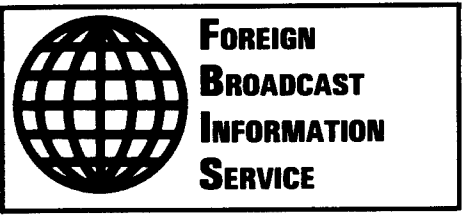


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CZECHOSLOVAKIA

East Bohemia CPCZ Meeting

AU261439 Prague RUDE PRAVO in Czech 22 Jan 88
p 2

[Summary] Regional Committee Session—Hradec Kralove (dg)—The session of the CPCZ's East Bohemian Regional Committee, held in Hradec Kralove on 21 January and attended by Ladislav Adamec, CPCZ Central Committee Presidium member and premier of the Czech SR, discussed, among other things, certain cadre changes. It elected Jaroslav Jenik regional party secretary for political-organizational work, and Pavel Krsnak as regional party secretary for ideological work.

HUNGARY

Leading Reform Advocates' Views on Current 'Crisis' Outlined

25000124 Budapest VALOSAG in Hungarian
No 12, 1987 pp 27-42

[Article by Laszlo Lengyel: "The Final Reckoning." Lengyel compares the views of a number of leading reform economists, political scientists, and sociologists, including Tamas Bauer, Elemer Hankiss, Peter Hanak, and Laszlo Antal.]

[Excerpts] Hungarian society has reached the last buildings on a dead-end street called "modernization." Repeated new waves of impulse in our historic development proved to be unsuccessful. This is a study of diverse theoretical judgments formulated in regards to the most recent wave.

Before anything else it would be useful to define the scope of our comparison. Arguments presented by historians, economists, sociologists and political scientists suggest that from Hungary's viewpoint, neither the East nor the West should serve as points of reference for comparison. The designations "Central-East Europe," or "East-Central Europe," or "Mitteleuropa" [Central Europe], "Zwischeneuropa" have once again reappeared on our historical map. What we have been researching recently was the region, as that concept defines a peculiar structure. [Passage omitted.] This study pertains only to the past 40 years.

In my opinion four theoretical models which may be viewed as significant have developed for the portrayal of the most recent history of Hungarian society and of the Hungarian economy. These theoretical models are not interrelated. In Hungarian scientific life there is not much cross-fertilization between historical writing on the one hand, and political science, sociology and economics, etc. on the other. [Passage omitted.]

The first explanation was provided by Janos Kornai and his disciples from the viewpoint of economics, and by Mihaly Bihari and his disciples from the viewpoint of

political science. The essential elements of the explanation are as follows: at issue is a peculiar Soviet-type socialism, whose political characteristic is the centralized integration of society, a redistributive (distributive and redistributive) feature, and privilege held by the political power regarding the definition and operation of the redistributive system. Social order is based on political and ideological values, and is lopsided in favor of the political sub-system (the political sub-system absorbed the economic, cultural, educational, etc. sub-systems). The political sub-system is party-centered; it is one in which the party exclusively exercises power, and in which the state is condemned to implement tasks and to play the role of a bargaining agent. Alternatively, combined into one, it is the party-state or the state-party which appears to be the lead actor in the political sub-system. Socio-political and interest representation organizations and functions are organized within one center. The political sphere strongly centralizes decision-making authorities in a manner consistent with the vertical and horizontal rationale of specialties, but value systems and spheres of decision-making constantly mix as a result of overlapping existential spheres. The bureaucratic system of organizational centralization which takes interests into consideration—but does not tolerate the open expression of interests or conflicts—is consummated in the form of hierarchical paternalism which is based on personal dependences. The operational standard of the politically biased Soviet-type economy is shortage; it functions under conditions of forced substitution and the responsibility to provide. Economic management is attempted on grounds of basic ideological principles (equality, the planned feature, full employment, superiority of state property, communality, etc.) which not only contradict the principles of market economics (efficiency, capital appreciation, free enterprise, financial motivation, efficient employment, etc.), but also exclude the possible functioning of the norms of market economies. Centralized, paternalistic and bureaucratic economic management, and the functioning of that management pursuant to norms, necessarily leads to the total absence of enterprise adaptation to the market, and at the same time to the "organic" adaptation of enterprise and the centrum to each other, to subsistence-based ["naturalis"] investment demand, and to soft budgetary constraints in enterprises. The norm has become something internal: the self-identity and self-balance of the economy and of society becomes the identity and the balance of the centralized shortage mechanism. This too is the source of that constant, that continuous rigidity which this mechanism, this model manifests in response to all market-oriented reform. The autarkic mechanism of a shortage economy which organizes itself on the basis of subsistence, either rejects as foreign bodies the regulatory elements of pricing, financial motivation, and of a supply market, or incorporates those elements in a faulty, disfunctional manner, or perhaps tolerates these elements as an inclusion. The first assumption appears to be borne out by the fact that as soon as market-oriented reforms reach a certain

critical mass [volume] which would change the functioning pursuant to the norms of the marketplace, that mass of market-oriented reforms will never transcend the political walls of the hierarchical system, instead it will be cast out of the economy and of society as a foreign body. The 1968 reform of the Hungarian mechanism serves as the example for faulty incorporation. In it, plan directives and consequent plan bargaining were changed to the distribution or redistribution of fund allocations and to consequent regulatory bargaining. This represented market simulation but not real market norms, and therefore by no means was less worse than the earlier mechanism. Finally the creation of a market inclusion, such as with respect to small enterprises, is possible, but this will never become a comprehensive market system. The main statement of the theoretical trend is that our society has a peculiar methodical feature which can be defined in a scientific sense, and which counters the political and economic mechanism of a market economy, and of a pluralistic mass democracy.

In this Soviet-type society and economy there cannot evolve a civilian society separate from the political state (the political state takes over such societies where they have existed before). All the initiatives of civilian society are transitional; sooner or later they will suffer the fate of annihilation.

What could have served as the historical background for those 40 years? Could it be that some earlier features, some "original characteristics" of several centuries yielded a pattern of modernization in which an excessive and forced increase of norms, extensivity and paternalistic behavior by the state are the standard? Viewed this way there may be two explanations. According to one explanation the European states of "realsocialism" [pragmatic socialism] belonged and belongs to the East-European region. [Passage omitted.]

According to the other viewpoint, the continuity of Hungarian development was unorganically and artificially disrupted. Even if some earlier institutions and organizational principles survived, beginning in 1945 there continuously evolved an East European alien model, which incorporated or reincorporated intercultural societies into East Europe. The disruption reinforced the existing East European values and institutions of these societies to the detriment of West European values and institutions they held, and made the egalitarian, anti-individualistic, anti-entrepreneurial, pro-state, ideological and paternalistic norm system their integral part. [Passage omitted.]

I call the second trend as the "negative dualist" model explanation. I would tie the description of this model to Tamas Bauer in terms of economics, and to Csaba Gombar in terms of political science.

According to this second trend the changes that took place since the 1968 Hungarian reform and in general since the middle 1960's moved away society and the

economy from this Soviet-type model into another direction. The earlier political, economic and ideological logic of the system was broken. Within the economy there came about a situation which was regulated "neither by the plan, nor by the market," and there evolved a dual dependence of enterprises—partly on the directing authority, and partly on the existing limited market. There also came about an undifferentiated divergence of plans and regulators, and a one of its kind cyclical centralism. The solid unity of the branches of power came to an end, but an open division between the branches of power could not come about. Some peculiar endeavors for economic balance take shape; these are tied to the status quo, do not express a struggle but rather an acquiescence into the processes. "The marriage of an impotent man to a frigid woman may be viewed as a kind of 'balance'—nevertheless this could not be viewed as the ideal form of relationship between the sexes. Instead of a relaxed 'state of economic balance' an intensive tension between opposite interests would be much better."

One of the main contradictions of this marriage is that Hungary is an integral part of the CEMA region. The source of dual dependence within the Hungarian economy may be found in the dual dependence of the entire economy. The enterprises, the economic mechanism are built on CEMA's system of subsistence relationships and upon its institutional structure, a fact that openings to world markets cannot offset. The economy retains its centralized investment feature, which then combines in a negative fashion both with the global market challenge and with the domestic market demand that appeared after 1968. Thus one is presented with the negative aspects of both types of regulators: all the weaknesses of the plan and of planning manifest themselves (lack of foresight, institutional bargaining, the impossibility of influencing processes, while at the same time compromise processes are being introduced continually, etc.), and so do the problems of quasi-market regulation. [Passage omitted.]

Society is not organized within a state, but neither does the duality of the political state and of a civilian society exist. Instead there exists a careless society, a "black box," within which opposing organizing principles and norms mutually hinder and exclude each other. The foundation for this geopolitical, domestic policy and economic stalemate is that not even the unified endeavors of the entire power structure and of society can change the basic situation, while the mutual acknowledgement of this fact—pragmatic social policies—could produce a distorted Hungarian structure, velleity, an unstratified society and policies, and dead-end for development. A negative consensus may come about, one which cannot promise more than that it will transform a rigid arrangement into flexible arrangements. It is this negative consensus, this velleity (faint will) that brought about the malaise of the Sixties, and later the age of nostalgia—the 1970's. In the end it is this that produces the condition of total helplessness, of "senseless unison,"

of "unclarified and disintegrating goings-together," all of which are held together "only by the ensemble of reciprocity of fear and the fear of something undefined." [Gombar: "Our Velleities 1987" (Manuscript)] [Passage omitted.]

From an economic-anthropological standpoint Tamas Bauer stresses a significant issue. In arguing the conception propounded by Tibor Liska, and independent from any study of national character, he makes an assumption of general applicability. According to this assumption hired labor, as compared to entrepreneurs, always represents a majority in societies. Hired workers constitute a majority of Hungarian society also, workers who are tied to organizations, who implement, and whose activities are closely integrated into the division of labor. It then necessarily follows that the calculating entrepreneur, the group that organizes and manages its own work constitutes a minority. Bauer does not share the view that this is a feature specific to the system. In his opinion the behavior and consciousness of hired workers represents a definite majority in developed industrial states also, and entrepreneurs a minority. [Passage omitted.]

The third trend starts out from the vision of a dual society, a dual economy. The related authors: Elemer Hankiss, Istvan R. Gabor and Sandor Kopatsy. According to this trend within the Hungarian economy there gradually evolved an increasingly independent second economy, whose system of coordination is different from that of the so called first economy. The first economy, or state socialist sector (Ivan Szelenyi)—the budgeted economy (Kopatsy), and its autarkic feature of a shortage economy founded on monolithic, monopolistic, paternalistic, subsistential and ideological values and interests continues to exist. Within the first economy everything is determined from the top down through political means; it repels every attempt for improvement or reform, alternatively, such attempts prevail only in a supplementary capacity. Accordingly, this explanation accepts Kornai's thesis concerning the first economy. But this view holds that the second economy, which willingly or unwillingly came about and gained strength, is capable of an independent existence, in other words it is capable of more than just supplementing and influencing the first economy. Within the second economy—and according to assumptions made in certain writings by Hankiss also within the second society—a chain of horizontal relationships is at work, in contrast to the vertical organization of the first economy. The first economy and society is centralized and concentrated, while the second economy and society is decentralized and deconcentrated. In the first economy and society the opportunity for individuals and groups to be independent is ruled out, while in the second economy and society autonomy and sovereignty have appeared. The first society follows an ideological and political system of values even if it does not abide by those, while the second society builds itself on the basis of practical, pragmatic principles. The more the first society's and economy's growth dynamics vanish, the more clear and

the more apparent the rapid growth of the second society and economy becomes. The more spectacular the first economy's waste of manpower, energy, materials, imports, investment assets and of intellectual capital, the more apparent is the thrifty, calculative, adaptive character of the second economy. The more reduced the innovative, perspective character of the first economy, the more noticeable and forceful will be the second economy's innovative, perspective character. This second economy is capable of yielding a far greater degree of human and citizen autonomy than any change in the first economy could. Its independent grassroots organization can develop the second, civilian society. If this trend cannot be seen with sufficient clarity today, this is so because there still exists a significant amount of interference by the first society and economy. This results in social traps, the continuous standing war between the first and the second society. [Passage omitted.]

All attempts for the radical reform of the first economy and society are superfluous efforts, or, what is worse, such attempts represent provocation which once and for all makes the gradual development of the second economy and society impossible. The two sectors have different weights in this positive dual adjustment, but according to the trends, within the economy the first society's and economy's forced, alien system of norms will necessarily yield in favor of a productional, contractual system of norms. Although society's self-identification may have gotten lost periodically in the subsistence redistributive shortage economy, as a result of earlier historic development the productional reflexes and demands for autonomy functioned and still function today.

This is the source also of the historian's conception which would exempt Hungary from under East European regional determinism, the conception which is not satisfied with the sub-region rank of the East-Central European theater but instead designates it as a self-contained region. I am referring to Peter Hanak's and Jenő Szucs's writings. [Szucs, Hanak: "The Regions of Europe in History." Lectures at the Social Science Institute of the Hungarian Academy of Sciences, 1986]. According to these views, in various periods of history there could have existed a variable and intercultural Central Europe or Central-East Europe, in which Western and Eastern forms overlapped. The debate concerns the issue of whether one should rather consider the existence of a hybrid theater than a sub-region that is clearly attached to East Europe. In his since famous sketch, and in subsequent debates over the sketch, Szucs tries to prove that already prior to the 1200's there was a noticeable difference between Russian and Hungarian development, but that around the year 1200 economic reorganization took place in Europe: Western feudalism which was becoming expansionist broke through toward Hungary, while at the same time, Russian development declined. "Insofar as Hungary was concerned the "Russian Gate," the mountain pass at Verecke ceased to perform the role of a trade route; since the middle of the

13th Century, through the end of the Medieval Ages (and continuing into the Modern Age) Hungary became an integral part of the Western economy" [Szucs]. [Passage omitted.]

Thereafter Szucs raises a question which, compared to other historical conceptions represents a watershed: "did indeed the economic change that took place in the 16th Century distort the structure in such catastrophic dimensions that it would warrant the listing of Hungary among the sub-variables of the 'East European' type of development?" In agreement with Hanak, Szucs believes that one may answer this question in the negative. Hanak argues that one must differentiate between the 16th and 17th Century Central European detour on the one hand, and the closing of ranks in development during the 18th Century on the other, as well as between the Russian reversal and development, and the subsequent falling behind that began at the end of the 18th Century. [Hanak, id. p 15: Undoubtedly the detour and the return require some serious historical clarification just as the differentiation between growth and progress does. A debate in this vein was initiated in 1975 on the pages of VALOSAG by Gyula Benda and Domokos Kosary, it was not continued, however.] [Passage omitted.]

...Hanak's most important statement is that it was not the import of foreign capital, i.e. external interference, but rather internal developments that forced Central Europe on the path of productional capitalism. "The genesis of capitalism was not an inorganic development forced upon the Hungarian and other coexisting societies, instead it was the most passable, organic way to capitalize East-Central Europe."

And here we came back to the original economic statement: Hungarian society and the Hungarian economy is organically mercantile and monetary in character, into which structural distortions entered through natural processes in various periods of history, which were then molded into a hybrid by virtue of historical development. Being squeezed in between the two expanding regions, and later being integrated into the East European region strengthened the anti-mercantile, dissimilar character of the hybrid. But at no time was it possible to destroy the hidden Western forms which clinged to institutional autonomies.

Within this line of thought the economic-anthropological approach is based on the extent to which one views Hungarian society as entrepreneurial. According to Kopatsy, the past decades divided society into two parts: an entrepreneurial minority and an implementing majority. As a result, entrepreneurial integrity cannot be attained by virtue of any democratic solution, and Western adaptation can be accomplished only through coercion.

The fourth explanation holds that within the societies and economies of the East European theater there never

existed a pure subsistence-type distributive and redistributive model in which money does not exert a regulatory effect. Fundamentally, the countries of realsocialism were always motivated by money, they were not single-centered, etc. The teachings of a new monetary school of thought are being formulated in the writings of Laszlo Antal and Karoly Attila Soos. [Passage omitted.]

The point of reference is not Soviet development, but the development of Yugoslavia and of the small countries in general. They envision the particular development of the Hungarian model not as the modification or splitting of a monolithic whole, but as an internal regulation of bargaining (plan bargaining, regulatory bargaining, price bargaining) through monetary processes and administrative campaigns. [Passage omitted.]

In the framework of indirect economic management enterprise interest groups and multi-centered management organizations relate to each other in vertical bargaining processes. The uncoordinated, but certainly single-directional endeavor of enterprises leads to the concealed and slow stressing of financial allocations which cannot be controlled by the apparatus. Fundamentally, the mechanism is interested in preserving the status quo. The reason for this is that immediately behind the bargaining mechanism there are political power relationships, and thus a change in any of the bargaining positions transforms the relative strength of relationships in the political power structure also. On the other hand, the certainty of the outcome of bargaining, the relative permanence of the actors involved in the changes allow the system to function. Financial motivation has even more significance because while one can perceive that dynamic growth is encouraged by central management through means of subsistence—moreover this is quite natural—real restraints can be realized only through financial means. [Passage omitted.]

The Hungarian model has the attribute of permitting consumer independence and the peculiar ways of securing income necessary for consumption (the workforce is not, or is not merely hired labor, which, by selling its labor in the sector that is called "socialized" receives a limited income which which obliges workers to make forced substitutions, nor is the workforce an entrepreneurial actor in the economy which calculates on the basis of the market and invests its labor on the market where it provides the greatest return. Instead, the same persons are both hired laborers and entrepreneurs, and the same persons connect themselves both to the horizontal and the vertical bargaining processes). Since within this mechanism the political elite, just as the organizations and pressure groups monopolistically tied to it, abstains from acknowledging the appearance of the independent individual or group market entrepreneur, no market actors are created, and without those there is no market. This same mechanism hinders the evolution of personalities and organizations who engage in independent interest representation on behalf of employees, producers and professions. And finally, the mechanism

places obstacles in the way of establishing independent, and constitutionally accountable rights and obligations for the citizen politic. For this reason, beginning in the middle 1960's an ill-matched modernization and bourgeois development took place. [Passage omitted.]

