviate from the official one--his final conclusion coincides with the public belief which has also been officially accepted" (p 603).

Since the publishing of my article I have not always been certain about this "coincidence." There were some who, differing from Balazsy, treated my article as such an impatient extreme they thought it wise to ignore it.<sup>6</sup> In the light of a number of official statements it is not easy for me to decide whether the evaluation of Jeno Andics or that of Sandor Balazsy is the right one. In any case I hope very much that Balazsy will be right on this one.

#### FOOTNOTES

1. Sandor Balazsy: "Reform and Property. Thoughts on Tamas Bauer's Article." KOZGAZDASAGI SZEMLE No 5, 1983.
2. T. Ivan Berend: "Searching for the Path of Economic Policy 1956-1965." Gondolat [Thought] Publishers, 1983.
3. Chronicle of a Wasted Decade. KONYVVIGAL [WORLD OF BOOKS] June 1983
4. During the course of calculation I have filtered out the effect of conversion from foreign exchange forints to commercial exchange rates.
5. Gyorgy Varga: Our Pseudodebates. FIGYELO 12 May 1983
6. Jeno Andices: The Mutual Effects of Politics and Economics in the Early 1980s. VALOSAG, No 7, 1983.

8584

CSO: 2500/243

POLAND

SEJM PASSES RESOLUTION ON 1984 BALANCE-OF-PAYMENTS TARGET

Warsaw MONITOR POLSKI in Polish No 43, 30 Dec 83 Item 246 pp 397-398

[Resolution No 246 of the Polish People's Republic Sejm dated 29 December 1983 on the Balance of Payments for 1984]

[Text] 1. The balance of payments is hereby resolved for 1984:

- 1) in the currency area of socialist countries (first payments area), stated in enclosure No 1,
- 2) in the currency area of capitalist countries (second payments area), stated in enclosure No 2.

2. The maximum amount of indebtedness by the end of 1984 is hereby established:

- 1) at 306 billion zlotys in the currency area of socialist countries (first payments area),
- 2) at 2.793 trillion zlotys in the currency area of capitalist countries (second payments area).

3. The Council of Ministers is hereby authorized to increase the amount of allowable indebtedness for the end of 1984 in the currency area of socialist countries (first payments area) in the event that the scope of cooperation with socialist countries is expanded beyond the assumptions adopted when the balance of payments was determined, and to acquire additional credit in conjunction with this.

4. In the event that the foreign-exchange rate in zlotys changes by comparison with the rate adopted as a base during the preparation of the balance of payments, the minister of finances is authorized to make the necessary conversions of the balance-of-payments turnovers and the level of indebtedness.

[signed] Sejm Marshal: S. Gucwa

Enclosure No 1 to Polish People's Republic Sejm Resolution dated 29 December 1983 (item 246)

Balance of Payments for 1984 in Socialist Countries Currency Area (I Payments Area)  
(in millions of zlotys)

<u>Item</u>	<u>Figure in 1984 Plan</u>
1. Income from goods and construction export	550.1
2. Import payments	597.7
3. Balance-sheet trade balance	-47.6
4. Services turnovers and monetary transfers balance	+13.6
5. Balance of credits granted (in export)	--
6. Credit costs balance	-11.2
7. Assets and other turnovers balance	+4.4
8. Repayments of bilateral credits received	-6.8
9. Utilization of bilateral credits	+34.0
10. Utilization of credits from the International Bank for Economic Cooperation [IBEC] (balance)	+13.6
Indebtedness in billions of zlotys (planned figures for 31 December 1984):	
--intermediate and long term	258.4
--short term	47.6
Total	306.0

(converted according to a rate of 68 zlotys per transferable ruble)

Enclosure No 2 to Polish People's Republic Sejm Resolution dated 29 December 1983 (item 246)

Balance of Payments for 1984 in Capitalist Countries Currency Area (II Payments Area)  
(in millions of zlotys)

<u>Item</u>	<u>Figure in 1984 Plan</u>
1. Income from goods and construction export	589.0
2. Import payments	446.5 to 456.0
3. Balance-sheet trade balance	+142.5 to +133.0
4. Services turnovers and monetary transfers balance	+47.5
5. Balance of credits granted (in export) plus interest	--
6. Assets and other turnovers balance	-14.25
7. Short term credits received balance	-28.5
8. Intermediate and long term credits received	+19.0
Total of 3-8	+166.2 to +156.75
9. Repayment of credit with interest	-166.2 to -156.75
Indebtedness in billions of zlotys (planned figures for 31 December 1984):	
--intermediate and long term	2,745.5
--short term	47.5
Total	2,793.0

(converted according to a rate of 95 zlotys per dollar)

8536

CSO: 2600/680

POLAND

IDLED CAPACITIES NECESSITATE COSTLY IMITATION LEATHER IMPORTS

Warsaw TRYBUNA LUDU in Polish 22 Feb 84 pp 1,2

[Article by Mieczyslaw Kaca; material enclosed between slantlines printed in boldface]

[Text] (Own Information) After the license was purchased, it was said that the Imitation Leather Plant built at the PRONIT Plastics Plant in Pionki would supply annually 5 million square meters of the polcorfam so necessary for the production of footwear and other market items. During the several years that it has been in production, the factory has never attained this volume.

/Why? Primarily because the investment was never completed. Foreign-exchange problems arose, and the domestic requirement for the Pionki factory polcorfam fluctuated./

The requirement was highest in 1979 and in the next 2 years, when the import of natural and imitation leather became restricted to a minimum. Production volume also depended upon the amount of foreign-exchange funds held by the Pionki PRONIT and its coproducers. Initially, foreign-exchange "input" was \$3.50 per square meter of product; currently, its share has declined to \$1.50, but this is still too high, given Poland's payments situation.

Thus, while last year, the Lodz POLBUT Plant (which has the exclusive right to purchase polcorfam from the Pionki plant) ordered 3.1 million square meters, thus far for this year it has ordered 2 million square meters. Consequently, the Imitation Leather Plant is in trouble. Comrade Edward Kustra from the Pionki PRONIT spoke of this at a national conference of the secretaries of party organizations in large factories. In his opinion, the reason for the decline in orders for the domestic product emanates from insufficient coordination at the central level.

This is confirmed by plant manager Wieslaw Klepiel. He has learned that this year we will import about 5.5 million square meters of imitation leather. Meanwhile, PRONIT could produce more than industry has ordered, and this includes not only a better-quality polcorfam but also coated fabrics.

The technology of producing two varieties of such fabrics--proniteks and polcorteks--has been mastered at the plant. With an investment of less than a million zlotys, a line of proniteks has been started that can supply 1 million square meters of this fabric this year. /Both polcorfam and domestic coated fabrics would cost significantly less in foreign-exchange than the import of imitation leather./ It is possible to implement the supplying of 5 million square meters of polcorfam and coated fabrics by the Pionki PRONIT. This depends upon an increase in the POLBUT order and in central decision-making as well. In the opinion of plant economists, this would be a profitable business interest for the country. The import of so-called support fabrics is cheaper than the import of ready-made coated fabrics from abroad.

