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# ***JPRS Report***

# **East Europe**

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# East Europe

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## CZECHOSLOVAKIA

### Secretary Sees National Front as Democratization Platform

24000145 Prague RUDE PRAVO in Czech  
25 May 89 p 3

[Article by Josef Mevald, CC CPCZ Secretariat member, secretary of the committee for party work in the CSR: "The Topical Legacy of the Ninth CPCZ Congress—Carrying Forward Our Policy"]

[Text] The Ninth CPCZ [Czechoslovak Communist Party] Congress, which opened on 25 May 1949, exactly 40 years ago, laid the foundations for building socialism in our country. It was convened in a complicated period. The party leadership headed by Klement Gottwald presented the Congress with a forward-looking project for a political, economic, cultural and social buildup of the country. The project took into account Czechoslovakia's specific conditions and focussed the Congress' attention on the building of a political system in which the working class has the leading role.

The program of the Ninth Congress gave a programmatic and principled formulation to the role of the National Front as the political expression of the united bloc of the working people of both the cities and the countryside. It emphasized the role of national committees and the state administration, of the school system and other educational institutions. It outlined both immediate and strategic economic goals. Of historic significance was the program for the countryside's transition to socialism. Principles of our foreign policy were promulgated, consistently based on our active participation in the struggle for peace, and our alliance with the Soviet Union and the countries of People's Democracy was affirmed. Our interest was not to isolate ourselves from the world but rather the opposite. As it said in the conclusions of the Congress report, "...as far as others are concerned, we have only one wish: that they cease to meddle in our internal affairs and rather meet us halfway in our effort to develop honest commercial and economic relations on the basis of equal rights and without discrimination."

It wasn't easy to carry out the new policy adopted by the Ninth CPCZ Congress. We had to learn how to govern the State, the factories, banks, commerce, education—the whole lot. We were going through the "Cold War" period, being forced to insure the defense of socialism. I recall the time when I was working in the western border region, when every exacerbation of the international situation evoked unease and insecurity on the part of that region's population. With pleasure I also recall the courage of the people who in those corners of our land worked to restore life and to build their homes.

The situation naturally had an imprint also on the profile of our national economy. It forced us to build up the heavy industries oriented toward defense, but also to

render international assistance to those people's democratic countries which embarked on socialist industrialization. But similar problems were faced also by Slovakia and other regions of our Republic.

Our agriculture has undergone tremendous change. Its transition to cooperative and socialist forms of management constitutes a victory of the party's farm policy. Two classes of our society have emerged—workers and cooperative farmers—whose mutual support and unity of goals exert the main influence on shaping our present socialist life.

We have gone through a great deal. The capitalist world applied toward us innumerable embargoes, restrictions, discriminatory measures. Despite all the hazards we had to surmount, our society not only goes on living but under CPCZ leadership has attained the goal of building socialism. This is a tremendous achievement of which we can be proud.

On that complicated road there were also errors and mistakes. The party drew lessons from them and always found a way toward a positive direction. We do not possess any ready-made recipes for life. The road of building our society is one of constant search and creative approaches toward Marxism-Leninism, the revolutionary theory of the working class. In the four decades to which we call attention we see embodied the work of millions of people who deserve honor. They include also those in the world of arts who have understood Klement Gottwald's words at the Eighth Party Congress: "... the masters of culture, science and the arts are becoming increasingly more aware that their place is on the side of the people, that the work they create will be good only when it is creation of the people and for the people." Aren't these words food for thought today as well?

The Ninth CPCZ Congress constitutes a topical legacy for the present moment as we embark on preparations for the Eighteenth CPCZ Congress, a programmatic one in its conception because we are entering a new stage in socialism's development. This stage is characterized by combining social revolution with a scientific-technical revolution; it is a social restructuring focussing on the human factor. The people are the principal shapers of history. The issue now is to raise higher the gates through which flows humanity's progress, so as to make it flow faster.

### The Base Is Economics

The present model of national economic management has fulfilled its role but also has exhausted its possibilities. We are undertaking a radical restructuring of the economic mechanism, which we regard as a profoundly revolutionary step comparable with the historical milestone of the Ninth CPCZ Congress—a congress heralding the start of socialism's construction. It will require of us new thinking and new approaches. Throwing off everything that could be a brake is a condition of success.

We know that the struggle against habits, inertia, indecision and sluggishness will not be easy. We have to substitute economic management for administrative direction, learn to be independent in the factory sphere, manage according to the self-financing principle, pay heed to society's interest, liquidate the producer monopoly, shift the economy from an extensive to an intensive type of development, raise the quality and effectiveness of the national product, give the highest respect in it to the human mind, newly organize the role of a unified national economic center.... All this will not be a simple process. But we must embark on it; there is no other way. And it is exactly in this direction that preparations are under way to put the new economic mechanism comprehensively into effect as of 1 January 1990.

Changing a system of management by allocation and egalitarian distribution and shifting the economy to a merit principle is a task of monumental proportions. Right now party organs and organizations must at the same time work to assure that the goals of this and next year are met (this also is a condition for a successful transition to the new economic mechanism), as well as monitor closely how the economic sphere is preparing for the new management system. Communists in management must be led to accept responsibility for preparing the transition to the new economic mechanism. There is no room here for laxness and toleration because the task is really serious. It involves the basis of society: the economy which determines the formation of the nation's wealth. In the final analysis, it also determines the level of distribution processes and thereby the standard of living.

Experience shows that the degree of preparedness in the khozrazchet sphere has been uneven so far, while the clock has been ticking inexorably. Concern for the conduct of enterprises and their preparedness for the new conditions must be shared also by the ministries. They cannot just tell the enterprises: "You wanted independence, so now show what you can do." Communists in the ministries bear full responsibility for the whole sector's preparedness to handle new tasks. It is by no means idle talk if we raise the possibility of conflicting situations. They will occur and their intensity will be greater if the enterprises' readiness to adopt the new management system is underestimated. Thus far we cannot be satisfied with the progress in introducing intraenterprise khozrazchet, forming intraenterprise structures and delineating their rights and responsibilities. Slow progress is noted in reshaping wage policies to strict connection with merit; efforts to strengthen management tools to assure quality of production and products are stagnating. Preparation of enterprise forecasts including internal structural changes, technological and product innovations is lagging. There still exist a number of nonrational approaches to production management; we will not be able to do without forecasts of enterprise participation in the socialist and international division of labor, growth of cooperation and specialization, as well as establishment of joint enterprises. Integrative

economic processes are permeating the entire world. We must find our active place above all in CEMA. Of course, this does not mean that we are closing ourselves to the rest of the world. There are many thoughts that one could pursue. But the main thing is to see in our enterprises busy activity, devoid of all kinds of theatrics and dominated, above all, by good judgment and reason.

We must again see what cadres we have deployed and prepared to handle the task. This is by no means a negligible matter. We are taking a major step into the midst of unimaginably complex macro- and microeconomic relations. This alone places a heavy burden of responsibility on each of us. A key role, of course, belongs to the macroeconomic center and the entire managerial axis. In unison with this main task we are also proceeding along the road of deepening socialist democracy. Here too we find continuity between our present actions and those outlined at the Ninth CPCZ Congress.

#### Living Traditions of the National Front

The significance which Klement Gottwald accorded to the National Front is generally known, as is the attention he personally paid to its place in our society's political structure. The decades of building our socialist society have confirmed the unique and functional value of this political union. Democracy has a tradition in our country. And it is wrong for some people to describe our system almost as completely denying room for participation in management and administration, for promoting interests beneficial to both the individual and society. It is precisely the political system of the National Front which offers wide room for such participation. But we must quickly return to Gottwald's concept of this platform of democracy. And that means cleansing it of the encrustation of administrative work styles, of all manifestations of formalism.

The road of deepening socialist democracy in our country will not be combined with any political intrigue. We will offer no room for the ambitions of groups wishing to turn politics into an arena of struggle for power. No opportunity will be given to anyone wishing to embark on a road of disrupting the basic political values of socialism. We will not take the path of dismantling the political system but rather that of strengthening it. We will continue along the road of socialist democracy which brings together the interests of all who regard the fate of socialism as their own.

We are adopting important measures designed to extend the people's participation in management and administration. Work is in progress on the draft of a new CSSR Constitution, on a new election law. Amendments are being drafted to a whole set of other laws—the entire area tied to the deepening of socialist democracy is in motion. The goal is to strengthen the foundations of a law-governed state and to engage the interest of the broad masses of the working people in the progress of

socialism in our country. An important role in the process of deepening socialist democracy belongs as always to the active councils of work collectives in state enterprises; the Revolutionary Trade Union Movement has an insupplantable role as the largest mass organization of the working people which has always held an important position in the country's political system and whose glorious revolutionary traditions predestine it to play one of the most important roles at the present time. Equally we must see to it that the Socialist Youth Association become a genuine spokesman for the young generation, promote its interests and embrace the restructuring as an historic opportunity. The jurisdiction of National Committees—organs of the people's local government—is being expanded. Here again one could recall Klement Gottwald's words at the Ninth CPCZ Congress which are still topical today: "Through the medium of National Committees we want more and more citizens participating in public administration, so that public administration becomes tied as closely as possible with the people, so that the people will not serve the authorities but rather the authorities serve the people."

In each link of the political system, thought must be given to ways of improving work, ridding it of formalism and bureaucracy, "humanizing" and subordinating it to the criterion of usefulness, and, above all, considering the benefit of the entire society. Functionaries of all structures of social organizations are expected to work in a creative fashion, rather than wait for direction. They should constantly search for styles of work that would sustain a full-blooded life in the basic elements of their organizational structures. Decisions on what the goals are should be made in factories, at construction sites and in the fields. On them above all is focussed the attention of central, kraj and okres organs. This applies fully to the party itself. Its foremost duty is to further strengthen the leading role of the working class in society, to devote full attention to it. This means also that enterprise social programs are not underrated, that improvements are sought in the culture of work and the work environment, that the package of measures for the care of workers and the young generation of the working class is continually improved, and that working class representation is increased in the elected organs of the party, the National Committees and in the ranks of deputies. It is the working class which in close alliance with cooperative farmers and the intelligentsia fulfills the historical role of its mission predetermined by history. Comrade Gottwald never failed in his attention to working class life and turned to this class especially with the most complicated tasks. We are doing so at a time of great changes which are nothing short of revolutionary in their nature.

#### Communists at the Head of Revolutionary Changes

The party has adopted a program of restructuring to which, as we say, there is no alternative. We are turning to all honest people in the belief that by a joint effort and under the party and National Front leadership we will

achieve the goals. The new stage of the revolution calls for revolutionary approaches, a dose of enthusiasm and optimism especially from each Communist. The party is the guarantor of restructuring.

When today we are considering the topical value of the Ninth CPCZ Congress for the present time, then as now it was the party acting as the main program leader for the building of socialism and the organizer of social changes. Lessons for the party from 40 years ago are of great significance for today thanks to the depth of their content. Just remember how often we recall Klement Gottwald's words "Face toward the masses" and how often, alas for our own comfort, we underestimate their significance. Yet it was the incredible political work of hundreds of thousands of Communists who, regardless of the time spent, selflessly fought to push through the party line, to win over the nation's majority, to socialize the countryside. Communists were in the lead of the shockworker movement, a generation of worker managers played an outstanding role. It was a magnificent time full of revolutionary enthusiasm, high activism, of strong action unity of the party—a time that raised a number of outstanding political and managerial cadres deeply devoted to the ideals of socialism, to the working class and the Communist Party.

With the help of the working people, without whom no success would have been possible, we have managed to surmount all hurdles and proceed on the road ahead. The legacy of the Ninth CPCZ Congress commands us to regard as a permanent attribute of our work contact with the people, knowledge of their life and problems, incessant effort to convince and win over the masses for our policy which seeks no goals other than the interests of the working man. The best agitation for socialism and the fulfillment of our programs is the personal example in the work and life of Communists. Again let me recall the epochal time of the shockworker movement. I know many comrades who have preserved to this day their shockworker book as a symbol of that time and recall excitedly the years of their exemplary work.

The ninth session of the CPCZ CC had on its agenda the place and role of the party in the restructuring process. We really must change many things, each of us starting with himself. The urgent command of the time is that we go into battle for the realization of party decisions, that we do not lose the revolutionary perspective, offer our personal example as a guide for the development of workplace and civic activism, fully live the life of a Communist-revolutionary. It was never easy to carry on the role which derives from membership in the vanguard of the workers class. It is even less easy during times when we are experiencing some difficulties. Such times bring to the fore also the person's character. In his address to the Ninth Congress Comrade Gottwald said: "What applies to the party as well as each individual is: In success and victory, we do not slack off! In failure and defeat, we do not lose our heads!" These are wise words. Those who have voluntarily tied their lives to the life and

mission of a revolutionary party have indeed assumed great obligations. But let it be said that devoting one's life to service for the working class, the people, socialism and progress is the noblest of human vocations. The vast majority of Communists are industrious, conscientious, exemplary people.

Of course our ranks include also those who should think seriously about themselves and answer the question how they want to be of benefit to the party and publicly defend the honorable name of a Communist. Each of us can find an example in those who had gone through the fire of class struggles, the hell of the concentration camps, who built the foundations of socialism and never betrayed it. They merit our respect and gratitude. We must open up our political life. This is desirable and necessary. Kraj and okres committees as well as the base organizations of the party must turn to the public, request people to express their views on the issues we are currently tackling. No problem of significance and its resolution should be handled without a wide discussion with the workers and in localities with the citizens. Argument against argument, tolerance toward the opinions of others—this is the way to search for optimum outcomes. It is not right to turn inward. Often times people don't even know what, for instance, we discuss at membership meetings of the party base organizations. At the same time we rack our brains what to do to assure that targets are met in factories, services function in localities, National Committee structures perform their duties, and so on.

We discuss the people's living conditions and how to improve them. There is nothing to keep secret; on the contrary, we need to engage the working people's interest in those concerns that we ourselves share. The same goes for information. Why does it sometimes take so long to percolate the agenda of CPCZ factory organizations' membership meetings and their conclusions among the work collectives? Paradoxical situations have occurred in some places. The public learns what was discussed by the CPCZ Central Committee, but workers in factories don't find out what the Communists among them did. Everyday work in the masses, open policy, providing information—these are the ways which can only enhance and certainly will enhance the party's natural authority. Only in this manner can the CPCZ factory organizations become the real political centers of work collectives. And this is what matters.

#### **The Revolutionary Nature of Present-Day Developments**

It turns out that also the new party organs—party committees in state enterprises—will benefit the restructuring process. They are finding their niche in carrying out the party's policy, which was confirmed in the recent consultation organized by the committee for party work in the CSR. The democratization process impacts also on cadre work. We are applying more broadly and effectively the secret election method and preparing

alternative methods for the leading functions. It is necessary that we turn more frequently to the collective and ask for their views of the work of nomenklatura cadres. We accept the principle that cadre plans should be commented upon not merely by the committees of the CPCZ factory organizations but rather by the membership meetings. There is also a need to entrust functions to more nonparty people and members of other political parties. Cadre work has, of course, its own criteria. These must be honored and, in addition to political and expert qualifications, it is necessary to weigh also the moral and character qualities of the person. We are adopting a desired division of labor, avoiding substitution for economic and other nonparty organs in the interest of raising their competence and responsibility. But that does not mean that we are leaving aside our concern for the economy and other sectors of social life. By political means, by ideological, mass political and organizational work we will exert influence so as to increase the management sphere's responsibility for the meeting of targets, encouraging people's initiative, establish relations of mutual cooperation based on exactness and initiative in the fulfillment of tasks, create a climate for creative work.

In the scale of society's moral values we must restore above all an honest attitude toward work, show respect for those who stand out, as well as offer material and moral sustenance. The right of party control should be utilized much more strongly as a tool to call to account people who cause damage to society (shirk their duty in various ways) only because they find it hard to think and relinquish their comfort. There has already been far too much talk. We must finally get to the point where deeds are of the essence, the work results of each of us regardless of his workplace or profession. The party itself must undergo the process of restructuring and master the work style that time and restructuring demands. In Klement Gottwald's words, it means "leading the entire membership in an active struggle for the party policy and its practical implementation. He who fails to defend its policy and avoids polemics is not a mature member of the party." New party statutes are in preparation, reflecting the spirit of new demands being placed on the party and the new stage in the building of socialism. At issue are the rights and duties of members, extension of intraparty democracy, the principles of criticism and self-criticism. Furthermore, the current discussions with Communists should of necessity lead to a strengthening of the party's unity and action capacity.

The party is utilizing the entire period of preparations for the annual membership meetings, conferences and the Eighteenth CPCZ Congress to mobilize its own forces and the forces of society toward a speedier resolution of problems and shortcomings and for preparing the transition to the new economic mechanism. It is continuation of the work begun at the Ninth CPCZ Congress. That the people are supportive of restructuring and the policy of the CPCZ has been confirmed also by the CC CPCZ Presidium's Proclamation on the 41st

anniversary of Victorious February. Tens of thousands of voices which joined the resolutions passed by party organs, National Front organizations and work collectives express a determination to meet the targets and equally a wish to be able to work in peace. They condemn provocations by hostile forces, acts of pressure, and categorically demand establishment of order. We value these viewpoints. They are expressive and convincing against the handful of people posturing as the "conscience of the nation." Much of this has a striking resemblance to preparations for 1968. Today however we will resolutely defend socialism.

For restructuring we draw inspiration from the experience of the fraternal CPSU and the Communist Parties of the other countries of our community. Similarly as in all countries of the socialist community we are giving thought to the ways in which we can make better use of socialism's advantages and reinforce its prestige both at home and in the world. We proceed along a road which respects our specific conditions and needs, as Klement Gottwald has taught us.

The tactics and strategy of building a socialist society adopted exactly 40 years ago at the Ninth CPCZ Congress remain topical to this day. We seek inspiration and lessons in them also at present when we are striving to find new ways and approaches. In doing so we proceed from the generally valid tenets of Marxism-Leninism's scientific theory, as well as the peculiar and specific conditions operative in different stages and countries. We are taking untrodden paths but building on solid foundations of the great work accomplished by the previous generations, whose front ranks were formed by Communists. This realization, this revolutionary continuity imbues us with justified optimism and determination, with certain faith in the creative capabilities of our people.

To preserve and develop this great work is for us our historic responsibility.

## HUNGARY

**Party Secretary: A Secondary Occupation?**  
*25000269b Budapest NEPSZABADSAG in Hungarian*  
*5 May 89 p 4*

[Text] A new feature has emerged in recent weeks: at party meetings district, and even country, party first secretaries have been elected as social officeholders. At Angyalfold they elected the president of Ganz Danubius, in Tolna County the director of the Szekszard Teachers' Academy was named. We asked MSZMP [Hungarian Socialist Workers' Party] CC [Central Committee] spokesman Emil Kimmel to tell us whether this arrangement is viable.

"The idea that someone performs the duties of an elected party official in the form of social work is not new at the MSZMP, as long as that person can fulfill that function

also in his regular job. During the past decades the traditional areas where this practice evolved were party organizations in workplaces employing primarily members of the intelligentsia. They used this method in regard to party committees in hospitals, universities, educational institutions and health care facilities. Thus, for example, the party committee secretary's function is performed in this manner at the Peterffy Hospital and at the Newspaper Publishing Enterprise. Their work is supported in whole or in part by a completely independent party associate. Thus the secretary can practice his profession as a physician or as a journalist.

"This method was not characteristic elsewhere until this spring. But democratization of the party broadens the opportunity for the increased use of this form. They used this method at the Electrical Industry Enterprise, and as you pointed out in your question, also in cases involving district and county party first secretaries. Similar solutions are planned for application elsewhere. I believe that one of the secretarial posts at the Salgotarjan city party committee is filled on the basis of social work.

"These are interesting new initiatives to be encouraged. They are forms which enrich the party movement. Their growing number serves to prove one of the very important lessons learned during the past four decades: Neither in society, nor in party life are there forms or organizational solutions which could be regarded as the only road leading to salvation.

"I believe that this can be a very important means by which the party can be made more socially oriented and the party's character as a movement can be broadened. This is so, even if in the present situation, in the midst of intensive political public life, the leadership of a county, district or any larger party committee requires a whole man more than ever before. Those who take it upon themselves to perform pioneering work in this regard accept a tremendous burden. In order for them to produce results, they need much help also from the managing centers, of course. Nevertheless they should be receiving their greatest support locally, from the party membership, the party body and from the party apparatus.

"There are, of course, also illusions attached to these new forms. Some believe that this is the way one could break once and for all with the past, and with apparatus rule. Quite obviously individual, personal, existential, trade and professional considerations also play a role.