A peculiar compensation of advantages and accumulation of disadvantages presents itself in the 1980's. The groups struck with the function of defraying the burdens of the state are not capable of bargaining, not even from the standpoint of the second economy. They do not possess real positions in the marketplace of capital, labor, knowledge, or connections, and emerge there only with goods that are marketable at a very low price. In contrast, however, the earlier social elites, the upper crust of those who were becoming the middle class are capable of making their work, their specialized knowledge, their assets, and their acquaintances prevail also in the second economy. We may view this group as being on the defensive, since it is trying to offset within the second economy the crisis situation that evolved in the first economy. But the conduct, the relationship of these two social groups, the two "societies" vis-a-vis the political state is decisively different.

The decisive question in the final reckoning is this: what kind of relationship can these two groups establish—groups which are getting farther apart from each other in terms of life situations and order of values—one of which enjoys the ill-matched advantage of bourgeois development, and the other which suffers the disadvantage of having to carry the burden of the state's economic bankruptcy. Are we still going to limp along with the practice of pressing things to the peripheries, and of projecting things into the future, or is there going to be a change in which the strong groups will also begin to carry the public burden? The second question is this: when and how will the force of the economic crisis shatter the groups which show middle class evolution, and which are capable of bargaining? When will the strong political and economic groups be stricken by a disadvantage similar to the one that was borne without perspective by those who were pushed to the peripheries? And in what direction will the social groups want to break out: in the direction of establishing an institutionalizing, secure, civilian sphere deprived of privileges, or in the direction of expanding authoritarianism which sustains monopolies and privileges, and which is controlled by an increasingly narrowing elite? The reckoning has begun.

12995

Interior Ministry's New Control of Local Councils Explained

25000109a Budapest MAGYAR HIRLAP in Hungarian 12 Jan 88 p 4

[Editorial: "What Considerations Guided Reorganization? The Ministry of Interior and the Councils," under the rubric "The Councils' Forum"]

[Text] For more than 12 years, since the discontinuation of TANACSOK LAPJA, this paper reported on the works of the council organization, and, according to its

means, endeavored to help the development and modernization of the processes of that organization. At the same time, it is known that in recent times a number of significant changes took place in the context of governmental reorganization—changes which directly affect the organization of councils as well as our newspaper.

Guidance Will Be Effective When It Works With Self-Assured, Autonomous Governments

First of all, we are talking about the discontinuation of the Office of Councils, and as is known, about the fact that in the future the Ministry of Interior will assume the role of overseeing local government administration. This organizational change may have surprised many. In the eyes of public opinion, including the councils' public opinion, the practical manner in which the higher level guidance of councils will take shape has not been sufficiently clarified, at least for the time being. Let us add here: several statements of an informative character were made already.

At the same time we feel that it is relevant to repeatedly reiterate the effect of these changes on our newspaper. The change is that beginning 1 January, as its banner head indicates, MAGYAR HIRLAP has been the newspaper of the Council of Ministers. It is worth calling attention to this fact to the extent that the change represents additional obligations for us. Additional obligations, so that among other things, our work affecting the councils improves, and that we help harmonize the broader public interest manifested in the central will with local interests represented by the councils.

At a recent working session with Ministry of Interior officials it was stated that the Ministry, in the course of its guiding work, will start from the fact that governing can be effective if it is self-assured and independent, encourages self-initiating autonomous governments, and cooperates with those.

Of course, no one wants to avoid the fundamental question: what conceptions guided the reorganization of the highest organization that oversees the councils?

Foremost of all, let us quote from the Prime Minister's words at the winter session of the National Assembly:

"The organization and tasks of the Office of Councils will be structured so as to become part of the Ministry of Interior. With this decision, this important ministry will take a significant step toward the fulfillment of the governmental function that pertains to internal affairs and to local government administration, in addition to performing the tasks related to public order and internal security. The construction that provides for the guidance of councils, as specified also in the constitution, remains unchanged. The central direction of councils continues

to remain under the jurisdiction of the Council of Ministers, but henceforth it will no longer involve the state secretary, but a member of the cabinet—the Minister of Interior.”

Governmental Representation Without Operational Intervention, One That Suits Areawide Interests Better

Essentially, the foregoing suggests that the issue pertains to governmental simplification, which at the same time also means relationships that are closer than before between the government and the councils. In a literal sense simplification may be understood to mean that the new organization will function with a smaller staff and pursuant to a more clear-cut official order. It can do so, because the temptation for operational intervention is far removed from it.

Nevertheless the question of why the Ministry of Interior was assigned the role of local government administration remains unchanged. Namely as mentioned before, this decision could serve as the foundation for certain doubts, misunderstandings, as it already did, on occasion.

Once again, a response to this issue requires a quotation from the interview, a statement by the Minister of Interior to our newspaper during the winter session of Parliament:

“This doubt indeed emerged among professionals and scientists, and within various political forums during the preparatory period. I think the assignment can be explained by the fact that since 1952, in its essence, the Ministry of Interior was perceived as the “police ministry” in Hungarian public consciousness. This, in spite of the fact that the ministry’s functional scope was much broader than that. The traditions of Hungary, including the practice of the post-liberation years contributed to the uncertainty. The present situation, however, does not represent a revival of some tradition. And it does not even mean that area-wide local government administration will simply be structured, perhaps merged into ‘Interior.’ Instead, we are talking about integration, in which guidance, and in the future council management, planning, and budgeting will receive representation that is more responsive to area interests.”

In summary then, “Interior” was not assigned the role of overseeing the councils just because a long time ago local government administration was under the jurisdiction of the Ministry of Interior. And the assignment was not made because also abroad, the local government administration function is under the jurisdiction of interior ministries. We should view the reasoning this way: within the present reorganization of governmental work the Ministry of Interior was found most suitable for the development of a more direct, more effective constitutional line-relationship between the government and the councils.

To prove the latter we once again quote the Prime Minister’s words at the National Assembly session that dealt with reorganizations:

“In the interest of elevating the Council of Ministers’ relations with councils to a higher level, we have established the College of Councils of the Council of Ministers, to be headed by the prime minister. This will be a cooperative form between the cabinet and the councils. It will engage itself in interest reconciliation, and later can function as a forum for interest representation.”

Common Goal and Common Interest: The Strengthening of Organizational Autonomy

In other words, it is the goal and intent of the government—and let us add, also the interest of government—to respect and to further strengthen the autonomy of local bodies. It will carefully observe that its will—which is dictated by the general public interest, and which henceforth will be enforced through local government administrative organizations of the Ministry of Interior—does not conflict, and remain in harmony with local interests.

One should not forget, however, something else that is part of the Prime Minister’s parliamentary report. Notably:

“While one does not underestimate the importance of organizational conditions, we still must say that these changes have the character of form, as compared to the substance of goals and tasks that confront the nation and await resolution....”

In other words, more accurate, better and more professional work will bring the expected results in production, and let us add to this, also in local government administration!

12995

KISZ CC Meeting Sees ‘Dissolution of Social Contract’

25000131 Budapest MAGYAR IFJUSAG in Hungarian 5 Feb 88 p 3

[Report by “kajo” on discussions and speeches at the KISZ CC meeting on 28-29 Jan 88 in Zanka]

[Excerpt]

Bound to the Soil

“Why has the KISZ taken the offensive precisely on the ‘housing front’,” we might ask. For the lack of both housing and work are serious “deprivations” but the internal logic of things suggests a sort of priority.

Acquiring housing, which has become a life program, and the lack of freely selectable apartments into which one can move holds employees in a new sort of "bondage to the soil." In vain might there be work elsewhere if there is no place to move into. And without an infrastructure aiding manpower mobility, the economic constraint gives birth only to individual tragedies. Individual tragedy and just social resistance—against change. Against the economic structural change without which nothing can be accomplished.

Panel

We have had enough of "ideologizing" every situation as it comes up! This is what rang out from the debate by the panel led by the Budapest first secretary. This is the position of young people who grew up in a world—as they say—covered with "socialist paint." And now, in these years, they feel on their own skin what a difference there is between the socialism taught and the socialism experienced. They feel themselves to be cheated, and they want to see clearly. They want an ideological analysis with a scientific basis which will stand up over the long run. Even at the price of greater disillusionment compared to the inherited desires they had been taught, as if we might re-evaluate only the most pressing problems. This age group is not satisfied with the correction of individual errors and mistakes. And they protest against mere tactical solutions—which only promote stagnation—to reduce tension. They want instead a country where there will be guarantees that our present social maladies, and their causes, will never return again.

What Sort of Socialism Are We Building?

Concepts were often mixed in the responses. Some wanted an ideological debate, some a political debate, some a debate to clarify values and some a combination of them all. But there was agreement in one thing, that the KISZ needed a series of debates on "What Sort of Socialism Are We Building?" Precisely because of what was said by CC secretary Janos Gonci in his presentation:

"The earlier practice of socialism sacrificed the economy for quality of life, and so it conserved an equal but modest quality of life. Now the danger is that the family, the community, culture and education, and quality of life will be sacrificed for the economy. Work to clarify theory is very important to avoid this danger." And he cited the results of two representative surveys, one 5 years ago and a new one. "In the awareness of young people at that time a lack of success and the inability to prosper were attributed to a fault of individuals; the social conditions were considered as given. But now young people feel a lack of conditions, of possibilities, a gap between theory and practice, so in their awareness the system has become responsible. According to the survey the social contract has been dissolved. And what is very important, they think that it is not they but rather the state, the adults, and other parts of society which

have broken down. People may ask why we are dealing with theoretical-political questions now when so many other problems have accumulated. Shouldn't we rather deal with something else in order to get on? This debate is taking place in society already, among young people too. Even if we do not get involved. The question for us is whether young people get an answer from us or from some other source. Because they will certainly get it from somebody. If we get into it then we can provide orientation, can organize the debate and bring our own forces into areas which are important for us."

Later the majority of the comments also confirmed that this debate series must be organized with great flexibility. The goal is not to get various initial themes accepted or debated. They should only serve to provide an occasion, to awaken thoughts for the debate.

To quote Janos Gonci again: "The goal of the debate may be different for different strata and localities. For those working in industry and agriculture we should win opinions, provide ideas and ways of thinking, simply and understandably overturn taboos. Among the intellectuals there is very probably need for more than a clarification of values. The KISZ can get information and theoretical ideas from this group, if it can prepare the debate in advance. Based on this let me note that Engels was 28 and Marx 30 years of age when they wrote the Communist Manifesto. I have left secondary school students for last; they are the most important in this debate. Here there is a need primarily for forming a way of thinking and providing information which public education does not provide. And let me note in this regard that what is important is not quantity but rather quality."

Naturally the debate cannot be concluded on the occasion of a single program or political event. And in this series of debates a special place will be occupied by party conferences at which the KISZ will present what has been achieved so far.

Watershed

There has been a lot of talk. And one can hardly get away from the reformers any more. Today voicing reform slogans and urging apparent changes provides the best cover even for conservative forces. But even so the backbone of the KISZ spring program now is made up of two reform spirit debates. You may think this a contradiction, but there is another answer too.

Hiding different interests and aspirations behind the same words does not serve our development. It can only cause general confusion and make even those with the most honorable intentions uncertain, depriving them of credibility.

The two KISZ debates now are more than a ringing affirmation of reform. They go into the thick of things. They impinge upon daily interests which involve immediate profit. And taboos on which the welfare, influence

and power of persons, groups and institutions have been built. These two debates together provide an occasion for the conflict of the most concrete and most general interests. Those who get into these debates must decide and must show those around them where they stand! We must find out what personal sacrifice and personal risk people will assume for change, for the reform!

Past years and months have made it obvious that—to use the well-known phrase—“the situation has no cause to change by itself.” One cannot expect those who profit from “everything remaining as it is” to see that time has passed them by. Only interests which have been organized into a political force have a chance to succeed.

These debates can become an organizing force. They can designate those theses of KISZ policy behind which a larger force can be organized. And they can select out and bind together those who can be won as allies. They will be an opportunity for getting together both inside and outside of the KISZ. They can create a common platform for all those who want to oppose a retreat anywhere in the country, at any level.

8984

New Book of Grosz' Speeches Praised
25000109b Budapest PARTELET in Hungarian
No 1, 1988 pp 32-35

[Book review of “Socialism and Modernity,” a collection of 22 statements written by Karoly Grosz, Premier of the People's Republic of Hungary, by Laszlo Fodor: “We Must Rethink Our Endeavors”]

[Text] The publication of a politician's speeches, articles and statements in book form provides a good opportunity to get acquainted with the ars poetica of politicians. These volumes reflect political confessions, permit insight into the authors' characters, reflect their perception of various phenomena, and show where they started from and how far they have gotten. A book like this can familiarize the reader with the person himself, the faith from which he gains strength, his standing up for a good cause, the risk he took in the struggle in which he believes and for which he works.

Published recently, Karoly Grosz' volume, “Socialism and Modernity,” is a piece of work of this character. The first writing in the book saw the light of day in April 1981. At that time Grosz served as general secretary of the Borsod-Abauj-Zemplen county party committee. Entitled “One Year After the 12th Congress,” he summarized the work that has been accomplished since the congress, as well as the most timely tasks. Facts and figures are regimented therein. The construction of 29,000 apartments was planned for the duration of the fifth 5-year plan in the county, and a total of 32,000 were built; in 1980 the average pensions paid were 81 percent higher than in 1975; in five years more than 70 billion forints were invested in the county.

It was not the figures that impressed me, however. I was impressed by the way this politician argues and explains. By reading his lines one obtains a sense of how much importance he attributes to the fact that “the 12th Congress further reinforced confidence in party policies ... that the party membership lends its unanimous support ... the broad masses outside the party accept it as a national program.” But already in this article Grosz forcefully introduces the idea that “It has not sufficiently become part of consciousness that in order to protect our accomplishments so far, we must work more, in better and more modern ways.” Herein, as well as in further interviews, speeches and articles, Grosz' concern for the future, his search for the way out of economic troubles, the summarization of favorable and unfavorable experiences, and the definition of tasks becomes a virtual constant.

A sober analysis of the situation may be seen in virtually all of Grosz' utterances: severe tensions and contradictions have piled up within the economy, our convertible foreign exchange indebtedness has increased, the harmony between enterprise production and enterprise income has disintegrated, part of our traditional export products have depreciated on the global marketplace. The everyday confronted leaders and subordinates with merciless facts: conceptions that aimed for economic improvement did not materialize, the contradictions of the regulatory system disturbed [central] direction, the anomalies of the societal system of values and weaknesses in the standards for leadership had a retarding effect on the evolution of achievements by collectives and individuals.

The author assembled a bouquet of problems. In a verbal supplement, delivered at the Budapest party conference in his capacity as general secretary of the Budapest party committee, along with the recitation of accomplishments, Grosz strongly emphasized the fact that in the past five years, compared to developing nations, the technical and technological level of backwardness in production has increased. The means and opportunities needed for renewing the production structure are tight. And so he continues in a September 1986 interview entitled “Our Worries and Our Opportunities.” “Our situation is aggravated by the fact that we were unable to modernize the structure of the economy and the product structure of the enterprises.” In his remarks before the MSZMP 13th Congress the housing situation took first place. “Although quantitatively the apartment shortage has substantially moderated, we nevertheless have 10,000 applications for apartments from applicants who can have only minimal hope to obtain an apartment of their own, considering present prices ... the renewal of 153,000 apartments and of many institutions is needed ... annually there are 25,000 disruptions in our public works, due to obsolescence.”

Karoly Grosz repeatedly professes: we must confront these and other tense circumstances. For instance, in plants and institutions it is difficult to break through an

attitude of playing the game of equality; corruption is spreading; fraud is flourishing; public opinion has increasing difficulty in accepting the idea of income not backed by labor; and the difficulties that confront the evolution of socialist democracy. In his Christmas 1986 NEPS-ZAVA article the author synthesized the issue when he said: the condition of the nation-building effort is rightfully the most debated domestic policy issue. He also expresses his opinion as to why these tensions evolved, and how we can get out of this pressing situation. And later, almost as if to continue this line of thought, speaking of the cabinet's evolutionary program as Premier, he had this to say at the 16 September 1987 National Assembly Meeting: "The cabinet's work program cannot aim for the resolution of all the accumulated tensions. But it can aim for helping to adjust to the new global economic situation, to avert the danger of falling behind the developed nations, and to take a stand supportive of the acceleration of economic and social reform processes that have been decided earlier ... There is an urgent need for us to follow this mentality of our policies, to confront with a similar openness, and to take decisive action regarding the concerns that have accumulated in the economy and in the institutional system. Such determination is necessary in order to defeat the economic problems, to gain the upper hand over functional disturbances in society and its institutions, that we act and stand up against the fading of ideological life, and against the uncertainty within the politically oriented strata of society." According to the Premier, there is an urgent need to confront the mistakes we have made so far, and that we take the unavoidable steps. It is Grosz' firmly professed conviction that "... our goals can be accomplished with several years of consistent, disciplined, well-thought-out management. In order for this to happen, however, we must modify our conception, we must regroup our means and rethink our endeavours; we must work more efficiently and produce substantially more value. Everywhere the need calls for order and discipline, and for what serves as a foundation for order and discipline: the full enforcement of the performance principle."