In conjunction with the Przemysl SONWIL, the management of the Pionki Plastics Plant is attempting this within its own domain. It has also set up contacts with other domestic producers that have ordered trial shipments of support fabrics. It likewise is making efforts based upon cooperation with the BORUTA plant in Rokito to replace imported chemical components with domestic elements.

/Thus, the opportunity exists to eliminate foreign-exchange import entirely. Will these actions be effective?/

8536

CSO: 2600/678



## REASONS FOR RISING BIRTH RATE VIEWED IN STATISTICS BUREAU ORGAN

Warsaw WIADOMOSCI STATYSTYCZNE in Polish No 1, Jan 84 pp 1-5

[Article by Dr Zbigniew Smolinski: "Why Is the Birth Rate Rising?"]

[Excerpts] In 1982 the bureaus of statistics recorded 702,300 live births. This is the highest number of births in the last 23 years. Higher levels (more than 700,000 births annually) were attained during the postwar baby boom period (1948-1959). For many of those who follow the demographic changes in Poland, such a high birth rate in 1982 came as a surprise. It was expected that both the attainment of the age of the greatest reproductive activity by persons born during the low birth rate period of the 1960's and, above all, the difficult economic situation would cause a drop in the birth rate after 1979. In particular, it was expected that the worsening standard of living would influence the level of reproductive activity of the population. And yet, the birth rate rose despite a decrease in the number of potential parents. The astonishment is great. Commentaries pertaining to this fact are rather scant. The few comments so far deal only with the need to analyze the reasons that thwarted the projections. The subject matter is extremely important both from the theoretical and practical point of view. According to report data for 9 months of 1983, the birth rate this year is expected to be 15,000 to 20,000 higher than in 1982. This is not a chance phenomenon, but is it lasting? I will try to answer this question in this article.

#### Why Has Fertility Risen?

We had determined that the drop in the number of potential parents which is expressed by a drop in the number of persons with the highest reproductive potential (activity) and by a drop in the number of persons getting married should have caused a decline in the birth rate in the last few years. However, this is not what happened, due to a rise in fertility primarily among younger women.

It is necessary, above all, to consider Poland's place within the model of socioeconomic, civilizational-cultural and demographic changes in the world. Poland belongs to the group of highly developed countries which to a degree automatically designates its place among countries characterized by rational fertility, vacillating around straight line reproduction.

Low fertility which is the result of demographic transformation is characterized of highly developed countries. In these countries, the small family model is dominant and vascillates around 2.0. The attainment of this level of the average number of children in a family with variations occurring in individual cases is made possible as a result of the mass introduction of birth control. The latter is based on giving birth to a small number of children (an average of two) and on using contraceptives or resorting to abortion. Birth control is the result of the separation of sexual intimacy (satisfying sexual desires) and the process of having children. Having a specified number of children has become the outcome of a conscious decision and not of the deterministic effect of biological forces.

Thus, a question arises: What determines the number of children being born? It should be noted, above all, that the process of the population's reproduction occurs in families. When there is the possibility of deciding freely about the number of children one is to have, this number is determined by the force of the natural tendency toward reproduction and its opposing force in the form of the family's worsening standard of living as a result of the birth of more children. Having children is the result of weighing these forces.

In a situation where fertility is generally low, the effect of external factors decreases to a minimum. For example, the desire to have two children is most frequent--for a female physician as well as a cleaning woman, for a woman who resides in the city as well as for one living in a rural area, for a persons with an elementary education as well as one with a university education, or for someone who is very wealthy as well as for one who is poor. Thus, factors such as profession, education, wealth, etc., do not explain why, for example, some people have one child while others have three children. This is determined by a couple's internal predisposition (their greater or lesser desire to have children) and consent to the family's lower standard of living as a result of the birth of more children. This is frequently an unconscious mechanism, whose functioning, however, is evident in a great number of individual cases.

A family is often considered complete when there are two children because in principle this number of children brings about total fulfillment of the need for parenthood along with the ability to maintain a family's standard of living on a relatively decent level with allowances made for circumstances of time and place. Those who decide on a larger family must take into account the family's worsening standard of living as compared to its prior situation. Those who limit themselves to one child or no children at all are characterized by a lesser tendency toward reproduction or agree not to take full advantage of it in exchange for the family's higher standard of living.

In highly developed countries and in conditions where family size is shaped freely (independently of biological determinism), having children becomes competitive with the ability to provide for needs: the higher the number of children, the lower the ability to provide for the family's needs, with

other circumstances remaining constant. In more precise terms, this competitiveness concerns the ability to satisfy needs of a higher order (nonbasic, or of higher quality). That is why in developed countries couples generally limit themselves to one or two children in order to raise the family's standard of living to the highest level which also takes into account the natural need to have children. They resist having a third child or more in order to live, dress, and eat better; to be able to take vacations away from home (including travel abroad) and to take advantage of expensive forms of entertainment and other modern-world conveniences. Those who feel that the drop in the standard of living in Poland in recent years should have an effect on the lowering reproduction activity in our society do not take into account the contingency that the higher the standard of living, the lower the standard of living, the higher the number of children in a family. In accordance with generally accepted fact, a decline in the standard of living which is expressed in the inability to satisfy needs of a higher order (due to a lack of money or lack of goods which would take care of these needs) weakens the competitiveness of the ability to satisfy these needs in relations to reproduction. The family that cannot take a trip abroad, that cannot acquire better housing or buy a refrigerator or washing machine sets aside its funds for the purchase of food (despite its high prices) and this is enough to weaken resistance against bearing more children. Only a drastic drop in the standard of living, tantamount to hunger, could have an effect on limiting procreation. However, such a decline in the standard of living, which eliminates or weakens the competitiveness of the ability to satisfy needs of a higher order in relation to procreation, intensified this procreation.

Naturally, this mechanism concerns the basic masses of the population--it functions selectively. In a small number of spheres of the intelligentsia, a drop in the standard of living will not increase the family size due to needs which are determined by education and aspirations. Such a decline in the standard of living is felt very intensely here. On the other hand, the inability to provide for needs of a higher order in lower social classes causes funds to be shifted to providing for food needs, thus producing the subjective sense of abundance and prosperity which is conducive to reproduction. What comes to mind here is something which we can describe as a differentiation between the objective standard of living and its changes, and their subjective perception.

In conditions of prosperity, when the possibilities of taking care of needs of a higher order rise, young people often claim that they "cannot afford" a second or third child. And yet, under crisis conditions, they "can afford" to have a child. It is the least expensive investment. Its value grows as that of a material good which replaces other material goods. It is, therefore, my opinion that under conditions of a society in which there is an inverse relation between the standard of living and family size, the birth rate increases not because things are so (!) good but because things are so (!) objectively bad.

A second important reason for the rise in the birth rate during 1982 and 1983 was the introduction in the second half of 1981 of so-called paid

child support benefits. Up until that time, a working mother could have received unpaid child care leave for a period of up to 3 years after giving birth and upon completion of her maternity leave. From the moment that the new regulations were introduced, such a woman may upon fulfilling a specific condition receive the said benefits; at first this was for a period of 18 months and from 1982--for 24 months of the child care leave period. This condition is the amount of income which falls to one person in the family. Thus, with an individual income below 2,400 zlotys, the benefit amounts to 100 percent of the basic wages; if the unit income is 2,400-3,000 zlotys, the benefit amounts to 75 percent of the basic wages, and with a unit income of 3,000-3,600 zlotys, the benefit amounts to 50 percent of the basic wages. When the unit income exceeds 3,600 zlotys, one is not eligible for benefits.