"This solution expresses well the intention which constitutes an important part of the party's renewal, and which is an indispensable condition for democratization: that an intertwining of, an overlapping of personalities in party apparatuses and party bodies cease to exist. We need smaller, more effective apparatuses capable of servicing party bodies, primarily by ensuring the availability of conditions needed to render political decisions."

## ROMANIA

### 'Idyllic' View of Socialism Refuted

27000063 Bucharest ERA SOCIALISTA in Romanian  
No 4, 25 Feb 89 pp 9-12

[Article by Assoc Prof Dr Petru Panzaru: "Forging and Perfecting the New Order—a Lawlike Expression of Historical Progress"; first paragraph is ERA SOCIALISTA introduction]

[Text] Nicolae Ceausescu: "Socialism, which is a young society, represents the new, the future of mankind. And in order for it to be truly revolutionary, we must look at everything that is new, we must look ahead, we must have complete trust in socialism, in communism, which represent the future and the golden dream of all mankind."

We live in the most complex era in humanity's entire history. Never have so many difficult problems (which have also gotten the name "global problems of mankind") piled up and spread, never have so many dilemmas, gaps, and contradictions existed as in our era. Never has mankind had such great material, scientific and technical, and institutional possibilities; never have such strong advanced social forces existed to provide a free and dignified life for all the inhabitants of our planet; and at the same time, never has it known more serious, ultimatory dangers and threats as in this close of a century and millennium.

We live—it may be said—in the most political and politicized century in humanity's entire history, during which, as is well known, politics—from ancient times to our days—has decisively left its imprint on the fate of mankind, of nations, and of individuals. The lawlike, objectively necessary succession of social orders has indisputably registered progress on all planes of life, as well as continual growth in the role of the political factor, which—owing to the effects of the socialist and national-liberation revolutions and of the affirmation of the new scientific and technical revolution—has reached higher stages. Now more than ever, the orientation of activities in all fields of social life, from economic to cultural, and the destinies of nations and of the world community depend on the strategic and tactical decisions of policy-makers, governed in their turn by interests crystallized and diffused by ideologies.

The picture of the contemporary world is extremely complicated and diversified, and the rapidity of the changes is ever greater. However, this does not mean that the picture cannot be understood and the complexity cannot be "mastered," that history—interpreted scientifically as a lawlike succession from one economic and social formation to another—would not have a direction to its evolution—namely that of the transition from an inferior order to another, superior one, and that "the arrow of historical time" would not head toward the future and would make a deplorable return to the Middle

Ages, for example. The capitalist order followed the feudal order in a lawlike, necessary manner, although not all at once and identically in all areas as Marx demonstrated with scientific rigor. However, being an order also based on private ownership of the means of production, on the law of maximum profit, and on the division of society and of the entire world into a possessing, privileged, and rich minority and a dispossessed, underprivileged, and poor majority—despite the progress that it has brought with it—it has not been able, of course, to become the "end point" of historical evolution. The bourgeois society has generated and—despite appearances—is continuing to generate the causes of its own replacement, the causes of "the surrender of the mandate" to a new, superior social order, readied for a long time by history, but impossible to establish automatically, spontaneously without any obstacles, the socialist order, a result of socialist revolution.

It is notable that the adversaries of this order have predicted its "failure" ever since its appearance 7 decades ago. However, what has become of the assertions and predictions of the imperialist, reactionary circles about the "illegitimacy" and "failure" of socialist revolution and construction? Exactly what had to become of the predictions and hopes of those who oppose the inexorable course of history: They have been, purely and simply, invalidated, shattered by the natural, objectively determinative march of social development, by the inevitable, necessary course of the replacement—through revolution—of a historically outmoded order by another order, to which the future belongs, namely socialist and communist society.

### Antisocialist Propaganda and the Objective Laws of Historical Development

The necessity and inevitability of socialism, determined by the system contradictions and crises of capitalism, do not represent a purely ideological matter and, all the less, a mere subjective wish of an emotional nature. It is a question, first and foremost, of a matter inscribed in the rigors of objective social determinism, in the rigors of scientific language. With good reason, Comrade Nicolae Ceausescu, in the speech on 28 November 1988, pointed out that "even a brief scientific analysis demonstrates with the power of the undeniable facts that capitalist society, which has undoubtedly had an important role in the development of civilization, can no longer solve the complex problems of today's world—political and social problems—can no longer give a clear perspective to the working people, to the peoples, that, historically, socialism has the mission of securing the achievement of a new society that would solve the complex economic and social problems in a new way, providing full equality in rights among all citizens of the respective countries, without any discrimination, the achievement of a world in which each people, each nation may secure its well-being and happiness in complete freedom, but also in collaboration with all peoples of the world."



It is more and more evident that the apologists for capitalism, the ideologists of anticommunism, and the open adversaries, old and new, of socialism do not have (nor, in fact, could it be expected of them) a sense of history. This is demonstrated by, among other things, the fact that while they they accept that mankind developed and progressed over the historical eras prior to capitalism, they no longer accept, for anything, the idea, that is, the fact, that the capitalist mode of production is being—has even already been—replaced, inevitably, by a superior mode of production and society, as an expression of objective requirements and laws, of the very logic of history, which coincides with or derives from the logic of social progress.

In contradiction with the very logic of history, the bourgeois ideologists present things as if the capitalist order (which, in fact, avoids calling itself such, preferring terms meant to conceal its class essence ("postindustrial society," "information society," etc.) which would be the final (and ideal) point of social evolution, as if this order—undermined by an irreversible general, system crisis and filled with antagonisms, generative of malformations and serious threats to the human condition in general—would be eternal, given forever; as if history and mankind have exhausted their imagination and are no longer able to create another type of society, radically different from and structurally superior to the capitalist society.

The current antisocialist and anticommunist ideological campaign is, in fact, directed against history itself, against its laws and logic. The appearance, consolidation, and development of socialism in the world—not only as an ideology but also, in particular, as an economic, social, and political reality with cultural value; the considerable reduction of the range of existence of the capitalist order, and the choice of many former colonial countries for noncapitalist ways of development are the expression not of any accident of history, are the effect not of any voluntary act or any act of military force, but the natural, necessary result of the objective social laws, which—through the conscious activity of the people, of the social classes, of the political forces and personalities—cause qualitative, revolutionary leaps. As Comrade Nicolae Ceausescu stresses, all social development confirms, in the spirit of the revolutionary view of the world and life, the fact that "in a lawlike way, regardless of the obstacles and difficulties that can appear, mankind is headed with firm steps toward the classless society, toward a society of justice and equality among nations."

There continues to exist in the world, however, the old capitalist system, with its policy of domination and oppression, with its ideological and propaganda apparatus, which is concentrating and utilizing many means of manipulation in a new antisocialist and anticommunist "crusade," is conducting an intense campaign of misinforming the public, of distorting revolutionary theory, of defaming the socialist countries and the ideas and ideals

of socialism in general. However, one cannot bury in oblivion the lessons of history, which show that attacks on socialism and communism have always constituted a diversion, an integral part of the exploiting classes' policy of abolishing democratic freedoms, the rights of the peoples, and national independence and sovereignty, and, now, form a part of the policy of intensifying the arms race, especially with regard to nuclear arms, the policy of aggression and war.

The counteracting of the influence of bourgeois propaganda, the energetic combating of the action of misinforming, and the rejection of the calumnies presented by the Western mass media about socialism and our country constitute a complex task with a continual, endless character, with strategic and, at the same time, tactical objectives, and not a short-lived campaign. The firm promotion of the principles of revolutionary theory; the defense of socialism's basic philosophical, political, economic, and ethical values and of national interests; the repelling of the attacks on the socialist order, on our homeland, and on the communist party and the socialist state; and the cultivation of complete, unswerving trust in the great resources and virtues of socialism and in its superiority and viability represent, of course, a central objective of political and ideological activity, of propaganda. In this framework, particular importance is attached to such basic matters of social development as the organization of society, democracy, man's rights and freedoms, the human condition, and philosophical thought and spiritual creativity, in connection with which there is an intense ideological confrontation between the revolutionary and progressive forces, on the one hand, and the exploiting classes and the reactionary circles, on the other hand.

In general, the typical procedure of the Western bourgeois propaganda is, on the one hand, to vindicate the capitalist society, to advertise the "way of life" of the so-called consumer society, deliberately hiding and concealing the economic, political, and moral defects of this society and its structural flaws, and, on the other hand, to paint in dark colors life in the socialist countries, to leave unmentioned their progress and historical achievements, to exploit and magnify the difficulties inherent in radical social and human reconstruction like forging the socialist society and the new man. These are "the two faces of Janus," the two faces of the imperialist propaganda, both trying to conceal, in the guise of "the objectivity of information," "the freedom of expression," etc., the class, partisan character of this propaganda, poisoned by prejudices and dislikes, and its function as an ideological instrument of the bourgeoisie's political power, of the imperialist circles.

The intensification of the campaign of misinformation about and defamation of socialism requires—as our party stresses—the accentuation of propaganda militant and offensive in character as well as the commitment with complete determination to unmask such attempts and actions with the help of the facts, with the entire

power of our revolutionary beliefs and views, and the commitment to point out the great successes and achievements obtained in socialist construction, despite any shortcomings and mistakes, and the viability of the new order.

### **Socialism—the Highway of Contemporary Historical Progress**

Our party conceives the new order not from the position of a triumphant understanding of the processes that occur in socialist society but as a living organism, which develops, which always poses problems, and which also encounters difficulties, some of them resulting from its new character on a historical plane, from the reality of a world at the height of revolutionary transformation. If negative phenomena appear under socialism, they do not result from the nature of this superior order, as the anticommunist ideology asserts. "It is not socialism that has led to some negative states of affairs in one country or another, but the violation of the scientific principles of socialism, the disregarding of objective laws and especially of the necessity of continually developing the production forces—the decisive revolutionary factor for the construction of socialism, as, in fact, for the development of any social order," the party's secretary general says.

Socialism presents itself not as a finished and perfect society, but as an always perfectible one in processual evolution, but on its own economic, political, and ideological bases, on the foundation of the basic principles of scientific socialism. However, there are qualitative differences, differences of principle and purpose, between the often harsh critical (self-critical) analyses made by the entities with political responsibility in the socialist countries, in order to eliminate shortcomings, mistakes, and difficulties, analyses conceived as a means of self-adjustment and self-improvement of the socialist social system, and the "criticism" made by the representatives of the exploiting classes, of the imperialist circles, concerned, in reality, about their future and eager to maintain the old arrangements at any price. This category of "criticism" tries to propound the idea that the socialist revolutions should have led to the creation not of socialist societies, as the founders of Marxist theory predicted, but of some "postcapitalist" societies! This is a quite clumsy attempt to invalidate or exclude, on the one hand, the key Marxist concept of economic and social formation (order) and thus the laws of the transition from an inferior order to a superior one and, on the other hand, laws to nullify or at least to reduce the value of the structural changes already achieved in the socialist countries—of course, by ways, in forms, with means, and at rates specific to each one.

Socialism, as a new and innovative social order, is irreversible, since history itself is irreversible and fashions its future in accordance with the law and logic of social progress. To dispute the legitimacy of socialism—which has not been just an idea, an aspiration, a noble

intention for a long time—means to dispute a viable, multiform economic and social, political, and cultural reality undergoing perpetual development and affirmation of its inherent creative powers, undergoing continual improvement. No matter how inconvenient this reality may be for the forces and representatives of the old, historically outmoded society, it is not ceasing and will not cease to be one of the most important realities of contemporary and future history. This is why the anti-socialist and anticommunist positions are, at bottom, antiscientific and antihistorical positions.

One who judges, without preconceived ideas or abstractly, a priori theoretical schemes, the history of the formation and development of the new, socialist social order from the old one and objectively evaluates the changes occurring in our century on the plane of the economic and social, political, and ideological life of the nations, of humanity, cannot but recognize (as do, in fact, people who do not share the Marxist view) that precisely the appearance and development of socialism on a world scale have put history "in new terms;" have caused a radical change in the balance of power between the old world and the new world; have opened a true highway of contemporary historical progress.

Long social experience demonstrates that no new society, called into being by history, has instantaneously attained its objectives and affirmed its superiority, both because of the opposition of the reactionary, conservative forces and because of the difficulties that revolutionary, radical changes objectively encounter. Capitalist society itself—which has changed only the form of exploitation of the majority by the minority, the form of state, and the forms of ownership, with the essence of the order based on antagonistic classes and on private ownership remaining the same—has taken centuries to affirm, consolidate, and fulfill its own identity. All the more, the socialist society—qualitatively different from all social orders based on private ownership of the means of production, on economic, political, and ideological domination of the great majority of the population by a handful of privileged—has taken and is taking a certain amount of time to affirm its originality, powers, and superiority in relation to the other social orders. However, to raise, for the first time in history, classes of working people, headed by the working class, to the status of holders of political power, collective owners of the means of production, and producers and beneficiaries of all national wealth represents a principal and essential characteristic of the socialist order's superiority to all orders that have preceded it from ancient times to our days.

Historical and national features, combined with the features of the international situation and events in the period between the two world wars and, in particular, in the postwar period—marked for two decades by a harsh "cold war"—explain both the successes and the difficulties experienced in the evolution of socialism on a world level.

Enormous tribute has been paid to dogmatism, to schematism, to stereotypy, to the theory and practice of the "sole model," of the subordination of national interests to international interests understood as restrictive and expressed in the formula of the so-called touchstone of proletarian internationalism. To this have been added the idyllic image of socialism, the denial or evasion of contradictions—which do not disappear under socialism—the underrating or denial of the essential role of modern science and technology in the construction of socialism—even in the era of the beginning and development of the scientific and technical revolution—the kowtowing to everything that is foreign, the incorrect judgments about the world economy, the existence of "two parallel and opposed markets," the "automatic collapse" of the capitalist system, the artificial division of the world into "two camps," and so on.

To the ninth congress and the party's secretary general, Comrade Nicolae Ceausescu, goes the historical credit for having grasped and deleted the dogmatic views and practices, the incorrect theses and judgments about the essence of socialism and of capitalism in our era, about the contradictions under socialism and among the socialist countries, about the basic contradictions of the contemporary era and the ways to resolve them; for having reevaluated the role of the nation under socialism—and, in general, in our era—with its basic attributes, national independence and sovereignty; for having redefined the content and meaning of internationalism; for having devised our own strategy for socialist construction, corresponding fully to our national features, and a foreign policy in complete agreement with the interests of the Romanian people, of all the peoples, of socialism, of the cause of international collaboration, understanding, and peace.

The correctness of our party and state's general foreign and domestic policy—initiated by the ninth congress and continually developed by the national congresses and conferences in the last 24 years—has been completely confirmed by the facts, by life, by the great achievements on all planes in socialist construction in Romania, by the international events in these years, by the massive, prestigious contribution of our country and President Nicolae Ceausescu to solving complicated regional or global problems, by the firm, principled position adopted by the Socialist Republic of Romania in dramatic situations in world political life.

The evolution of the world situation and the dynamics of the balance of power not only have not refuted but have confirmed in all respects the principled orientations and the concrete positions and decisions adopted by our party and state on the initiative and with the decisive contribution and participation of the party's secretary general and our republic's president. All these things have their foundation right in the dialectical and historical materialistic approach to the phenomena and processes of the contemporary world, in the creative, anti-dogmatic application of the principles of scientific

socialism to the concrete historical conditions of the contemporary era and of Romania. With good reason, Comrade Nicolae Ceausescu, in the report presented at the party's national conference in December 1987, stressed that "looking back at the entire activity of international policy, we can state, even from the high rostrum of the national conference, that we have nothing to disavow in all that we have accomplished, that if it were to happen, hypothetically, that we could repeat our work since the party's ninth congress, we would conduct the same policy, both on a domestic plane—perhaps with better results, if we had the present experience, but we would take the same path—and on a foreign plane, in international policy; we would act in the same way, being convinced that this corresponds to the interests of disarmament, peace, and collaboration, to providing an existence without weapons and wars on our planet."

#### **The Firm, Consistent Application of the Revolutionary Principles—the Only Viable Way**

The construction of socialism in our country and the successes in this complex work are regarded by our party as a constituent part of the general process of forging the new, superior order, as a contribution to the cause of socialism, peace, and progress in the world. The great achievements obtained by the socialist countries—which, in general, at the start of socialist construction, were poorly developed countries—demonstrate strongly the invincible force of socialism, the capacity of the working class, of the peasantry, of the intelligentsia, and of the peoples who have overthrown the old social order, to consciously forge the new order, to build a better and righter society, in which the people themselves are the complete masters of their fate. Today, the socialist countries occupy an important place in world economic, political, ideological, and cultural life; 35 percent of the total world production takes place in the socialist countries—proof of the rapid development of the production forces within the framework of socialist ownership relations. Actually, there are no basic problems of the contemporary world in the solution of which the socialist countries may not have a big say, may not make an important, positive contribution.

The picture of today's world, in which socialism represents a prominent reality, demonstrates the failure of the attempts made over scores of years to stop or at least to delay the affirmation and development of the socialist countries, to block the appearance of new horizons for all mankind—the horizons of a society without exploiting classes, without colonial and neocolonial domination, without unemployment, without the malformations of a society based on private ownership, on violence, on social injustice and inequity.

Under the conditions in which, in a lawlike way, socialism is appearing as a society of the future that is replacing capitalist society in an inexorable, historically necessary way, it certainly seems downright odd that, because of difficulties, contradictions, and complex

problems that are confronting various socialist countries, tendencies to turn back, to seek solutions for difficult problems in the past, to doubt and even, sometimes, to abandon some principles and methods of a socialist nature, in favor of some of a privatist, capitalist type, are appearing.

It is well-known that what defines the bourgeois order is precisely the private ownership of the means of production—the objective basis for the division of society into antagonistic classes and for the bourgeoisie's political power, the foundation for the exploitation and oppression of man by man and for social inequity, the main reason for the logical characteristic of the capitalist system: the obtaining of maximum profit for the benefit of the minority through the exploitation of the labor of the majority of the population and the rapacious exploitation of nature. In defining and judging a certain social system, the criterion of the ownership of the means of production is not a secondary, peripheral one but a main, central one. The nature of the ownership turns up in the class and social structure, in the political and legal system, throughout social organization and management, and in the ideological and psychological superstructure. This is why, with the gaining of political power by the working class and its allies, the institution, maintenance, consolidation, and development of the state and cooperative socialist ownership confer identity and superiority on the socialist type of social order, provide to all working people the new status of owners, producers, and beneficiaries, constitute the objective basis for self-management and self-administration and for the entire system of representative and direct socialist democracy, and offer the material foundation for applying the principles of socialist ethics and equity and for raising the people's standard of material and spiritual living.

In a socialist society, the ownership of the means of production is in complete agreement with the social character of the production forces, whereas, in a capitalist society, the contradiction between the two aspects of the mode of production increases, which generates new contradictions, causing the deepening of the general crisis of the system based on exploitation and oppression. This is why our party, as Comrade Nicolae Ceausescu noted at the 13th congress, feels that "socialism and communism can be built successfully only on the basis of the common social ownership of all the means of production by the working people," considering that this form of ownership "constitutes one of the basic and determinative objective laws in relation to other objective laws."

To abide by and comply with the requirements of this law means to continually strengthen and develop public and cooperative ownership, to improve the operation of the economic mechanism conceived and maintained consistently on the basis of the socialist principles of worker self-management and economic and financial self-administration, to properly interweave general interests with individual interests, starting from the necessity

of securing the general development of society. The socialist production and social relations and the entire socialist economic, social, and institutional system, built and developed in compliance with the laws characteristic of socialism, applied creatively from one country to another, from one stage to another, possess great possibilities for self-improvement, for attaining—through united and unflagging efforts by the whole populace, led by the party, and through the utilization of the gains of the most advanced science, technology, and culture—all the economic, social, and profoundly human objectives that confer specificity, originality, and superiority on the socialist and communist order.

The strategic line for improving the entire economic and social, political, and ideological activity, adopted and consistently applied by our party—reaffirmed strongly in the speech in November 1988—is the principled line of affirming the great virtues of socialism, and not the abandonment of one or another of the basis principles of scientific socialism, not the yielding to the pressure of the old society. The solving of the economic and social problems, the overcoming of difficulties and lags, and the resolution of contradictions cannot be left to the law of supply and demand, to the weakening of socialist ownership, and thus, a hybrid socialism, that is, the so-called market socialism, cannot be conceived. As the party's secretary general says, "The transfer of the means of production from the hands of the working class, of the people, regardless of how, means an activity that is equivalent to eliminating the bases of socialism in the development of society.!"