Tough, determined words. These are the words of a man who is aware of the difficult times in which he became cabinet head, and knows the kind of responsibility that is placed personally on him, and on the cabinet. In his National Assembly statement the Hungarian Premier was able to promise only a few favorable things, because he sought sacrifice and an understanding of the acceptance of double-digit inflation from society. Based on the stringent logic presented by the facts, Grosz could only promise that he and the cabinet will do everything for the recovery of the country from its difficult situation, and for the establishment of foundations for a new prosperity.

Having listened to Karoly Grosz in Parliament, and now, having read those words in his book, the Premier's speech sounded like an overture to a new period in the Hungarian reform process. The politician's speech could

be construed this way at the time when within the National Assembly and throughout the country there were and are heated, passionate debates about the future. Just why did the Premier's statement generate supportive confidence? Because, among other matters, the cabinet head did not mind, did not perceive as trouble makers those members of Parliament who commented and introduced a real avalanche of modifying amendments prior to the fall session of Parliament. Instead he expressed thanks for the responsible suggestions that brought up public concerns, supported the need for more effective legislative control over the cabinet's work—legislative oversight of the activities of ministries, and the extent to which those activities correspond with public needs.

Karoly Grosz' interviews, speeches and articles reveal that he does not view the country's situation and the party's internal affairs through the old spectacles we are accustomed to. Grosz professes that in Hungary the party has the leading role, but he also knows: "Like every political organization, the unity of our party in terms of spirit and action is confronting new trials that emerge daily. Aware of the facts, if necessary, communists review their earlier viewpoints and reach other, better conclusions. Yes, the party must always renew itself; it must apply new forms; it must be open."

This is particularly true in the present period, when not only is the sphere of action limited, but there are also many layers and many colors present in every field of life. In a March 1987 interview Grosz raised the question: how should we handle differing political viewpoints? Who are those who think differently, who are those in the opposition, who is the enemy? Grosz answered the question: "... the first category is composed of those who agree with me as well as those who disagree with me. These could be my allies, and at the same time my debating partners.... The second group consists of the opposition. They do not want socialism, but they follow the lawful path.... I assume these persons want the good of the people.... This assumption can serve as our contact point. What derives from this may add a motivating force to the construction of socialism. We have no point of contact with the third category, those who break our laws, those who conspire to overthrow socialism."

It is no coincidence that in this interview Karoly Grosz discussed at length our political culture, the manner in which we should be debating. He stated that "For a long time we did not attribute importance to debate.... There were and are elementary questions, of course, which cannot be subjects of debate, since those affect the foundations of marxist-communist conviction. These are a 'yes' to socialism, the question that pertains to which side of the barricade one stood in 1956, the alternative of war and peace, and so on."

What gives faith to communist leaders in the everyday struggles? In his book, "Socialism and Modernity," Karoly Grosz answers this question also. Personally, his

faith and strength comes foremost from his worker background. From the fact that he was born and raised in a city where his grandfather worked as a foundry worker, his father as a lathe operator, and he as a printer. He became familiar with the life of proletarians and with the strike struggles of workers during his childhood in Diosgyor and Miskolc, and at an early age became a member of the communist party. He had his share of house searches by the Horthy police, became a union member prior to liberation, in 1945 he printed and pasted posters, at a young age he became a SZIT [Szakszervezeti Ifjumenkas es Tanoncmozgalom (Movement of Socialist Young Workers and Apprentices)] leader made independent [sic], a party member, a military officer and an elected official. He gained strength from what he defined in his 16 September 1987 statement before the National Assembly: "I am convinced that in the spirit of our party's 13th congress, by joining together we will be able to lead this country out of its present, difficult situation, and that we will establish the conditions needed for evolution."

The 387 page book that contains 22 statements projects a comprehensive and diverse politician's ars poetica. In it a man "introduces himself" who had to confront in the past and in the present a multitude of concerns and a similar number of expected and unexpected difficulties—a man who always responds to these. Karoly Grosz does not want to look different from the way he is. His words broadcast on radio come to mind: "I am not at all striving to be loved. Perhaps I may expect appropriate appreciation according to the value of work I have performed." Just how much the author is respected in the country was expressed in the sincere and convincing recognition he received at the fall session of Parliament.

12995

MSZMP Officials Articulate Policy Concept on Hungarian Minority Issue

25000125 Budapest *MAGYAR NEMZET* in Hungarian
13 Feb 88 pp 10-11

[Article by Imre Szokai and Csaba Tabajdi, deputy chiefs of the MSZMP Central Committee's International Relations Department: "Our Present Policy and the Hungarian Minority Problem." This article did not appear in NEPSZABADSAG or MAGYAR HIRLAP of the same date.]

[Text] In the stage of bringing socialism up to date in Hungary, we must rethink (in some areas) and reinterpret all the factors and processes that constitute the foundation of socialist national existence. To answer and solve the questions that determine our destiny, we have to confirm the validity of the underlying ideology, because only that makes effective action possible and protects us from everyday pragmatism's inevitable pitfalls, which already Lenin had foreseen. Only after updating the ideology are we able to propose deliberate new initiatives, and to offer prompt and effective

answers to the increasing and ever-harsher challenges from the outside world. One such fundamental national question in need of rethinking is also our policy on the lot of the Hungarian minorities living in the neighboring countries.

Modern Hungarian National Awareness

Lately, due to domestic and international circumstances, Hungarian public opinion has been concerned more and more with the problem of nationality and Hungarian minorities. This phenomenon is both a part and an outcome of the scientific efforts—confined for the time being mostly to public life and voluntary public organizations—to clarify the concept of nation. An urgent task of the Hungarian people even in the short term is the shaping of modern Hungarian national awareness under socialism. This requires that we face objectively the results, errors and mistakes in Hungary's past, and uncover frankly—avoiding both exaggerations and pitfalls—our place in Europe, as well as our delayed and contradictory historical development. The objective is the formation of sound and promising Hungarian national awareness. We have to find a convincing answer to the question of how socialism in Hungary can develop within a national framework, and how the Hungarian nation can prosper within the framework of socialism.

To clarify the concept of national identity, the questions we have to face with common sense include, among other things, the complex and contradictory relationship that existed between the national minorities living in Hungary in the 19th century and the Hungarian nation; and also the offensively narrow-minded and ungenerous subsequent implementation of our 1868 national minority law, the provisions of which were originally progressive by European standards at that time. Coming emotionally to terms with the traumas of the 20th century; sober assessment of the Treaty of Trianon and of its consequences; and relaxation of the spasms of living respectively in a small country and as a national minority—all these belong among our most difficult tasks. Also our present generations must develop responsible standpoints on the extermination of Hungarian Jews as the mutilation of the nation's body, something that is still not realized adequately; on the partially ethnic—but mostly social—emancipation of the Gypsies; and on many other important issues. Equally essential to all this are: self-knowledge that is based on realistic and authentic international comparisons; nonarrogant self-esteem and national dignity; acceptance of our domestic diversity as an asset; and tolerance for, and understanding of, dual ties. We must undertake this task even if the process today is necessarily still accompanied by much silt, disturbing side effects and undesirable manifestations.

Since essentially every third Hungarian is living beyond the country's present borders, and predominantly not as a result of emigration, it is therefore unavoidable for the mother nation in Hungary to clarify its theoretical and

practical relationship with the Hungarians now living as national minorities in other countries. This, too, is an integral part of shaping Hungarian national awareness.

How the lot of the Hungarians living in the neighboring countries develops is having an increasingly demonstrable and ever-stronger influence on public opinion and public sentiment at home. As our society becomes more articulated, with the more and more evident differentiation and occasional institutionalization of interest relations, and with the broadening of democracy, society's demand is naturally growing that institutions, societies and individuals directly participate in "Hungarian-to-Hungarian" relations and, in a broader context, in cooperation among the peoples of the Danube Basin.

With Heads Erect

For various reasons, in our country there has been procrastination regarding this range of questions, an unwillingness to even raise the problems of the minorities, and this is occasionally evident even today. But restoration of our national and social unity cannot be imagined without streamlining and realizing the concept of socialist nation, just as it cannot be imagined without broadening our policy on reform. By building also on these pillars, the party and the government can devise a progressive program that expresses the interests of all Hungarians, mobilizes every citizen of our country for the construction of socialism, and keeps the country in the mainstream of international progress. Only in this way can Hungarians anywhere in the world live to see, with heads erect, their Hungarian nationality.

Questions must be raised and clarified, the more so because today there is still too much emotional prejudice, justified or unjustified anger; and the actions of many people are not guided by mature reason. The search for solutions is proceeding in many directions, at several places; but the efforts are being dissipated, because a national program is still lacking for the time being.

In Hungary, important external circumstances have also helped to focus attention on the minority problem. While nation-forming programs were launched in the 19th century elsewhere, certain neighboring countries really have such a program on their agenda only now. But their programs interpret the concept of nation restrictively, look askance at "otherness," and occasionally inspire prejudice. For this reason, in some places the lot of the Hungarians became more difficult at times; indeed, it worsened dramatically. This intensified the concern of our public, and increased the sense of responsibility in our policy.

Another external factor, by no means negligible, is the worldwide upsurge of so-called "ethnic renaissance." Various peoples, nations, ethnic minorities and enclaves are seeking their self-identity, and are striving increasingly to establish and strengthen their own organizations

and institutions. From among the phenomena and processes, which are varied in their form and often have radically different underlying motives, we will cite the following examples: the birth pangs of the current process of becoming a nation in the countries that have recently won their independence; the search for roots, which has practically become a movement in advanced industrial societies, to counteract the blending and loss of identity; the national regional movements in Western Europe; and in Central Europe, the exacerbation of the unresolved debates, which are primarily of historical origin, and the excoriation of grievances.

We may attribute also to the ethnic renaissance the fact that democracy in the domestic political system, enjoyment of human rights, and—as a part of human rights—guaranteed individual and collective equal opportunity for the political, ethnic, religious and other minorities are increasingly becoming requirements in the life of the commonwealth of nations and in world opinion's value judgement of individual states. The "human-rights record" of countries is a requirement of ever-greater importance in building confidence that is essential to normal international relations, and in forming the "reliable partner" or "competitor" image. As a part of reassessment and streamlining, the Soviet Union and the other socialist countries, Hungary included, are assigning an ever-greater role to the humanitarian factors.

The democratization of international relations has accelerated since the 1970's. The aims of these efforts are: to consistently enforce the right of peoples to self-determination; to reduce and eliminate sub- and superordination; to develop effective institutions for handling and defusing conflicts; and to give peoples and individuals more definite international roles. In Europe, all this has found expression more clearly in the Helsinki process, in the peace and human-rights movements.

It Was Not They Who Left Their Homeland

In response to world-economic and domestic pressures, the demand to streamline mutual cooperation and to develop economic integration is spreading also among the socialist countries. This demand is impossible to fulfill in the absence of mutual trust which, in our opinion, is the bare minimum of internationalism. The bilateral relations of several socialist countries are burdened also by unresolved, or at least seemingly inextricable, minority problems, debates and disputes. Without handling these problems, without raising and remedying them in a frank internationalistic manner, no meaningful progress can be made in other areas, hence in economic cooperation, either. The socialist countries' actual human-rights record, and their willingness to cooperate internationally on these issues, are becoming more and more the yardstick by which world opinion measures the socialist system's credibility.

In judging socialism's historical record, public opinion in the socialist countries attributes increasingly decisive importance to guaranteeing the rights of national minorities, and to full compliance with Lenin's principles, at home and in other socialist countries as well. Without this there can be no rapprochement between peoples, and the idea of internationalism becomes hollow. Therefore, in raising the rights of the national minorities and urging the solution of their problems, Hungary's moderate political behavior must be regarded not as narrow-minded selfishness, but as a national interest whose assertion is in accord also with the interests of the entire socialist community.

Due to the forced trajectory created by the imperialist system of peace treaties ending World War I, there never has been and never will be a Hungarian political leadership that could avoid facing the questions of how the Hungarians in the neighboring countries are faring, and could merely look on to see how their lot is developing. This is the specific point of intersection where Hungarian domestic policy and international activity meet, join and are interlinked.

Hungarian domestic and foreign policy's basic point of departure in this respect may be the fact that large groups of Hungarians are now living beyond the country's present borders, most of them in the neighboring countries, and not of their own volition or choice. To borrow a phrase from Gyula Illyes: it was not they who left their homeland; they were annexed to other states. (The situation of Hungary's national minorities is different: they have been living on the country's present territory for centuries; they voluntarily maintain a certain fellowship with the Hungarian nation and, in any event, pledge it their loyalty.) Although the Hungarians living in the neighboring countries have become citizens of other states, they have not left the nation. Even though the borders "have left them behind," the mother nation has certainly not abandoned them.

This is a unique situation even by international comparisons. Among the nations of the world, the Hungarian nation ranks prominently in terms of the significant proportion of its ethnics living beyond the political boundaries of the mother nation's state. Nearly two-thirds of the Jews and Azerbaijanis, more than half of the Armenians, nearly every other Irishman, 40 percent of the Albanians, and one-third of the Hungarians are living on the territories of other states. Hungarians constitute the largest national minority in Europe and account for 40 percent of all the national minorities to be found on our continent.

Therefore it is a categorical imperative, an absolute dictum, for Hungarian policy of the day to maintain relations with the Hungarians living beyond our borders. It is necessary to ensure, or at least to strive to ensure, that the Hungarians living throughout the world preserve their sense of national awareness and spiritual integrity. Everything possible must be done to keep the vehicles of

national history, and of Hungarian culture and intellectual life, from becoming split off the entire Hungarian nation. Our policy—by virtue of its democracy, humanism, internationalism and Hungarianism—must identify with the Hungarians living throughout the world; we cannot stand idly by when anyone, anywhere in the world, suffers discrimination because of his Hungarian nationality.

These questions, which have been treated for the most part as taboos or at least bashfully, are of special theoretical and practical significance. Hungarian policy has long been restrained in bringing up the problems of the Hungarian minorities living in the neighboring countries, because it was able to assume that socialism would solve this question automatically. It has also been influenced by the concept of internationalism that was typical in an earlier period: this concept held that common international interests always transcend national interests. Today our views on national and international interests, on their intertwining and conflicts, are more nuanced. Lessons of the past have been and are advising caution on Hungarian policy, lest raising the question of the Hungarian minorities' lot be tainted by shadows of the revisionist aspirations of evil memory. The allegations are entirely unfounded that our policy is a continuation of the Horthy era's revisionist aspirations.

Source of New Conflicts

In 1975, the Helsinki speech of Comrade Janos Kadar, the general secretary of the MSZMP, was a public breakthrough. In it he clearly outlined the standpoint of the Hungarian Peoples Republic. He spoke of the Hungarian nation's losses in the 20th century, of Hungarian policy's readiness to accept realities, and of its desire to coexist peacefully with the neighboring nations. Since then we have reaffirmed our intentions repeatedly. It is not because of the occasionally surfacing unfounded accusations that we deem it necessary to reiterate and explain our standpoint. Our fair behavior looks ahead, appeals to reason, and is reflected in our public restraint that is based on considerations of political realism and remains typical as before. In pursuing our foreign policy, however, Hungarian diplomacy is striving to raise the issue in principle, then to define our standpoint more and more firmly and clearly, and even to represent the interests [of the Hungarian minorities].

With characteristic deliberateness, the MSZMP and the government accept the country's present borders as a reality. The historical problem, as described also by Lenin, is that the decisions of the Allies at the end of World War I to satisfy the mostly warranted aspirations of neighboring peoples to form new states of their own (but also the excessive acquisitiveness of their leaders) were made at the expense of other peoples—predominantly at the expense of the Hungarian nation—and were motivated also by a desire to exact political retribution. Thus the Allies enforced certain peoples' right to self-determination by violating the same right of other

states and nations. Thereby they also created—obviously not unintentionally—a new source of conflicts (on the principle of divide and rule). For although the new arrangement created problems also for the beneficiaries of the peace treaties, it placed in a difficult situation the unjustifiably annexed national minorities, as well as the dismembered states crippled by loss of territory and population. To no small extent, these tensions became a source of the causes leading to World War II.

The listing of our historical facts is not intended either to revive the policy of venting grievances or to appeal to the conscience of Europe. It merely points out the origin of the present problems. International public opinion, the alert guardians of the status quo, can expect the Hungarian state and Hungarian people to accept the present borders as given. But in no way can they demand that the Hungarian people accept all this as a fact based on a just decision. Enforcement of the right to self-determination, as defined also by Lenin, and maintenance of territorial stability are, simultaneously and inseparably, a determinant for the Hungarian state and Hungarian people. In the interest of guaranteeing peace, stability and mutual security in Europe, we regard the borders as given. We attribute primary importance to our functions, rather than to our geographic location. We advocate making the borders symbolic, their "spiritualization," so that borders may become factors linking peoples, rather than separating barriers.

A justification as well as confirmation of our principled policy is the fact that countries such as Yugoslavia, for example, which are striving to regulate the status of their national minorities and to treat them in a democratic manner, recognize our claim to represent the interests of the Hungarian national minority and do not see this as some sort of "reviving Hungarian revanchism." They do not regard our cooperation in this area as interference in their domestic affairs, do not suspect an attempt to incite nationalism behind our country's aspirations, and do not attribute to the Hungarian minority a "fifth-column" role of ill memory.

Reality the Yardstick

The yardstick our present policy employs is the extent to which a given country provides civic equal opportunity for the Hungarians living on its territory, and guarantees the conditions this minority needs to preserve its nationality. Abroad—even in countries regarded as democratic—one finds a diversity of views on this issue, a certain lack of clarity. And some people in our country raise this issue by asking: What warrants the special treatment, the practically "favored" legal status, of the national minorities living on our territory?