In introducing child care benefits, social considerations were, undoubtedly, taken into account. It was a question of giving material assistance to those families (women) for which having mothers on unpaid child care leave after the birth of their child constituted an excessive burden. However, the method of solving the matter did not take into account the possibility of the occurrence of specific demographic effects. They are both quantitative and qualitative.

Before examining them, let us make note of the fact that between 1970-1980, the number of women who after the birth of their child and after using up their maternity leave obtained uncompensated child care leave rose systematically from 50,400 to 442,600. At the end of 1981, there were already 624,600 such women (including 431,800 on paid leave) and at the end of 1982, the number rose to 795,300 (including 630,400 on paid leave). While during the past decade the number of those on leave rose from year to year by tens of thousands (after 1977, this growth rate began to decrease), in 1981 and 1982 the annual increase of women on leave came to 137,000 and 171,000. This increase includes women who had already been on uncompensated child care leave and who took advantage of the newly introduced opportunities of obtaining child care benefits; women who after using up their maternity leave did not at first take advantage of child care leave due to difficult financial conditions and who were, thus, unable to take this leave until the introduction of paid child care benefits; and finally women (starting in 1982) who decided to have another child because the appropriate legislation made it possible for them to obtain paid child care leave. From the point of view of demography, we are interested in the latter group which points to the probirth effect of paid child care benefits. It is very likely that in introducing paid care benefits, those involved in this legislation were not aware of its probirth effect. It was undoubtedly anticipated that this would have a unilateral effect, i.e., that eligible women and their children would have the opportunity to take advantage of paid child care benefits. Meanwhile, alongside such cases another effect has manifested itself: the possibility of receiving paid child care benefits is an incentive in itself for having (more) children. This flip side effect becomes stronger as the individual income is lower in a family. The reasoning behind this is as follows: Why should I work when after the birth of the next child, I can receive 100 percent of my basic wages (with

an income below 2,400 zlotys) for a period of 2 years? This is, to be sure, shortsighted reasoning and conduct; however, it is tempting in many instances. It is enough for it to be tempting for a dozen or so working women to have the birth rate, also influenced by other factors, rise to 702,000 in 1982 and probably to 720,000 in 1983. The system introduced caused the selectivity of additional decisions pertaining to procreation. Relatively the greatest number of these were made in the poorest families.

The basic principle of a good demographic policy is respect for the individual wishes of citizens with regard to the size of one's own family. However, from the point of view of social interest it is best when individual burdens associated with bearing and raising children are distributed more or less evenly; inequalities in the financial area should be mitigated by state social policy. In its activity in the area of population policies, the state ought to favor a model (average-sized) family, promote reproduction where it is lowest and refrain from furthering it where it is highest. The crux of the matter is not in issuing commands or bans but in the skillful handling of the tools of population and social policy.

Besides causing a series of other problems, for example in the area of employment, the adopted solutions are not conducive to improving the population quality--this quality being one of the key problems of current demographic policy.

In speaking about the causes of the rising birth rate in recent years, it is worth mentioning two additional ones in the series of secondary causes with some significance. The first one is tied to the overall situation in the country, which is characterized by a kind of escape into privacy, a tendency to retreat into the world of problems and issues involving one's own family, which may manifest itself in or lead to a qualitative and quantitative strengthening of the family. At the moment, there are no data to confirm this thesis. However, it seems to me that this will be confirmed soon in, among other things, a drop in the divorce rate.

Opinions are also being voiced that the increase in the birth rate is the result of intensified propaganda by the Roman Catholic Church against abortion. In my opinion, this is a secondary factor which occurs in sporadic cases. The attitude of the Roman Catholic Church toward the abortion issue has always been the same, and we remind the faithful of this. This did not prevent the "descent" of the family size in Poland to the level of other highly developed countries where the influence of the Roman Catholic Church is minimal. This indicates that birth control by way of contraception and abortion is made necessary by the universal laws of population growth and living conditions. The influence of the church on this level of procreation awareness leads to the prevention of abortion through earlier contraception, which has no effect on the level of implemented fertility.

A question arises whether the above increased fertility level will continue and what effect it will have on the future birth rate.

Regarding the first of the main causes discussed here, i.e., the weakening of competitiveness among the factors that affect the satisfaction of needs of a higher order and procreation, the following should be said.

If this weakening were to continue, this would indicate a further decline in the standard of living and, therefore, also the limiting of the ability to provide for basic needs. This would cause an increase in shortages which would remain in conflict with needs and which in turn would be conducive to limiting the number of children in a family. Another possibility is that intensified competitiveness between the ability to provide for needs and reproduction, in case of an improvement in the economic situation, will be conducive to--as has been the case until now--a decrease in family size. Both of these circumstances may occur as early as in 1984 and 1985, all the more so that during that time the influence of the probirth effect of paid child care benefits may subside. Of course, these benefits will also be continued in the future. The point of the matter is that the effect of every probirth incentive is greatest at the moment when it is introduced; after 2 or 3 years, this influence dwindles. It is obvious that the "benefits" associated with remaining at home in the future on paid child care leave will in time give way to "losses" resulting from having a larger number of children because even the best system of social assistance cannot change the disadvantaged situation of families with three or more children. The realization of this becomes evident after the birth of the first "additional" (with respect to the originally planned) child.

It should be expected, therefore, that after 1 to 2 years fertility will return to the level which occurred between 1968-1981, i.e., 1.064-1.114 of the gross reproduction coefficient. Every change in the standard of living in an upward or downward direction will cause a drop in the birth rate. The retention of the latter on a raised level is possible only under conditions of a stabilized standard of living at the current level and further social activity fulfilling the additional role of probirth incentives.

#### Birth Prospects

Above, we examined only one element of the birth rate, i.e., fertility. The second is the future number of potential parents.

I would like to explain here why in my further analysis I will avail myself of projection data prepared by GUS [Central Office of Statistics] in 1980 which envisage fertility at the 1978 and 1979 level for the entire projection period. In my opinion, this level is valid for the next 10 years. It expresses the effect of systematic factors which describe the long-term fertility trend in Poland after the completion of a transformation in the area of reproduction. That which occurs in current years is only a temporary deviation from this trend. A several-year increase in the birth rate does not provide the basis for a change in the assumptions in this area in the future.