Our party has stressed strongly that it is not possible to leave the development of society to chance, that the improvement of socialism and the application of the requirements of its objective laws must lead not to the weakening but to the strengthening of the role of socialist ownership and of the sole national plan, not to the atrophying of the state's functions but to their fulfillment under the conditions of wide socialist democratism and mass social control, not to the reduction of the role of the working class and the party and of the management of all sectors of activity by the party but to the continual growth of this role, without which the successful construction of socialism and communism cannot be conceived.

An objective judgment, based on the data and facts of reality, on a sense of history, leads to the conclusion that socialism has really provided the masses of working people, all the generations, with working, living, and educational conditions unmatched by those in the old order. Socialism has raised the working class, all those who work, to the rank of masters of their own fate, and the nation to the rank of a free, independent, sovereign nation, creator of an advanced civilization and culture that only the communist order can invent and institute by virtue of the inexorable laws of progress.

This is why neither the difficulties, obstacles, or shortcomings nor the mistakes made in one country or another, in one stage of socialist construction or another—some inherent in so complex a revolutionary work, achieved in such a short time and under extremely difficult conditions, created by the imperialist circles, by the reactionary, antisocialist and anticommunist forces—justify under any circumstances the loss of trust in the virtues of socialism, in its future, in the correctness of the revolutionary view of the world and life, of scientific socialism.

One person or another can be tricked, but history cannot be “tricked.” Historically speaking, capitalist society, despite the resources that it still has, represents the old, with its replacement with a new society being inevitable. Although it has existed for hundreds of years, capitalism has proved—owing to its very nature as a society dominated by exploiting, privileged, egoistic classes—incapable of solving the basic problems of persons, of peoples, of peace. Moreover, owing to the policy of imperialist, colonialist domination, the economic and financial policy of pillage and exploitation, the world is divided into the rich and the poor—at one pole, a small group of rich capitalist countries and, at the other pole, the majority of the world’s states, more than two-thirds of mankind, which lives in poverty and misery.

Although it has existed for only several decades, socialism is solving in a new way, for the masses of people, their vital problems of work and life, has strengthened and propelled the forces of progress and peace, is actively militating for a world without weapons and wars, for international collaboration among all peoples, to safeguard peace and life on earth, to preserve and enrich the heritage of contemporary civilization.

With good reason, Comrade Nicolae Ceausescu said, in the speech given on the occasion of celebrating his birthday and his long revolutionary activity in January 1989: “We have complete trust that only socialism can provide true equality among people—both social and national—and create conditions for affirming the human personality, so that each person can utilize, in close collaboration and unity with his fellow men, his creative aptitudes in any field of activity.”

As a new and innovative society, socialism stimulates individual and collective creativity, for the purpose of social and human improvement, utilizes the talents and creative energies of all categories of working people, and engenders a new mode of social thinking and action, at the high level of the requirements of contemporary science and culture. Because only a person with thorough vocational, scientific, technical, and political training, with a high level of culture, who constantly learns, can affirm and utilize his qualities, his creativity, and thereby his personality. Trust in the creative virtues of man is, under the conditions of our society, trust in the

virtues of the socialist order, a society forged by people and for the people of today and tomorrow, a lawlike expression of historical progress.

## YUGOSLAVIA

### President of Croatian SAWP Conference Interviewed

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[Interview with Marijan Kalanj, President of the Republic Conference of the SAWP (Socialist Alliance of Working People) of Croatia, by Zora Koprivnjak: “I Believe Reason Will Prevail”; date and place not given]

[Text] Although for decades it has been known as the “mass sociopolitical organization of working people and citizens par excellence,” even its most enthusiastic activists will admit that the Socialist Alliance of Working People has rarely played the “starring role” on the political stage.

It is only with the universal social crisis—and the inevitable process of democratization—that the front has begun to take on the role in the political system assigned to it by the Constitution. The tasks that entails are numerous and complex and demand a fundamental transformation of the Socialist Alliance—from its charter and rules to its political methods and style of operation. For it is indisputable that the Socialist Alliance’ work has not hitherto been successful in mobilizing the broad masses nor in ensuring that all those wishing to show initiative are able to do so, although certain shifts have been noted recently in this regard as well. We discuss all this with Marijan Kalanj, President of the Republic Conference of the SAWP of Croatia, first and foremost because the “new currents” have already been felt for some time in the Socialist Alliance of Croatia.

[VJESNIK] One gets the impression that the Socialist Alliance is more and more capturing public attention. How do you explain this fact?

[Kalanj] Compared to the intended model of how the Socialist Alliance was supposed to operate, which is affirmed by the Constitution, a great deal was watered down, distorted, and alienated both inside and outside the alliance, much continuity was lost or unnecessarily confused, and the fundamental issues of the operation and further development of Socialist democracy were unjustly pushed to the edge of society’s attention. Even today this is still occurring, admittedly to a lesser degree.

For that reason, I am inclined to believe that the increasing political interest in the Socialist Alliance should be interpreted as an expression of the real need and striving for further and more rapid democratization of relationships in our society, for overcoming the current crisis, and introducing radical reforms in our sociopolitical and economic system—because it would be an illusion to

believe that we could accomplish anything in this regard without the broadest possible support from working people and citizens, without a qualitatively different relationship to everything that constitutes our fundamental freedoms, rights, and obligations.

[VJESNIK] You mentioned reform. Do we really have a thought-through plan for reform and is it adequate for concrete political action?

[Kalanj] We are filled with optimism at the realization of that which we have accomplished so far and which has shaped the constitutional amendments, the documents of the LCY conference, the LCY Central Committee plenums, and the program of the new Federal Executive Council as the basis for overcoming the crisis situation in vital sectors of our common life and labor. But it will be possible to implement those programs and plans only if we achieve the necessary degree of unity and ensure everyone's creative cooperation in all areas of labor and life throughout Yugoslavia. We never tire of pointing out and insisting that that will be the starting point and central point of all social activity in Yugoslavia—the key that unlocks a better future for us.

The fundamental position in all this is that the whole program for overcoming the Yugoslav crisis must be a striving to achieve social development of a type which will balance desires and possibilities, which has realistic goals, which affirms cooperation and does not discourage differences, which has sufficient Yugoslav democratic integrative force, and ensures the all-around development of the SFRY and of all of its people, the equality, brotherhood, and unity of its nations and nationalities. Starting from what we share, from what joins us, from what will enable us to open up the prospects for our own personal life and for our common life—that is the only way to overcome the lack of faith and escape the crisis. Opening Yugoslavia up and eliminating all barriers to the introduction of the reforms is, I am convinced, one of the fundamental prerequisites for the integrative process in Yugoslav society both today and in the longer term.

[VJESNIK] How can we achieve that in practice?

[Kalanj] Since reform means radical changes in the existing system and relationships, we must lay down very precisely the rules of the game and the framework in which this can be worked out and implemented. People's interests and views differ on many issues or are quite contrary. Not all parts of the country are starting out from the same point and they do not all have the same capabilities. All this demands patient debate, argumentation, and analysis but in the end a consistent common plan through which we will achieve not just verbal but real unity. We can accomplish that only in democratic, tolerant dialogue, in mutual respect and understanding. The goal is not for some of us to prove to the others who is more to blame for the current situation—although we must not avoid that—but for all of us as parts and as a

community to escape the current crisis as quickly and successfully as possible, all of us shouldering the same burden and responsibility. That means we cannot constantly go back to the beginning and wear ourselves out on what we have already all agreed on. In carrying out the reforms we must resolve the problems that inevitably accompany them democratically and in common.

#### Fear of the New

[VJESNIK] What does the Croatian SR [Socialist Republic] stand for?

[Kalanj] Our efforts must be directed toward, in the full sense of the word, ensuring the development of the SFRY as a democratic, materially and culturally richer and more humane social community. We therefore stand for the Yugoslavia of Tito and AVNOJ [Anti-Fascist Council for the National Liberation of Yugoslavia]. That means that our basic method of building unity of interests in Yugoslavia must be founded on the interests of all of parts of Yugoslavia, of each nation and nationality. No one can impose his criteria of unity on others in Yugoslavia. In Yugoslavia no nation and no republic can have fewer rights—nor demand more than the others.

That also means that we stand for the free development and full affirmation of all the Socialist republics and autonomous provinces and for the affirmation of all the Yugoslav nations and nationalities, for brotherhood and unity, for mutual national understanding and the rooting out of any national exclusiveness and chauvinism, and for the affirmation of citizens as individuals, of their rights and freedoms as a vital element in the development of the Yugoslav Socialist democratic community.

[VJESNIK] And as regards the Croatian SR?

[Kalanj] In this regard we stand for the development of the Croatian SR as the state of the Croatian nation, the Serbian nation in Croatia, and the nations and nationalities of the Croatian SR as a modern democratic community without regard to its citizens' nationality, sex, and beliefs, for the construction of an efficient, modern economy, for greater motivation and creative labor, a greater role for education and science and for cultural development, for more rapid development of the insufficiently developed parts of the Croatian SR, for the democratization of political life and the development of self-management relationships.

[VJESNIK] The crisis continues to demand its tribute. Have not the fermentation and the various republic-provincial approaches of recent months made us even less able to implement the agreed-on guidelines for overcoming the crisis?

[Kalanj] To some extent they have led to crisis and taken us farther away from a solution. All that fermentation is an expression and reflection of the current crisis. In a way it is all understandable because we cannot escape

from the current situation just with some cosmetic corrections to the economic and political system. We are talking about cutting deeply into sore flesh and making radical changes. Little can be left the way it was or still is at this moment.

In light of this, naturally people are afraid of the new and the unknown but, I would say, to a considerably greater degree people are afraid for their positions, which as a rule were not earned. The reform process will very quickly reveal who has worked well or works well, who has a future and, by the same token, all the things and all the people we not only can get along without but must get along without if we want to move ahead. We have got to get a lot of this off the backs of the working person.

I agree that much social energy has been expended on reinventing the wheel and reaffirming much that we believed we did not need to prove to anybody any more. A lot of that was politicized and dramatized for no reason. We often moved into the area of the irrational, where any possibility of debate and agreement on the basis of argumentation disappears. A lot of harsh words and untruths were spoken, a lot of egoism displayed and little attention to the problems of others. Unfortunately, such fermentation still has not stopped and we are still expending a great deal of time on it. And in our situation any loss of time means further delay in effecting the reforms and therefore a worsening of the total situation. And in addition, we are not paying much attention to how much these quarrels, passions, and unthought-out statements contribute to the erosion of our country's hard-won respect in the world.

#### ABC's of Cooperation

[VJESNIK] Can we call the current debate on what Yugoslavia should be a democratic one? And what in fact should be at the center of that debate?

[Kalanj] Exclusiveness, intolerance, name-calling, nervous and emotional reactions, the failure to use argumentation, etc.—all this certainly has not helped make the debate a democratic one. In such an atmosphere it is understandable that the results of the debate are still far from what was anticipated and necessary. It is a well-known fact that all the nations and nationalities of Yugoslavia made their contribution to the creation of the Yugoslavia of Tito and AVNOJ by their free will and concrete historic deeds, and that the Constitution guarantees them the right to full economic, political, cultural, and national development, life in freedom in the federation as a modern state of equal nations and nationalities, republics and provinces, and in a democratic community of working people and citizens. Each part of that community must be strong but not at the expense of the others and the whole. That is certainly one of the central issues.

[VJESNIK] Are we hearing other opinions as well?

[Kalanj] Because of those who thought or still think that Yugoslavia could take a some different path, perhaps we ought to have laid down the ABC's of our community life by plebiscite: AVNOJ principles, the further development of the revolutionary heritage founded on Socialist self-management and national equality, on the consolidation of the rights and responsibilities of the Socialist republics and autonomous provinces for their own development and for the development of the Yugoslav community as a whole, where each individual, regardless of the nation or nationality to which he belongs, will live and work in equality and freedom.

For the same reason, precisely because of those different opinions, we are determinedly demanding the maximum degree of constitutionality and legality and the creation of all the necessary prerequisites for the successful operation of the legitimate authorities and institutions, for the effective operation of the rule of law. Today that really ought to be the line of demarcation between those who are well-intentioned and constructive and those who are retrograde and hostile in resolving all the issues of our present and future in the Yugoslavia of Tito.

[VJESNIK] Recently we have been seeing more and more of nationalism in its various forms. What led to this escalation and what must we do to effectively defeat it?

[Kalanj] There are numerous causes for the phenomena of nationalism. I would single out some which have facilitated its appearance. These are, first of all, the years of crisis, especially the tardiness in resolving people's existential questions, then there is the strengthening of etatism and bureaucratism, the fear of reform on the part of those losing their privileges, as well as the use of reform as a chance to redistribute power.

Cloaking political programs in national sentiments, the manipulation of them, the arousal of national passions, intolerance and hatred toward other nations, the attribution of special progressive qualities only to one's own nation—all this has always led to situations which are among the blackest pages in our history and world history. All nationalisms are militant, aggressive, destructive, and always dangerous. Their main target—although they have often sworn by it as if by a holy object—is to attack the fundamental achievements of our Socialist revolution, to try to alter and destroy the federal community of equal nations and nationalities. That is the goal of the separatists and of the unitarists and of all nationalists. Naturally the most successful struggle against nationalism is one that removes the causes of it. The consistent implementation of economic and social reforms would constitute a significant step forward, a step toward the defeat of nationalism.

#### Radically for Reform

[VJESNIK] How does the current situation in Kosovo affect efforts to create the prerequisites and climate for the implementation of reforms in the whole country?

[Kalanj] First of all, I would say that stabilizing the situation in Kosovo is one of the most urgent issues in ending this country's crisis. It will still be necessary to invest a great deal of energy, patience, political work, good will, reason and aid in the form of cadres and material resources, etc. to stabilize the situation in that province. Our republic's position on Kosovo is well-known and we are doing everything we can to meet our obligations as effectively and as well as possible, given the human and material resources available.

As for your question, I think that a commitment to reform and a commitment to solving the problems in Kosovo are not contradictory or mutually exclusive. On the contrary, they are closely linked to one another, because one reason nationalism, separatism, and bureaucratism have been able to take on such dimensions is because of that province' lack of economic development and overall retardation. Thus, it is just as necessary to implement economic reforms in that province as in other parts of our country—if not more so. I think it is clear to everyone today that the method by which development has been financed in Kosovo in the past has not proven sufficiently effective and that we will have to look at this situation with a reformist point of view, logic, and parameters. It is in our interest that everyone be equipped as soon as possible to take active responsibility for his own development; therefore we are for the more rapid development of productive forces in the republics and provinces which are not sufficiently developed economically.

[VJESNIK] Our conversation might make one think that the SAWP is discussing only the global issues of society. However, it would be interesting to hear why it is necessary to reform the Socialist Alliance and what the primary goal of that reform is?

[Kalanj] The reform of the Socialist Alliance is the result of the realization of the need to construct a substantively new relationship to the vital issues of the nature, functioning, development, and future of our Socialist self-managing society.

Here, I want to say without any reservation that I am deeply convinced that Socialism as an idea and goal is not in crisis but that we must resolutely eliminate a great deal of what people sought to impose and succeeded in imposing as a value or system of values in our practice and which had begun to move us farther and farther away from that goal. Our practice of Socialism has proved not to be sufficiently immune to the bureaucratic-etatist usurpation of power, the imposition of ideological and cadrist monopolies, the manipulation of nationalist feelings, economic shortsightedness, and the sowing of various illusions about the characteristics of the system, which in that stage of development had no basis in reality.

The goal of the reform of the Socialist Alliance forms a constituent, inalienable part of the announced reforms of our socioeconomic and political system. Both theoretically and practically, the Socialist Alliance can and must contribute radically to that reform effort. To be radical in this case, if I may use Marx' words, means going to the root of things. And for man the root is man himself. Thus we are talking about dismantling all relationships and obstacles that hinder man's taking his fate in his own hands and becoming the measure of all things. It is precisely here that we see the greatest chance for the Socialist Alliance to play a considerably greater role in the democratization of our political life, in accord with its constitutional place and role.

#### At the Center—Man

[VJESNIK] Is the current constitutional framework for the Socialist Alliance' activity an adequate basis for it to carry out its new role and is it implemented consistently in practice?

[Kalanj] The constitutional stipulations concerning the Socialist Alliance contain a specific model of Socialist self-management democracy. The Socialist Alliance is also the framework for the realization of some vital constitutional rights of citizens, regardless of whether they formally belong to it. It is a universal body as broad as life itself. Thus, in this case too the constitutional stipulations concerning the Socialist Alliance are no obstacle to a transformation ensuring a more active relationship, more effectiveness, and greater influence on the solution of all problems at this stage of our social development. The foundations of the Socialist Alliance, its historical roots determine its fundamental characteristics: to operate on the basis of argumentation rather than of power and to keep its doors open wide to anybody who is for Socialist self-management. The SAWP of Croatia is for modernizing the system of self-management relationships in Socialist democracy—in the center of which stands man, his freedoms and rights—and for creating a system in which he will be able to play a vital role in the solution of issues affecting him and society. It is to this that the SAWP must subordinate all of its activity, content, methods, and organizational work.

[VJESNIK] How do you propose to do that?

[Kalanj] I feel there should be no question about the basic guidelines for carrying out this task. We must not turn in on ourselves, on our narrow interests, and make decisions solely about how to reform ourselves, leaving aside all the things that we as an organization ought to do, particularly today, immediately, in these complex and critical moments. It is also clear that we cannot wait for the League of Communists, the Confederation of Trade Unions, and the other parts of the front and other social factors to reform themselves first and only then do it ourselves, because these processes are mutually linked and inseparable. We can only build up and transform



ourselves as we proceed, carrying out our already established functions and tasks in a qualitatively new manner. Look, so many institutional and normative obstacles have grown up in life that when they look at the final shape of a decision, people and citizens are less and less able to see what they struggled for and agreed on as an individual, group, community or organization. They view the entire decisionmaking system as more and more alien. Things have got to be fixed in that regard.

[VJESNIK] Recently you made some changes in the charter of the Republic Conference of the SAWP of Croatia. What is new?

[Kalanj] First of all, the changes in the charter create the prerequisites for building a flexible organization which, instead of rigid fora and working methods, now focuses on the vital interests of our Yugoslav man.

[VJESNIK] What questions will the debate on the further transformation of the Socialist Alliance focus on?

[Kalanj] It is fundamental to establish whether the Socialist Alliance, with the methods of the work it does, can carry on a creative discussion which respects the arguments of different interests coming from the various cultural, economic, and self-management conditions of labor and life of the working people and citizens. Our further development will focus on human, creative, and labor potential, which by virtue of that alone compels us to create the prerequisites for them to find their full expression. Finally, very simply, we must also determine what sort of program the Socialist Alliance should have and what we must do to ensure that it corresponds far better to today's demands and challenges, is more attractive to people, and more adequately expresses the authenticity and autonomy—and thus the political identity—of the Socialist Alliance. It is time for the democratic public to express its complaints and its will in a way that offers a chance for us as an organized society to eliminate weaknesses without provoking a situation of tension, uncertainty, and disorder threatening everyone.

#### They Accuse Us of Intolerance

[VJESNIK] How do you in the Socialist Alliance look on pluralism of self-management and political interests and on the initiative to form political leagues and associations?

[Kalanj] There is no problem at all about political pluralism as a value and we expect that the very process of respecting and working out that principle will make a vital contribution to the creation of a more vital and creative sort of Socialist Alliance. That should be one of the vital mechanisms in our work. As for the initiatives to establish political leagues and associations and operate them within the Socialist Alliance, I have no reservations about those whose goal is to create an economically efficient Socialism where those who produce

material and spiritual value can, without political guardians and intermediaries, dispose of that value and direct it in their own and society's interests. However, as for the initiatives to set up new political parties, I must say two things: first, that the current Constitution does not permit them, and second, that the multiparty system, like our one-party monopoly, represents a step backwards in the process of the genuine emancipation of man.

However, I hold that we must discuss this further in a democratic manner in order to arrive at the solution which will be most acceptable for the present time and for the goals of our social development.

As you know, some of those taking the initiative in setting up political leagues are charging us with what they call intolerance toward others and other views and therefore refuse to cooperate within the framework of the SAWP. On the contrary, we are for cooperation with all those who are actively for economically and socially efficient self-management Socialism, regardless of their ideological beliefs. Everyone who is for the Socialism of emancipated producers of material and spiritual value has a friend and ally in us. Establishing national parties, parties having as their main focus the nation or nationality, would be more of a danger than a benefit. For that reason I am against any party whose program and activities are founded on a single nation.

[VJESNIK] What do you think about the claim that the Socialist Alliance is an organization without a grassroots?