The democratic political system that has evolved in modern societies with articulated interests regards as an objective fact the concurrent existence of differing and separate interests, of their institutional framework, of

government's limited centralization, of restrained interference on an "as needed" basis, and of spontaneous, autonomous organizations and movements. Such a system provides—indeed, regards as desirable—free scope for the religious, ethnic and other minorities, and even autonomy in certain circumstances. The lifework of Oszkar Jaszi proves that the liberal democratic organization of society is closely linked to the conditions of expressing national and national-minority identity. However, as we know from history, this type of democracy in itself does not yet guarantee that peoples, ethnic groups and national minorities will also be able to preserve their respective self-image, because such democracy is a necessary condition, but not a sufficient one, for a national minority to preserve its identity.

Such democracy is not a sufficient condition because, among other things, the majority, the "moving body of greater mass," always exerts an attractive force, an assimilating effect, a "preponderance" over the minorities. Besides democracy's general equal opportunity, specific additional guaranties are needed to keep this "unconscious," objective homogenizing effect from having consequences disastrous for the minorities. The assimilating effect that the majority willy-nilly exerts can be offset only by the minorities' personal and collective "additional rights," which in a strictly logical sense seems a "violation" of democracy itself. According to Marxist dialectics, however, this inequality leads to actual equal opportunity. But the guaranteeing of these "additional rights" presupposes conscious political will, intervention in a meliorative sense. Which again might seem a restriction of spontaneous organization, of "automatism" (although so-called spontaneous mechanisms in their pure form are becoming increasingly rare in the 20th century). It is a peculiar paradox that, under the generally democratic conditions of modern societies, conscious political intervention must establish legal guaranties to create and safeguard the spontaneous organization of national and other minorities. Self-restraint on the part of the ethnic majority also requires constant review of the statutory regulations, oversight by the supreme organs of state power (e.g., parliament), and the moral inhibiting or condemning influence of domestic and international public opinion. (But examples of rational mass self-restraint are rare for the time being.) A glance at our history warns us of the need for oversight: voluntary assimilation, rather than forced Magyarization, long remained the typical case in the second half of the 19th century, despite the inconsistent implementation and occasional gross violations of the positive elements and principles in the Law on National Minorities sponsored by Eotvos. The political mistake was specifically the Hungarian state's failure to adequately offset the aforementioned assimilating effect.

The feature that distinguishes from other social processes the guaranteeing of real democratic rights for the national and other minorities is the need of relatively strong political intervention. That is why impartial Hungarian political writings also advance the thesis that the

issue of the national minorities' equality before the law can never be regarded as solved and closed. Which of course does not mean that the basic principles and institutional framework must be changed constantly (although their effectiveness, too, must be reviewed periodically). It means instead that the actual enforcement of these rights, and their social effectiveness, must be monitored continuously. Therefore no nation's record on granting rights to its national minorities can be judged solely on the basis of the constitution, the declared principles, and the perhaps embellished policy statements. Only reality, the actual situation, can serve as the yardstick.

Untenable in the Long Run

Politics, the economy and culture aside, minority existence may also be burdened by a certain inferiority complex or even anxiety. This is true especially when an ethnic group finds itself annexed to another state, in violation of the principle of self-determination: against its will, and without having been consulted—e.g., in a referendum.

Another question we cannot avoid is why the preservation of the national minorities, and even their preferential treatment, are in the majority's interest. History proves that the national minorities which do not feel threatened in their very existence—as a result of having their own political organizations to represent their interests, and of being able to foster their mother tongue and culture, and to maintain relations with their mother nation—do not undermine, and may even strengthen, the security and unity of their state.

Multiculturalism enhances every society. The culture of Hungary as a whole would be the poorer without the inputs from the Serbians of Szentendre, the Germans of Buda, the Slovaks of Bekes, and the Romanians of Mehkerék. The national minorities enrich the state-forming majority nation with additional, supplementary assets that become important vehicles for developing political, economic and cultural relations with other countries, and for promoting mutual understanding. Democracy presupposes the reconciliation of interests, which is always more costly and more time-consuming than autocratic decision-making would be. In like manner, the internal reconciliation of differences and maintenance of equilibrium in a state comprising several nationalities might seem more troublesome and difficult than the population's artificial, forced homogenization. However, forced homogenization occasionally creates conflicts that make the success of "solutions" of this kind more than doubtful. Historical examples show that attempts to assimilate other peoples did succeed in "barbaric" times of old, although the costs and losses of such assimilation were immense. But in the 20th century—with the growing respect for the dignity of the individual; under the influence of the ethnic renaissance, and of ever-stronger democratic world opinion; and in the wake of international accountability for respecting

human rights—there are more and more guaranties to ensure that forced assimilation or liquidation, whether concealed or crudely open, will not be tenable in the long run.

Despite all this, efforts at forced assimilation or homogenization, elevated to the level of government policy, are noticeable in both our immediate and broader environment. Historical examples and present experience indicate that curtailment of the right to use one's mother tongue and of regional political rights, the dismantling of a national minority's network of educational and cultural services, and the constant moral and political pressure do not necessarily lead to the national minority's attrition; indeed, they may even strengthen the national minority's sense of identity, provided certain elementary opportunities for the national minority's spontaneous organization exist. But the dismantling of the foundations of living as a national minority, the absence of a democratic international environment, or the absence of support from the mother nation, could necessarily lead to a gradual loss of self-confidence, to indifferent introversion, to abandonment of national-minority identity. With the national minority's cohesion broken, its individual members would neither remain loyal to the state nor shoulder the burden of their own nationality; to maintain their human dignity and for the sake of their own livelihood, they would emigrate in growing numbers from the land of their birth. To the majority nation, this change might only seem a solution, for a time. In the long run, denial of the specific democratic rights to which the national minority is entitled, and severing the ties that developed in the course of living together for centuries, would place also the majority nation in a difficult and unreasonable situation.

Delicate Psychological Balance

In his essay entitled "Paralysis of the International Commonwealth of Nations," Istvan Bibó offers a nuanced analysis of this "delicate" question. On the one hand, the majority's state power must take into account and tolerate the minorities' "divided loyalty"; even despite this duality, it must provide equal treatment without discrimination, and additional rights for the minorities; and it must voluntarily refrain from forcing the appearance of overzealous patriotism. On the other hand, the minority population must realize that it owes correct civic loyalty in exchange for equal treatment without discrimination, and for its real minority rights. Also the mother nation, if there is one, must behave correctly at all times. All this is what the professional literature calls "a very delicate psychological balance." The state power that fears the disloyalty of its national minority should first of all subject to scrutiny its own domestic conditions, the limits of its democracy, and the actual degree of unequal opportunity, instead of pointing a finger outward and charging foreign incitement. About the nations' right to self-determination, the minority's possible behavior, and the so-called "risk factors," Lenin

said clearly and unambiguously: "The closer a state's democratic system comes to complete freedom of secession, the rarer and weaker will be in practice the attempts to secede."

Therefore the following conclusion seems obvious: the admission and recognition of a national minority's existence are not functions of a state-policy decision, not some favor shown the national minority; a national minority's existence is an objective reality, and to deny or suppress its existence would be irresponsible, to say the least.

This is one of the most controversial issues of domestic and international policy. The reasons for this lie in part in the loopholes in international law; and in part in the unclarified political principles governing the life of the commonwealth of nations, and in the shortcomings of its institutions. All this dates back to the peace treaties ending World War II; they regulate the resolution of conflicts in the same manner as the Treaty of Versailles did, but—unlike the latter—do not impose any obligations under international law to protect the rights of minorities. The United Nations Charter and other international documents likewise fail to regulate by unambiguous legal means—and especially in a binding manner—the question of national minorities. The Helsinki Final Act has an important political role, but its legal, normative role is a minor one. This applies particularly to its Basic Principle VII, which states: "The participating countries that have national minorities living on their territory will respect the right of the members of such minorities to equality before the law, will guarantee them opportunity for full enjoyment of their human rights and fundamental freedoms, and will safeguard also in this manner the lawful interests of the national minorities." At the follow-up conferences and meetings of experts within the Helsinki process—in other words, before important international forums—we consistently presented and, whenever possible, asserted our standpoint on the question of national-minority rights. Particularly important is the fact that also in this institutionalized framework we found partners to draft the documents that have advanced the process of putting in place the political and legal guarantees essential to resolving the question of national minorities satisfactorily. But we must not overestimate the significance of regulation: for even domestic statutory regulation is sufficient in the case of a serious and responsible country, and "not even the acceptance of an international obligation by an irresponsible government is worth much."

In the 1980's, in the statements of Hungarian politicians and in some works on political science, the principle is beginning to crystallize that regulation of the status of the national minorities is the right and responsibility of the country in which the national minorities are living. In this sense, and only in this context, the question of national minorities may be a domestic matter. The principle of national sovereignty and noninterference in domestic affairs may be invoked validly, so long as the

action of one state does not affect another country. Economic activity, for example, also remains exclusively under national sovereignty, until the environmental pollution crosses national boundaries. This is why processes with an international impact cannot be regarded exclusively domestic affairs. Amidst conditions of mutual dependence and objective interdependence it follows that also the exercise of national sovereignty presupposes taking the international interrelations into consideration. In this sense, the status and lot of national minorities cannot be regarded the given country's exclusive concern, either. If for no other reason, because in some cases, due to historical circumstances, the national minorities' conditions, prospects, mood, equal or unequal opportunity, and maintenance of ties affect the mother nation, if there is one; and because, in any event, all this interacts with the entire international environment. Thus even a state's domestic acceptance of the obligation to guarantee the rights of minorities is a part of the balance of the "international commonwealth of nations."

Higher Standards of Debate

Therefore Hungarian policy is founded on facts, on reality. A key, but by no means the only, element of our relations with neighboring countries is the lot of the Hungarian minorities living there. Relations with a country cannot be considered smooth and friendly when they are burdened by the wrongs inflicted on the Hungarian minority. But it would be out of proportion to consider foreign relations solely from the viewpoint of how the given Hungarian minority is faring. Therefore the relationship between the national-minority and other components of foreign relations is a coordinating relationship rather than subordinating one. It is particularly important to establish mutual security with our neighbors, so that a sense of real or imagined threat does not disturb the development of either nation.

For a differentiated assessment of the situation of the Hungarians living in the neighboring countries we must bear in mind that the historical and ethnic conditions, the local Hungarian minority's size and internal cohesion, its role in Hungarian history and culture, the bilateral relations and their historical "burden" differ by countries. Therefore Hungarian policy does not view the personal and collective minority rights granted the Hungarian minorities—i.e., the situation regarding spontaneous cultural organization, instruction in the mother tongue, official use of the Hungarian language in public administration, safeguarding of political interests, maintenance of personal and collective ties with the mother nation, and freedom of worship in the native language—divorced from space and time.

Over the romantic tracing of national roots, Hungary does not wish to participate in shameful disputes, not to mention accusations, that are cloaked in the historical sciences but are actually motivated by current policies. Shedding light on the past is the task for experts, the

historians. Aware of the tragic crossings and clashes of the neighboring peoples' histories, we believe that the historians of the various countries are unlikely to agree in the near future on a uniform assessment of the events and processes. Which is quite natural. But we would like to achieve by all means that no one regards the necessary professional historical debates as the questioning of one another's existence, as one another's disparagement, or as pursuit of our political objectives of evil memory. And although this seems unlikely to be achieved in the near future, in the Danube Basin we sorely need higher standards of debate and far more tolerance of one another's peculiarities—i.e., mutual understanding. With more tolerance and understanding, we will be better able to tolerate also the dual or multiple ties.

In our opinion, the Hungarians in the neighboring countries are living in a triple linkage. First of all, the fate of the Hungarian minority as a whole is integrally linked to the success of the state-forming majority's efforts to build the country, because on that success depends the minority's personal and collective prosperity. A member of the Hungarian minority might also identify with the national majority's work, successes and occasional failures, commensurately with the actual extent of his personal and collective (minority) rights. At the same time, strong emotional bonds—the factors of a common history, common culture and common language—link him to his national minority. Meanwhile, personal commitment to the Hungarian national minority is the connecting link that leads to the third linkage—identification with the Hungarian nation. Due also to bilingualism and biculturalism, the Hungarian minorities are linked in a peculiar fashion to the Hungarian nation, and simultaneously also to the majority nation with which they are living in a common state. Even in the ideal case, of course, this triple linkage is not always free of internal conflicts, but these stresses can be relieved and managed.

Humanitarian Settlement

The overwhelming majority of Hungarians in the neighboring countries are living in their centuries-old settlements; even regardless of state sovereignty, these settlements are their land of birth, their homeland. Hungarian policy deems it desirable that, in the triple linkage's field of force, the minorities find their personal and collective prosperity in the land of their ancestors. Emigration and resettlement cannot be the solution for collectives, although individuals may occasionally be forced to resort to them. We cannot approve of the Hungarian minorities' mass flight to escape unbearable pressure; of their abandoning their historical environment and emigrating; of the decision of any Hungarian living beyond the border to leave his fellow sufferers and resettle. Even when they have justifiable grievances, responsible Hungarians living on either side of the border and thinking in terms of their nation and nationality must not behave in a way that might reinforce their "instinct to flee," instead of curbing the restrictive processes, patiently restoring coexistence, and persistently filling in the gaps

in mutual familiarity. To be uprooted from the land of one's birth, to break away from the Hungarian minority and from coexistence with neighboring peoples, limits the chances of finding one another in a more peaceful world; this is a quantitative and mainly qualitative loss for the Hungarians who remain, and for the given state as well. Personal jeopardy, emotional crisis or some other pressing reason might warrant an individual's decision to leave the country permanently or temporarily; but this should not rule out returning to the land of one's birth later, when circumstances change.

It is especially important that the national minority be not overcome by a sense of abandonment, despondency and gloom. Instead, it should always feel the mother nation's backing, concern and care, and should be fully aware that democratic, humanitarian and internationalist world opinion is watching it.

The Hungarian People's Republic regards predominantly diplomatic relations as the main channel of proper and amicable debate on these questions, because we have to reach an understanding primarily with the representatives of the state-forming majority nations. Despite all the mutual historical grievances and present problems, we are convinced that there is no obstacle in principle to settling these questions in a humanitarian and—in the case of our socialist neighbors—internationalist manner. Therefore our behavior will always be governed by the simultaneous requirements of firmness and moderation. Our sense of responsibility stems from our national self-esteem, from our sincere desire for mutual understanding among peoples, and from internationalism.

In recent year we explained our principles and aspirations at the conferences and meetings organized within the framework of the Helsinki process, at the meetings of experts on human rights in Ottawa, and on the reunification of families in Bern, before the cultural forum in Budapest, and also at the follow-up conference in Vienna. We have placed our standpoint unambiguously on record. The international professional and broader public opinion has understood our motives. Proof of the honesty of our intentions, and of our raising the problems, is the fact that we have not allowed ourselves to be drawn into the personal and fruitless accusations that flared up even before these forums, but fortunately only at the periphery of their general attention. After all, our objectives and aspirations are so clear that we do not have to keep dwelling polemically also on the specific details. Incidentally, it is not our objective to "internationalize" our problems, either; for only bilateral agreements can lead to the solution of the specific issues.

Only our continually changing, expanding and improving minority practice can lend credence and moral backing to our international actions. From our point of view, this is an integral part of our domestic process of democratization, a manifestation of our tolerance of all minorities. In the spirit of the practice in recent years,

resolute advocacy of the national minorities' personal and collective rights, meaningful initiatives, and keeping these questions on the agenda of international forums will certainly be included among our basic foreign-policy objectives also in the future.

The 'Socialization' of Foreign Policy

Consequently, there can be no doubt that in recent years the party and government have increasingly been assuming responsibility for monitoring how the Hungarian minorities are faring in the neighboring countries, and for representing their interests. And that they have drawn the lessons from a certain reticence earlier, and have become more active. But they neither want to disregard, nor can dispense with, the impressive pertinent experience and body of knowledge which have accumulated in the most diverse areas of society and are worth studying. The party and government wish to rely on the citizens' initiatives, resoluteness and actions that are gradually growing into a movement. It is becoming increasingly obvious that Hungarian foreign policy can uncover substantial reserves—over and above its own self-renewal—primarily by strengthening its social base, through the "socialization" and further democratization of foreign policy. This aspiration coincides also with the intention of broadening socialist democracy; it puts this intention into concrete form in one section of society's life—in our system of international relations. Socialization is feasible in those areas of international life where interpersonal relations and humanitarian factors play a major role. Taking care of the problems of the national minorities appears to be one such area, among others. This offers multiple benefits to all the countries concerned: to the armory of official foreign policy it can add interpersonal relations, which are [invisible] like a system of underground streams; and it can contribute toward dispelling mutual mistrust and prejudices at the various poles; toward strengthening joint action; and toward liberating dormant positive national energies as well as unbiased thinking. The noncentralized yet coordinated cooperation of unofficial forces, more openness in foreign policy, the joint formulation of the principal policy directions, and the modernization and expansion of the institutional framework belong among our absolutely indispensable tasks. All this would end the present duplication and overlapping of effort. At the same time, it would cause intolerably great harm if certain individuals and organizations were to subordinate the Hungarian minorities' cause to tactical considerations and their own aspirations to self-assertion. Democracy of action, responsible presence, establishment of an institutional framework for participation, and equal participation in debating and solving national basic issues are the most important "discipline-imposing" force.