Table 3. Projection of Population Growth in Poland

TABL. 3. PROGNOZA ROZWOJU LUDNOŚCI POLSKI

(1) Lata	Kobiety w wieku 20—29 lat (2) (prognoza)		(5)rodzenia żywe		(9)Prognoza	
	w tysiącach (3)	w % ogółu kobiet (4)	progno- (6)	rzeczy- wiste (7)	urodze- nia żywe (10)	przyrost natu- ralny (11)
			(8)w tysiącach		na 1000 mieszkań- ców (12)	
1979 . . .	3292,6	18,1	683,8	688,3	19,1	9,9
1980 . . .	3270,5	17,9	681,4	692,8	18,9	9,5
1981 . . .	3220,4	17,4	675,1	678,7	18,6	9,1
1982 . . .	3155,0	16,9	667,3	702,3	18,2	8,7
1983 . . .	3086,5	16,4	659,0	720,0*	17,8	8,3
1984 . . .	3006,1	15,9	649,7	.	17,4	7,8
1985 . . .	2911,5	15,3	639,0	.	17,0	7,4
1986 . . .	.	.	628,1	.	16,6	6,9
1987 . . .	.	.	617,4	.	16,3	6,5
1988 . . .	.	.	607,9	.	15,9	6,1
1989 . . .	.	.	600,1	.	15,6	5,8
1990 . . .	2524,1	12,9	594,6	.	15,4	5,6
1991 . . .	.	.	591,2	.	15,2	5,4
1992 . . .	.	.	589,5	.	15,1	5,2
1993 . . .	.	.	590,0	.	15,1	5,1
1994 . . .	.	.	593,3	.	15,1	5,1
1995 . . .	2615,4	13,0	622,1	.	15,4	5,3
2000 . . .	2956,2	14,4	644,7	.	15,6	4,9
2005 . . .	3109,9	14,8	637,0	.	15,1	4,1
2010 . . .	3000,4	14,0	.	.	.	.

(13) \* Szacunek na podstawie danych rzeczywistych za 9 miesięcy 1983 r.

(14) Źródło: Rocznik Statystyczny 1983 oraz Studialna Prognoza Demograficzna Polski na lata 1980—2010. Wersja pomigracyjna. Wariant I/1. GUS. Warszawa 1980.

## Key:

1. Year
2. Women between 20—29 years of age (projection)
3. In thousands
4. Percentage of women as a whole
5. Live births
6. Projection
7. Actual live births
8. In thousands
9. Projection
10. Live births
11. Population growth
12. Per 1,000 inhabitants
13. Estimate on the basis of actual data for 9 months of 1983.
14. Source: STATISTICAL ANNUAL for 1983 and Demographic Research Projection for Poland for 1980—2010. Postmigrational version. Variant I/1. GUS. Warsaw 1980.

It follows from Table 3 that beginning in 1979, the number of women at the age of the greatest reproductive activity decreases until about 1993. At the same time, their percentage share decreases from 18.1 to 12.9 percent.

This should cause a similar drop in the number of new marriages and the number of women giving birth. Therefore, in assuming that by 1986 the birth rate will return to the 1978 and 1979 level, it is possible to assume that between 1986-2010 the birth rate will shape itself as in the cited projection. On the other hand, the increase in births between 1982-1985 will come to approximately 150,000 in relations to the projection (we are making allowances here for the increasing effect of the declining number of potential parents). The above circumstances guarantee a high birth rate in the future in terms of highly developed countries (more than 15 for every 1,000 inhabitants) and a high population growth (more than 4 for every 1,000 inhabitants).

9853

CSO: 2600/649



## MINISTER CALLS FOR IMPROVED FINANCIAL, ACCOUNTING ACTIVITY

Bucharest REVISTA ECONOMICA in Romanian No 7, 17 Feb 84 pp 2-3, 9

[Article by Petre Gigea, minister of finance: "The Growth of the Role of the Financial and Banking System in the Efficient Operation of the Economic Mechanism"; passages enclosed in slantlines printed in boldface]

[Text] Nicolae Ceausescu: "It is necessary for us to act with total determination to apply the measures adopted in 1983 regarding the improvement of the economic mechanism, the steadier application of the socialist principles of remuneration, the overall contract system. Let us act so that worker self-management and self-administration become a practical reality in all sectors, in all units."

The Romanian Communist Party's farsighted and wise policy, the revolutionary, scientific and innovative outlook of its secretary general, Comrade Nicolae Ceausescu, with regard to building the multilaterally developed socialist society and advancing Romania toward communism, and our entire populace's work full of self-sacrifice for steadily carrying out the decisions of the 12th RCP Congress, in order to greet with special successes in all fields the 40th anniversary of the antifascist and anti-imperialist revolution for social and national liberation and the 13th congress of the party, have caused the strong development of the production forces, the growth of the national income and socialist wealth of the homeland, the growth of the standard of living, and the marked placement of the country on the coordinates of progress and well-being.

As follows from the Official Statement on the Fulfillment of the Sole National Plan for Economic and Social Development of the Country for 1983, in the third year of the current 5-year period, the efforts made by the working people in the enterprises and centrals and by all economic-management bodies to solve the problems and eliminate the shortcomings, caused especially by difficult international economic conditions, were materialized in remarkable achievements in all fields of activity. They create a better basis for doing the activity this year, when we have a thoroughly substantiated, extensive and mobilizing program of action to carry out, whose major objectives, noted in the sole national plan for economic and social development of Romania, the centralized financial plan and the state budget for 1984, are oriented toward raising the profitability and efficiency of all economic activity, the only source of growth in national income, the standard of living and the country's multilateral progress.

As a new and eloquent manifestation of the special concern of our party and its secretary general for providing all the conditions needed to steadily fulfill the provisions of the plan for this year, the clear directions of action for the exemplary attainment, with greater efficiency, of the objectives of the country's economic and social development in 1984, the steady application of the measures regarding the improvement of the economic and financial mechanism, the establishment of self-administration and worker self-management as a practical reality in all units were marked out at the recent Working Conference of the RCP Central Committee devoted to analyzing the activity in industry and investments, convened on Comrade Nicolae Ceausescu's initiative. /As the secretary general of the party stressed on that occasion, all the conditions exist in the economy for obtaining better results this year along the line of raising the profitability and efficiency of all production activity, a major task on which are focused all the measures adopted along the line of reducing consumption, raising productivity, raising the quality and technical level of the products, and preventing waste in all sectors of activity/.

The provisions of the sole national plan for economic and social development, of the centralized financial plan and of the state budget illustrate the continually rising line of the process of economic and social development of the homeland, our Communist Party's and state's consistent policy of multilateral development of socialist Romania, and its stronger and stronger affirmation as a country at the height of the process of development and modernization.

#### The Strengthening of Self-Administration and Worker Self-Management in All Units

Drawn up in complete conformity with the sole national plan for economic and social development, the centralized financial plan and the state budget for this year--which have as a solid foundation the strong material, technical and human potential that the economy possesses--provide further the resources needed for the country's entire economic and social development. They reflect the concern of our party and its secretary general for continually raising each economic unit's economic efficiency and profitability, more substantially reducing production expenses, especially material expenses, more markedly raising labor productivity, applying a strict policy of economy in all fields of activity, and consolidating the financial, monetary and currency equilibrium.

The constant growth of exportation and the limitation of imports to the bare essentials, with the volume of foreign trade rising 13.8 percent in comparison with 1983, constitute a basic orientation of the plan for this year. As a result, in order to raise the efficiency of the foreign trade activity, it is necessary that the enterprises, centrals and ministries ensure the priority achievement of the supply of merchandise provided for exportation in the assortment structure and with better and better quality required by foreign customers and that, together with them, the financial and banking bodies pursue the steady fulfillment of the export obligations, the continual growth of the valuta contribution of the products, and the maximally efficient use of the valuta funds allocated through the plan for importation.