[Kalanj] I would not agree with that view. During the liberation struggle, the era of renewal, and equally in the later stages of our social development, we have achieved very great results in the grassroots in solving a very large number of issues of vital concern to citizens. It seems to me that the problem is somewhat different, namely the insufficient influence the grassroots has on social decisions. There are many barriers which make it difficult for the grassroots to exert effective influence and control, which has had a negative effect on grassroots interest and activity in our organization and in society. We have long talked about the situation, about changing the situation, but people have been too slow to solve the problems.

People do not want to shout into the wind and have had enough of assemblies and meetings where people talk about everyone and everything but no agreement is reached, nothing is decided, no one commits himself to anything. We must move to solve this problem. That is the only thing that can attract people to meetings and demonstrations, revive the SAWP and renew its membership. Because too often in recent years we have "jumped over" the grassroots in making many decisions of importance for our development and for resolving the crisis. Too many decisions were adopted in a rapid and abbreviated procedure or under pressure from narrow leaderships and authorities. Too much of that came

"from above." The leadership of the SAWP of Croatia certainly bears part of the responsibility for that. However, we are aware of that and are determined to reform the Socialist Alliance so as to ensure that what comes "from below," from the grassroots, is not just heard but dominates and receives a maximum of respect, and that the grassroots is given a very clear account of the fate of its proposals. We must also bear in mind what people have long been saying, concerned and honest people who want a strong Yugoslavia, and say that the leaderships should be more united and that we need peace, normal development and progress in Yugoslavia.

#### Protest Against Suvar

[VJESNIK] The Socialist Alliance has a special role and tasks in elections. What are the main points in its current electoral activity?

[Kalanj] We are for direct elections, for the principle of multiple candidates and the secret ballot. Of particular importance are the precandidacy and candidacy procedures, where we must ensure complete democracy in the selection of candidates, accurate information and assessment of their work and accomplishments so far, and the right and duty of candidates—in accord with the sphere of activity of the bodies and organizations for which they are elected—to state their programs and their views of their own activity and of the activity of those bodies and organizations. We will seek to hold down to a reasonable level the practice of holding office as a profession, to strictly respect the principle of limited mandates, and to have cadres go back where they came from after they have performed their elected functions.

Today elections are under way in the Socialist Alliance and we are striving to see that all these principles are adhered to to the greatest extent possible. Also under way are preparations for working out a draft of a new electoral law and of rules for the SAWP in electoral activities for delegate assemblies. Currently, our positions, particularly with respect to direct elections, are contrary to certain stipulations of the Constitution. We will attempt to get these changed quickly; if that is not possible before the upcoming elections, we will take the necessary steps to see that those principles are at least followed in the preliminary procedure under the SAWP's rules.

[VJESNIK] Recently we have been able to read in some newspapers that the Provincial Conference of the SAWP of Vojvodina sent the Republic Conference of the SAWP of Croatia a protest for its failure to accept Vojvodina's comments on the candidacy and election of S. Suvar to the Presidency of the SFRY. What is this all about?

[Kalanj] We still have not received the protest officially. We know about it only what we have been able to read in the press and it certainly is not usual to communicate and write on such important matters via the press. However, if you insist on an answer and if it is true that

they are protesting that, I have got to say that they have lost sight of the fact that we very carefully reviewed the opinion of the Provincial Conference of the SAWP of Vojvodina—as it was our duty to do. That we did not accept their comments is quite another matter: they were not supported with even a single concrete argument that could have raised doubts about Comrade Suvar's candidacy. Thus it is not that we paid no heed to others' comments but that those comments, if they are to be accepted, must be well expounded or argued. Otherwise, we may justly ask whether insisting that such comments must absolutely be accepted does not constitute a violation of our community's elementary norms, a sowing of doubt about the maturity of certain circles, a challenge to their legal authorities' right to evaluate the arguments for and against candidates and the election of candidates to the highest positions in the federation, taking as their starting point their responsibility for their own region and the entire country.

[VJESNIK] Would you like to add anything else to our conversation?

[Kalanj] In the forest of words I would not want people to lose sight of my particular conviction that reason will prevail in this difficult situation and that we will go forward in the end. There is plenty of work for everyone here. Changing ourselves and our relationship toward labor is a vital prerequisite if we are to achieve that. Our problems belong to all of us together and we must resolve them together. Nobody will solve them for us. The First of May, the holiday of labor—on which occasion I extend my sincere best wishes to all workers and citizens—is a good opportunity for us to remember and affirm that.

#### Serbian Writers' Association Document Criticized 28000121a Zagreb VJESNIK in Serbo-Croatian 14 May 89 p 6

[Commentary by Vjekoslav Krsnik: "What Kind of Yugoslavia Is the UKS [Writers' Association of Serbia] For? Interpretations of Democracy"; first paragraph is VJESNIK introduction]

[Text] Although one cannot dispute that the authors of "Srbija i demokratija, juce, danas i sutra" [Serbia and Democracy, Yesterday, Today, and Tomorrow] were moved an honest desire to contribute to the debate on the future of Yugoslavia, the document contains serious deficiencies.

Today in the general climate of democratization we cannot dispute anybody's right to express their opinions and views on the resolution of the general social crisis in Yugoslavia, least of all the right of a professional association like the Writers' Association of Serbia. Two days ago through its executive, the UKS spoke out with the document "Srbija i demokratija, juce, danas i sutra." Still less—since no one has a monopoly on the truth, much less the right to such a monopoly—can we forbid

anyone from expressing his opinion of someone else's opinion. It is only by juxtaposing opinions—and above all arguments—that we can arrive at perceptions appropriate to the depth and gravity of the Yugoslav political, economic, and moral crisis and to its resolution.

Since the document itself carries more political weight than the views of the individual members of the UKS, some views expressed in it deserve attention because we must take the different opinions as the points of view of individuals even though they are expressed in the document. The first general impression of "Srbija i demokratija, juce, danas i sutra" is that it is an ethnocentric view of the Yugoslav crisis. Such views neglect, not by chance, the fact that Yugoslavia is a federative state formed by its nations, which resolved the interethnic question on the basis of the AVNOJ [Anti-Fascist Council for the National Liberation of Yugoslavia] resolutions, which were later developed to deal with the rights of the nationalities, the "members of the national minorities," to use the terminology expressed in the UKS document.

#### Contradictory Judgment

The key passage in the document is certainly the following: "In Yugoslavia today there are two opposed political movements, each standing for a principle of democracy and challenging the other. The movement which stands for political pluralism in some areas of Yugoslavia does not accept the elementary democratic principle of one person-one vote. For some reason this movement views the will of the nation freely expressed in public assemblies as illegitimate, while the movement which views the will of the nation as the basic democratic institution contains among its supporters some—fortunately not all, and we hope not the dominant ones—who dispute the right of that nation to free political association. But democracy consists precisely of the harmonious combination of these two principles."

It is hard to escape the feeling that the authors of "Srbija i demokratija, juce, danas i sutra" are such political illiterates that they expressed contradictory judgments on fundamental democratic principles which even an average law or political science student would find hard to swallow. The authors criticize the movements which stand for pluralism in some parts of Yugoslavia because those movements do not accept the elementary democratic principle of one person-one vote. In the very next phrase they themselves reject that principle of one person-one vote because they say that "for some reason this movement (the one which stands for political pluralism—author) views the will of the nation freely expressed in public assemblies as illegitimate."

If this were not a responsible association like the UKS, it would be laughable to criticize those who allegedly are against the principle of one person-one vote in one phrase and then to reject that same principle in the very next phrase. "The will of the nation freely expressed in public assemblies" is not and cannot in any sort of

conditions and circumstances be accepted as an example of one person-one vote; it can be—and has been—only the negation of it. Nowhere in any kind of truly democratic society is the psychology of the masses or the *mise-en-scene* of the cultural revolution—which in essence were meetings, public assemblies—seen as a category to be reckoned among the achievements of democratic practice in the right of the individual. It is precisely the lack of that fundamental democratic right—which we do see in countries with developed bourgeois democracies—that led "the will of the nation freely expressed in public assemblies" to be used to achieve certain political goals. If we accept the supposition that that is the will of the nation, i.e. of the masses, freely expressed, what has happened to the will of the individual, in favor of whose freedoms the authors of the document come out so strongly? After all, if they are entirely justified in calling for the observance of the democratic principle of the inviolability of civil rights and for the full political, religious, and economic equality of all the nations of Yugoslavia, that presupposes first of all individuals' political right to free political association and determination, and the nation enjoys that right to association with other nations.

#### Weight of Ethnocentrism

That final component of the association of nations in a common state is another weak point in the UKS document. It carefully avoids, as leading Serbian politicians very often do, mentioning Yugoslavia as a federative state. In such a context it is easy to understand grossly oversimplified assertions such as "during and after World War II the new Yugoslavia was formed," failing to mention at all on what foundations that new Yugoslavia was formed. It is obvious that the authors of the document had the greatest difficulty being consistent with regard to the federalistic element in recent Yugoslav history. Despite all the troubles the country has encountered in the past 4 decades, this element has stood the test of a time marked by the awakening of national consciousness and the creation of national rights in the world. Thus it is an outright contradiction when the document talks about Yugoslavia as "a common state" rather than as a federative one and then calls for "the full political, religious, and economic equality of all the nations of Yugoslavia." Starting from each nation's political right to secede, that political right also includes the derived but unmentioned sovereignty of each nation, i.e. the right as a nation to freely associate with other nations.

The demands posed in document are obviously aimed at a different sort of Yugoslavia because it says, *inter alia*: "Today when Yugoslavia no longer is without and in the future cannot be without a significant voice and influence from the Republic of Serbia, the Serbian public demands that the struggle for political democracy in Yugoslavia continue." This "significant voice and influence" can only be interpreted to mean that in the future Yugoslavia Serbia should be "more equal" than the

other republics. This has actually come about, if we bear in mind the retention of three votes in federal bodies now that Serbia has established its control over the entirety of its territory; because it is a contradiction in terms, this is quite incompatible with the "full political equality of all the nations of Yugoslavia." The authors of the document demonstrate the weight of their ethnocentrism, explicitly mentioning the republic only when it comes to ensuring the national rights of members of Yugoslav nations "who live in other republics," naturally including the right to belong to their nation and "the striving of the mother republics to reciprocally respect those rights."

Just to increase the confusion in the interethnic, constitutionally defined relations in Yugoslavia even further, the concluding passage of the document says that the Serbian writers, through their association, see "Serbia as the consistent advocate of civil, national, and political freedoms and social justice in Yugoslavia." Taking

everything into account, it is not entirely clear what kind of Yugoslavia the document is for—a common, unitaristic Yugoslavia or an equal, federative one. That is a serious failing in the document, although we cannot doubt its honest desire to contribute to the debate on the future of Yugoslavia. The authors' misfortune was that they were never able to reconcile two contrary points of view: the desire to speak out democratically and come out for democracy for all the nations and nationalities (which they term national minorities) on the entire territory of Yugoslavia, and the desire to ensure a privileged position for their nation in the future Yugoslavia.

Regardless of how democratically and culturally progressive the other elements of it are, this failing of "Srbija i demokratija, juče, danas i sutra" cannot contribute to the easing of the current interethnic passions in our country.

## HUNGARY

### Background, Implications of Budget Cuts Described

25000307a Budapest HETI VILAGGAZDASAG in Hungarian 27 May 89 pp 4-6

[Article by Gyorgyi Kocsis: "Modified Budget: The Gordian Package"]

[Text] Neither the government nor Parliament can avoid facing the problems swept under the rug when last year's budget was adopted. For the sake of "peace in the family" the then adopted 1989 "soft" budget—the result of a peculiar interplay between the proposers and the approvers it to avoid a breakup—proved to be untenable within a few months. The corrected version imbedded into the government's present package plan will be submitted to Parliament on 30 May.

It seems that Parliament owed the devil the ordeal it created during last fall and winter by virtue of the entrepreneurial profit tax and later, the 1989 budget. It should be remembered that after then finance minister Miklos Villanyi withdrew the entrepreneurial profit tax proposal, representatives voted at the November session to enact the measure into law. The finance ministry produced three alternative budget plans for the December budget debate, but in the end the house of representatives adopted a fourth alternative. At the end of May the government is forced to submit a new modified budget—the fifth alternative—to Parliament. In light of this experience it is perhaps not overly cynical to suppose that a sixth alternative will become law.

The center of the fire around which Parliament and the government are chasing each other is the deficit, of course. Finance ministry chief division head Istvan Nagy pointed out last fall: "Between next years budgeted revenues and expenses there is a gaping 'hole' of 40-50 billion Hungarian Forints (HUF), while the deficit cannot be a penny more than this years maximum of 20 billion HUF" (HVG 5 Nov 88). The finance ministries struggle to abide by this parliament-approved planned deficit level has failed. Many figures were rumored as to just how much the budgetary deficit would be at the end of the year without "detours" experienced in economic and financial processes; nevertheless the government report to be presented to Parliament on 30 May predicts a deficit of 50-60 billion HUF—a figure which leads as straight as an arrow to a 1 billion U.S. dollar (USD) balance of payments deficit.

In more drastic terms one could call what the present Council of Ministers report describes as voluntaristic planning, or, in refined terms: as optimism, when it says: "It was possible to incorporate into the budget several projections having the character of requirements. This was accomplished with the idea that the foundations for such projections (may be) laid in the course of their implementation."

Those who prepared and adopted the plan were inexplicably optimistic in forecasting both last year's and this year's economic performance, moreover they made incorrect estimates also regarding the respective shares of enterprises and the budget. The only excuse they may have is that 1988 was the first, hard to "target" year of tax and price reform, and Parliament already made a decision by the time reality was discovered. They planned on the basis of an earnings income which they later abandoned, and a price increase which they were unable to implement. Then, in turn, it turned out that for the time being the budget could do nothing about the huge subsidized interest payments on housing credits which by this year have grown to 50 billion HUF.

Accordingly, the first quarter of 1989 was long enough to permit the weak footings of the budget to collapse: "quite naturally," revenues did not increase as fast as did expenses. Countless processes exert their combined effects in the extremely complex economic index which shows the growth of budget deficit: runaway convertible currency imports and exports subject to settlement in rubles, the larger than planned growth of enterprise and individual income, and the lower than planned propensity to save by those who earn an income.

Admittedly, the adjusted budget to be presented to the house of representatives next week serves the purpose of putting out brush fires. The government report presents this clearly, in black and white: "In this economic structure, with the economic policy program applied thus far, and on the basis of economic regulatory tools available there is no chance to increase performance and income."

It appears that the Finance Ministry is forced to make a concession at the expense of the deficit. Compared to the deficit level of 19 billion HUF approved in December, the present deficit figure may have reached 29 billion HUF according to the revised budget. The Finance Ministry is waiting to hear what the international financial organizations keenly interested in balance of payment indexes will have to say. According to reports International Monetary Fund [IMF] experts will be present in Parliament during the debate, and will render a decision thereafter as to whether they see merit in the government's efforts. Accordingly, economic managers must, through sweat and blood, reduce the shortage of funds by 30 billion to 35 billion HUF by the end of the year, down to the level of shortage expected, and even this struggle will accomplish only a situation in which the shortfall does not exceed the 10 billion HUF level considered last year as the top limit not to be exceeded. Incidentally, the incurable optimism of planners survived even after so many fiascos. In this instance too, the main proposal had an "A" alternative which projects only a 25 billion HUF deficit if everything goes as planned.

It is worthwhile to note that the people from IMF decide whether to continue granting credits to Hungary not only, in fact not even primarily, on the basis of the

budget deficit. Their interest extends also to the so-called state household budget, which, in addition to the central budget, also includes the budget for councils, the so-called decentralized funds, and the amounts set aside for social security. Compared to the 600 billion HUF central budget, the state household budget amounts to almost 1,000 billion HUF, but even this will not show the outcome of funds managed by the central bank, and by the State Development Institute [AFI] which finances large state investments.

Compared to present expectations, the government is trying to achieve the 30 billion HUF deficit reduction in part by introducing measures to stimulate income by which revenues flowing into the state coffers would also increase, and in part by cutting down on its own expenses. The former category includes increased credit and tax benefits related to convertible currency exports, and the acceleration of administrative proceedings.

Relative to state support of exports subject to ruble-based settlement the ongoing battle between enterprises and economic management continues to prompt the government to assume a cautious attitude. For the time being the proposal limits its "command" to the Ministry of Commerce to the effect that the ministry bar exports over and above the contingents, as well as exports subject to ruble-based settlement not offset by imports. One sentence of the package plan according to which "rules pertaining to individual foreign exchange accounts must be further liberalized" is less specific, but at least it holds some promise.

The present program resurrects a measure proposed in the days of the Grosz government—one that no one took seriously. True, the present program was worked out in more detail. The proposal suggests that commercial banks make an evaluation of business organizations which serve as starting points for the so-called standing in line, meaning the phenomenon by which enterprises tied to each other in the production process willingly or unwillingly become each others' creditors and debtors. According to this program proposal, if a bank were to initiate liquidation proceedings against at least one such "rotten apple," that bank could receive within three months a special 18 percent central bank credit subject to refinancing. The carrot is accompanied by a stick however: banks not interested thus far in writing off bad debts, henceforth will have to charge such debts against their risk contingency reserve account. Not only the banks, but also the internal revenue office, the Social Security Directorate and AFI will concentrate their fire power at indebted enterprises which show no results in the long term, according to the proposal. These institution will examine the extent and term of indebtedness, and liquidation proceedings will be initiated "if the indebtedness discovered at an enterprise may be deemed as long term indebtedness." The proposal does not define what constitutes "long term."

Economists always argued whether it is permissible that the state budget, which by virtue of its character concentrates on short term management, could be financed by selling enterprises. In simple terms this translates into the question of whether the state could live up its own assets. In any event the modified 1989 budget projects 2.1 billion HUF in revenues to be derived from transferring state assets into private hands ["privatization"], indicating that credit will be available to those who wish to purchase stocks.

Among other matters, the government report states that "Conditions must be established in which enterprise resistance cannot hinder this process and that payments received from these sales become budgetary revenues.... The enterprises to be transferred into private hands will be designated by the ministers." Most likely, representatives will have to utilize all their dialectic logic to reconcile this passage with that part of the law on transformation—also to be dealt with in the same session—which entrusts the transformation of enterprises to enterprise councils (HVG 13 May 89). Similarly, a member of parliament will have problems if he tries to find a parallel between the text of the program and government statements made in the course of debate relative to transferring Tungfram into private hands.

Although sketchy for the time being, that part of the package plan which contains so-called incentives for enterprise raises hope, even though it is not yet suitable to generate confidence. It urges the provision of security, competition neutrality and an appropriate income for entrepreneurs, but one is able to learn only that new legal provisions to facilitate the establishment and operation of private enterprise, and to trim the bureaucracy would be prepared and that the government would find it justified to establish an independent financial institution, or, at least a loan fund to finance small enterprising.

The package plan enumerates a 10 point "simple" set of deficit reduction measures—the ones that do not qualify as having the character of economic policy. The first, though not the largest, item mentioned is the 5.1 billion HUF reduction of the 64 billion HUF expenditures scheduled for this year for defense and for the armed bodies. The document reminds the reader that in April defense spending was reduced by 1 billion HUF already, and states that any further chipping away from this item "could be accomplished only in the framework of a full structural change in defense." It is noteworthy that the budget hopes that revenues will increase by 1 billion HUF through the sale of buildings that become available as a result of the Soviet troop removal.

They intend to reduce central government administration outlays by a total of 10 percent, i.e. by 1 billion HUF, and a further 1 billion HUF reduction would take place in subsidies provided to centrally budgeted organs and councils. The latter represents 1 percent of the originally budgeted outlays. The councils are also affected by the change in revenue sharing based on

personal income taxes. Beginning in 1989 councils are entitled to receive personal income tax revenues in a way so that the central budget guarantees to them 98-104 percent of the planned tax revenues. At this point the budget provides that if income tax revenues are 1 percent smaller than planned, central funds will make up for that shortfall. If, on the other hand revenues are larger than 1 percent than the amount planned, such excess funds will not be withdrawn. Calculations show that this tightening of the criteria represents 2 billion HUF, but a further 2 billion to 3 billion HUF may be derived by virtue of the fact that income tax revenues will be larger from the outset because of increasing nominal earnings. State subsidies for social organizations and for the National Council of Trade Unions [SZOT] will be reduced by 10 percent, and thus the centrally provided amount to social organizations will be 2.3 billion HUF, while SZOT will receive 145 million HUF.