The other fundamental condition for making further progress is the "fostering" of national awareness. This in its turn has two essential requirements. On the one hand, there must be active and open solidarity with the national minorities, and responsible, deliberate debate

on the problems—if only to keep in check unnecessary flaring tempers, which are counterproductive and even inadvertently harmful. On the other hand, we must strive to maintain self-control and remain calm at home, even when virulent and overwrought passions are boiling in one or another of the neighboring countries. Let us not respond in kind to insults and nationalism. This again requires modern national awareness based on self-esteem. In other words, the "maintenance" of our national awareness, and a firm but civilized stand in support of a Hungarian minority are not mutually exclusive. To the contrary, they precondition each other.

Conceived in the spirit of frankness and openness, this writing wishes to contribute a few approaches to the ideas that are crystallizing in the public debates. Its objective, therefore, cannot be the statement of final and undisputable truths. Its purpose is to initiate, with the outlined chain of reasoning, a responsible exchange of views within Hungarian society.

We have strived to borrow and develop further some of the results, comments and proposals of progressive Hungarian thinking. Our intentions are frank and honest. Which of course will not prevent some people from twisting the meaning of our words, deliberately distorting and misinterpreting our ideas. But even so we have to rely on the level-headed, honest and well-intentioned forces who sincerely hope that the peoples of the Danube Basin will eventually live in close harmony.

1014

North Korean Responsibility for Plane Sabotage Questioned

Lack of Proof Cited

*25000130 Budapest NEPHADSEREG in Hungarian
6 Feb 88 p 5*

[Article: "In the Shadow of the Olympic Ideal"]

[Text] Record participation (161 countries) is expected at the Seoul Summer Olympics beginning 17 September, even though there is no change in the bad news that originates from the divided Korean peninsula. A time bomb exploded as the deadline for Olympic nominations expired: South Korea felt certain that the DPRK was involved in the November catastrophe of the KAL airliner.

In the "investigative conclusion" related to the ill-fated passenger plane South Korean authorities claim that a man and a woman, named Sinichi and Mayumi respectively, were North Koreans holding Japanese passports, commissioned by their masters to cause a midair explosion of the plane.

Unclassified Details

"In the course of the investigation" the authorities tried to prove first of all that the named persons were "people from the North," and therefore had planned their earlier life paths accordingly, attending to even the smallest of details. And although that life path contains an abundance of propagandistic details and solutions, a number of inaccurate and unclarified details render the already unlikely story unbelievable. It turned out for instance that Mayumi is not listed in the records of any high school or university in Pyongyang. Moreover, the university she allegedly attended does not even exist. Equally, there does not exist a training center in which she allegedly received special training after her enlistment with the "service." But there are other mistakes also. They state that Mayumi, 26, was enlisted in February 1980. Following her enlistment, she attended university preparatory courses, whereafter she received seven years and eight months of "special training." If this were true she should be 28 years old, even though the authorities report her age as 26. Mayumi's family ties are also—to put it mildly—confused: her father's story is particularly suspect. Allegedly he is a diplomat assigned to the DPRK embassy in Angola. Thus, nothing would be simpler than to locate him, but, "unfortunately," he does not exist. A propagandistic moment of intimacy also came to light as a result of the investigation: at age 16 Mayumi handed a bouquet of flowers to Kim Ir Sen at a ceremony.

At the beginning of the investigation when the "authentic" story was probably only in a sketchy form, the authorities reported that during November Sinichi and Mayumi holding Japanese passports were under observation on the Vienna-Abu Dhabi-Baghdad route. According to the investigation at that time the culprits left a transistor radio and a bottle filled with explosives on board an airplane, then deplaned. It is fully incomprehensible, however, why the airplane crew and the agents conducting the observation did not discover these not exactly common "forgotten" objects left on the plane.

"Thorough Investigation"

In similar incidents it would be the fundamental principle of the investigation that lacking proof, a criminal act cannot be considered as proven on grounds of one suspect's admission only (the other having committed suicide). On the other hand, there exists neither circumstantial nor factual evidence that would confirm the "admission." Because if the passenger plane exploded over the Andaman Sea and its remnants fell into the sea, how could it be that immediately following the catastrophe the "on-the-scene investigative committee" did not find those floating objects which were found by a foreign freighter five days after the conclusion of the search? And then, once they "gave up" with the search for the plane, the Karen tribe discovered the airplane wreckage and the bodies in the Burmese border zone, a great distance away from the "sea-crash location." This too

proves that the "remnants" mentioned in the official investigation were not authentic. South Korean authorities presented Mayumi to reporters so that lacking factual proof, she render the announced "results" of the investigation acceptable, although according to Japanese newspapers the presentation of Mayumi was not really fortunate because her suspiciously rapid hair-growth raised questions about the authenticity of the lady.

Quite naturally, these contradictions did not escape the attention of international public opinion either. Both Japanese and American newspapers have indicated that Seoul wants to discredit the DPRK with the "report," timed to coincide with the days preceding the expiration of Olympic nominations.

Whose Interest Is Served?

And although Seoul placed under full alert its entire 600,000 men army and raised the prospect of retaliatory measures against the DPRK in order to continue increasing tensions, it cannot respond to any counter-argument or provide any kind of acceptable proof. Obviously this is so because there are no responses and there is no acceptable proof, and there is none because there cannot be any. And Seoul is unable to respond to the question being raised by an increasing number of people with increasing frequency: what interest of the DPRK was served by this act of terror? The DPRK is a country which through proposals and initiatives for years has endeavored to initiate substantive dialog between the North and the South, and to settle the problems that exist between the two countries not by increasing tensions, but through negotiations.

The athletes and the sport-loving public opinion of the world are preparing for the Olympics. The Olympic ideal which links nations and continents demands a noble, sportsman-like competition. It is a shame that in the shadow of a great ideal manipulations for the achievement of objectives that are completely alien to that ideal continue.

TASS, North Koreans Quoted

25000130 Budapest *MAGYARORSZAG* in Hungarian
No 5, 1988 p 9

[Article by Sandor Arvay: "The Korean Peninsula—A Bomb?—Admissions With Denials"]

[Excerpts] Record participation (161 countries) is expected at the Seoul Summer Olympics beginning 17 September, even though simultaneously with the favorable news, reports that raise concerns emanate from the divided Korean peninsula. A time bomb exploded as the deadline for Olympic nominations expired: South Korea felt certain that the DPRK was involved in the November catastrophe of the KAL airliner. Thus the dispute between the two countries that began at the conclusion of the Korean War (1953) has once again burst into flames. [Passage omitted.]

14 January: Reuter reports: "A North Korean woman admitted that she was involved in last November's catastrophic crash of a South Korean passenger airliner." Referring to an official statement by the Seoul national security-planning agency, the Japanese news agency Kyodo was informed: "The action was aimed to frustrate the Olympic Games."

15 January: The confession of Kim Hyon Hi, accused of having committed the bomb attack, reveals that a woman by the name of Kim Von Sok, 26, according to Seoul, received written instructions on 7 October to prepare for the attack. She is the daughter of a Pyongyang diplomat working at the Angola embassy. The suspect received high level training in terrorism, spoke fluently in the Han Gul dialect of Korea, as well as in Japanese, Chinese and English. During the past four years she had traveled extensively with her 70 years old companion Kim Sung Il, pretending a father-daughter relationship. (The man committed suicide upon their arrest in Bahrain.) According to Seoul's version the suspects chose Flight 858 between Baghdad and South Korea because normally that flight carried only returning guest workers, thus making it possible to avoid citizens of third countries to fall victim to the attack. The admission states that the man traveling with a diplomatic passport, and the woman with an individual service passport in mid-November traveled from Tokyo via Moscow to Budapest, whence, accompanied by two other agents, fearing stringent airport controls at Ferihegy, they continued by car to the Austrian Capital. According to the statement, the passengers exchanged their forged DPRK passport they had used so far, for Japanese documents. [Passage omitted.]

16 January: South Korea placed its entire 600,000 men army under full alert, and raised the prospect of retaliatory measures against the DPRK. In its statement the Washington government mentioned the existence of proof, while Japan assumed a cautious posture. Tokyo newspapers had made reference to the fact that the suspect's statement timed to coincide with the days preceding the expiration of nominations to the Olympic Games was meant by Seoul to discredit the DPRK, and for this purpose Seoul tried to involve even Korean Workers Party CC secretary Kim Dyong Il. The TASS commentary established the fact that Seoul wants to increase tensions that prevail on the Korean peninsula on the basis of the vanished passenger airplane. The Soviet news agency quoted from the Tokyo weekly SHUKAN SHINCHO, which on the authority of Japanese news reports announced that in addition to the two persons suspected of having committed the attack, 11 South Korean government officials, and two members of the South Korean security forces responsible for flight security also deplaned in Abu Dhabi. [Passage omitted.]

21 January: The U.S. State Department listed the DPRK among "countries that support terrorism," an inclusion, which among other matters, also represents discriminatory commercial sanctions.

22 January: At a press conference the DPRK's Budapest acting charge d'affair Ho Kvan Ho reported his government's statement. "The outcome of the investigation is none other than lies perpetrated by the South Korean fascist military clique—figments of the imagination and fraud filled with contradictions." Among the latter the DPRK disputes the age of the lady, her education in Pyongyang and the Angola connection, and points out the lack of factual evidence. According to the DPRK, the words used by the woman in her Seoul statement, such as "tibi" (television), "shok joe" (punishment), and "yak yubyong" (rice wine bottle) are used exclusively in South Korea.

25 January: The DPRK announced that beginning 1 February its diplomats will not meet with American diplomats, that they will not permit American citizens to enter the country, and that they will discontinue negotiations concerning the earthly remnants of American soldiers missing in action since the Korean War.

26 January: Japan also invokes sanctions against the DPRK; it does not receive passengers arriving from Pyongyang—citizens of the DPRK. Outgoing president Chon Tu Hvan stated that by the end of the century the two Koreas will be united under the government of the South. Great Britain issued a statement condemning the "DPRK's act of terror." In Seoul, 200,000 people staged a demonstration concerning the KAL airplane catastrophe, according to a Reuter report.

12995

POLAND

SD Favors Peoples Councils in Territorial Self-Governing Roles

*26000180b Warsaw RZECZPOSPOLITA in Polish
30-31 Jan 88 p 4*

[Article: "SD Central Committee Holds Plenum—Peoples Councils Self-Governing Bodies of Power"]

[Text] The SD has been discussing and working on the matter of territorial self-government for a long time. This is the result of SD's program, which states: "the people's councils should become self-governing bodies of power." Central Committee chairman Tadeusz Witold Mlynczak emphasized this fact on 29 January, during a plenary session of the SD Central Committee. The subject of the plenum was: "The party vis-a-vis changes in the system of the people's councils and regional self-government."

Should we change the present formula for the people's councils giving them the nature of a body of regional self-government, or only strive to equalize leadership and self-government roles? Should the councils have their own executive bodies, or should they simply increase their influence on the local state administration? These questions came up in the address of the

central committee chairman, and discussion focused on them and on the planned changes in the law on people's councils and regional self-government drafted by the Council of State.

Many of the speakers touched on the issue of the upcoming people's council elections and the way they are conducted. It was emphasized that the changes in the election rules proposed in the Council of State draft are real progress in relation to the old law, but within the party there is a call, for example, to reduce the electoral districts in which not more than four council members are elected. There is also a proposal that the notion of departing from the 50-percent electoral participation be eliminated. The need to raise the lower limit of the numbers for people's councils in small parishes (gminas) and the smallest towns was emphasized. This also shows the possibility of introducing by-elections earlier than the draft specifies.

The central committee adopted a resolution which says that the people's council term coming to an end reveals different levels of activity in the council members.

The central committee came out in favor of modifying the formula governing the people's councils and for stating that they are bodies of the regional self-government simultaneously handling the functions of bodies of state authority. Next, the resolution specifies the directions of institutional transformations in the regional self-government asked for by the central committee, such as creating a comprehensive self-financing system for unions of the regional self-government, reactivating municipal property, establishing the principle that the voivodship self-government handles only its own tasks which by their nature are not suitable for handling at a lower level, and so on. The SD central committee thinks that the approaching people's council elections should help in broadening the plane of national understanding, in the further implementation of the principle of indirect political leadership in the socialist Polish state, and in increasing citizen activity for social purposes.

The SD central committee also adopted a resolution which specified the directions for SD's activity this year.

10790

Sejm Notes Self-Management Position Stronger, More Consolidated

*26000180c Warsaw RZECZPOSPOLITA in Polish
28 Jan 88 p 5*

[Article: "Status of Self-Management"]

[Text] (From our own sources) Each year at one of the Sejm's plenary sessions information is presented on the condition of self-management. This stems directly from the regulations of the worker self-management law and represents the practical expression of the care that the

Sejm exercises over it. The deputies of the Self-Management Commission deliberated on 27 January over the draft of the report on the status of self-management prepared for the chamber's next plenary session. Deputy Stanislaw Kania of the PZPR chaired the deliberations.

In the report the deputies strive to point out that the self-government's position in our regime and its significance in our economy have clearly taken on solidity over the past year. In all the matters which the Sejm has taken up since December 1986 concerning the functioning of the workers' self-management system adopted or carried out, progress is evident in terms both of creating conditions favorable to bolstering the workers' self-management and of the self-management body's undertaking economic affairs related mainly to the efficiency of the enterprises, technical progress, and the development of export-oriented production. Nonetheless, the parties to the discussion emphasized that the results achieved must not be considered satisfactory in terms of the requirements of the second stage of the reform and the expectations we have for the self-management bodies' role in solving the problems of the enterprises.

In deputy statements and in opinion papers by representatives of the NIK and the PZPR Central Committee, the issues of organizing the system for training self-management activists, self-management counselling, monitoring how effectively the economic law is working, and coordinating research on self-management were addressed. It was emphasized that the establishment of the practice of direct cooperation between the employee councils and enterprise management is becoming increasingly common, the councils are distributing profits with a sense of responsibility, and fears that funds allocated for the workers' current needs would be maximized at the cost of the long-range needs of the enterprises have proved to be unfounded. Practice shows the stability of the enterprise management model based on bolstering the director's position and shoring up the self-management body's moral authority, which stems from having self-management bodies exercise their authority jurisdiction under the law. The exchange of views concerning the preparation of the commission report on the status of worker self-management demonstrated today's positive and negative aspects of its operation. The employee councils are expected most often to devote attention to production quality, to the development of the enterprises, to the elimination of pathological phenomena from the economy, and the emphasis is usually placed where Deputy Stanislaw Kania put it, on the fact that we are already convinced of the self-management system's lasting position in our regime, but now it is a question of realizing that the difficulties we face now and in the future cannot be remedied without an active attitude toward them and without the workers of the enterprises taking measures against them.

The following deputies took the floor in the discussion: Czeslaw Burcon (PZPR), Alfred Wawrzyniak (Pax, non-party), Franciszek Dabal (ZSL), Ryszard Czyz (PZPR),

Zbigniew Pruszkowski (PZPR), Stanislaw Derda (ZSL), and Eugeniusz Wojcik (PZPR).

10790

Nuclear Development Supported, Antinuclear 'Propaganda' Decried

26000096b Warsaw *PRAWO I ZYCIE* in Polish
No 47, 21 Nov 87 pp 8, 9

[Interview with Dr Mieczyslaw Sowinski, chairman, State Nuclear Energy Agency, by Slawomir Mac: "Poland Is No Exception"]

[Text] [Question] On 12 November the State Environmental Protection Council adopted a document in which it acknowledged the necessity of developing nuclear power industry in our country. As a man whose favorite color is green, I was nostalgically affected by this news. As for you, I suppose, that document must be personally gratifying to you.

[Answer] My personal feelings don't matter here. At the recent 31st conference of the International Atomic Energy Agency representatives of more than 90 countries acknowledged that the world cannot afford to abandon this energy source. It is simply irreplaceable, and considerations of environmental protection also favor it. Poland can be no exception in this respect. I thus consider it natural for the Council to realize it.

[Question] This means facing totally new problems. Perhaps we could try enumerating them?

[Answer] The hierarchy of the problems ensuing from the development of nuclear power industry is the same throughout the world. The most important issue is the condition of the economy, and specifically of the technologies and industrial subsectors which will work for the nuclear power industry. Another issue is the organization of the monitoring of nuclear safety and radiological protection. A formal-legal regulation of this problem was provided by the Decree of 10 April 1966 — the Nuclear Law — which, incidentally, is probably the least popularized domain of law. That is a pity, because familiarity with the provisions of that decree would enable us to clear up many myths, fabrications, and misunderstandings.

[Question] But would any decree alone be a protective shield? We have an excellent decree on environmental protection and quality but anyone can see what the real situation is like, despite the existence of a huge army of the most varied monitoring services at that.

[Answer] Quality cannot be enforced through monitoring alone! Quality, which is the fundamental safeguard of nuclear safety, must be created — this has to be clearly realized. But as for monitoring that safety, it should consist in the final verification to make sure that everything is in order.

The third most important issue is, in my opinion, the problem of training personnel for the nuclear power industry, that is, for building, operating, and, lastly, monitoring the safety of nuclear power stations. I would rank fourth keeping the public informed and educating it. Preparations for a proper understanding of all the implications of the growth of nuclear power industry should already be included in school curricula. And I would rank fifth the problem of neutralizing and storing radioactive wastes.

[Question] Why only fifth?

[Answer] That is so because essentially this is the least difficult problem, at least in our conditions. Please consider that, under the governmental agreements between the USSR and the PRL [Polish People's Republic], spent nuclear fuel will not be stored in Poland but will be shipped to the Soviet Union. This means that highly radioactive — that is, more than two roentgens per hour — wastes will not be stored on our territory; what will be stored will be wastes with medium and low radioactivity. Under international agreements, such wastes should be stored by each country on its own.