At the same time, the steady application, this year, of the provisions of the far-reaching special programs regarding the improvement of the technical and

qualitative level of the products and the better utilization of raw materials and supplies, as well as the steps that must be taken in the field of raising labor productivity, improving the organization of labor and the setting of labor norms, and increasing the role of profit in the process of self-financing the units, were taken into account in determining the amount of the state budget's incomes and expenses--308.9 billion lei.

In order to exemplarily fulfill these major tasks and operate the economic and financial mechanism with greater efficiency, /it is necessary to act firmly to strengthen the self-administration and worker self-management in all units/, so as to provide--as the party's secretary general asked--the conditions needed for eliminating the shortcomings and successfully fulfilling the plan's provisions, so that the management councils of the units and centrals may properly exercise the broad rights and fulfill the responsibilities that they have. At the same time, the strong affirmation of the spirit of careful administration of material and monetary resources, of the sense of responsibility for the way in which they are consumed in the process of material production, constitutes one of the essential requirements for fulfilling the plan targets.

The year 1984 must constitute a turning point in improving the activity in all sectors, in achieving the new quality of work and life. For this purpose, each work staff and each working person must know and understand well the plan targets that devolve upon them, the objectives of the special programs, and the provisions of the state budget. With that end in view, /among the measures for further improving the economic and financial mechanism there has been put the obligation of preparing at the level of the factories, sections, worksites, farms and other subunits the income and expense budgets/ that contain their own physical and value targets for production and the norms, standards and limits on expenses. A unitary instrument for assigning and watching the economic and financial indicators at these levels too has thus been adopted, allowing the decisionmaking bodies to steadily apply the principles of self-administration and worker self-management and determine the efforts and the effects of the activity of the staffs of working people in the process of fulfilling the plan and raising the economic efficiency to a higher level. It is now essential for the collective leadership bodies in each economic unit to examine thoroughly and constantly the manner of fulfillment of the economic and financial indicators in each particular link and establish measures for fulfilling the provisions of the income and expense budgets. Because, as the secretary general of the party stressed, "the income and expense budgets are not something formal, but a means by which each enterprise's management and the working people's general assembly can act to obtain maximum economic efficiency, a substantial reduction of material and production expenses, and a substantial increase in net output, profits, and profitability in general."

/In order to raise the efficiency in operating the economic mechanism and carry out the measures with regard to improving the methodology of planning, recording and following the production costs and to substantiating the cost-reduction programs on the basis of the critical analysis of all categories of expenses, precise rules for planning, recording and calculating the costs of industrial production were drawn up and are being applied/. These rules have the role of helping to know thoroughly the possibilities of continually reducing production

costs and especially material costs and to strengthen the order and discipline in the field of making any kind of expenditures. Moreover, the application of a strict policy of economy was taken into account in setting the state budget's expenditures for financing the national economy, in the amount of 154 billion lei, with the inadvisable, inefficient expenditures being eliminated.

The high percentage which the funds for financing investments have in the total of these expenditures and which, together with the socialist units' own resources, provides the financing for the investment program for 1984 entails /special responsibilities on all levels for finishing, in particular, the production investments, shortening the periods of execution, reducing the volume of tieups in unfinished investments and in stocks of equipment on the worksites and utilizing the allocated funds with maximum efficiency/.

It is clear that the making of the expenditures for financing the national economy, for all the purposes stipulated in the state budget, is not possible except insofar as the state's incomes are achieved regularly and completely. The fact that the incomes provided for 1984 come from the socialist units to an overwhelming degree--98.6 percent of the total--indicates, on the one hand, the strength and solidity of our socialist economy and, on the other hand, the special responsibilities that devolve upon the economic units, centrals, ministries and central synthesis bodies for achieving these incomes, especially through the exemplary fulfillment of the provisions on physical output, the reduction of costs and the faultless meeting of the obligations assumed through contracts for delivering products on the domestic market and for exportation.

At the same time, it must be borne in mind that, through the growth of the degree of self-financing of the enterprises and as a result of the measures adopted with regard to increasing the fund for participation by the working people in the achievement of production and profits and in the sharing of profits, bigger sums for forming the economic units' own funds have been provided this year than in 1983, which necessitates decisive steps, carried out day by day, to secure the proper performance of the activity, in strict conformity with the provisions of the plan and of the state budget.

#### A New, Higher Quality in the Financial and Accounting Activity

The complex tasks contained in the sole national plan for economic and social development, the centralized financial plan and the state budget for 1984 entail the improvement of the activity in all sectors and a big concentration of forces for exemplarily fulfilling them, in the spirit of the high requirements formulated by the party's secretary general. /Greater tasks, springing from the powers conferred by law and from the highly responsible mission, assigned by the party leadership, of helping effectively to raise economic efficiency, to strengthen control, to prevent negative phenomena and to maintain perfect financial discipline/, go to the financial and accounting apparatus in this engagement of forces, which is occurring on the scale of the whole economy.

For implementing the provisions of the law on the basic principles of improving the system of payment for labor and of distribution of the working people's incomes, /the collective leadership bodies of the enterprises, centrals and

ministries have the obligation to provide the conditions needed for applying the form of overall-piecework pay at the level of each enterprise, factory, plant and section and other organizational forms in the respective branches and sectors of activity/. At the same time, the financial and banking bodies must perform a systematic activity of control and analysis and help the economic units fulfill the planned indicators. In this framework, special attention must be devoted to the control of the calculation and release of the pay fund that is exercised by the banks for all categories of personnel and the strict observance of the conditions provided by law for releasing the pay fund. The financial-control bodies have the obligation to verify rigorously the utilization of the pay fund, the legality of the payments, and the correct reporting of the fulfillment of the indicators according to which the pay fund is calculated and the targets and indicators that condition the complete awarding of the pay.

The steady application of the new economic and financial mechanism requires /the growth of the role of the financial personnel in the enterprises, centrals and ministries and of the Ministry of Finance and the banks/, which have precise obligations and responsibilities connected with all economic and financial activity, with the achievement of profits and other incomes of the state, and with the proper administration of material and monetary funds. The instructions of the party's secretary general, Comrade Nicolae Ceausescu, who asked that "decisive steps" be taken "in the direction of improving the financial and economic activity and increasing the role of the financial bodies, the financial and banking system, the financial control over all sectors of activity in using and spending each leu, each ban," constitute the permanent guide in the activity of this apparatus. As a result, it is absolutely necessary to achieve a new, higher quality in the entire activity of the financial and banking apparatus, a substantial contribution to solving the problems with which the economic units are faced, especially those connected with mobilizing all the material and human potential in order to completely, regularly attain the physical output at the level of the plan provisions, the commodity output sold and paid for, exportation, profits, the deduction for society, the commodity-circulation tax, and all incomes of the state.

The exigencies in applying the new mechanism require the financial and banking bodies to always see that /all the activity of the economic units is based on the principles of maximum profitability and efficiency/, through the sensible management of raw materials, supplies and energy, the recovery and reuse of materials, and the application of the special programs for additionally reducing production costs and speeding up the growth of labor productivity.

We are the witnesses to a wide diversification of the national economy, in accordance with its continual development. Hence, too, the need for the financial and accounting, banking, and financial-control apparatus to engender good organization of labor and strict control. As the secretary general of the party has repeatedly told us, the center of the entire activity of the financial apparatus in the ministries, the centrals, the Ministry of Finance and the banks must be moved down--to the economic and social units, where the achievement of production is ultimately decided.