The largest expense reduction item amounting to 7.6 billion HUF narrows down the budgetary role of direct involvement and redistribution in the producer sector. Of this amount 4 billion HUF represents reductions in subsidies for exports subject to settlement in rubles; hereafter the budget will not reimburse exporters for losses incurred as a result of domestic inflation or the devaluation of the HUF, for which there was an original allocation of 6 billion HUF. The government report indicates that meat and poultry exports, and a significant part of light industry machinery exports will suffer losses as a result of this change, and it seems that counting on the vigorous protest of, and even threats by affected enterprises, the budget sets aside a 2 billion HUF reserve "for the amelioration of tensions." What's safe is safe.

A proposal which would produce 4.5 billion HUF tax revenues will be received with glee by enterprises, and with indignant protest in banking circles: beginning in 1989 financial institutions may establish risk contingency funds only out of their taxed income, and shall pay taxes after reserves accumulated thus far. As of the end of 1988 the latter amounts to a total of 12 billion HUF. By virtue of this measure the Finance Ministry would drain the untaxed inflationary gains acquired by banks, estimated to represent 7 billion HUF.

The state treasury resorts to a rather complicated construction in order to rid itself of the 6 billion HUF earmarked for the support of the apartment fund this year. The apartment fund would issue bonds for the same amount, and the savings accrued in social security would be invested into these bonds. This year social security funds will have a surplus of 20 billion HUF over and above the planned levels. Out of the "money found," the social security fund would also finance developmental projects supported thus far by the state. This too would add 2.5 billion HUF to the state kitchen.

By virtue of the logic of the matter the already announced gasoline price increase is not closely related to the budgetary deficit. Had there been no gasoline price

increase, there would be no turnpike construction either, accordingly no expenditures would be incurred. The segregation of the resulting 2 billion HUF revenue surplus into a highway fund, and the delegation of this matter under the jurisdiction of the National Assembly reflects society's lack of confidence in the government on the one hand, while at the same time it continues to divide the budget into parcels and to multiply the number of decentralized funds on the other. It is becoming increasingly necessary to ponder: would a line item budget be most useful in order to constrain the not reviewable and uncontrollable management of a state which has transcended its own possibilities. In any event, it would be difficult to deny what the government proposal—in the somewhat unpolished style of state documents—puts this way: "By 1990 a different budget policy must be developed with respect to both the budget's content and its specific methods by which issues are resolved. Matters which establish harmony between budgetary revenues and outlays through a systematic approach must be established in the framework of budgetary reform."

#### Bargain In the Rings

Two wrestlers in the rings—was the theme of the caricature that decorated the briefing papers prepared by the negotiating partners for the press at last week's conference involving the government and SZOT. Compared to this caricature, utterances by the head of state and by the executive secretary conveyed the need for compromise at closed door substantive negotiations prior to the meeting. As a result of the bargain—at least for 1989—the increase in water and sewage fees was permanently taken off the agenda. In contrast, following several postponements, they will still raise household energy prices as of 1 June.

In the course of bargaining they succeeded to agree on an offsetting social policy which was termed "very significant in today's circumstances" by SZOT secretary Laszlo Sandor. Originally, the government's crisis program included for the May session of Parliament a social policy program costing about 5 billion HUF. Compared to this amount, SZOT presented a need for almost twice as much money, a program costing 9 billion to 10 billion HUF. The resultant 6.7 billion HUF compromise included among other items a general pension increase of 100 HUF, and in addition, in certain categories an increase of 200 HUF, as well as a family supplement increase of 150 HUF per child. SZOT suggested that the preservation of the worth of family supplement should be placed on the agenda, in turn, the government foresees a possibility for doing so at the beginning of 1990 at the earliest. The negotiating parties found a common denominator in regard to supplementing the councils' social welfare fund by adding 500 million HUF, and to providing additional household supplement amounting to 200 million HUF.

Some of the joint recommendations advanced by SZOT and the government will be submitted to the National Interest Reconciliation Council [OET]. Thus another round of negotiations will take place regarding matters like wage policy. Among these, decisions will be reached concerning the SZOT recommended 500 million HUF increase of the 4.1 billion HUF wage compensation adopted last year, and in regard to tax benefits to be granted to enterprises unable to provide wage increases on their own. The government did not commit itself in regard to the implementation of SZOT's wage increase proposals. In this relation the Finance Minister declared that endeavors to increase wages cannot conflict with governmental measures aiming for the liquidation of enterprises operating at a loss. On the other hand, SZOT left the door open to further negotiations, because, as they say at SZOT: little time was available to study the government's package plan, and further, they established their negotiating conditions based on an assumed 15 percent inflation rate. In the event the inflation rate is higher than 15 percent, SZOT will find it necessary to adjust the present agreements.

Another proposal to come before OET is one which seeks an increase in the night shift bonus paid to some 90,000 female workers, and in the in kind compensation of textile workers.

At the present meeting between SZOT and the government, both the executive secretary and the prime minister manifested an inclination to include independent and alternative organizations in the preparation of future negotiations. Moreover, SZOT welcomed representatives of the Democratic League of Independent Trade Unions on the battle field already at this time. On the other hand, the League's primary purpose was to promote the idea of the sharing of trade union property, and did not manifest an appropriate preparedness to discuss the merits of the package plan, according to Sandor Nagy. In this relation, responding to an HVG question League spokesman Csaba Ory said that they do not want to be a part of the training sessions, meaning preparations, instead they want to be included in the great derbies. He argued that trade union pluralism and the existence of mixed nationality enterprises raises questions whether the SZOT-government meetings are competent to make decisions and whether they are representative of interests. For this reason the League recommends quadrilateral negotiations in which the government, the trade unions, employer representatives as well as experts from independent political organizations participate.

**Long Range View of Budget Reform Urged**  
*25000307b Budapest FIGYELO in Hungarian*  
*1 Jun 89 p 10*

[Article by Antal Gyulavari: "Budget Reform: Household of Dreams"]

[Text] This question arises with regard to budget reform. Can we hope that it will be possible to bring about

significant savings in the state household without severely impeding the commitments made, and without necessitating drastic constraints alien to economic reform.

The affected sphere and the established structure of the budget is the result of a long, four decades old process; it affects all areas of society and of the economy; it is an established, (politically guided) economic structure, a regulatory system, and the true reflection of economic and social policy. For this reason substantive changes in state household management can be perceived only in conjunction with progress made in regard to reform measures. The tax system, the full distribution policy, and ownership reform each constitute budget reform at the same time. Accordingly, there is no independent budget reform that accompanies the significant reduction of centralized revenues.

In my view, it would be an accomplishment to draw up a balance sheet for the entire state household, its internal structure, state properties, the amount of indebtedness and the financing of the indebtedness. At issue is the idea that each actor in society and in the economy should have an opportunity to familiarize himself with actual economic processes.

Completeness, accuracy, authenticity, the possibility of review, the unity of the budget and balance are requirements of a kind which render reports concerning the budget unintelligible, unless these factors are examined. Today's reports systematically violate the principle of these requirements.

#### A Clear Picture

The preparation of a state household balance sheet during the past few years was a significant starting step toward a more complete presentation of state revenues and expenses than before. Completeness is an important requirement because evaluation of the most rational way of utilization is possible only if one is familiar with all programs undertaken by the budget and with all the available resources. Such evaluation would be possible only if central and local budgets, social security and all the so-called decentralized funds would be presented in a far more detailed manner than today, and in most instances in gross figures. The requirement of the possibility to review would demand items far more detailed than they are today, and item designations which clearly reveal what they are.

Today's system of budgeting, the items which cannot be identified, cause problems even to experts. Calculating the ratio of centralized revenues is a seemingly simple task, nevertheless because of today's practice more than one "numbers war" was waged between experts representing various interests. One could assume that these wars were not the last ones either.



One of the items in the 1989 budget covers debt service and the reimbursement of interest payments. Nevertheless the domestic versus foreign distribution of this several tens of billions of Hungarian Forints (HUF) item is not known, nor is the total amount of indebtedness (unless we accept the amount mentioned by the Hungarian National Bank president to the press as an authentic source). Similarly unknown is the composition of indebtedness according to maturity dates, and one cannot tell who is reimbursed for interest payments and why (whether only the recently so condemned apartment credit is at issue, or if the burden assumed through preferred term loans granted to the enterprise sphere is also included). In general, budgetary credit transactions are completely veiled, while at the same time the economy is progressing (would be progressing) in the direction of monetary control. This practice is untenable if for not other reason because the financial management of the largest income producer, the peculiar features of his financial management may be concealed only temporarily.

#### Deficit Size

It is hard to understand why they are mentioning budgetary dictatorship along with a 1989 planned deficit of 20 billion HUF. This shortage represents 2 percent of state household expenditures—not quite 4 percent of the state budget—and does not even amount to one and one half percent of the expected gross domestic product [GDP]. For many years past, except for a single year, the budget has not shown a substantially larger deficit than this one.

Even on the basis of international data neither the current year's deficit, nor the rate of state indebtedness can be considered as outstanding. Several countries have operated their state household under normal conditions for decades even though their deficit was larger than ours. In and of itself(!) a permanent budget deficit along with the above rate of deficit does not support repeatedly renewed increases in revenues, even though that deficit is mentioned in the context of virtually every decision involving the state household. The known deficit would not warrant either drastic withdrawals or the supplemental draining of individual income. The presently applied measures, which are more fiscal than monetary in nature, are not responding to a deficit which is 1 to 2 percent, or even 3 percent as compared to the GDP.

The other, and more substantive, opportunity for making progress in terms of reform flows from the present size and structure of the state household. It would be beneficial to spend that two thirds of all income produced by the economy and spent by the government in a manner different from the way it is spent today. It would be appropriate to reallocate as large a proportion as possible of income to the direct users of that income, but in a manner so that those to whom this income is reallocated become interested in the efficient utilization of that income. Since by virtue of its nature public

businesses are directed by bureaucrats not interested in seeing the fruits of the amounts they spend, this type of spending should be reduced as much as possible. Reform proposals contain countless recommendations regarding the reduction of state intervention. I agree with a majority of these recommendations, although there are exaggerated perceptions which may be disturbing.

#### The Retreating State

The state's retreat from the economy has been a declared goal for years, nevertheless its implementation is sluggish. Individual large investments tying down huge amounts of money, CEMA relations, and efforts to bar further deterioration of the infrastructure render the freeing of resources in the medium term significantly more difficult. At the same time, the discontinuation of enterprise subsidies may cause significant added expenses for example in the area of social welfare expenditures. It is likely, that the definitive outcome will not be determined by the potential savings that can be achieved directly by discontinuing subsidies. Instead, the real result will be economic interest fundamentally relieved of central intervention, and the related modernization of the structure—both in the long term and on a durable basis.

Even in regard to classic state functions I do not see the significant savings stemming from drastic opportunities for downscaling, as that is stressed in an obligatory manner by all. Without newly defining their functions, further linear reductions in state administrative organizations could be interpreted only as destructive. The downscaling of state administration has essentially taken place already, at least insofar as the state administration's functional viability is concerned. Although this statement may reflect an overly summary judgment, the reorganizations of past years which have become permanent fixtures, repeated reductions in subsidies, reductions in force, the low income of the core of specialists that performs the work, the heavily diminished prestige, and the workforce exodus which is a result of all this by now would much rather indicate a need to build up a functional state administration. Although in this area cost benefit analyses cannot be performed, the feeling that these expenses are disproportionately large may arise in response to recent government decisions. True, on an international comparative basis the cost ratio of state administration within the GDP does not exceed the average. Quite naturally, I would not argue with the idea that it would be possible to utilize the absolute amount expended for government administration purposes in a more rational manner, nevertheless I believe that savings sufficient to relieve the concerns of the state household could not be attained in this area. The government would need a specialized apparatus which performs appropriate preparatory work for decisionmaking, and to reconstruct its already collapsing information system. A well functioning state apparatus can be operated only

along with an appropriate investment, but it is certain that maintaining a more expensive but more efficient apparatus of specialists would produce better results than what we have today.

#### What, Out Of What?

Another issue affecting state administration is that with the development of a market economy, or a more market oriented economy, there will appear quite a few new types of institutions. If all goes well, these institutions will not cost more than the ones that can be discontinued. Developing the internal revenue apparatus for instance would represent a significant added expense even in its present condition. Because of the evolving pluralism, it is unlikely that budgeted subsidies provided to social organizations could be reduced. Newly created organizations may directly increase state administrative expenditures.

Even along with proposed goals contained in recommendations concerning health care, education and social welfare provisions—which may be regarded as very positive—it is unlikely that direct resources can be freed in these areas, at least not to a considerable extent. Funds expended for education and health care purposes at present fall short not only of the satisfaction of individual needs, but also from the level needed for the undisturbed functioning of the economy. Although it is debatable whether service deliveries provided through the so-called in kind societal income method are commensurate with the level of our economic development, I nevertheless believe that any kind of downscaling in this area can be accomplished only along with direct compensation (e.g. where possible and useful, with the reduction of withdrawals and the incorporation of compensation into the wage structure).

And finally, a word about the so-called decentralized funds. The purpose of these funds is to achieve certain definite, individual goals. In general, attached to these funds there are also some segregated revenues. Consequently, the larger increase there is in such special goals, the smaller the remainder that can be used for these purposes. The real problem is that the various funds (interests) also demand individual regulations, as a result of which there is a difficulty in fitting these funds into the unified order of state housekeeping. Consequently, these funds can easily slip out of the controllable sphere. A good example for this mechanism is the fund for central technological development. Before introducing more standard rules, the fund's new regulations were urgently established outside of the tax system at the end of last year. It was possible to force this special tax on more businesses than before. Both the revenues and the expenditures of the fund take shape pursuant to special rules which quite naturally include countless benefits. Beyond the fact that as a result of special regulation the income processes of the economy are more difficult to examine, and that the operation itself is very alien to the market and violates all kinds of standards, during its

many years of operation thus far the fund (the form) was not able to change the technological development level of the economy to any revolutionary extent. For this reason, except for the social security fund used throughout the world, and except for very rare exceptions, I find the establishment of funds to be damaging.

The amount expended by the Hungarian state household is not its only problem. Its problem is also for what purposes it expends money. Above all, in order to establish the possibility for substantive analysis and control, an information system far different from what exists today would be needed. Without such an information system the "financial dictatorship" will continue to be incomprehensible, the utilization of centralized revenues will continue to be uncontrolled or uncontrollable, and it is difficult to perceive that budget reform would come about at all.

As a result of the truly existing, short term constraints one must by all means clarify the fact that budget reform is not needed primarily to materialize instant savings. Reform measures which produce instant, significant results are hardly realistic, while coarse restrictions must be distinguished from reform by all means. Rather than nourishing unrealistic expectations, the strengthening of clear sight, in every sense of that word, would be more useful. Quickly achieved significant savings do not necessarily project reform, and as a result of the given situation the danger of having these kinds of "reform" measures is unfortunately a reality. Actual reform must be a process outside of the budget, one that extends through the entire economy and social policies, whose real and significant results would emerge only after the passage of several years. To accomplish this, however, one would have to act differently within the state household even today, otherwise the "household of dreams" will remain.

#### Opposition Groups Discuss 3-Year Economic Reform Proposal

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[Text] FIGYELO No 18, 1989 presented an abbreviated version of a document entitled "Three-Year Program Plan for Economic Transformation and Stabilization" prepared by Working Group No 1 of the Economic Reform Committee [GRB]. The Working Group is chaired by Ivan T. Berend. We organized a roundtable discussion in order to find out how the various opposition parties and party-like formations view the Program Plan. Our guests were: Laszlo Harsanyi, secretary, Advisory Council to the Council of Ministers, and Tamas Nagy, scientific advisor to the Hungarian Academy of Sciences [MTA], Economic Science Institute, both representing the GRB Working Group No 1; on behalf of the Hungarian Democratic Forum [MDF] Tamas Szabo, member of the MDF Presidium and commercial director for Komfort Commercial Enterprise; on behalf of the

Independent Smallholders Party Karoly Ravasz, member of the Greater Budapest leadership, retired director; from the Hungarian Independence Party [MFP] Lajos Szendi, member of the MFP Presidium and director of the MTA Research Equipment Branch [KUTESZ]; on behalf of the Hungarian Social Democratic Party [MSZDP] presidium member Sandor Pulai, retired entrepreneur and economist; and from the Association of Free Democrats [SZDSZ] Mihaly Laki, chief associate of the Research Institute on Cooperatives. Our editorial offices were represented by Gabor Karsai.

[FIGYELO] Reform has political preconditions. According to the GRB's 3-year program, "the large-scale transformation to be accompanied by unavoidable shocks requires balanced political conditions and social cooperation based on a broad consensus." What is your view; can this social cooperation be established?

[Ravasz] The very fact that the time schedule calls for 3 years indicates that those who wrote the plan must have thought about the possibility of a coalition government. The Smallholders Party, and I believe the rest of the organizations here too, did not have a chance to discuss this material. At this point one cannot assess what power relationships will exist in the future parliament, and whether we will be an opposition party or if we will share in some kind of a coalition.

[Nagy] Although the GRB was established by the government, those working in the professional committees did not develop a government program. Instead they developed their perception according to their own inner convictions. Accordingly, this material to be debated by all political forces contains tasks which, we are convinced, must by all means be realized by the future ruling party or parties.

[Szendi] In developing its conception, the MFP's starting point is that the Hungarian nation is biologically tired, decreasing in numbers, and morally disturbed. This is what we want to change, and the economic program must be a part of this change.

The GRB program mentions the political crisis of confidence on two occasions. Such a crisis of confidence exists indeed, and the MSZMP [Hungarian Socialist Workers Party] must surrender its endeavors pursued thus far to rescue its conditions of power, in order to permit the evolution of dialogue with the MSZMP.

[Laki] Even according to a recent statement by the prime minister, the time for a coalition is not yet ripe. Thus, I believe the GRB program must be regarded as the program of unchanged single-party governance. At the same time however, if I compare this document with earlier positions announced by the MSZMP and the government on the one hand, and the various opposition programs on the other, the document relied abundantly on the latter.

[FIGYELO] Isn't this a one-sided view? After all, one of the predecessors of the document we are now debating was the Economic Management Consultative Committee's [GKB—later renamed "GRB"] market economy platform (FIGYELO No 49, 1988). It preceded the economic programs advanced by the opposition.

[Laki] Reform economists are, of course, the common ancestors. But this does not change the fact that at present the MSZMP and the government are actually presenting an opposition economic program, as compared to their earlier statements.

[Harsanyi] Several experts on the GRB committees are members of the SZDSZ or the MDF. What we have prepared is an expert document, rather than a government document.

[Ravasz] Obviously there are many similarities between the programs, not only in scientific documents, but also in documents of a political character. This is also a consequence of the economic situation. The question is, on what basis should the voter decide? Our answer to this question is that today the Smallholders party is saying the same as it did 50 years ago. The MSZMP has advocated this only for the past 6 months, and even now it falls short of being sufficiently consistent.

[FIGYELO] Are you serious when you say that in today's situation you are advancing a 50-year-old program?

[Ravasz] Believe it or not, 60 percent of the 1930 Smallholders Party program is timely. Of course one has to modernize many things, but the fundamental concept is unchanged. The MSZMP cannot say this about itself.

[Pulai] Although my party did not discuss the GRB material either, based on my 50 years as a social democrat I know what the MSZDP has in mind when the nation and our homeland are at issue. It is possible to put an end to today's dereliction and waste under appropriate political conditions and by placing appropriately qualified persons into positions [of authority].

[Szabo] In my reading, the GRB program is something completely different from Mihaly Laki's interpretation. I was struck not by the adoption of the opposition's policy, but by the maintenance of the traditional logic of the earlier 5-year plans. I find many priorities without foundation and means. Missing is a description of the mechanism which renders probable the realization of desires.

[Nagy] The GRB program logic is completely different from the logic of 5-year plans. It establishes only two priorities. These are structural transformation linked to the global market opening, and the improvement of the external economic balance. And a large part of the material deals expressly with the mechanism by which things can be realized.

[Szabo] But what do you need in order to achieve structural transformation and balance? You need ownership reform! But not the one recommended in the program, which is based on the legislative draft of the law on transformation, which in turn was prepared with the virtual exclusion of the public, and which defers the establishment of real owners. It is the essence of the matter that gets lost in this process, and there is concern that the whole thing serves nothing but the rescuing of ownership by the state.

[Ravasz] Before we get lost in the problems surrounding ownership reform, the question arises whether it is appropriate at all to establish priorities. The material is quite convincing in showing that individual reform elements can be implemented only jointly. Meeting points must really be established, nevertheless. One of the main reasons for the low level of performance in the Hungarian economy is the small number of entrepreneurs. I agree with the material when it says that there is a need for a large number of entrepreneurs, whose activities should be enhanced with liberal credit policies. Only this way can one imagine economic growth.