[Question] The problem of storing medium- and low-radioactivity wastes also is agitating the public, especially the people living in the neighborhood of sites selected for future nuclear waste dumps. Have you guessed that I refer to the Miedzyszec region?

[Answer] Have you yet heard of any siting decision being made? I have not, and I believe that as chairman of the Polish Nuclear Energy Agency, which the Sejm has entrusted with the duty of acting as the central agency of state administration for nuclear energy, I would learn of it ahead of you. So far decisionmaking on such matters in Poland has been governed by law and by a definite procedure. The basis for making such decisions is chiefly comprehensive tests and the consultation of bodies ranging from local government to the Planning Commission. The possibility of taking an arbitrary decision is practically nil. For the time being, the matter is still in the stage of assessment studies of site selection.

[Question] How advanced is that stage?

[Answer] That work was initiated in 1978, that is far ahead of the anticipated date of the opening of the first Polish nuclear power station. It is being handled by the CHEMKOP Research and Development Center of Krakow, which has done many interesting and even pioneering studies of, among other things, the possibilities for storing nuclear wastes in salt deposits and other geological structures.

Altogether, 28 sites were investigated. Among other things, this involved the geodesic and mining exploration of such facilities as the anhydrite mines in the region of Kolcy and Nowy Lad (Walbrzych Voivodship) and the post-German fortification in Walim, Lower Silesia, and in Miedzyszec.

[Question] It was precisely in Miedzyrzec that these explorations aroused the anxiety of the local public. Perhaps because it had not been informed about the purposes and intentions of the peregrinations of outsiders there. And wherever substantial information is not available, rumor takes sway. For example, the rumor has arisen that Miedzyrzec is to be the central storage site for the nuclear wastes of CEMA countries and that, in return for foreign-exchange payments, we shall store radioactive substances from the West in the MFR [Miedzyrzec Fortified Region].

[Answer] I am familiar with these rumors. Let me tell you about yet another and totally absurd rumor, namely, that radioactive substances already are being transported to MFR bunkers, because some local inhabitant had noticed there a truck with a yellow signboard on it.

First, the MFR bunkers are too small for an international storage dump. Second, it is indeed true that some FRG companies had proposed such a deal to us, but we shall never agree to it. Third, we cannot do anything that would conflict with international norms — I refer to illegal storage of nuclear wastes — because that would undermine the authority of our country.

And as for scientific tests performed in the MFR area, it is not true that they were done in secret. They had the approval of the Environmental Protection Department of the Voivodship Office in Gorzow Wielkopolski....

[Question] Whence, then, that anxiety, which had not accompanied similar explorations in Walbrzych Voivodship? Could not it be because the Gorzow Voivodship authorities omitted relaying that information "below," that is, because they did not treat the Miedzyrzec public as their partner?

[Answer] Another contributing factor was the campaign in the mass media, which was launched by the article "The Storage Dump," published in POLITYKA of 4 January 1986. The aggressive tone of certain mass media, e.g., of the broadcasts of Program 3 of Polish Radio, which had appealed to the inhabitants of Miedzyrzec and environs for driving out with sticks the investigators, caused the studies performed in that region to be halted. But the proposal for utilizing MFR bunkers as a storage site for radioactive wastes can be neither ruled out nor accepted [as yet].

In order to resolve this question, two principal aspects have to be investigated in that region: the condition of the MFR structures, which is relatively easy to ascertain, and the water conditions there, which are more complicated. There exists a thesis that MFR facilities are located 60 meters above the watertable, but another thesis is that they are located at the level of a shifting watertable. However, credible data for resolving this question are not available; this could be done only by

means of precise measurements, which were prevented, with the credibility and competence of the team of investigators being questioned.

As you surely know, credibility cannot be negotiated or decreed. That is why the investigators from the Krakow CHEMKOP abandoned further studies. The Gorzow Voivode has now turned to the Polish Academy of Sciences with a request that they undertake these studies, which would provide an answer to the question of how to utilize these facilities.

[Question] Perhaps a factor in doubting the intentions of the investigators from Krakow was the fact that, during their previous 'trial runs,' they had rejected the possibility of storing the wastes in the dumps of the Wieliczka and Bochnia salt mines near Krakow, whereas throughout the world it is precisely salt mines that serve as dumps for radioactive wastes.

[Answer] Not throughout the world, but actually in a few countries: in the GDR, the FRG, the Soviet Union, the United States, and Switzerland. The Polish salt mines that you named are not, however, too suitable for this purpose, owing to their flooding. Thus there is no guarantee that the wastes, if stored there, will not enter the environment. Let me also answer at once, anticipating your question, that there is no such guarantee in the case of the MFR either, but that is precisely why that region should be thoroughly and completely investigated. But that takes time and a calm climate.

Since the beginning of 1986 the State Nuclear Energy Agency (PAA) has been taking part in activities serving to relieve the existing social tensions in the region of Miedzyrzec. As early as in January 1986 a meeting was held between a group of PAA scientists and the gmina's inhabitants. Subsequently in April of that year a group of local PRON activists toured Swierk [Polish nuclear research institute] to familiarize itself with the techniques for neutralizing radioactive wastes. But as of the time of my last meeting, on 4 November of this year, no common consensus could be reached, because the representatives of the local public were chiefly interested in the arguments against the siting.

[Question] This is quite natural. The experience of the countries expanding their nuclear power industry shows that any siting of a nuclear waste dump meets with resistance from the local public. Why is it that what is normal over there should be considered reprehensible here?

[Answer] Let me add that those local community disputes are invariably aggravated whenever the fears and doubts of people are exploited for purposes that have nothing in common with environmental safety. This is exactly what had happened in Miedzyrzec.

And since you referred to the international context, those dumps in other which elicit protests from ecological movements and social apprehensions there, contain highly radioactive wastes and, as I have said, we shall never store such wastes on Polish territory. Besides the generally known technologies for neutralizing and storing radioactive wastes — fusion in glass, synthetic resins, asphalts, and concrete — render them totally unsusceptible to meteorological and geological factors and safeguard the radiation safety of man and his environment for many hundreds of years.

Throughout the world at present the method of deep burial of radioactive wastes in lead barrels, together with aprons and rubber boots, half a kilometer underground, is being abandoned. Such a method had been justified 30 years ago when modern technologies were yet unknown, and it resulted in the burial of many valuable ingredients, such as rare-earth elements, which in the future should be recovered. Future generations shall not praise us for such waste. That is why the concept of the surface storage of radioactive wastes is now being universally adopted.

Also in the international context, you mentioned the protests of the "Greens" against nuclear power industry. Yet it is highly intriguing that the countries where protests of this kind are the strongest, also in their parliaments, happen also to be the countries in which the largest number of nuclear power stations is being built. Consider the German Federal Republic by way of an example. There, nuclear power stations are arising not because somebody is crazy about them but because such is the historical necessity.

Consider the pattern of deployment of atomic power stations in Europe. I think this may spoil your mood. Only Poland and Romania are white spots. At the same time, electric power consumption in these two countries is the lowest on our continent. In Romania this is linked to drastic conservation measures; in our country such measures are as yet absent but only for the time being, I think.

[Question] Actually, in all the countries surrounding ours, nuclear power stations exist and more are being built. There are not more than 100 kilometers as the bird flies from Miedzyrzec to the nearest station, in the GDR. And breakdowns in such stations do occur. And what about the waste dumps?

[Answer] For 30 years I have not heard of even one instance of a 'leak' of radioactive wastes into the environment. The last one, which had occurred in the 1950s in the Urals, took place in a highly radioactive dump.

Besides, for the last 30 years too, radioactive wastes of industry, medicine, and Swierk [Nuclear Research Institute] have been processed and stored in Poland. So far no major radiation accident with lethal consequences has occurred in this country. And yet, the tragic death of the

young girl scout in the MFR [Miedzyrzec Fortified Region] bunkers which occurred last spring did not prompt reflections among the opponents. And yet, unless the MFR is properly managed, more such incidents are likely.

My conclusion is that an international team should be appointed to analyze the possibilities for utilizing the MFR. For I believe that the Miedzyrzec Fortified Region should be utilized in some way, whether as a radioactive waste dump or for some other purpose. After all, facilities worth several score billion zlotys should not be allowed to be further systematically devastated by man and weather.

This was the conclusion reached by the State Atomic Energy Agency last June. So far there has been no reason why it should be changed.

1386

Restitution for World War II Labor Camp Internment Sought

*26000180a Warsaw RZECZPOSPOLITA in Polish
11 Jan 88 p 5*

[Interview with Dr Jacek Wilczur, secretary of the main board, Association of Poles Exploited by the Third Reich (Stowarzyszenie Polakow Eksploatowanych przez III Rzesze Niemiecka) by Grzegorz Zalewski: "Waiting for Reparation"]

[Text] [Question] The Association of Poles Exploited by the Third Reich was registered in Warsaw on 23 October 1987. What is the purpose of this organization?

[Answer] Let us start with the fact that people interested in the matter have organized themselves in various regions of the country: in Bielsko Biala, Lublin, Tychy, Katowice, Zamosc Voivodship, and Warsaw.

The seriousness of the problem is demonstrated by the fact that during the past 3 years the Main Commission for Research on Nazi Crimes in Poland has received about 50,000 letters asking about the prospects for receiving damages for their slave labor for the Third Reich. Therefore, the public feeling is that there should be a representative to undertake the work of vindicating just grievances of the still numerous groups of people who were exploited by the Third Reich and are still living in our country.

The organization's purpose, therefore, as the founding document says, is "to make nations aware of the true facts about the fate of Polish men and women exploited by the Third Reich and to gain material compensation and moral satisfaction for slave labor."

[Question] Who can apply to the association? What sorts of groups are represented in it?

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31 March 1988

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POLITICAL

[Answer] Alongside workers deported from Poland to the Third Reich or to any country occupied by the Third Reich, the right to membership is extended to people employed against their will in occupied parts of Poland, Polish soldiers, including Polish Army cadets, transported to prisons in 1939 and later, contrary to international conventions, illegally deprived of their prisoner-of-war-status and sent to do forced labor.

The need for such an association to be created is shown by the hundreds of telephone calls and letters in addition to personal visits to its headquarters (Aleje Ujazdowskie 11, Room 132) by people with an often tragic past during the occupation, people who believe they will receive justice for their grievances for forced labor during the war years.

10790

HUNGARY

'Third Phase of the Reform'

25000126 Budapest *MAGYAR HIREK* in Hungarian
Dec 87 pp 9-10

[Article by Jozsef Bognar, member of the Economic Policy Working Collective of the MSZMP CC, member of the Presidium of the Hungarian Academy of Sciences, and director of the Global Economic Research Institute]

[Text] "Diplomatic fireworks" concerning Hungary which evolved during the autumn months, promising changes that took place in the stewardship of the state, as well as the fall session of the National Assembly which, in terms of "balance" within the state, once again forged ahead, placed the reform problem in the center of international interest. For months, representatives of the sciences have been talking about the "third phase" of the Hungarian reform process.

It is also important that the beginning of this third phase coincided in time with the strengthening of the Soviet "perestroika" as well as with preparations for the Chinese Communist Party congress.

Independent from this grand international background, the expression "the third phase" of reform embodies the idea that in a live, functioning society and in a dynamic world, reform (change) is a constant process which, like any other society's development, contains cyclical changes. Namely, it is apparent that neither capitalism nor socialism represent static conditions or static orders of value, but instead constitute the totality of methods by which new social and economic problems are and can be resolved.

Relative to Hungarian reform one must recall that its start (design: 1966; realization: 1967) meant that in the course of socialist transformation there evolved a relatively strong socio-political system which was able to reliably consolidate power, the economic driving forces of which were exhausted nevertheless during the transformation period. An economy devoid of driving forces is unable to keep in step with newly accelerated, post-World War II capitalist development in terms of production quality, efficiency, and technical and technological renewal.

Accordingly, the aim was to introduce new driving forces into the economy ["system of economic processes"]. These new forces could be found in individual and in group interests, in property relationships more adaptive to the nature and peculiar features of development, in the [economic] tools that take the place of plan directives, in the increased self-inspired activities of business organizations, and in the more creative attitude of various groups and organizations.

Within the Hungarian economy this took place in the framework of a relative consensus—potential resistance weakened in the aftermath of 1956, and a majority of the members of the leading stratum agreed on the need to reduce centralization. After all, under decentralized conditions everyone, except the highest level of leadership would gain power and influence.

Parenthetically I will note here that the situation is different under "perestroika," since the relative consensus can be achieved only by assigning a background role to the earlier leading stratum. It so happened that the launching of Soviet economic reform required prior political and social reforms.

Accordingly, the Hungarian reform was an economic reform from the outset, one that faced certain barriers from its inception.

The first such barrier was a [lack of] understanding manifested by the leading stratum. It is obvious that any leading stratum—and even the progressive wings of such strata—would be willing to support reform initiatives only if as a result these it could look forward to the strengthening of the country's (the economy's), as well as its own situation. The attitude of the leading stratum, however, has a decisive significance in the case of reform (reconstruction), because contrary to revolutions, reforms are being initiated at the top.

The second, even more serious barrier was presented by virtue of international relations. These appeared to be favorable during the first half of the 1960's. The Czechoslovakian events (1968), however, resulted in the ebbing of reform movements, a process which came to an end only with the emergence of Gorbachev and with the initiation of "perestroika."

The ebbing of reform movements that evolved on an international scale resulted in the fact that e.g. at that time we were not able to deal with the external economy (export orientation) problem, because such endeavors would have created economic-political conflicts with the rest of the socialist (CEMA) countries and because they could have produced forms of conduct which would have been in sharp contrast with the external economic policies and practices of the rest of the member countries.

The chief characteristics of the 1968 reform were as follows:

- discontinuation of mandatory plan indexes;
- commercial approach to the means of production, in lieu of central materials distribution;
- development of a quasi-tax relationship between enterprises and the budget, in lieu of profit withdrawals;

- use of cost/profit relationships [“the demand for means relative to the achievement of profits”] as the chief productivity indicator;
- introduction of a workers’ profit motivation system;
- introduction of bank credits in lieu of direct investment financing;
- introduction of free prices on a broad scale (subject to bargaining);
- strengthening of the cooperative sector, and the limited licencing of the private sector (small trade, small business, services);
- the grant of independent export authority to individual industrial and cooperative enterprises;
- permissions for enterprises and cooperatives to join forces for the accomplishment of shared goals;
- authorization of leasing, family unit and commission arrangements in domestic commerce;
- economic integration of household agricultural farming with agricultural cooperatives;
- strengthening of convertible currency foreign trade, establishment of cooperative arrangements in production and in marketing; and
- the organization of foreign tourism from an economic standpoint.

At the same time, however, only minimal changes took place in the political-social structure, even though the general political perception became more liberal as a result of the so called “system of alliances,” and later on grounds of reconciliation with the churches.

The economic reform introduced in 1968 functioned successfully; economic indexes showed general improvement, a strengthening of economic efficacy and a rising standard of living. Along with these phenomena it was possible to preserve the economic balance in the budget as well as in foreign trade.

Beginning in 1972, however, opposition to reform gained strength. The opposition consisted of groupings of several kinds of political forces. Thus there came about a group composed of those who represented conservatism within the party and the state bureaucracy, dissatisfied because of “reductions” in power and in certain hidden privileges; another group composed of the leadership strata of certain inefficient large enterprises which clearly turned into loss operations as a result of the application of economic methods; and yet another group composed of the leadership stratum of trade unions dissatisfied with the distribution of income on the basis of production. Quite naturally, dissatisfaction expressed

by conservatives was coupled with the fact that certain individuals pinned exaggerated expectations to the introduction of reform, or viewed it as a “miracle cure” which would not require more work and more responsibility because it “regulates” the activities of people. The fact that reform ideas were forcefully rejected in the rest of the CEMA countries indirectly supported the opposition voiced by these strata.

Amid such dissatisfaction and political-social tensions the conservatives ousted some of the outstanding reform advocates, and in the resultant atmosphere enforced their own conceptions with respect to certain issues.

They increased wages without increasing production, they took “exceptions” with respect to certain large enterprises and set back a number of regulations that aimed for increased imports.

Economic balance disintegrated as a result; an imbalance of payments, and a lack of balance in the budget and in consumption emerged. Shortcomings were covered by foreign credits. As a result of these actions Hungary became indebted and lost time. The leadership first did not perceive, and later tried to minimize the significance and effects of global economic changes (epochal change) that began in 1974.

As a result of imbalance, economic disturbances and the effects of changes in the global economy, reform advocates once again gained ground, and beginning in 1979 they once again modified the economic policies and continued economic reform. At this time, however, reform advocates experienced more difficulty because indebtedness, aggravated at that time by a grave international financial crisis, was accompanied by some rather heavy interest payments, which meant that year after year the economy would have to produce an international trade surplus of several hundred-million dollars.

While on a global scale the rate of increase in trade diminished, moreover stagnated for one or two years, Hungary’s achievement of such trade surplus would have demanded more than [“not only”] the constant increase of exports. It also rendered reductions in imports and in investments unavoidable. Thus, under conditions of reform the policies to be pursued were restrictive in character, which made it more difficult or impossible to accomplish the further development of the external economic mechanism (e.g. the liberalization of imports).

To top it off, an attempt to strike a balance between unavoidable restrictions and actions supportive of development failed in this complicated situation. At certain points in time and in certain situations restrictive regulations prevailed while in the global economy the scientific and technological revolution progressed with extraordinary speed. This began to formulate a new structure, and resulted in a significant reduction in prices of mass products and of products representing

medium levels of development. In this contradictory situation the cabinet too lost its sureness and postponed decisions regarding the resolution of issues upon which reform and technical development hinged.