/The financial and banking control has the task of helping to a greater extent to properly administer and use the material and monetary funds that the units possess, to speed up the rate of turnover of the circulating funds, to introduce a strict spirit of economy and good administration, and to steadily meet the obligations regarding payments to the state budget/. The whole financial and banking apparatus must act with great precision to strengthen the order and discipline in the use of material and monetary funds and to prevent damage to public property and losses of any kind.

The execution of the budget necessitates a special effort and a high responsibility for maintaining a permanent equilibrium between incomes and expenses at the level of each unit, for resorting to bank loans only in justified cases and paying them back on the due date, and for meeting all obligations to the suppliers who delivered the contracted products.

In this context, it is necessary /to increase considerably the role of the chief accountant/ in all socialist units, who, throughout his activity, in accordance with the powers that are conferred on him by law, must secure the strict observance of legality in the economic, financial and valuta field. This is a natural requirement of the current stage, in which all the activity, including the financial and accounting activity, must rise to the level of higher and higher demands, in accordance with the national economy's interests. Under the conditions of the growth of the complexity and the tasks of the economy's development, accounting has a bigger role, this instrument having to be used better to manage the economic and financial activity, to consolidate self-administration and to increase the resources needed for the self-financing of each unit. In order to respond to these tasks, the chief accountants and the whole apparatus that does its activity in this field must rigorously fulfill the obligations that devolve upon them with regard to organizing the records and keeping them up-to-date, correctly preparing all documents that are the object of the bookkeeping entries and exercising the preventive financial control with greater strictness in conformity with the legal provisions. Special attention must be devoted to inventorying the holdings and providing the conditions needed for properly preserving and administering all assets put in the socialist unit's charge on the basis of the pledge-contract. The balance sheets that are prepared by each socialist unit must reflect the real situation of the holdings and the economic and financial results gotten, so that the steps needed for raising the profits and economic efficiency in all fields and sectors of activity may be taken on the basis of the analysis in the collective leadership bodies.

In the extensive activity that is being performed throughout the country to exemplarily fulfill the provisions of the plan for this year and operate the economic mechanism with greater efficiency, the financial and banking apparatus is called upon to make a qualitatively higher contribution to the steady implementation of our party's policy, to the country's multilateral economic and social development.

12105  
CSO: 2700/151

## YUGOSLAVIA

### DATA ON INCREASED TAX REVENUES IN 1983

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 17 Feb 84 p 6

[Article by Miodrag Jankovic]

[Text] Incomes of sociopolitical communities, self-management interest communities, other self-management organizations and communities and sociopolitical communities funds altogether amounted to 1,433.5 billion dinars in 1983, which is 34 percent more than in 1982. These incomes are probably not comparable with the nominal growth of social product, but the fact cannot be ignored that the percentage of their growth is only slightly smaller than the growth rate of the total income of the economy as a whole.

The question, however, is whether and to what degree such a growth of taxes and contributions disturbs the amounts and relations agreed upon by the Resolution on Economic Development and Economic Policy in 1983. Great increase of taxes and contributions leads to hesitations also because their sources are mostly incomes of basic organizations of associated labor and employees' personal incomes. The following fact is certainly significant: Taxes and contributions are collected on the basis of prescribed rates not adjusted to the action of prices and inflation, and it is forgotten that the amounts on which taxes and regulations are paid increase every year, sometimes for more than one third. This means that insofar as the taxable bases are growing, as it has been the case these years, rates should be lowered, so that taxes would not be higher than the economy can tolerate.

According to a recent report by the Yugoslav Social Accountancy Service, incomes of self-management interest communities are the highest; last year they amounted to 642.9 dinars, which is an increase of 29 percent. Very close to them are the incomes of sociopolitical communities--529.5 billion dinar, which is 35 percent more than in 1982. At the bottom, with 261 billion dinars, are the incomes of other self-management organizations and communities and sociopolitical communities funds, although their 48 percent growth qualifies them to the first place.

Let us remind the reader that incomes of sociopolitical communities are collected as income taxes and taxes withheld from personal income, then as turnover taxes--community and republic (so-called special) and federal (basic) turnover taxes--dues, custom duties, incomes based on special

regulations and incomes of administration. Contributions are instruments for collecting taxes for about 10 kinds of self-management interest communities (for health insurance, employment, child protection, retirement and disability insurance, education, culture, scientific research, physical education, social protection, and other SIZ's). There are about 20 kinds of contributions, and they also serve to collect incomes of other self-management organizations and funds; among them are contributions for the construction of housing projects with common reserve funds, for the utilization of municipal lots, for other SIZ's, highway funds, water supply funds, and the federal fund for economic development of underdeveloped republics and Kosovo.

When the movement of these incomes is carefully studied, this time not together, it can be noticed first that they behave in the same way as other economic flows. These movements are a result of prices and inflation, as the bases on which these incomes are calculated grow very fast. They are also influenced by the fact that the possibility for a more elastic behavior is lacking, given conditions when social production and total income grow at the rate of 35 percent or more a year. This is not taken into account when the policy is established and when agreements are made on how many social activities and budgets, and whatever we call common and joint consumption can be afforded.

In order to understand this properly, it is best to look at some relations. In the incomes of sociopolitical communities and of the budget which grew last year 35 percent as a whole, attention must be paid first to rates of the increase of the income tax and tax withheld from personal incomes (together 15 percent), mostly because all turnover taxes together increased by 32 percent--the basic one (federal) 31 percent, special republican 40 percent and, most modestly, special communal 27 percent. The fastest growth was experienced by custom duties--71 percent--and incomes based on special regulations--40 percent.

The movement of turnover taxes in 1983 was exactly as dictated by the exceptionally high price rise and the inflation based on it. Great nominal value of the social product, due to increased prices, was the reason for the great turnover tax income. There is no other explanation for this phenomenon, as the physical growth in industrial and agricultural production is smaller than one tenth of the increase of total income, and even of the turnover tax.

As already stated, 642.9 billion dinar was collected last year for self-management interest communities, and that this contributed 29 percent to the increase. In 1983, paid net personal incomes also increased by 29 percent (1,185.8 billion dinars). When the SIZ incomes and paid personal incomes are compared, one can see that incomes of self-management interest communities constitute 54.2 percent of personal incomes; analysts' opinion on this would be welcome. Clearly, such relations are in need of careful consideration, since those who make decisions on such matters--i.e. the delegates of the associated labor's organizations--are unable to provide changes.



Greatest increase--36 percent--was shown by SIZ incomes for retirement and disability insurance, which also constituted the greatest absolute allocations (252.2 billion dinars). They are followed by contributions for scientific research--32 percent, social security--27 percent, child care--25 percent, etc.

Incomes of other self-management organizations and funds which, as pointed out, should be in the first place with their 48 percent rate, indicate that there is apparently little preoccupation with more rational planning and expenditure of money which is to the largest part or mainly taken from the economy. It means that the most important thing is not that a lot of money is allocated for these purposes, but that there is no clear-cut accounting on how that money is used.

It is certain that those who give or lend that money have little influence in this. It would be good to take a look more often at such reports of the Yugoslav Social Accountancy Service.