The removal of shackles which tie both small ventures and large enterprises into knots is indispensable. The program recommends a government committee on deregulation. In my view however, the many thousands of regulatory provisions cannot be reviewed one by one, particularly not if the interest tied to the maintenance of regulations is organizationally centralized, while the societal interest in abolishing those regulatory provisions is decentralized. Therefore I do not see a solution other than to discontinue all rules, and then declare the continuance of the absolutely necessary ones, such as those related to the protection of health, fire protection, or competition. A few months later other problems the market cannot resolve alone may be revealed, at which point further rules may be enforced.

[Pulai] Our social democratic friends abroad also say that in addition to high taxes, regulations which cannot be reviewed discourage foreign capital investment in Hungary.

[Harsanyi] We recommended the establishment of a deregulatory committee because we are confident that state administration is suitable for this task. We felt that anyone could make recommendations to that committee, and that there would be a way to significantly reduce the number of regulations in force even within the first 6-month period.

[Laki] Regarding the structure—if I understand this correctly—we are dealing with the problems of branches, external market relations, and the size of enterprises. The SZDSZ program does not adopt a position regarding branches, although perhaps we are somewhat more emphatic about the importance of productive and non-productive infrastructures. Regarding foreign market orientation, our watchword is "Back to Europe!" This is

also the essence of the GRB program. We also agree with the program's concept regarding CEMA, although I there is missing a description of those gate-like mechanisms which would stop the effects of a command economy, which constantly flow from CEMA, at our borders. Incidentally, the SZDSZ view counts on Hungary remaining a member of CEMA, as warranted by the maintenance of good relations with neighboring countries.

In regard to the size of enterprises, it is not clear what the statement "we are not recommending a new decentralization campaign" in the document means. I accept the fact that under present conditions organizational changes initiated at the top would increase confusion, but I believe that the independence endeavors of factory units and plants should be supported.

[Nagy] Should every unit have the right to secede?

[Laki] Yes. This should be regulated of course, but in today's situation when strikes are in progress to achieve secession—this is by no means a healthy phenomenon.

[Ravasz] In my view the need to cooperate with neighboring countries in and of itself does not justify the cultivation of CEMA relations. This could be accomplished in a bilateral manner. The program of the Smallholders Party does not include the idea of quitting CEMA, but the changing of the situation to bilateral relations is included. CEMA reform pursuant to market economy concepts is unlikely in the foreseeable future; in the absence of this, mediated agreements are rather unfavorable. In my view, for example, the Bucharest pricing principle retarded and continues to retard mercantile trade between member countries.

I believe that by rendering the Hungarian Forint (HUF) convertible, our CEMA relations will almost automatically change. It appears to me that those who prepared this material seek a similar solution in recommending a transition to convertible-currency-based settlement relative to Hungarian-Soviet trade.

[Szabo] It is not obvious to me that convertible-currency-based settlement would be favorable to Hungary. Calculations that could serve as a foundation to estimate the loss on exchange rates, and the unemployment caused by the reduction of export opportunities, are missing.

[Szendi] I would like to return to the ownership problem mentioned earlier by Tamas Szabo. In my capacity as the director of a self-governing enterprise I feel that transformation must not be over-regulated; life itself will arrange the proportions of organizational forms and sizes. It is not clear to me why the state asset fund is not the owner, as long as it can sell its stock in the meantime. And I do not understand the concept of a fixed amount of dividends to be paid by enterprises either, because determining the amount of dividends is the right of stock

corporation general meetings. I agree with the idea that assets should not be assigned a value pursuant to the present accounting system, but an enterprise is not just the sum total of the market value of its means, it also includes the enterprise's intellectual property. This is not even mentioned in the material.

[Laki] I too have concerns regarding the state asset fund. I understand that it is indeed a unique task in the world to return or give an almost totally nationalized economy—a large part of cooperatives also consist of pseudo cooperatives—into a social market economy, a mixed economy. I do not see any assurance that there would be an incentive to increase or to safeguard the assets in the state asset fund recommended by the GRB. At the same time, I am concerned that since virtually all property, including the crisis branches and other areas which show losses, will be under this institution, there will be a greater than ever opportunity to regroup capital from profitable areas to areas which incur losses. Accordingly, I agree with Tamas Szabo's concern about the possibility that the asset fund will become the means for preservation of the dominance of state property. At the same time I must admit that those who prepared the SZDSZ program could not find a good method for transition either.

[Ravasz] I do not understand why the asset fund must obtain a return on capital assets through trust organizations. In my view, these organizations will be interested not in the long-term growth of assets, but in the rapid devastation of enterprises, because the revenue needs of the budget will drive them in that direction.

The material contains an interesting reference, however, which shows that the idea has occurred to the authors that trustees should not pay dividends to the asset fund, but a fixed percentage premium, or even a security premium based on the [value of] state assets managed. In this way, as a result of the fact that the trustees retain the profits, it would be truly in their interest to see to it that the assets produce the best return. At the same time, in order to accomplish this, it would be necessary to appraise the assets, on the basis of which the security premium is assessed. This could be accomplished in the form of bidding, in the framework of competing bids submitted by potential trustees.

[Szabo] I envision even darker things relative to the state asset fund. It is an attempt by the party which de facto rules the economy, and the oligarchy which fills state and large enterprise positions to save itself for the future. There is no assurance at all that the state asset fund and the trustee institutions will function better than the organizations of today. Although the material subsequently raises the issue concerning the role to be played by the "real" owner, in the end this idea gets lost. It is interesting, however, that regarding cooperatives the GRB projects positive changes by rendering part of the cooperative assets divisible.

[FIGYELO] Does MDF have any views regarding the transformation of state assets?

[Szabo] The only technically detailed concept we have pertains to agricultural cooperatives. It is a fundamental principle that if they so desire the members and the employees may withdraw that part of the property which is in their name, and that the specific act of sharing takes place in the framework of a bidding system. The membership and the employees would be entitled to the surplus produced.

[Ravasz] The virtue of this material is that by suggesting that an overwhelming part of cooperative property be made divisible, it goes further than the law concerning cooperatives now on the agenda. But I cannot understand why all cooperative assets should not be made divisible.

[Laki] Even the classic principles pertaining to cooperatives include the necessity of having indivisible property.

[Ravasz] Members could agree of course to have indivisible property, but the law should provide an opportunity for the distribution of all property.

[Nagy] The cooperative may transform itself into a stock corporation and that way the common property would cease to exist.

[Laki] The program reflects a fear that shares will become too cheap. This indicates the uncertainty of those who prepared the material. They establish a huge institution to manage the assets, but they are scared of speculation. Why do they establish such an institution if they are scared?

[Ravasz] Speculation is not the concern—speculation is a necessary adjunct to the stock market. They are worried about manipulation. I do not see what stands in the way of corrupt officials selling state property to foreigners and Hungarians. In order to eliminate this possibility, competitive bidding should be built into the system.

In addition, the simultaneous dumping of stocks on the market, rapid privatization, would cause an oversupply, and because of momentary limitations of serious demand, it would create unrealistically low prices. For this reason it would be appropriate to attempt to slow down this process. One way to accomplish this would be that capital tied up in state property be sold only if there is a buyer willing to pay a realistic price. And the trustee would pay the security premium to the asset fund until the sale is consummated, and the function of the asset fund would be solely the collection of money and the transfer of money into the budget.

[Nagy] I would like to comment on the many critical remarks made regarding ownership reform. Many of these remarks are based on misunderstanding, a result of the unclear wording of the document.

In principle, we would like to establish—help establish—a system of ownership similar to the one we find in developed capitalist mixed economies. Accordingly, we would not like to have an artificially constructed system that “never before existed,” but one which follows the pattern already established by human civilization in the most developed countries.

[Ravasz] These systems were not established. They evolved.

[Nagy] This is a big difference indeed, and for this reason, unavoidably, the transition must be structured.

Based on the program it is probably unclear what kind of two-step process we have in mind when we discuss the asset fund and the trustees. In our perception the asset fund does not exercise ownership rights in the sense that as a stockholder it becomes involved in the management of enterprises, in the buying or selling of stock. Its sole task would be to issue stocks to trustees on the basis of competitive bidding—to the one who promises greater return, greater value, higher dividends—for the package of stocks received. The trustees would not be bureaucrats, they would be banks, insurance companies, and other financial institutions.

[Ravasz] But nowhere in the world do insurance companies manage state property.

[Nagy] Thus far I have been talking about the starting condition. The concept provides that as large a part as possible must be transferred from the asset fund to real owners. Such real owners would be insurance companies, pension funds, health care and educational foundations, and local communities. Part of the transfer would take place at no charge, which would then “relieve” the burden of budget subsidies. The assets transferred to trustees would be limited to those which could not be sold either to domestic or to foreign buyers.

Parallelling the increase in the number of stock corporations, the asset fund would establish within itself cashier's desks. The asset fund would have to report to the National Assembly concerning the activities of these cashier's desks, and this would prompt the officials handling asset accounts to increase profits and to increase the value of stocks, if not to achieve some mathematical scheme to maximize profits. Stocks owned by institutions are managed by officials even in capitalist countries.

[Szabo] But why wait so long before the capital reaches the ultimate owner?

[Nagy] Where are the pension funds, the foundations that could receive the stock? They must be established and that takes time.

[Laki] We understand that, but we are concerned that the recommended institution would cause a return to the previous situation.

[Nagy] If the asset fund is held responsible by the National Assembly, then it is up to parliament whether to enable the asset fund to “permit the oligarchy to survive.” Assuming a democratic evolution, this scenario is unlikely.

[Szabo] Regarding privatization, everybody is counting on the fact that the already propertied classes will be the buyers. We should find a more democratic solution than that.

[Nagy] Whoever has money may supplement that money by obtaining credit. But one should not enable purchases without any money at all, because in this way the new owner does not assume any risk.

[Ravasz] I find it to be a contradiction that, while appropriately the material counts on the broadening of the entrepreneurial sphere and with the improvement of its position, it does not project changes in regard to the wage mechanism. This is flawed thinking even from an economic standpoint, because greater performance must be compensated, and may also produce real social tension.

[Harsanyi] We do not recommend that wage regulations be made more stringent, but the danger presented by the wage-price spiral is reality in a country where the owner's interest and competition are weak, and where there is no appropriate mechanism for controlling total demand.

[FIGYELO] In developing their economic policy programs, did the individual organizations represented here endeavor to express the interests of one or another stratum?

[Ravasz] Perhaps I should say that we represent the interests of the peasantry, but in my view this interest is not in conflict with the interest of any other social stratum. We support the idea of free pricing in agriculture, and we are convinced that in case the constraints and monopolistic organizations are done away with, free pricing will not be accompanied by food price increases at the consumer level. Traditionally our party is also supported by small entrepreneurs.

[Nagy] The demand for the GRB to present a sketch of the reform effects exerted on various strata, and thereby the reception the reform will have in the various strata, appears regularly. International experience shows that choices are not made in consideration of such direct points of view. If authentic parties and politicians are able to recommend a convincing program which promises an uplift to the entire nation, they will be able to enlist the support of those who will not directly reap the benefits of implementing the program.

**Deputy Justice Minister on Law on Transformation**

25000312 Budapest HETI VILAGGAZDASAG in Hungarian 13 May 89 pp 50-52

[Interview with Deputy Justice Minister Tamas Sarkozy, by Gyorgyi Kocsis: "Law on Transformation: From Material Provided"; first paragraph is HETI VILAGGAZDASAG introduction]

[Text] As simple as it was 40 years ago to nationalize a majority of Hungarian business and industrial organizations by a few strokes of the pen, it is as complicated today, both theoretically and in practice, to find owners capable of managing the accumulated capital in a responsible manner. The Law on Business Organizations which went into effect at the beginning of this year, and the legislative proposal concerning the transformation of enterprises adopted by the cabinet, to be presented to Parliament in late May, is a condition for proprietary reform. Nevertheless, in and of itself it does not yet represent proprietary reform, according to deputy justice minister Tamas Sarkozy, with whom we conversed about the measures contained in the proposed law on transformation. The legislative proposal is bound to test the preparedness of representatives. [The legislative proposal became law on 30 May 1989.]

[HETI VILAGGAZDASAG (HVG)] I don't believe that there are only a few of us who look forward to the law on transformation with more interest than what we had when we waited for the Law on Business Organizations. Without trying to diminish the merits of anyone, in regard to the Law on Business Organizations "all" we had to do was to select from among the provisions of developed foreign corporate laws. In regard to the law on transformation, however, one needs to be a genius to figure out how an entire economy could be rescued from the trap of impersonal socialist state property. We now have the proposal; nevertheless you continually make excuses that the proposed law amounts to no more than a legal technicality. You say these things, even though you are not considered a man lacking confidence....

[Sarkozy] These are not excuses. Most countries of the world do not even have a law on transformation, and where there is one—e.g. in the FRG—it is a natural technical supplement to corporate law. In the legal sense, "transformation" means general legal succession, the transition of an organization which fully ceases to exist into a different organizational form, on a one on one basis. As compared to totally ceasing to exist, and establishing a totally new organization, "transformation" is quicker and is accompanied by some financial benefits. Thus far there have been no "transformations" in Hungary; even though referred to as "transformation"—such as the change that took place at Medicor—that's not the same thing because only parts of the enterprise became companies, and the headquarters continues as a "traditional state enterprise."

The Law on Business Organizations has its own concept, it is of great significance and is a long term code, which describes the "normal" way of establishing a company: the creation of new business organizations with the participation of both Hungarian nationals and foreigners. By necessity, the transformation of existing state enterprises and cooperatives is only a supplement to the Law on Business Organizations. The extent to which the law on transformation serves as a technical standard is shown by the fact that almost half of the law deals with the transformation of one type of company to another—for example from a limited liability corporation to a stock corporation.

[HVG] The idea of a "nonviolent," evolutionary development according to which newly created companies slowly gain strength and as time goes by squeeze the large state "lame ducks" to the periphery of the market, is a pleasant one. Except that some economists are concerned that the Hungarian economy in crisis does not have sufficient time to wait; i.e. that the need calls for radical proprietary reform. This means essentially that today's state enterprises should be transferred into the hands of personified owners, and that this be done rather quickly. On the other hand, the cabinet proposal concerning the law on transformation makes it clear that the proposed law is not the same as proprietary reform. Why is it not, and what would constitute proprietary reform?

[Sarkozy] The law on transformation may serve the purpose of rearranging proprietary relationships, and it must be suited to accomplish that. At the same time, proprietary reform requires far broader political and economic decisions, i.e. which are fundamentally not legal decisions. It is not the lawyer's job to find solutions to problems of key importance, such as the assessment of the worth of property amid distorted market conditions, or the establishment of the trust organization. We were finished with the legal construction of the law on transformation last November, we waited until now at the request of economic policy makers.

Further delay would be accompanied by more disadvantages than advantages, however. For example, a further delay would render the further development of small entrepreneurs impossible. Some economic experts, however, misunderstanding the real function of law, wanted to implement radical proprietary reform by way of the law on transformation. The details and techniques of such law have not been developed and developing these would be politically premature. Quite consciously, the legislative proposal does not respond to this expectation. As a result of the contradictory situation the law constrains state enterprises and cooperatives to take stopgap measures, but this could not happen otherwise anyway.

[HVG] This legislative proposal is a key example regarding both solutions which one if forced to adopt. The greatest contradiction of the law is that while recognition of the total failure of ownership exercised by enterprise

councils has become commonplace even in the framework of council of ministers submissions, the legislative proposal hands over the the most important ownership decision in autonomous enterprises to enterprise councils. This decision relates to the right to fully or partially alienate property. Should those who benefit from it discontinue the existing situation?

[Sarkozy] The law on transformation is indeed founded on the status quo, because, by virtue of its essence, the law cannot do otherwise. The proposal does not establish the fact that enterprise councils are a fiasco, instead it establishes the fact that enterprise councils were introduced to an exaggerated extent and in a campaign-like fashion, and that regulations pertaining to enterprise councils are wrought with contradictions. In my view, on the foundations of state property, an opportunity should be provided also in the future for self-governance, self-regulation by workers collectives, nevertheless formalities must be done away with on the one hand, and the number of enterprises to be managed by enterprise councils should be narrowed, on the other. And in the event the institution of enterprise councils continues to exist by virtue of a political decision, the law must use as its starting point that in enterprises having enterprise councils the main rule shall be that enterprise councils decide in regard to transformation. In my view, we will see the beginning of a voluntary transformation process, but one thing is certain: it will not happen as fast as some expert economists would like to see it happen. On the other hand, our assignment was to write a law on how transformation should take place, and not how enterprises should be transformed. Incidentally, I would be very much opposed to another reorganization campaign, the forced "reinstatement" of state enterprises.

If, on the other hand the decision is rendered voluntarily by an enterprise council, all stock and the value received for it could not be transferred to some state trust fund. This would amount to a legal self-contradiction—but anyway, I am no supporter of the concentration of economic power to this extent. Accordingly, our task was to endeavor to achieve a balancing, a compromise solution between the interests of the state and of enterprises. Quite naturally, there also is a need for the establishment of a state trust organization, the stockholders' authorities in this regard are contained in the legislative proposal. Since the management of state trusts will be dealt with in separate law after economists have worked out details and guarantees, the trustee's rights would be assigned temporarily to the founding organizations and to an organization to be designated by the Council of Ministers. This is necessary because of the closed nature of the legal solution, and in the interest of permitting transformation to begin. In addition, we must not forget: about half of Hungary's production capacity is under state administrative supervision. At these places privatization and the influx of foreign capital could have started already in January, in an undisturbed manner.

[HVG] But then, we must also not forget which half of the economy this is: mainly public service, infrastructural or strategic firms, the ones which are not the first to be placed into private hands even in the West. The real area in which companies could operate would be the competitive field, the processing industry, where enterprise councils presently operate. In regard to these, the legislative proposal is expressly two-faced: on the one hand it declares their freedom to make decisions, but—in the usual way—it allows for some possible intervention by the state. Is it important not to have clear-cut situations?

[Sarkozy] The law always must present clear-cut situations. Accordingly, in general only the enterprise councils and the general meetings render decisions concerning transformation. Foremost of all, there are two exceptions to this rule: one pertains to the loss of assets involving violations of law, the second one provides protection against the establishment of "post office box" state enterprises. In addition—and this flows from the state's interest—the National Assembly would authorize the Council of Ministers to exceptionally reinstitute state supervision over state enterprises for purposes of transforming those into companies. If the enterprise decides to transform itself, it may occur that it tries to underestimate its assets in a manner that is in violation of laws. Once again, we have built guarantees into the law against such conduct.

[HVG] According to the legislative proposal, autonomous enterprises may transform themselves only if over and above the existing assets, outside investors subscribe to at least 20 percent of the capital or 100 million Hungarian Forints (HUF). What's the reason for this?

[Sarkozy] This requirement is necessary so that the transformation of an enterprise into a company also involves actual capital influx. This requirement may be waived if agreed upon in advance by the state trust organization and the enterprise. Such agreement, however, may be reached only on a voluntary basis, enterprises cannot be coerced into entering into such agreements. Any external capital attracted would remain with the company, the trustee would not take his share out of the capital. The state trustee would receive shares representative of 20 percent of the enterprise's worth. There would be a way to hold "one's own stock," and of the funds collected from the sale of such stock only that part of the funds would have to be transferred to the trustee which serve the groundless enrichment of stockholders, moreover, even of these funds 20 percent would be left with the company as an incentive to transformation.

[HVG] According to the Council of Ministers proposal, cooperatives should not be motivated to accomplish transformation by all means. At the same time the legislative proposal states—contrary to the state sector—



that a cooperative transformed into a business organization could retain 80 percent of the value received from the sale of its securities, and only 20 percent would have to be paid to the external trustee. Don't you see a contradiction in this?

[Sarkozy] No. There is a need for a cooperative law based on a fundamentally new concept. Preparation of such a law has already begun. At this time we modified the [existing] cooperative law only to a small extent, although I would not view the divisibility of half of the cooperative assets in the form of securities among members, or the settlement of small cooperative problems at full value as minor matters. Accordingly, the transformation of cooperatives must be made possible, but considering competition neutrality, it would be inappropriate to provide incentives to cooperatives to transform themselves, particularly not before a new, unified law on cooperatives is promulgated. Relative to cooperatives, the reversal of the 80-20 rule you mentioned is necessary because the value received for stock issued on the basis of assets held by state enterprises would serve mostly the enrichment of outside parties, while at cooperatives a significant part of the stockholders would be former members of the cooperative, whose work may be embodied in the assets of the former cooperative. In contrast to state enterprises, a cooperative may choose its trustee itself.