It was under these circumstances that the third phase of economic reform began with the proclamation of a new government program.

The new program was announced by a new prime minister, who also proclaimed the continued strong development of reform, and the rendering of determined decisions.

Thus, 1987 saw:

—the introduction of the capital market—a matter the 1968 reform could not undertake;

—the establishment of bonds and a bond market in which the population can act as a buyer and a seller;

—the beginning of the discontinuation of state subsidies to enterprises that operate with a loss—heretofore the government withdrew profits from good enterprises to offset losses incurred by inefficient enterprises. Even as of lately, such subsidies constituted 20 percent of the budget. Discontinuation of consumer price subsidies representing 11 percent of the expense budget is also taking place. Quite naturally, the discontinuation of consumer price subsidies is accompanied by an increase in consumer prices which may produce political tensions. A bankruptcy law went into effect relative to the discontinuation of loss operations.

The liquidation of monopolistic situations is being further strengthened, competition is being increased because externally the Hungarian economy became a competing economy.

A bi-level banking system was established, which means that in addition to the National Bank (the central bank) not only the functional sphere of the National Savings Bank [OTP] will increase—it collects and manages the population's savings. Commercial and credit banks also came into being—banks which in addition to providing credit, also participate in economic activities, i.e. by becoming partners in a variety of ventures.

A few foreign banks opened branch offices and do business in Budapest.

The multi-sector nature of the economy is being expanded. In addition to the strengthening of cooperatives, a private sector, ad hoc ventures and small plants are functioning; moreover a significant number of joint ventures came into being—a subject we will address separately.

The system of state property is also undergoing transformation with the goal that all property be managed by someone who has a true (real) interest in increasing assets.

New large enterprise profiles are taking shape. In the earlier period large enterprises were preoccupied with production only, and could conduct their activities only within their own profile, albeit with a monopolistic character. These large enterprises now hold sales, marketing and export rights, they can establish subsidiaries and can invest their capital in other fields and in other ventures. It may be assumed that upon demonstrating a certain volume of export performance they may be entitled to receive a return payable in foreign exchange.

Plant councils were established in certain types of plants. These councils may choose directors from among contestants [and engage their services] on a contractual basis, for a defined period of time.

Small and medium size plants receive increased support. These plants play a larger role in satisfying the population's demands, as well as in exports.

The "added-value tax" system is being introduced. The system is successful in a number of Western countries. As a result of the system enterprises are motivated to conserve materials and energy. In addition, under the new system of taxation the after-profit-tax share of profits will be greater; this, in turn provides a greater opportunity for plants to make larger investments in the interest of accelerating technical-technological development.

Beginning in 1988 a single-band progressive income tax system is being introduced. Debates that preceded the introduction of the system provided a framework for the expression of a number of diverse views, in which— notwithstanding the diversity of views—most participants understood that the population must pay taxes in a socialist society having a structure of this kind. In the earlier period only 8.2 percent of budgeted revenues were derived from direct taxes levied upon the population.

The new external economic strategy being developed has great significance. Within the heavily intertwined global economy even the development of the strongest economic powers hinges upon [their ability] to adapt to the outside world. The "age of innovation" accelerated changes in trends as well as in the speed by which shifts in structure and area take place. Slow, bureaucratic decision-making systems no longer permit keeping in step with development. For this reason in Hungary there is a need for an acceleration of technological and technical development (otherwise the exchange rates will continuously deteriorate), and for an increase in our ability to export. After all, for decades to come, our exports will have to increase at a faster rate than our imports. It is our hope that foreign enterprises, joint

ventures, advisers and our other partners will help us approach our competing partners with respect to technology, market adaptation, and marketing. Incidentally, in this respect we are also counting on the help and involvement of Hungarians abroad who were successful in foreign economic activities. We are providing an appropriate framework for this task.

Finally, we must mention the fact that in the upcoming years and decades the global economic situation will be very complicated. The understanding of changes will involve much effort. For this reason we would like to improve our information system.

A number of people, both in Hungary and abroad, have recognized the problem that in the case of an economic reorganization of this significance, there may evolve a contradiction within our economic and political-social structure. This is so, because on the one hand we are endeavoring to achieve the greatest degree of elasticity and flexibility, while on the other (the state organization, etc.) we are still experiencing a rather rigid institutional system.

This is why we need to reform the state organization and the system of government. Such reform is incorporated in the present government program.

The endeavor is to bring about a new balance within the state organization between the administrative, legislative and judicial powers. Past experience suggests that the opportunities and capabilities of the legislative and judicial powers (e.g. the Constitutional Council) are gaining strength. The introduction of an electoral system with several candidates, the expansion of the workings and control activities of National Assembly committees, the systematic hearing of testimonies by experts, the interest manifested by the committees, committee debate over a significant part of decrees promulgated by the cabinet or the Presidium, and new relationships that emerge between parliamentary committees and various specialized associations provided and continue to provide color to the workings of the legislative power.

"Excessive" state power manifested during the period of transformation is coming to an end, and great changes are taking place in favor of society with respect to the division of power between society and state or local authorities. From this standpoint even the introduction of the new tax system represents a positive change, because it has become apparent that it is the population that sustains the state organs, and that it is not the state organs which "yield" certain spheres of authority to the population.

Two issue clusters will have particular significance in realizing government reform. One pertains to complexity. This means that the system of specialized branches must yield to methods which permit direct dealing with problems. In a complex society the government must not be confronted with specialized problems, but rather with

complex problems which stem from the mutual effects exerted by various specialized factors. For this reason, in addition to general decentralization and a new distribution of powers, it is very essential that the issue of complexity be kept in mind, one which does not stem from the harmonizing of various specialized interests, but from the above-mentioned mutual effects. This problem, of course, is neither of Hungarian nor of socialist origin. It represents a global problem which must be confronted by every country and by every government.

The other issue cluster pertains to the jurisdictional intertwining of party and state organs, one which leads to a hierarchical, multi-step, oversized decision-making system. This system cannot be sustained in the present accelerated world.

In conclusion, I would like to mention the fact that our new government program is being viewed with well-intended interest both in the East and in the West. If the first phase of economic reform took place in a depressed atmosphere, now, in the third phase everyone may happily see and kindly acknowledge the fact that Hungarian reform—a small nation's independent experimentation with solving complicated economic and political issues—had a positive effect on the reform endeavors of the greatest socialist countries, that our reform had a favorable influence on East-West relations, and on the extent to which our reform enhances the opportunity for economic cooperation.

It is for this reason that we must make every effort in the interest of the Hungarian nation and of the world to successfully implement this difficult and complicated reform process!

12995

'Grossification' Causes 'Uncertainty'

25000078 Budapest NEPSZABADSAG in Hungarian
5 Dec 87 p 6

[Interview with Dr Mrs Pal Kallai, deputy division director of the Health Care Workers Union, and with Istvan Nyulasz, deputy division director of the Educators Union, by Erzsebet Molnar: "Gross Uncertainties—Next Year's Wage Determination Causes Concerns in the Health and Education Areas"]

[Text] I glance at the paper—it's full of mysterious alphas and x-es, and formulas. The entire nation is in the process of grossifying. A bit further I find an ad. I look at it twice. They are offering a free training program for grossification, but even the trainers do not know everything, that's why the program is free. I'm going to find out what it's all about. I call the company—its name is Intellrobot industrial sector—the line is constantly busy. I'm not the only one who needs a helping hand in order to grossify.

New Wage Principles

The task, or course, is not at all easy. It involves detailed, careful work; errors could diminish the workers' wages—wages that are not that high anyway. Legal provisions were published late, and although central guidelines and general instructions were distributed to the institutions, specific grossification guidelines pertaining to individual branches have yet to be published. One could say, of course, that people are independent, and that one could start the process without guidelines. One could also say that if this is so, why have guidelines? By the way, the task involves not only grossification. The collective agreements and labor regulations are to be reworked also, pursuant to the new wage principles, and that has to be done prior to the New Year, otherwise no hirings can take place beginning in January.

In the health care field, for instance, one has to review the particularly complex health care wage system while preparing the grossification process. As a result of such review quite a few supplemental compensations would be made part of the workers' individual basic wage. As a matter of assistance, the accounting units within the councils will distribute to the institutions wage classifications for individuals whose primary occupation is in the health care field. This will take place prior to 10 December. But the accounting units are not responsible for accomplishing the grossification itself. Variable wage elements tied to performance, the wages of health care workers who are retirees, who hold jobs as secondary occupations or as side jobs, will be grossified by the hospitals and medical facilities. Moreover, grossification already classified will also have to be done by these facilities so that they can double-check the lists provided by the accounting units, and so that there be a possible basis upon which classifications may be disputed.

[Question] "Are you counting on bargaining in terms of requirements and opportunities within the grossification process?"

[Kallai] "We are pinning our hopes on a promise made by the Ministry of Finance: the councils will receive adequate funding in order to resolve all legitimate grossification requirements."

[Question] "What is a legitimate requirement?"

[Kallai] "There is a legal guarantee that the net wage of a worker will be preserved, provided that his performance does not change. Accordingly, this is not an issue. At most the question may be whether an institution feels that the funds it receives are sufficient to implement the grossification process."

Is Everyone's Money Involved?

[Question] "In your opinion, who will benefit, and who will be affected adversely by this transformation to gross wage calculations?"

[Kallai] "What do you mean? No one will benefit in terms of receiving as much as one forint more in wages than before. The grossification process is based on a zero balance principle. Wages will be increased only to an extent to assure that workers do not get paid less at least at the beginning, as a result of the tax bite and the 10 percent pension contribution—so that their nominal net earnings remain unchanged as long as their performance is unchanged."

[Question] "In that case I will rephrase my question: who will be affected more adversely? It is hard to imagine that without an exception everyone will be assured a net wage that remains identical to the one he received before, provided that his performance is unchanged. What does 'unchanged performance' mean anyway?"

[Kallai] "In my judgment it is only at the institutional level that some concerns regarding the funding of wages may emerge. Because the situation is simple if by accident, at the individual level someone's gross wage calculation is incorrect. That person can appeal. If, on the other hand, the institution does not receive sufficient funds, its workers may be adversely affected. This is why institutions must calculate their gross wage structure only after thorough analyses."

It Depends on the Calculation

Let us assume that an institution receives the appropriate amount of money. Could it not happen in a hospital that some workers will benefit more than others, alternately, that some will be more adversely affected than others? Dr Kallai says that the calculations must be done in a way so that this cannot happen; one must carefully consider each and every wage element. This is so, because one may obtain a different result, if for instance the grossification of the various elements is done in a different sequence. In other words, one may be short-changed already by missing the sequence, and one can derive gross wage figures in several different ways. On the other hand, as long as this is so, and it is possible to do calculations in several different ways, it would seem that there is a legitimate question as to what constitutes a rightful expectation. I inquired at one hospital whether they knew what their total gross wage fund was. They knew but they did not divulge the figure in order to avoid an adverse bargaining position....

[Question] "The hospitals aimed for a tax exemption regarding 'on duty' fees and executive supplements, because in terms of hospitals this is a rather pressing issue. But the union was unable to accomplish this. How come?"

[Kallai] "The grossification of 'on duty' fees preserves the real value of those fees. In other words, the grossification of those fees has the same effect as if they were tax exempt."

And the One Who Works More?

[Question] "Let us assume that from a legal standpoint one's performance in 1988 remains the same as in 1987. His net wages cannot be reduced. Under these conditions, the one who works more in 1988 than in 1987 will receive less money than had he worked more in 1987 than in 1988."

[Kallai] "Only if he falls into a higher tax bracket, but this has nothing to do with gross wage calculations."

[Question] "What happens, let's say, if due to labor shortage a person must be on duty for longer periods of time?"

[Kallai] "We have accomplished this much: the 'from' and 'to' limits that were heretofore observed will no longer exist. It is the hospital that will determine how much it wants to pay for 'on duty' service, and such determinations may be expressed in the salary percentages of workers also. Moreover, a hospital may modify its labor rules in a manner so that if a person performs more 'on duty' service, he will receive a higher wage in order to offset the tax effect. All this, of course must be figured out accurately."

[Question] "And, of course, money is also needed—more money than what is needed for grossification. From where will the hospital obtain these additional funds?"

[Kallai] "Obviously, it can obtain those additional funds only from its overall grossified funds."

What Is Unchanged Performance?

When it comes to grossification, educators by far do not constitute a content group. Although even the educators' calculations are running rather late, here too the guidelines are still being prepared. Their situation is further complicated by the on-going modernization of teachers' wages. This process is independent from the grossification, nevertheless it is not only the technical aspects of the situation that cause restlessness. There are some other problems.

[Nyulasz] "Here is the legal provision which says that the preservation of net earnings must be guaranteed under conditions of identical performance. But another section of the same provision states that a labor dispute may be initiated only if rules pertaining to the relationship between the employer and the employee were violated in the process of determining new wages. A rule pertaining to work relationships may be found in the Labor Law, but the Labor Law does not cover the development of gross wages. Alternately, such rules may be found in the employment policies of individual institutions, but it is impossible to develop such policies in a manner that they would guarantee month after month to workers the preservation of their net wages at 1987 levels. In other

words, at the moment one cannot see clearly to what forum a worker may complain if a net wage classification falls short of the 1987 levels, assuming that his performance remained unchanged. Let alone this entire concept of 'unchanged performance....' In terms of education this would mean that a teacher would have exactly as much overtime, would perform exactly the same tasks at the exact same level of difficulty—in my judgment matters like these cannot be measured objectively. An aggrieved worker could substantiate his grievance only if he had taken notes concerning his monthly net earnings already in 1987, and would continue to take such notes in 1988. Only after the fact could he reconcile his notes with the tax authorities and find out whether his employer complied with the determination that guarantees unchanged net earnings under conditions of unchanged performance."

According to Mr Nyulasz, in the context of gross wages there is yet another fear that assumes important dimensions. Both the councils that sustain schools, as well as the schools themselves are uncertain whether they will receive the funds needed to implement the gross wage concept. They are concerned that in the end, part of the gross wages will have to be paid from their existing wage accounts. These wage accounts are already over-burdened.

Promises Are Nice

[Question] "And how about the state's guarantee—the promise made by the Ministry of Finance?"

[Nyulasz] "You know, this is the same kind of thing as what we have seen in 1987. At that time the state budget provided enhancements only for education, health care, social services and the wages of local council workers. Wages in some other institutions—mainly within the bureaucracy—had to be enhanced also, of course. This is understandable. And where did the money come from? From funds that were already there—from the existing appropriations of the various branches. It is conceivable that in this instance each branch will receive all the funds necessary to grossify. But we are still concerned, because on the basis of past experience we are not assured that county councils will funnel down all the money to the local councils, even if the counties received all the money they needed, and that the local councils would continue to funnel down all the funds to the institutions. It is of no help if we are promised these funds, but in reality are not receiving them. And the workers are already saturated with fears from a 1988 reduction in real wages—from the 15 percent inflationary effect. Such fears should not be aggravated by uncertainties presented by the introduction of the grossification concept."

I believe that the technical aspects of this matter—the necessity of meeting the deadline, the fact, that according to those questioned, some legal provisions, some supportive guidelines should have been produced at least

a month earlier in order to perform this all-encompassing work—only add to the fears and to the issues that have not been clarified. Thus one must brainstorm this matter. Workers may protest if in the process some principles are violated—if they are aware at all of the extent to which their performance is identical to, or different from their past performance, and particularly if they walk around with calculators and formulas for grossification calculations. One may argue, of course, whether these matters can still be corrected by providing better information at a faster pace, and by guaranteeing the guarantees—nevertheless these are approaches that should be tried.

We have sought comments on this writing from those in charge at the Ministry of Finance. Here they are:

To the subtitle “And the One Who Works More?” they said that to think that one who works more in 1988 will receive less money is a mistaken belief. It is a basic principle that more work is compensated with more money, and that consistent with the logic of income taxation, more money requires the payment of more taxes. The grossification structure was designed to preserve the level of net income. The structure was not designed for the purpose of settling wage problems or to further increase wages.

To the last paragraph of the part subtitled “What Is Unchanged Performance?” they added that the financial backing of the development of the grossification system is included in the 1988 budget plan, and that accordingly, those funds are available in the framework of the various council budgets. The councils are obligated to pass on the applicable funds to the appropriate institutions.

To the first paragraph under our subtitle “Promises Are Nice” they added that the ministry took into consideration the amounts needed to achieve a grossification system for every branch and for every worker. Accordingly, there is no need and no opportunity for the regrouping of funds among the various branches. There is no basis in fact to the statement that information provided with respect to the grossification process was inappropriate, and that such information has increased the sense of uncertainty. Official journals have repeatedly dealt with this subject, and the official organs have published detailed rules and guidelines on the subject.

Regarding the final paragraph of the article: the ministry feels that the principles of achieving a system based on grossification have not been violated, and there is nothing to be eliminated from the present scheme. The joint efforts of the directive organs and of institutions must endeavor to implement grossification in a consistent manner, in accordance with the announced principles. This is not an easy task, in many places they fell behind. Such delay, however, may be rectified prior to 15 January. Efforts must be concentrated toward that goal.

One cannot argue the position taken by the Ministry, nevertheless one cannot disregard the fact that tens of thousands of people are implementing this huge task, and that through this task the wages of millions of people are being determined. If the information given to those tens of thousands is inadequate—irrespective of whether the inadequacy is a result of their own, or of the central organs’ fault—the result of their work may affect millions of people. Such inadequacies may also easily conflict with the governmental intent by which the new, 1988 system of taxation is not supposed to diminish the net wages of individuals, under conditions of unchanged performance. Accordingly, it appears as obvious, that it is in the public interest to assist everyone who participates in the implementation of this new kind of work, by providing information, and specific guidance.