12455

CSO: 2800/213

## YUGOSLAVIA

### PLANS FOR MONEY ISSUANCE IN 1984

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 10 Feb 84 p 6

[Article by Miodrag Janovic: "No Great Changes; Primary Issuance for 1984"]

[Text] Primary monetary issuance has long been accepted and understood as the inevitable means by which those in control of the money supply stimulate business banks to target investments for so-called selected purposes. For the selected purposes of monetization, export, agricultural production, and still others, 110 billion dinars will be issued. It has been calculated that the primary issuance of money should be increased by 143 billion dinars.

The National Bank of Yugoslavia hopes to direct the loans of business banks this year by using primary monetary issues. By the process of rediscounting and by using a greater rediscount percentage rate, it will prompt business banks to approve loans under more favorable conditions for such purposes as--we assume--monetization, export, agricultural production, and others. It has been estimated that 110 billion dinars should be enough for this, meaning that new quantities of money must be issued. Along with this, the assertion has been made that a special sum of primary monetary issue, ranging up to 55 billion dinars, is also necessary to finance a portion of certain claims because their payments have been deferred; this is a recurring theme in this area.

#### Monetary-Credit Limits

Primary monetary issuance has long been accepted and understood as the inevitable means by which those in control of the money supply encourage business banks to target investments for so-called selected purposes, using an appropriate rediscount rate. In the interests of brevity, this can all be reduced to the fact that economic development of the kind and quantity prescribed in the resolution for this year is supported and maintained by instruments of monetary policy.

Every monetary issue, even those still in the planning stage, can have undesired consequences. That is why the National Bank charter has a provision, quite understandably, for neutralizing the issued quantity of money according to need, either as a whole, or in part. The use of obligatory

reserves is especially taken into consideration. These reserves are usually the everyday instrument of credit-monetary policy. The basis for this is bank liquidity as a whole.

The magnitude of the increase in primary monetary issue for this year has been estimated by assuming that bank liquidity at the beginning of 1984 will correspond to the usual seasonal needs, but also that banks will have great sums of money in their cash transfer accounts the first few days of the year. To what extent this assumption will become a reality will be seen in due course when data on money movements in cash transfer accounts becomes available. The National Bank, on the basis of many years of experience has anticipated when and in what quantity the issued money should be neutralized if the movement of the money supply and the liquidity of banks dictates that this should be done.

Monetary-credit limits have been provided for and will serve to protect against possible monetary expansion which is deemed to be obviously excessive. Because of this, it should be expected that 110 billion dinars will first of all be used to support the so-called selected targets of economic policy. Money from the primary monetary issue will primarily go for the financing of the export of goods and services, and then for agricultural production. However, it should be understood that these are not the only purposes for which the national banks will offer the so-called rediscounted loans.

It is useful to review some data and to recall that the growth of the money supply and bank investments is based on the increase in primary monetary issuance. Let us assume, as has been mentioned, that the money supply should increase by 32 percent and the dinar investments of banks by 21.4 percent, in order to satisfy the targets and problems of monetary-credit policy for 1984. It is apparent, of course, that these types of quantitative problems can arise if the primary monetary issue also increases, and this year the increase will come to 110 billion dinars. Of this sum, 3.5 billion dinars is targeted for banks to credit citizens who sell foreign currency to them. One billion dinars will be used for the purchase of rail cars, as prescribed in due course by federal law. Thus it can be seen that 105.5 billion dinars are targeted for the economy for monetizing securities and for financing the so-called selected purposes.

#### Assumptions and Evaluations

It was already mentioned that a special quantity of primary issuance with a limit of 55 billion dinars is needed to finance deferred claims. This is provided for by a special law concerning the export of goods with special purpose. The National Bank estimates that deferred claims to be financed in 1984 will amount to \$585 million, and this is a little over 84 billion dinars. Since it is possible to rediscount only 65 percent of these credits, approximately 55 billion dinars must still be injected into circulation by primary monetary issuance. This is equivalent to half of the planned increase in primary issuance for this year, neither more nor less. It would be quite

risky to add the money for these needs to the main spigot which is already pouring out 110 billion dinars.

One might think otherwise, but this would only be the case when primary monetary issuance has helped bring about a real increase in social product, without inflationary boosts and influences affecting this growth. In this case, the purposes of primary monetary issuance, even its planning, would, of course, be different.

One can accept the evaluations of the National Bank of Yugoslavia, but not without comment. It is apparent, of course, that the goals and problems of economic policy included in the resolution for 1984 determine the size of primary monetary issuance, as well as all other instruments of credit-monetary policy. How big the issue will be is then dependent upon the conditions of use, intention, but also very much on the behavior of the economy and the banks. One should also not neglect the fact that the size of the issue will be as large as the National Bank of Yugoslavia has estimated. The kind of targets and problems of joint issuing and monetary policy, and the joint basis of credit policy will be directly dependent upon this.

The primary monetary issue should be increased this year by 143.1 billion dinars according to estimates based on measures in the Decision on Targets and Problems of Joint Issuing and Monetary Policy and Joint Bases of Credit Policy for 1984. This is 33.1 billion dinars over the limits of possible growth of primary issues as estimated by the National Bank of Yugoslavia.

Estimate of Changes in Primary Monetary Issuance  
(in billions of dinars)

	Condition as of <u>12/31/84</u>	Growth in 1984, accord- ing to <u>Decision<sup>1</sup></u>	<u>Range of possible growth</u>	<u>Over the limit</u>
1. Monetization	12.0	20.0		
2. Selected purposes	335.4	118.6		
--export	158.2	69.3		
--agriculture	135.2	39.6		
--import	22.5	6.4		
--domestic equipment	12.2	1.0		
--coal reserves	5.1	1.3		
Subtotal	347.4	138.6	105.5	33.1
3. To citizens for purchase of foreign exchange	7.0	3.5	3.5	
4. Legal obligations	2.2	1.0	1.0	
Total	356.6	143.1	110.0	33.1

<sup>1</sup>Decision on Targets and Problems of Joint Issuing and Monetary Policy and Joint Bases of Credit Policy for 1984

The difference between the quantity of money needed from primary monetary issuance and the expected limits can possibly be neutralized during the year. This can be attained by persistent application of regulations according to which banks cannot provide new credits to organizations of associated labor which keep foreign exchange money in their foreign exchange accounts longer than 15 days. The use of credit from primary issuance can also be reduced by the more regular payment of mature and unpaid credits, and so on, according to the National Bank of Yugoslavia.

Participants in the economy, as well as banks, do not have the most favorable opinions of some of the measures proposed by the National Bank. Why would the economy and the banks go into debt and pay expensive interest charges if it were easy to obtain working capital, of which there has never been enough, from sources within the economy?

It would be useful if the size of monetary issuance were to be estimated from the business banks, with a multiplying factor, of course.

9548  
CSO: 2800/209

ECONOMIC CHAMBER REPORTS ON SUPPLY STATUS, OUTLOOK

Belgrade BORBA in Serbo-Croatian 25-26 Feb 84 p 10

[Excerpts] According to information of the Yugoslav Economic Chamber, supplies of industrial raw materials, producer goods, and energy at the beginning of this year remained approximately at the level the end of last year, but domestic market supplies of consumer goods were better.