[HVG] Would it be conceivable that by shortcutting, cooperative securities held by cooperative members would be transferred into the hands of outside investors. This would be synonymous with the disappearance of the essence of cooperatives—the unification of capital and labor. Are activists concerned about the cooperative movement not opposed to this?

[Sarkozy] But in case of a transformation the cooperative has disappeared and the organization that took its place is not a cooperative. The traditional activists supportive of the cooperative movement are not objecting to this provision, they are objecting to the whole idea of transformation. Financial experts are more afraid of the free trading of stock that results from cooperative business shares. Incidentally, this example demonstrates that the law on transformation cannot be cast in concrete as is the Law on Business Organizations. If today's situation changes—e.g. as a result of the new law on cooperatives—also the rules of transformation will have to be changed.

[HVG] All this appears to suggest that stock held by citizens in mass proportions will appear first in the cooperative sector, and not in the state sector. In other words: classic stock corporations will evolve in the medium and small enterprise sphere—because most cooperatives are of this size—even though it is generally recognized that this business form is ideal for large enterprises. This also foreshadows the fact that privatization will not penetrate into the large state industrial

enterprise sector which forms the backbone of the economy. Don't you think that the developmental level of the much envied developed capitalist countries is closely tied also to their proprietary structure?

[Sarkozy] The fact that it can be expected that direct citizen stock ownership will emerge as a result of the voluntary transformation of larger industrial and consumer cooperatives, does not mean in my view that this will not come to forefront at large state industrial enterprises. Except that at large state industrial enterprises foreign firms, banks and other business organizations will emerge as stockholders. Later on—after the securities law exerts its regulatory effect—we will lower the mandatory minimum nominal stock value of 10,000 HUF, thus providing a better opportunity for citizens to acquire large enterprise stock. I believe, however, that even in the meantime, the Hungarian Law on Business Organizations provides an opportunity for an economic policy consistent with the marketplace—we must take advantage of it.

#### **SZOT Official Calls for Financial 'Action Program'**

*25000306b Budapest NEPSZAVA in Hungarian  
30 May 89 p 5*

[Interview with SZOT secretary Laszlo Sandor, by MTI reporter Erika Bajko: "The Cabinet Should Prepare an Action Program Covering at Least Three Years"]

[Text] During its May session Parliament debates the cabinet's package plan to improve the country's financial balance this year. At the latest meeting between SZOT [National Council of Trade Unions] and cabinet representatives, and later at a meeting of the SZOT presidium, several complaints were made in regard to the cabinet's package plan, while recognizing at the same time that the plan also includes some positive features albeit of limited effect. At that time the SZOT presidium decided to convey its views to the trade union group of Parliament and proposed that representatives consider SZOT's views in debating the package plan.

[Bajko] Is the economic policy involvement of trade unions a matter consistent with trade union functions, particularly at this time, when trade union actions demonstrate that protecting interests and removing trade unions from the production area is of primary concern?

[Sandor] In today's world it is in the fundamental interest of employees that an economic policy prevail which is better than the one before—one which produces better results. Therefore trade unions cannot avoid influencing economic policy. So much so that trade unions are developing their own economic policy conception. Within that they are trying to answer basic questions like what kind of relationship should the representative organ of employees have vis-a-vis the market economy, the management of mixed property, inflation and the debt service, and in the context of employment policy

and structural transformation. We would like to complete the development of this concept by the end of June, so that following debate among trade unions we may submit this concept paper to our congress.

[Bajko] Using this as your vantage point, what is your view of the cabinet's package plan, and to what extent does it serve the workers' interests?

[Sandor] The cabinet's package plan is a constrained consequence of the fact that still, as of today, they have not faced the real past, the actual causes that brought about today's situation. It flows from this recognition that also the package plan can treat only the surface, and that it does not resolve the fundamental issues. Unquestionably, the country's financial balance situation requires immediate action, but lacking a comprehensive economic policy conception this package plan does not guarantee that in three or four months some new emergency measures will not be introduced. The balance may be upset once again, along with the present operating system of the economy. It is for this reason that trade unions belonging to SZOT believe that already at this point the cabinet should have an economic conception for at least the next three years, one which has as its aim the transformation of the economy. The conception should include a description of the state's role and responsibility as these relate to the market economy, the direction of structural transformation and in that relation the employment policy and the tasks of education and continuing education, the establishment of a social policy safety net, as well as wage and social policy reform. We have no illusions relative to the present package plan which primarily projects reductions in the administrative, bureaucratic costs of state administration—that these would not affect at least in part the enterprises and the populace.

[Bajko] In its program the cabinet has set aside a 5 billion Hungarian Forint (HUF) reserve to offset the social policy effects of its economic measures. In contrast, the agreed upon amount at the SZOT-cabinet meeting was 6.6 billion HUF, but it appears that this would have been expended on someone else's account, since it was jointly requested that the excess cost be borne by social security.

[Sandor] I would like to remind you that as a result of the agreements reached between SZOT and the cabinet, the postponement or moderation of planned price increases relieves the populace of a 9.3 billion HUF burden. This figure comes to about 10.3 billion HUF if one includes the earlier partial reduction in pharmaceutical compensation fees. The trade unions agreed with the idea that in the present constrained situation revenues collected by the social security system may also be considered as resources for social policy offsetting. The National Social Security Council at its recent meeting agreed to finance the excess expenses incurred as a result of raising pensions and family supplements, moreover, it will forward

to Parliament the related agreements with recommendations to the effect that beginning on 1 July Parliament increase the amount of child care assistance by 300 HUF, and that the funds needed to accomplish that would also be provided from social security funds.

[Bajko] The package plan also includes an item according to which the cabinet would reduce subsidies paid to social organizations, including SZOT. Accordingly, are trade unions not independent from the government?

[Sandor] Any kind of dependence, and particularly state subsidized trade union operations are out of question. Trade unions do not receive any kind of state funding to support their own operations and activities. At issue here is the fact that the state will reduce its contributions to jointly financed recreation and to the maintenance of jointly operated cultural homes—a practice that has been followed for decades. Since the cabinet program too stresses the support of education, public cultural activities and health care, we agreed at the SZOT-cabinet meeting that in regard to jointly maintained institutions the state would continue providing subsidies at the originally agreed upon levels. At the negotiations the cabinet made no statement according to which it intended to reduce its share of contribution for purposes of recreation; these were financed to a greater extent by trade unions anyway.

[Bajko] Insofar as you personally are concerned, what do you recommend to trade union representatives: to vote for or against the cabinet's package plan?

[Sandor] SZOT bodies have no right, nor do they want to develop a practice which would limit the decisionmaking freedom of representatives—even if those are trade union functionaries. Thus one can only talk about a recommendation addressed to a person. As I have indicated, the cabinet's present package plan can be interpreted only in conjunction with a comprehensive economic policy conception. For this reason, I would support the idea that the National Assembly vote on the package plan with the reservation that the cabinet, within a limited period of time present an action plan for at least a three year duration to the representatives.

**Coal Mining Reorganization Proposed**  
*25000243c Budapest FIGYELO in Hungarian*  
*27 Apr 89 p 8*

[Article by "czy": "Coal Mining: Once Again a Trust?"]

[Text] Hungarian coal mining continues to struggle with fundamental structural and economic problems. Selective development is progressing very slowly. In the interest of concentrating resources the solution may be an organizational change.

The economic situation of coal mining enterprises has worsened. The final balances in 1988 financial reports show a modest improvement as compared to the previous year, but state support is the source of much of this. There was no breakthrough in establishing conditions for long-term operations. Some mining enterprises seek solutions in raising the price of coal, and not in the modernization of production or in increased performance.

It is alarming from the point-of-view of Hungarian coal mining that on a national scale and on a continuous basis structural transformation does not reflect coordination of mine exploitation and coal dressing. This also explains why the liquidation of losing coal mines is progressing slowly. Last year the utilization of capacity deteriorated further. In the context of lignite-surface mining capacity utilization is delayed by power plant reconstruction. Missing is the coordination between the surface mining of lignite and capacity variations in power plants, and this hinders structural change. With the exception of a few enterprises, performance has stagnated or deteriorated.

The number of coal miners is dropping, and this is unstoppable. As a result of the decreasing numbers, the production of forced surface mining has increased, and coal production on days when mines were closed remained high.

Since coal mining enterprises cannot count on outside help, the exploitation of internal resources cannot be delayed. Despite this fact, at the time the enterprise burden was prepared [sic] a turnaround could not be felt, even though the obligation to provide has ceased to exist. An expert group of the Coal Mining Association found that substantial results toward stabilizing the coal mining situation could be achieved through the modernization of coal mining itself. This, in addition to a change in, and the modernization of the coal mining structure, as well as to the improved management of expenses.

The tightly-knit directorate of the Association not too long ago discussed possible alternatives for modernizing coal mining. In the end, it approved a proposal by which a trust having limited authority would be established, to be converted later into a trust corporation. In the Ministry of Industry's view a realistic alternative would call for the establishment of a trust-type corporation immediately following the modernization of the organization of the Mining Association.

In related professional debate it will be necessary to clarify the present features of coal mining, the functions of the new organization, the constraint of structural transformation on coal production, and beside these the long- and short-term conditions presented by energy policies. Similarly, the mechanism for capital allocation

and the conditions of coal mining systems management—pricing system, mining contribution, the areas of common financial management—would also have to be established.

The trust organization could begin its operations beginning next January, while the trust corporation could begin operations one or two years later.

A dual process is desirable in changing the operating, directing and organizational condition in coal mining. On the one hand, production and management decisions and the responsibilities of individual production facilities, as well as additional activities in addition to coal mining must be decentralized. On the other hand, it is appropriate to incorporate the capital allocation system of state resources for coal mining investments within the business and organizational framework provided by the law on business organizations. Similarly—on the basis of common interest and in the form of a business organization—coordinated operations are necessary in the background activities of coal mining, such as geological research, technological development, the manufacture of mining machinery, and so on. In these respects the presently parallel, unutilized, and low level technical and economic capacities must be streamlined.

**U.S.-Hungarian Stock Brokerage Established**  
*25000305a Budapest HETI VILAGGAZDASAG in Hungarian 27 May 89 p 9*

[Text] The First American-Hungarian Securities Trading Co. Inc., a stock corporation, has been established on the basis of 50-percent sharing by both the foreign and domestic founders, and with an initial capital of 25.1 million Hungarian forints. Actually, the company is the third brokerage firm in Hungary, (Co-Nexus is the first company established last year; the second, called CA-BB, was established earlier this year with Austrian participation). Registered at the Court of Registry on 16 May, and at the same time granted membership by the stock exchange, the new company was brought about by the brokerage firm World Co., active on the New York Stock Exchange, and by the Termin financial advisory economic work cooperative. The company has offices at 1 Parisi Street, and employs five persons. Plans call for the new company to establish new enterprises and to organize foreign capital investment in Hungary, in addition to engaging itself in securities trading on a consignment basis and in short-term financial transactions. The company's president, Jozsef Lupis, announced that even if today's bond trading is sluggish, and trading in stocks has not yet evolved, he expects to be successful in the market. This is so, because in his view the banks that dominate the securities market today are not really interested in becoming middlemen, they are much more interested in making easy loans from refinancing credit received from the central bank. He added that his company would be pleased to accept even the smallest private consignments for a 0.5-2 percent commission, or perhaps in lieu of profit sharing.

**Solidarity Trade Union Established**  
*25000306a Budapest NEPSZABADSAG in Hungarian*  
*29 May 89 p 5*

[Text] The Solidarity Trade Union Workers Association intends to take shape in the name of solidarity for the protection of the rights of working men, according to several persons attending the organizational congress of the group held at the Jurta theater last Saturday. The organization's bylaws and program plan were discussed at the meeting. According to the program statement, there is a need for real interest representation and for a functional enforcement of interests, and further, in the framework of the liberal market economy that is taking shape, awareness of societal solidarity is indispensable. The Solidarity Trade Union Workers Association does not want parties to conduct political activities within the organization, although in regard to certain issues they are willing to cooperate in the interest of workers.

**POLAND**

**Slow Growth of Direct Soviet Enterprise Cooperation Reviewed**  
*26000531 Warsaw RYNKI ZAGRANICZNE in Polish*  
*No 41, 6 Apr, No 44, 13 Apr 89*

[Article by Monika Sowa: "Direct Polish-Soviet Enterprise Cooperation"]

[6 Apr 89 p 8]

[Text] The concept "new forms of cooperation" appeared in the economic relations of Poland and the USSR in 1985. Consideration was being given, at that time, on how to increase reciprocal trade exchange and how to use this exchange to restructure and improve the economies of both countries. As a result, on 15 October 1986, three intergovernmental agreements were signed. Each of them created a framework for a specific form of cooperation. The first, to establish joint enterprises; the second, to create institutions to coordinate research and enterprise production; and the third, to establish direct cooperation between domestic trade organizations.

It appears that the practical implementation of these three agreements departed basically from the intentions of the originators of these documents. In any case, this does not discredit them. On the contrary, Polish enterprises have proven that they are beginning to be able to make independent, efficiency-motivated decisions.

**Joint Enterprises**

In the October 1986 agreement mentioned above, the Polish and Soviet authorities selected 12 pairs of enterprises which were to be combined into joint organizations. It was later decided that most of them, namely 10, would not join together, mainly due to the protests of the Polish enterprises which questioned the purposefulness (effectiveness) of these endeavors. They were replaced by

joint enterprises established at the initiative of the enterprises themselves. By March of this year, a total of nine joint enterprises were formed in Poland and the USSR (see list).

Thus far, only MIRACULUM began production operations (starting 1 March 1988). The others concerned themselves mainly with organizational problems.

An examination of the information shown in the attached list of enterprises tends to make one conclude that direct production is the main object of activity of only three of them. The others intend to concentrate on activity of a sales and service nature. Without diminishing the role such activity, it should be noted that in a situation where the market of investment and consumer goods of both countries is severely unbalanced, it would be better if the joint enterprises concerned themselves primarily with direct production. But it appears that such a goal is difficult to realize.

Nor can we overlook the fact that the creation of joint Polish-Soviet enterprises is a process which proceeds much more slowly and laboriously than the creation of firms in Poland and the Soviet Union with Western participation. Thus we see that by the end of last year, 164 joint enterprises were registered in the USSR which involved capitalist firms, and only 27 involved firms from the socialist countries, including eight from Bulgaria, four from Hungary, six from Yugoslavia, and three from Poland. In the case of Poland these were Soviet firms registered by 31 December 1988, i.e., SOMIRKO, INTERTAP and INTERPROGRES. Also, in Poland the number of joint firms with socialist-country participation is much lower than the number of joint ventures in which Western companies have a share.

How does one explain the fact that the development of Polish-Soviet enterprises proceeds with resistance? Primarily because the same shortages appear in both our countries: Materials, capital, modern technology, and management techniques. However, an explanation of the "what can two poor beggars achieve together" type appears to be very inadequate, because we can cite many examples, from various fields, showing that enterprises of both countries have certain resources and skills which can be utilized for joint, efficient production. For example, in the Soviet shops we see an abundance of good-quality fabrics, with rather attractive patterns, and this, combined with the skills of Polish tailors in the area of cutting and sewing could bring good results. There are many more such examples.

That is why it seems that an equally important barrier to the development of Polish-Soviet enterprises is the difference in the economic systems of both countries. For example, in the case of a Polish enterprise, the decision to form a joint venture is strictly the decision of that

enterprise, while in the Soviet Union the decision must be made at a much higher level (the consent of the branch ministry is essential, as well as the signature of the deputy minister).

During the last 2 years an attempt has been made to solve the many problems which constituted a barrier to the functioning of joint enterprises. Customs procedures were simplified, telephone and telex contacts were improved, and business travel was eased. However, the basic obstacle in both countries was not eliminated, i.e., the internal systems of prices on raw materials, other materials, energy, machines and equipment—which differ not only from the partner's prices, but from world market prices. If we add to this the absence of a realistic currency exchange rate, it is easy to see that even at the stage where the input of both sides must be determined, great difficulties must arise.

The fixing of prices on finished goods creates similar problems, because in the USSR, for example, the depreciation of machines and equipment is not included in cost figures. It must be assumed that all of these questions will not be resolved for a few more years and the enterprises of both countries will have to deal with them.

The agreement signed on 20 January 1989, which made it possible for enterprises to settle their accounts in one of the national currencies, was supposed to alleviate the above-mentioned price-currency exchange rate barrier. However, it appears from the agreement signed between banks in February, that the accounts opened up for these settlements in Wnieszekonombank and in the Commercial Bank will not be closed accounts, i.e., only a very small number of goods and services can be obtained in return for the funds accumulated in these accounts, with the additional requirement that they must be paid for with transferred funds. Furthermore, these accounts will not bear interest. As a result, despite all of the publicity which accompanied the signing of the agreement on settlement of accounts in national currencies, in actuality nothing has been made easier.

The third important obstacle to the creation of joint enterprise is lack of information. There has been no institution which could help a Polish enterprise find a suitable partner on the Soviet side. There are no lists of enterprises, by branch, which are so widely available in the West. The recently created Polish-Soviet Chamber of Trade-Industry will probably improve this situation. But the problem of the underdevelopment of a telecommunications network, in both countries, will remain: the lack of reliable, automatic telephone, telex and telefax connections.

The fact that there are difficulties in the creation and functioning of joint Polish-Soviet enterprises does not mean that this form will not develop. Both sides are showing great interest in direct cooperation. In addition, certain events have proven that the climate for joint enterprises will improve. Last December the USSR

Council of Ministers approved a law "On the Further Development of Economic Cooperation Abroad by State, Cooperative and Other Socialized Enterprises, Associations and Organizations." If executive regulations do not completely change the spirit of this law, it may indeed improve the conditions of operation for joint enterprises. Also, the new version of the Polish law on economic activity with the participation of foreign organizations favors the creation of Polish-Soviet enterprises. The movement of the individual Soviet republics to full economic accountability gives further hope, and in connection with this, the possibility of direct cooperation with enterprises of the particular USSR regions. Poland has already signed an applicable agreement with the Ukraine, and an agreement with Belorussia and Lithuania is being prepared.

#### Conclusions for Those Who Are Interested

Three years after the creation of joint Polish-Soviet enterprises was made possible, some conclusions can be drawn. But they are intended mainly for the Polish economic organizations that are interested in this form of cooperation.

First, experience gained thus far shows that the most suitable legal form for the creation of joint enterprises is a company in which foreign capital has a share (joint ventures).

Second, in view of credit and tax terms, it seems best to establish joint enterprises on Soviet Union territory. In the USSR the interest rate on credits for enterprises is now a little under 4 percent. The tax rate on profits is 50 percent lower than it is in Poland (30 percent), and this profit is calculated after the cost of allowances for specific enterprise funds is included (the development fund and the social fund). This lowers the tax base and creates more convenient terms for investment in expansion and modernization of production.

Third, because of the distinct preference shown by the Soviet authorities for joint enterprises in which foreign capital has a share, especially in connection with the desire to acquire modern technology, it would be well for the Polish side to try to enter into trilateral agreements. Only one of the enterprises formed is of a trilateral form—INTERPROGRES. Its shareholders are the Institute of Systems Management in Katowice, the INTERPROGRES cooperative in Moscow, and Skinas Partners in Stockholm. Possibly Polish enterprises could enter into trilateral joint ventures as providers of construction-assembly services, engineering services, computer programming, etc. Furthermore, those Polish enterprises which have already formed companies with Western-capital participation (including the Polonia firms) will find conditions favorable for the establishment of branches in Moscow. In addition, in view of our geographical location and the experience already accumulated in our cooperation with Western firms, Polish enterprises would have a real competitive advantage in

USSR territory. This advantage consists of using skill in entering into diverse forms of capital and noncapital connections with capitalist enterprises.

Fourth, in considering the creation of joint enterprises, Polish organizations should take into account the cooperative sector, which is developing so dynamically in the USSR.

Finally, all Polish firms interested in direct production or service cooperation with USSR partners will probably very soon be able to count on the assistance of the already mentioned Polish-Soviet Chamber of Trade-Industry. It will offer all kinds of consulting services, and above all, it will help in the selection of a suitable partner.

**Joint Polish-Soviet Enterprises (Name, Date of Registration, Headquarters, Object of Activity)**

MIRACULUM (1987); Krakow; production of household chemical products and perfumes and cosmetics.

FIMBES (1988); Ostrzeszow; production of electromagnetic clutches (will begin about 1990).

ORBITA (1988); Warsaw (branch in the USSR); printing and publications work.

POLSIB (1988); Warsaw (branch in the USSR); sale of computer equipment, special software.

SOMIRKO (1988); Moscow; brokerage in turnovers of unutilized raw materials and goods remaining after fairs; sales of computer equipment and industrial technology.

INTERTAP (1988); Kazan; development, production and sales of automatic control systems, equipment to determine the condition of the natural environment and computer engineering means.

INTERPROGRES (1988); Moscow; production of metal and plastic products, spare parts for machines and means of transport; services in the area of building utilization, design; scientific research work; consultation and training in marketing, and patent and licensing operations.

MOSBUDPROJECT (20 January 1989); Moscow; pre-design work, execution of modernization-construction projects for enterprises in Poland, the USSR, and third countries.

INTERFEIS (20 January 1989); Moscow; scientific-research, design and applications work in a wide range.

[13 Apr 89 p 8]

[Text] Striving to increase mutual trade exchange between Poland and the USSR, on 15 October 1986 three intergovernmental agreements were signed which

formed the framework for new forms of cooperation: The first, to establish joint enterprises; the second, to create institutions to coordinate research and enterprise production; and the third, to establish direct cooperation between domestic trade organizations. In part I of the article which appeared in RYNKI ZAGRANICZNE No 41 (4974), dated 6 April 1989, joint enterprises were discussed. Part II is devoted to the two remaining forms of cooperation.

**Joint Coordinating Organizations**

On the basis of the October 1986 agreement, eight Polish-Soviet organizations of a coordinating nature were formed (see list). These organizations are very diversified. The number of partners involved attests to this and furthermore, these are not always enterprises. Their superior organizations also appear—all-union associations of industry, and ministries. Most of the organizations have research and development and design work, as their main goal. But sometimes the object of activity is supposed to be joint production, which arouses justifiable doubt, because these organizations are a relatively loose form of connections which does not make an advanced form of cooperation possible. The undertaking of production activity, with export to third markets also in mind, would require at least a partial combining of manufacturing capacity, i.e., the creation of a joint enterprise on the order of a company with foreign capital.

It may be assumed, therefore, that joint organizations do not constitute a form of direct cooperation with great chances for the future. Some of them will probably die a "natural death," dissolving into routine directors' meetings. And others will evolve into higher forms of cooperation—joint enterprises, long-term contractual agreements, etc.

**Domestic Trade**

On 30 May 1987, the minister of domestic trade issued the first official licenses for commodity exchange with partners in the USSR to organizations which fall under his ministry. Eighteen such licenses were issued at that time. By the end of 1987, 124 organizational units (from 32 voivodships) had received permission to undertake this form of cooperation. In total, they formed 138 pairs with Soviet enterprises.

In 1988 the rate at which new ties were created for reciprocal trade purposes was even more rapid. According to early January 1989 figures, the number of permits granted was 370, and the number of pairs formed was 420.

The quantitative expansion in the domestic trade organizations involved in direct exchange was accompanied by a rapid growth in the amount of turnovers. In 1987 they totaled 70 million rubles, of which 38 million rubles was for export from Poland, and 32 million rubles was

for import from the USSR. In 1988, turnovers amounted to 446 million rubles, of which 229 million rubles represented exports and 217 million rubles represented import into Poland. It should be noted that although the number of cooperating pairs of domestic-trade enterprises at the end of last year was three times higher than it was at the end of 1987, the amount of turnovers rose six-fold. To depict the size of direct exchange by domestic-trade organizations, it should be added that last year it constituted almost 30 percent of the turnover of market articles realized by the foreign trade enterprises within the framework of the bilateral protocol.

Approximately one-third of the Polish organizations which obtained licenses for direct trade exchange with the Soviet Union already have more than one partner in that country. Even last year, some voivodship domestic trade enterprises had four, five, six and even nine Soviet domestic trade organizations working with them. At the present time, most of the licenses issued by the Ministry of Domestic Trade provide for cooperation with several partners. The Polish organizations and domestic trade enterprises involved in this cooperation last year were located in 66 places (in all of the voivodships). Their partner's headquarters were located in the cities of 10 Soviet republics, some of which are quite distant from Poland (Georgia, Armenia, Azerbaijan and Uzbekistan). This means that direct exchange between domestic trade enterprises has already lost—in both countries—its border-exchange character.

Trade exchange by enterprises should, in accordance with bilateral agreements, encompass commodity surpluses which are at the disposal of the local domestic trade organization. The exchange excludes the so-called centrally controlled articles and those subsidized from the state treasury. Unfortunately, there continues to be a lack of accurate information on the structure of the commodities. According to information from the Skilled Craft Industries and Trade Bank in Moscow, the following items dominated last year in imports from the USSR: Mechanized household equipment, flatware, toys, photography articles, radio and television equipment, musical equipment, carpets, fabrics and canned fish. Poland's exports consisted mostly of: cosmetics, articles belonging to the 1,001 sundries group originating from crafts production, household cleaning products, plastic jewelry, footwear, ready-to-wear clothing, knit goods, and some food articles (fresh fruits and vegetables, particularly potatoes, soup condiments, and food concentrates).

The unusual growth in the development of direct commodity exchange between Polish and Soviet domestic trade organizations is surprising in view of the fact that there are so many restrictions on it and that the bureaucratic supervision over it, especially on the Soviet side, continues to be burdensome. First, this exchange is based on the equal-value principle (during a calendar year), i.e., without any banking transaction. This forces

the enterprises to make the value of the exchange conform to the capability of the weaker partner (although any excess can be entered on the following year's books, it constitutes a free credit to the partner).

Second, in Poland the inflation rate is, to a large degree, revealed, but in the USSR it appears mainly in forced savings. As a result, retail prices in Poland rise much more rapidly. Because prices are the basis for fixing the value of the exchange, Polish enterprises try to delay shipments of goods in order to receive commensurately more Soviet articles in return. The nontrade exchange rate of the ruble to the zloty, which is most frequently assumed in the settlement of accounts, does not take the buying power of both currencies into account. As a result, Soviet enterprises find it increasingly difficult to obtain acceptance of the prices on goods brought into Poland by their domestic trade offices. In this way, more and more Polish commodities are excluded from direct exchange.

Third, in Poland—in addition to the necessity of obtaining a license—enterprises are required to submit, for approval, a list of commodities to be exchanged to the voivodship domestic trade department, and also to account to that department for the transactions which have been completed (in half-year periods). In the USSR, on the other hand, enterprises which conduct direct exchange of staple goods are managed by the ministries of domestic trade of the Soviet republics through district boards of trade. The All-Union SOYUZIMPORTORG Association performs additional control functions in regard to this. Furthermore, district domestic trade organs approve retail prices on those commodities purchased in Poland which do not have identical counterparts in the Soviet Union. In the USSR there is also a requirement that at least a 15-percent excess of the value of the goods obtained from Poland over the value of the goods supplied to Poland, must be achieved.

An additional barrier to direct exchange by domestic trade organizations is the lack of information. As a result, the Ministry of Domestic Trade, together with the Soviet RAZNOEKSPORT Association, often select partners "by intuition" from among the Polish and Soviet enterprises which expressed a desire to undertake direct exchange. The administrative selection of a partner is not always beneficial to the enterprises.

Despite all of these obstacles—financial, administrative and informational—direct trade exchange between enterprises is developing at an extremely rapid rate. What drives it, therefore? Without a doubt, it is profits. Thanks to the fact that enterprises, in their accounting, have the right to apply the retail prices in effect in the seller's country and the nontrade or other agreed-upon currency rate, direct exchange of staple goods—due to the highly unbalanced market in both countries—is an extremely profitable business.

But does the fact that profits are high mean that this commodity exchange is also beneficial to the state and its citizens? There is no unequivocal answer to this question. The belief can be expressed, of course, that direct exchange freed the initiative of domestic trade organizations and induced them to look for market surpluses in certain assortments of goods and permitted them to clear them in exchange for articles which are in high demand—to the satisfaction of the customers in both countries.

Unfortunately, this is not always true. First, in pursuit of their own profits, domestic trade enterprises can aggravate the market shortage of certain goods. Second, the sale of surpluses can, over the long term, have a negative impact on another segment of the market. It is said, for example, that the large-scale purchase of Polish potatoes by Russian cooperatives was the reason for the large drop in the number of hogs in the eastern regions of Poland. Third, it is not necessary to add that direct exchange by enterprises is inflationary. Under the guise that the foreign goods are "different" from those which are already being sold on the domestic market, and with a marketplace depleted of goods, domestic trade can escalate the prices on items purchased abroad.

All of these doubts do not mean that the cooperation of domestic trade organizations in Poland and the USSR deserves to be condemned and terminated. But it should be said that it appears essential to form such legal, financial and economic conditions as will permit direct cooperation to concentrate on joint production and on enlarging and modernizing deliveries to both markets. The main trend of the "new forms of cooperation" should be joint manufacture and service enterprises and coproduction. Direct trade exchange should only supplement this trend. But at the moment, exactly the opposite is happening.

**Joint Polish-Soviet Organizations (Name, Date Formed, Number of Partners on Each Side, Purpose)**

Coordinating Council on Heavy Cranes; 3 March 1987; 8 Polish partners, 5 Soviet; research and development work, design jobs, joint production of heavy cranes for both countries.

Coordinating Council for the Production of Lathe Chucks and Lathe Equipment; 12 November 1987; 3 Polish, 3 Soviet; coordinate the production of lathe chucks and lathe equipment for both countries.

Scientific Production Coordinating Center for the Knit-Goods Industry; March 1987; 4 Polish, 1 Soviet; develop a process for dyeing and finishing with the use of synthetic thread, and to save water and power.

Coordinating Center for the Repair and Production of Equipment for Unique Chemical Installations; 29 May 1987; 1 Polish, 1 Soviet; deliveries of equipment and execution of repair services by highly specialized work teams.

Coordinating Center for the Production of Mining Machines SOVPOLUGLEMASZ; 27 March 1987; 3 Polish, 2 Soviet; utilization of existing and creation of new production capacity for the production of power and control hydraulics, means for minor mechanization of technological processes for the extraction of coal, rubber products for mining equipment hydraulic systems, etc.

Coordinating Council for the Development and Mastery of the Production of Color Television Sets; based on the existing, since 1985, Konstruktorat group; 7 Polish, 3 Soviet; research, design and applications work in the field of modern color television sets, including digital.

Scientific-Production Organization for Measurement-Control Apparatus; January 1987; 1 Polish, 1 Soviet; as in the name.

International Organization Interhydraulika; 1 Polish, 1 Soviet; research and development work, development of design, technology and production of universal hydraulic and hydrostatic transmissions and hydraulic parts for the needs of the partners and for third markets.

**EEC Trade Negotiations, R&D Cooperation Viewed**

*26000532 Warsaw RYNKI ZAGRANICZNE in Polish No 46, 18 Apr 89 p 3*

[Interview with Andrzej Olechowski, department director, Ministry of Foreign Economic Relations, by Ewa Latoszek: "Agreement with Poland on Basic Matters"]

[Text] [RYNKI ZAGRANICZNE] Late in March the official negotiations with the EEC Commission began on the subject of the terms of the future agreement. What was the general atmosphere at these negotiations?

[Olechowski] The Polish delegation received a friendly reception from the EEC representatives. Many factors influenced this. The improvement in East-West relations and the attempts to conclude an EEC-CEMA treaty are highly significant. Economic and political changes in our country also facilitate our negotiations with the Community. The EEC delegation, which was composed of representatives of the European Community Commission, the Council of Ministers, and the governments of the 12 countries, was prepared to talk positively and very concretely.

[RYNKI ZAGRANICZNE] Our agreement proposal was submitted to the EEC Commission late last year. Does the mandate received by the executive board of the Community conform with it?



[Olechowski] This was only a general concept of the future agreement, therefore it is hard at this time to judge to what degree the mandate conforms with its assumptions. However, immediately after the preliminary negotiations it could be said that both sides are interested in the agreement, which will primarily define the principles of commodity exchange in a very wide range and trade and economic cooperation. On the other hand, all issues relating to commodities which are the object of sector agreements will be excluded from the negotiations on the general agreement. Steel and textiles are the main concern.

[RYNKI ZAGRANICZNE] Poland wants to enter into an agreement on economic trade and cooperation. Which areas of the future cooperation arouse the least controversy?

[Olechowski] Strong emphasis on the primacy of GATT rules plays a large role in the normalization of mutual economic relations. Both sides take this position and this should be viewed very favorably. It appears that the most progress was achieved on the terms for conducting trade between Poland and the EEC. We are referring to arbitration, determination of the rules for registering commodities, some customs-clearance facilities, etc. Also, during the meeting both sides underscored their desire to develop economic cooperation. However, certain difficulties may arise in the area of financial cooperation. We would like to facilitate this cooperation, because we believe that without an improvement in financial conditions there can be no talk about improvement in trade between the parties. It should also be stressed that we will not be trying to solve the problem of Poland's indebtedness, because these matters are not the subject of the present negotiations. Nor is this an attempt to obtain financial assistance from the 12 countries. It is our intention, however, to create the correct and favorable, to both sides, conditions for cooperation in this area.

[RYNKI ZAGRANICZNE] What are the chances for development of scientific and technical cooperation with the Community?

[Olechowski] As we know, a meeting of the special council for scientific research covering the entire Community was held recently. At this meeting, four joint programs were confirmed and six others were approved temporarily. Poland is interested in participating in some joint studies and in gaining access to certain EEC projects. Those solutions which can bring results throughout Europe deserve special attention. We can mention such fields as telecommunications, expansion of the roads and highways network, and environmental protection—so popular at this time. But the Community is still doubtful about such matters and they will certainly require much more coordination.

The positions of the delegations also differ in regard to removal of quantity restrictions placed on Polish goods exported to the EEC. The Community presented the Polish side of the program, whose implementation was to proceed in three stages. It seems that some of the quotas would be removed as soon the agreement is signed, others would be suspended, and quotas on some commodities would be gradually raised. The Polish side would accept such a solution, but only on the assumption that this program would be implemented in a relatively short amount of time and that it would not be tied to other conditions. These matters must still be discussed.

[RYNKI ZAGRANICZNE] And yet Hungary was able to negotiate a timetable for the removal of quantity restrictions.

[Olechowski] The agreement with Hungary is not as favorable as is generally believed. It contains two protection clauses. The first of these conforms with GATT rules and applies to all of the trade exchange between EEC and Hungary. The second, on the other hand—a detailed clause—is applied only in relation to products which are subject to gradual liberalization. It provides that in the case of confusion in the EEC in the market of the commodity covered by the clause, negotiations will immediately be undertaken to establish new rules of trade. If there is no progress in the talks for a period of 10 days, quotas will be reinstated for the period that the agreement is in effect.

Poland is interested in an agreement with EEC which does not contain these kinds of restrictions. I would like to emphasize that an agreement which imposes too many dependencies on our country in exchange for the concessions obtained, will not be satisfactory to us. That is why right now we are not talking about a timetable for the removal of restrictions, but about of the character of the future agreement.

[RYNKI ZAGRANICZNE] It is true that the negotiations have just begun, but has agreement on any matter already been reached?

[Olechowski] Thus far a decision has been made as to the composition of the future agreement. Naturally, the document will contain a preamble and chapters devoted to the specific areas of cooperation. The final chapter will contain detailed notes as to the principles of functioning and the composition of the mixed commission which will oversee implementation of the agreement. A list of the points which will be the subject of further negotiation has also been made.

[RYNKI ZAGRANICZNE] Regardless of the negotiations on the conditions of the future agreement, measures are also being undertaken in Poland to adapt to the changing economic relations in Western Europe. For example, last year the Ministry of Agriculture submitted a preliminary draft of an agreement applying to this field, to the Veterinary Department of EEC. Will the

signing of a general agreement mean that further negotiations in the matter of an agreement with EEC's veterinary authorities no longer be necessary?

[Olechowski] Exactly the contrary. The agreement now being negotiated will simply serve as a general guideline for the development of cooperation. Detailed issues, on the other hand, must be agreed upon by the applicable ministries.

[RYNKI ZAGRANICZNE] When will the next meeting be held and what will it pertain to?

[Olechowski] During the last 2 weeks in April there will be an exchange of preliminary proposals of the texts of the agreement between the parties, and in about 4 weeks we will hold our next talks in Belgium with an EEC delegation.

[RYNKI ZAGRANICZNE] Is it possible that an agreement will be signed this year?

[Olechowski] When the agreement will be signed depends on many factors. There is even a chance that the agreement will be concluded in the middle of this year. Naturally, this will be possible only if there is agreement on the issues.

[RYNKI ZAGRANICZNE] Thank you for the interview.

**IMF Compliance Program Described, 'Cautious Optimism' Noted**  
*26000537 Warsaw RZECZPOSPOLITA in Polish*  
*10 May 89 p 3*

[Article by Tomasz Bartoszewicz: "Compliance Program"]

[Excerpts] The final document of the roundtable contains the following statement: The basis for normalization of financial relations with the West could be an IMF compliance program coordinated with international institutions and creditors. Such a program should not bring about a drop in per capita consumption and should even ensure a rise of approximately 2 percent in its average annual growth. "This statement was agreed upon by all of the roundtable participants.

Thus all parties to the dialogue are in agreement that negotiations with IMF should be begun for the purpose of establishing a compliance program for the Polish economy.

#### Poland and IMF

A great deal was written in Poland about IMF at the time this institution did not want to accept Poland as a member. Later, when the period of restrictions passed—may it never return—and Poland joined IMF, relations with that organization disappeared from the front pages of the newspapers.

But this was only an ostensible silence because, after all, we did not knock on the door of this respected international financial institution in order to simply take part in its sessions. There are other forums for discussion in the world at which each country can present its point of view on all of the issues which are of interest to it.

We joined IMF mainly with the thought of the credits which the fund grants to its member-countries. In any case, at one time much was written and said about how much Poland could obtain from this source.

But all of this is a misunderstanding, for IMF (as distinct from the World Bank) is not simply a credit institution. The purpose of its activities, mainly, is to ensure liquidity in the settlement of international accounts. And the threat to liquidity is the difficult payments situation of certain member-countries. Therefore, respective member-countries come to an agreement with IMF on compliance programs to restore them to full solvency. The fund's credits are part of these programs. [passage omitted]

#### What the Program Consists Of

The important feature of all compliance programs implemented under IMF auspices is their short period—primarily 12 to 18 months. During this period the state's economy, in implementing this program, should demonstrate an improvement in the balance of payments situation.

But what does the program itself consist of? As already mentioned, it consists of a set of actions in the field of economic policy.

First, it must lead to an increase in national income and orderly accounting. Taxes must be collected consistently and all types of reliefs, especially those of a discretionary nature, must be reduced to an absolute minimum, because in order to implement the program the government must have the necessary amount of funds.

A second indispensable condition is a reduction in national expenditures. In particular, various types of subsidies and supplements from the state treasury must be reduced, because an inflated budget leads to an inordinate deficit and is conducive to inflation.

Third, the relationship of domestic and foreign market prices must be changed so as cause producers to become financially interested in exporting. This goal is achieved through a devaluation (sometimes drastic) of national currency.

Fourth, a hard-money policy is essential, one which will be conducive to a growth in savings. This refers to not just savings in the economy itself, but private savings also. Therefore, banks are encouraged to raise the interest rate on deposits.

And finally, the fifth point. The government takes measures to make the flow of means and factors of production more efficient. As a rule, this is achieved through liberalization of economic operations, especially in the area of foreign trade.

As agreed upon with IMF, the compliance program also specifies performance indicators. They include, as a rule, such parameters as: the permissible level of deficit in the state budget, the credits granted by banks for capital projects, the amount of foreign exchange reserves and the payment of past-due interest to foreign creditors. The fund checks these indicators on a current basis and when they are not adhered to, withholds the credits provided in the program (IMF credits are granted in 3-month installments).

#### Are We Equal to the Task?

The conditions set by the IMF, therefore, are quite rigorous. But we must remember that IMF acts in the interests of all of its member countries and its primary goal is to restore the payments balance of the country implementing the program. Until such balance is restored the country will not be able to participate, under normal circumstances, in international economic cooperation.

In the past, when experts considered the possibility of Poland undertaking such a compliance program, they perceived two main sources of difficulty. First, there was fear of that which is termed "public acquiescence." And second, there was doubt as to whether the Western countries will support our efforts in IMF.

We are now in a somewhat better situation because the roundtable decisions can be regarded as a kind of public acquiescence. In any case, the opposition should feel morally obliged to support the government's action in this area.

The international atmosphere surrounding Poland's affairs has also changed in an important way. The United States not only does not block our actions in IMF, but on the contrary, will fully support them, as declared by President George Bush.

All of this permits us to make forecasts of Poland's cooperation with IMF with cautious optimism.

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