In the next several months, especially through the first quarter of this year, an increase in industrial production is expected, above all because the supply situation will be better. In the first quarter of this year 2,762,000 tons of petroleum were planned to be imported, but already in January 26 percent less was imported than expected. Throughout the winter the supply of mazut was poor, even critical, and did not improve even with the 250,000 tons imported in December, which were largely consumed by thermal electric power plants and the production of electricity. The Economic Chamber estimates that oil and oil product supplies will be highly uncertain in the next month or two.

This year agricultural production is not very promising, largely because 10 percent less area was planted last fall in wheat than was the case in the previous year, while the quality of seed is poorer and there is less artificial fertilizer. The prognosis is very unfavorable in regard to the livestock market where, because of lack of feed there has been excessive slaughtering of livestock and unexpected increases in fresh meat supplies.

Recently the domestic market has been better supplied with consumer goods, especially agricultural and food products because of the good 1983 harvest. But in the next several months we will have to draw from federal reserves for sugar, edible oil, and wheat. Imports of edible oil, sugar, coffee, lemons, and other products are planned.

Statistics show that last year 2 percent less wheat flour was produced than in 1982, but, by better milling, more flour [of other kinds] was produced. It is expected that the available amounts of wheat in mills and reserves will be sufficient to satisfy market needs until the next harvest.

This year there is a shortfall of 190,000 tons of edible oil. The amounts in [oil] factories will be sufficient to meet market needs only to the end of March, so this will have to be made up from federal reserves and imports. At the end

of March about 34,000 tons of edible oil are expected to be available from imports, and OURs (organizations of associated labor) have thus far contracted to import about 40,000 tons. About 3,000 tons of lard will be made available to the market from reserves.

Sugar is being supplied unevenly to certain parts of the market, although production is on the level of that last year. Serbia has about 35 percent less sugar, and Slovenia about 30 percent less. Amounts available in sugar mills can meet needs for the next 5 to 6 months. Sugar is being imported but also exported. If all available supplies were placed on the domestic market, we would still lack about 100,000 tons which, judging from everything, will be imported.

There is much more meat, and reserves in slaughterhouses have increased considerably, but the possibilities for export are limited because demand on the world market has declined and export prices are low.

Coffee supplies are adequate. Last year \$41.4 million of the \$55 million in foreign exchange made available for import was spent. This year another \$50 million will be available which will assure the purchase of 40 percent of the amount needed for this year.

Last year milk production increased 4 percent, which was adequate to meet domestic needs, along with imported amounts.

Supplies of medicines at the beginning of this year are considerably better than at the beginning of last year, although there is a short lag in supply. We lack 73 [pharmaceutical] preparations on a temporary or permanent basis, or 10 percent of the needed medicines.

Last year, with great effort, about 90 percent of the planned amounts of detergent were produced, but for this year's production \$70 million have been provided to import raw materials.

CSO: 2800/239

CONSTITUTIONAL COURT EXAMINATION OF FEDERAL LAWS REPORTED

Frankfurt/Main FRANKFURTER ALLGEMEINE ZEITUNG in German 28 Feb 84 p 6

[Article by Viktor Meier: "Yugoslav Constitutional Court to Examine Federal Laws in Support of Economic Reform"]

[Text] Vienna--The Yugoslav Constitutional Court in Belgrade has decided to start proceedings for examining the constitutionality of a whole number of recent federal laws dealing with the foreign currency system. This is the first time for the Constitutional Court in Yugoslavia to examine federal laws and decisions by the federal government. A court spokesman said it was a matter of granting support to the so-called "Krajger Commission" and its economic reform propositions. The foreign exchange laws objected to, it was further said, all contradicted the commissions' recommendations because they permitted certain economic enterprises, in contrast to others, to hoard foreign currency by which to make payments inside of Yugoslavia. A recognized and presently somewhat exaggerated aim at Yugoslav economic reform which has run into difficulties is to tolerate only the dinar as a domestic payment and clearing unit.

As far as can be seen, the laws to be examined by the Constitutional Court do not affect the foreign currency accounts of private citizens. They had been discussed for so long so that many citizens canceled them and transferred the currency abroad, where they are at least safe from any possible state attachment. In conformity with recommendations from the International Monetary Fund, however, interest payments on these valutaaccounts recently were converted from foreign currency to dinar. Another case has now become noted in connection with the foreign currency accounts. Foreign currency was confiscated from an inhabitant of the autonomous region of Voivodina on grounds he had acquired it unlawfully. Before, it had been a sacred principle never to inquire about the origin of funds on foreign currency accounts. This case, giving owners of foreign currency accounts still more anxiety, is now before the courts.

Such problems indicate to many Yugoslavs that the political authorities do not intend to tackle the basic prerequisites for successful economic reforms. Within the political apparatus, to be sure, there are time again personalities who criticize this. That evidently includes the present head of the official price office, Croatian Ante Zmijarevic, who has special cause for



concern because he was given the thankless job of supervising the price freeze decided on late in December and to reduce those prices that had been raised shortly before and in awareness of the December decree to their previous levels. In the journal NIN, Zmikarevic writes the price freeze could only be a temporary breathing spell. Yugoslavia would get no economic recovery, according to Zmijarevic until market-economy conditions were set up in a reasonable framework that would enable enterprises to work on the market under purely economic aspects. Some 50 percent of the income growth of Yugoslav enterprises had flowed last year into "extra-economic sectors," through taxes and various contributions. Under prevailing conditions, the state--federation, republic or even community--acted as the big economic arbiter, taking care of raw materials and exports and regulating imports, credits and supplies. So the economy was orienting itself to the administration, becoming oblivious to economic activity. Without financially strong and capable enterprises there was no point in talking about economic recovery.

The example of the interest that Zmijarevic is referring to shows how much in Yugoslavia today specific measures that are correct as such and often have recommendations from the International Monetary Fund behind them lead to detrimental effects because of the confused conditions, aggravated by numerous additional administrative rules. The Monetary Fund had demanded of Yugoslavia to introduce "realistic interest" for investments as well as credits, that is to say, such as would make a difference even in an inflation as saving incentives and credit brakes.

At a mere 50-percent inflation rate, "real interests" would become intolerable burdens for the enterprises, especially because Yugoslav enterprises hardly have any capital of their own and up to 80 percent of their investments and operational funds come out of credits. This in turn is attributable to that the enterprises are managed, not economically but ideologically, that is to say, what they produce for the needs of "society" is taken from them, and then one allows them to distribute the rest among the work force without regard for investment needs.

Only up to 2 years ago one could still hear it said in the Yugoslav National Bank that it did not matter because other countries as well, for instance Japan, had built up enterprises with foreign capital. At that time credits were cheap. Today the higher credit interests, apart from the fact that they are not even "real" now and cannot have a proper effect, not only are far too much of a cost factor for the enterprises, but are adding to inflation, usually resulting in more administrative regulations.

Often one gains the impression in Yugoslavia that no one knows exactly at which point in economic affairs the recovery could start in the first place. Zmijarevic thinks there could be no other way to start but with the enterprise as a market factor, but it is precisely about that which most senior party functionaries seem to have their doubts.

5885  
CSO: 2300/317