12995

Problems of Wage ‘Grossification’ Discussed

Example of One Enterprise

25000114 Budapest HETI VILAGGZDASAG
in Hungarian 16 Jan 88 pp 4-5

[Article: “Income Grossification—The Development of Wages”]

[Excerpt] According to the regulations by 15 January, every worker of every work place will have to receive a new gross-income classification. In our panorama below, we asked some economic organizations and financial institutions—selected arbitrarily, without purporting to present the complete picture—for their opinion regarding the outcome of grossification. The overall picture which for now appears to be quite conflict-free will, in a few months—when instead of slips of paper the pay envelopes will contain real money—undoubtedly become more tinged.

The Taurus Rubber Industry Enterprise is considered to be one of the more recognized names of Hungarian industry, hence it is not surprising that this large enterprise of national importance has chosen not to take advantage of the opportunity to take out a working capital loan to cover any possible temporary costs connected with income grossification. At Taurus, incidentally—as we were told while visiting the enterprise—they had been preparing for grossification since the beginning August; in fact, they had a separate task force working on its implementation. During the preparatory phase of this effort it was found that there had been a confusingly large number of allowances, so—with the exception of overtime, shift and language allowances—they were included in the basic wages. This, of course, also created a need for new job descriptions and collective contracts. After thorough discussions with input from the trade unions all of these were ready to be introduced in October and November already.

"The bottom line is this," Gabor Felfoldi, head of main department for employment informed us: "In the norm-wage jobs we continue to pay norm wages; instead of the usual piece rates and diverse wage scales, however, we are now paying norm wages combined with quality incentives that are based on the general personal basic wage schedule. In the non-directly producing white- and blue-collar professions the hourly and monthly wage will continue to be the characteristic form of remuneration."

The enterprise managers—including everyone from the plant manager down to the unit chief—had been given specific training on the specifics involved, and in November they even took a test on what they had learned. As a result, the workers have been able to have their questions answered directly at work, said the main department head.

Taurus beat the centrally set deadline by a mile: everybody here knew in December already what the numbers were. Workers have been given an opportunity to check the figures on a separate computation sheet, and by signing this sheet they could acknowledge that the figures were indeed correct.

At the trade union committee we learned that so far no one has brought any complaints to their attention regarding grossification; "those affected have all understood what has been done." It is a different question altogether that on the enterprise level the average income grossification of nearly 20 percent is not expected to completely ensure the full preservation of the midyear net value of fluctuating wage components. Moreover, we may even run into difficulties in maintaining the net income level of contractually employed, high-pension recipient workers, nor will high earners who as a result of grossification will end up in a higher tax bracket have their net wage levels guaranteed forever. Those affected are not expected to notice this for a while, at least not until they receive their first pay under the new wage structure.

State-Guaranteed Bank Credit

*25000114 Budapest HETI VILAGGAZDASAG
in Hungarian 16 Jan 88 p 4*

[Article: "Reluctant Banks"]

[Text] By December, they had already had all the figures computed, but by January, Hungarian production and budget organs could start racking their brains about how to come up with the resources needed to implement income grossification. This year only, enterprises that lack the—necessary—resources for implementing grossification are allowed to take out state-guaranteed loans from commercial banks. Should the enterprise fail to repay the loan under this arrangement, the state will assume the loan and become the insolvent firm's creditor. This measure has been designed by economic policy makers to give enterprises time to get accustomed to this new economic concept brought about by the new tax

system. The assumption of delinquent loans will prevent having to close an enterprise down immediately just because for a couple of months it has been unable to pay the grossified wages.

As for the conditions of granting loans and state guarantees, the ministry of finance and the Hungarian national banks has recently worked out a joint position which is soon to be published in *MAGYAR KOZLONY*. Accordingly, the earliest date for commercial banks to start offering grossification loans—with a 3-9 month maturity—is 1 February 1988, and all recipients of such loans will have to repay them by 31 December 1988.

The only condition attached to the utilization of this loan is that it cannot be used to pay for social insurance costs. Another stipulation is that economic organizations which between 1 October and 31 December 1987 had paid any of their profit reserves into the so-called Mutual Support or Enterprise Cooperation Fund are not eligible to receive such credit up to the amount of their contribution.

As they told us at the Ministry of Finance, they are presently weighing the possibility of combining the repayment of grossification credits with a profit tax allowance. The joint position taken by the Ministry of Finance and Hungarian National Bank makes it clear that failure on the part of an enterprise to repay a credit can under no circumstances turn state guarantees into state subsidies; it merely means that the debt would be repaid to the bank from the state budget.

We went to see our three most capital-rich commercial banks—the Budapest Bank, The Hungarian Credit Bank and the National Commercial and Credit Bank—to find out how many enterprises they had requesting state guaranteed credits. The answer was the same at all three places: to date, no enterprise had contacted them with such a request. They estimated that this could only be expected after the end of February, and according to the bankers most of the applicants will be processing industry, machine industry and textile industry enterprises.

According to the information we got from the Budapest Bank they are able to provide short term credits at an interest rate of 1.5 percent over the prevailing rate charged by the central bank, although their readiness to do so may be influenced by the central bank's refinancing actions. The situation is more complicated at the National Commercial and Credit Bank which—as we have learned—state guarantees notwithstanding, is unable to provide short-term credit for grossification purposes without a special refinancing fund made available specifically for this purpose by the central bank. As it was made clear at a general orientation held on 30 December by the Hungarian National Bank for commercial banks, however, for now this is out of the question. This has been further underscored by Hungarian Credit Bank (MHB) officials who have told us that as long as these kinds of credits were counted against their existing

resources they would be unable to decide favorably on requests that were expected to start coming in within the next few weeks. The problem in their case was that they had their capital tied up in various undertakings, and the only way for them to come up with new moneys was with the help of the central bank.

9379

New Austrian Regulations Cause Slowdown in Frontier Traffic

25000082a Budapest MAGYAR HIRLAP in Hungarian 9 Dec 87 p 6

["Shopping Spree on 8 December Did Not Materialize—Austrians Scared by Restrictive Viennese Measures"]

[Excerpt] The hourly news bulletin of the Austrian station O-3 reported yesterday noon:

The anticipated large-scale Austrian shopping excursion for today's holiday (8 December: Day of the Immaculate Conception, nationwide religious holiday in Austria—Ed.) has not materialized so far. Though traffic is lively at Austro-Hungarian border crossing points, long delays are not encountered. The announcement from Vienna about increased severity in Austrian customs inspections presumably had its effect. Austrian businesses and the milk products industry organized a campaign of fliers for residents crossing into Hungary. The fliers exhort citizens to purchase "Austrian quality," i.e. to support the Austrian economy. Fliers were accompanied by free distribution of milk and butter tasting. (Though for other reasons, namely the reduction of stored supplies, Austria recently reduced the rather high price of butter by two schillings.)

Here follows our reporter's account of events on both sides of the Austro-Hungarian border on 8 December, 1987.

Maria Lakatos reports on her experiences from Klingenbach and Hegyeshalom:

Rather than protest, our Austrian neighbors spent their religious holiday peacefully, though in its 1 December issue the KRONEN ZEITUNG predicted pileups at the border. News from recent days revealed however that, upon the demands of the Austrian Chamber of Economics and of peasant organizations, Austrian authorities took steps of unprecedented rigor to prevent their fellow countrymen from doing their holiday shopping, as usual, in Hungary.

Merchants in Burgenland also raise their voices with increasing frequency against such shopping, which appreciably reduces their business. This is because Hungarian foodstuffs cost half (in forints) of what they do in schillings on the other side of the border. Not only meat products, but cheeses are also highly popular. Trade in

cheese in towns and counties adjacent to the border reputedly exceeded all imagination. It has been said that Austrian wine tasters in Burgenland are offered Hungarian cheeses.

This is the process targeted by last week's Austrian regulation, which restricts to 1000 schillings the value of importable goods, and in addition limits foodstuffs separately. Free milk, and even cheese was handed out on the other side of the border, together with fliers, as part of a "social action." To deter them from Hungarian foodstuffs, our neighbors were also warned that Hungarian food products occasionally contain chemicals banned in Austria.

In a country where one usually does not even have to stop for a customs check, item-by-item customs inspection was announced yesterday at Hungarian border crossings, with all cars being thoroughly checked and unloaded. Last year there was a line of cars 25 km into Hegyeshalom, because Austrian cars were checked on the other side without prior warning. Extra trailers were brought in, onto which hapless Austrians had to load their confiscated drinks, cigarettes and foodstuffs, in addition to being fined by their authorities.

Yesterday only roads with light traffic could give rise to surprise. The regulations fulfilled the expectations, at least for a day. Traffic dropped to about one half of its usual level.

13240

Foreign Tourism Said To Grow at Expense of Local Vacationers

25000082b Budapest NEPSZABADSAG in Hungarian 11 Dec 87 p 5

["One Billion Forints for the Development of Tourism; The National Council for Tourism in Session"]

[Text] More than 1 billion forints are expected to be allocated in 1988 to centralized support of services and development of tourism. Two-thirds of this amount will be applied to investments in infrastructure, international and domestic publicity and the support of developmental proposals. This was decided at yesterday's session of the National Council for Tourism in its discussion on next year's use of the tourism funds.

The meeting also discussed domestic camping tourism, and a plan was approved for lengthening the vacation season next year by the organization of programs named Balaton Autumn.

Due to its relatively low cost, camping is popular in our country. Yet, domestic tent dwellers are tourism's orphans. Available equipment is scarce and expensive. For example, light and collapsible tents, an essential item for cyclist and waterways campers, are not available.

True, these may be bought cheaply in neighboring Czechoslovakia, but their exportation is prohibited; this leaves Austria as the nearest source, but of course not for forints.

Rental is also no help to the thrifty traveller, since the offerings are meager yet expensive. The cost of a vacation using rented equipment approaches that of staying in a motel.

Oddly, then, Hungarians are scarcely found during the peak season at popular campsites on the shores of the Balaton. Local tent-pitchers have been squeezed out of them by foreigners who reserve them in advance; in any event, they are too expensive for the low budget locals.

In the past, members of the camping club were able to go on low-cost foreign trips, since the club organized for them provisions practically at cost, using its foreign currency allowance. However, this allocation was withdrawn from the club last year, yet no Hungarian travel agency offers similar help to our campers abroad, nor can they reserve campground sites in advance.

The new passport and currency regulations are likely to increase the number of foreign travelers, and shortage of funds will no doubt grow the community of campers.

13240

Taxation of Small Agricultural Producers Described

*25000111 Budapest HETI VILAGGAZDASAG
in Hungarian No 51, 19 Dec 87 p 54*

[Text] Many detailed questions have accumulated from our readers' letters, all having to do with how small agricultural producers are to be taxed. We believe that it would be appropriate to repeat the basic principles underlying the taxation of small producers. Seemingly, many questions and problems flow from the fact that those raising them did not understand or misunderstood the tax law.

Small agricultural producers are taxed in different ways depending on their income and the number of those they employ. That is, if the income of the small agricultural producer does not exceed 2 million forints a year, or on the average he does not employ more than one worker a year, then his earnings are taxable only on the basis of the personal income tax schedule. If, on the other hand, his income exceeds 2 million forints or he employs more than one worker, then he rates as an entrepreneur and is taxed according to the entrepreneurial tax schedule as far as his profits deriving from his enterprise operations are concerned, while the portion of his profits from the enterprise representing his personal consumption outlays is taxed according to the personal income tax schedule.

Let us initially consider the first case, that is, when the small producer does not qualify as an entrepreneur. Here, too—according to paragraph 7 of the personal income tax code—the small producer may be taxed in different ways, depending on the nature of his activities and the income that he generates. If his total annual earnings do not exceed 500,000 forints, then he is entirely tax exempt. If his income is above 500,000 forints but is not over 2 million forints, then the portion of his earnings above 500,000 forints is subject to taxation. Thus, if the small producers' total annual income is 600,000 forints, then 500,000 forints of this amount is exempt from taxation while 100,000 forints is subject to it. Still, not the entire difference will be taxed. If the small producer is engaged in growing crops, only 30 percent of the excess is taxable; if in animal husbandry, then only 10 percent of the amount above 500,000 forints is subject to taxation, that is, such a portion of income will have to be added to his earnings from other sources. These factors of 30 or 10 percent, respectively, are precisely such because on the average it was determined that the income of small producers generated by growing crops involves operating expenses of 70 percent [of the gross income], while in the case of animal husbandry the corresponding expenses represent 90 percent. In effect, then, what is involved is not a tax preference—even though such is the perception among public opinion—but rather the factoring of necessary outlays into the tax computation.

According to the general value added tax law, small production agriculture falls into the zero tax bracket. This means that small agricultural producers do not have to pay a general value added tax. However, they may claim a refund of value added tax exceeding 3,000 forints on supplies they purchase for their enterprise's operations if their earnings are above 500,000 forints. However, the income of small producers is tax exempt up to 500,000 forints. In that case, then, there is no basis for a small producer to claim a refund of the general value added tax. According to computations, on earnings of 500,000 forints, the small producer "acquires" on the average 3,000 forints' worth of tax liability, that is, supplies that he purchases for his enterprise generally made him liable for this amount of value added tax. For this reason, on his earnings above 500,000 forints—the first 500,000 forints are always tax exempt—he may claim a refund of value added tax only on the portion exceeding 3,000 forints. Because of this, it pays small agricultural producers to save their invoices so that they may document their business purchases.

Additionally, it is worth noting that at the time of the computation of the small agricultural producer's tax liability, the tax basis should be taken to be the contractual sales price. This must be stressed because the contractual price is effective even when, say, an agricultural cooperative—the source of feed for small producers—deducts the costs of such supplies. Thus, if, for instance, instead of 6,000 forints a small producer nets

only 3,500 forints for a hog he sells to the cooperative, the tax basis of the small producer's income will still be 6,000 forints rather than 3,500.

If the annual income of the small producer exceeds 2 million forints or he employs more than one worker, then from the perspective of the law he no longer rates as a small agricultural producer but rather as an entrepreneur, so that in this case the enterprise tax is (also) applicable to him. Because of this, the tax basis of the small producer's earnings is regulated by the executory provisions of the enterprise tax code. Earnings above 200,000 forints reduced by the allowable expenses are subject to a 25 percent enterprise tax. That is, 200,000 forints are tax exempt even when earnings exceed this amount. Thus, for instance, if earnings total 315,000 forints, then from this amount 200,000 forints are tax exempt, while the tax liability on the excess of 115,000 forints—levied at 25 percent—is 28,750 forints. After the application of the enterprise tax, the personal income tax is naturally effective on that portion of the small producer's earnings which he does not spend on the maintenance or development of his enterprise.

2662/9738

Organization, Development of New Banking System Discussed

25000117 Budapest PENZUGYI SZEMLE in Hungarian No 1, Jan 88 pp 27-35

[Article by Dr Laszlo Body, deputy president, Hungarian National Bank (MNB): "The Functioning and Development of the New Banking System, (Experiences and Opportunities)"]

[Text] Unquestionably, the transformation of the banking system is the most significant change that affected the economic management system in 1987. Although preparations for the transformation of the banking system were substantially less publicized than this year's new tax system, (it was attended by more "shop-work," internal debates and reconciliation,) it must not be viewed as less important. From the standpoint of the people's economy balance and development, the new banking system, the related monetary policy and its tools can acquire a new role and significance, one that is not yet properly appreciated. As of today, however, there are several reasons why we cannot speak of a desired expansion of the sphere influenced by independent monetary policy, and of the widespread and effective application of monetary tools.

It is known that reorganization was possible to accomplish only by taking several transitional steps along with compromises. From among these the most essential one is the lack of change with respect to consumer banking and banking activities involving foreign exchange. Economic and financial policy considerations as well as technical problems suggested that in these respects there be no change.

Viewed from another standpoint, the inherited determinism of the "distribution" of resources that can be drawn in by the monetary sphere, served as a limiting factor. The sphere in which monetary policy functions is still small, and although it endeavors to be selective, it is rather the restrictive character that makes itself felt in practice. This is so primarily because of the financing needs presented by the budget and by virtue of that need the breadth of redistribution, and not to the least because of obligations stemming from external indebtedness and the resultant rigid conditions.

And finally, the taking of further planned reform steps, the resultant substantial strengthening of market conditions, the emergence of an economic atmosphere in which prices properly reflect value relationships, in which businessmen can manage their affairs under real market conditions and under a stringent system of motivations all serve as conditions for the evolution of the successful functioning of the banking system. Nor can the banking system just sit and wait for the emergence of such an ideal environment. The banking system itself must effectively participate in the formulation of such an environment. It is in this area that we find the greatest role and responsibility for the banking system today.

A Few Examples

The main goals of transformation were the enhancement of economically justified capital flow and the strengthening of the business character of credit—the realization of credit as a business—one the one hand, and the strengthening of the place and role of monetary policies in economic management, and the increasing of the task and responsibility of the MNB in its issuing bank capacity in the course of transformation, on the other.

A number of favorable signs and trends can be seen in the functioning of commercial banks, in their credit activities and as a result of these, in the economy. Thus:

—The banks came closer to the clients: as a result of the profit motive, business-like thinking increased in banks—there is a greater endeavor to serve the client; the equal partner relationship was also enabled by the discontinuation of state regulatory functions.

—Within banking policies some new forms of business (leasing, factoring, securities business) have appeared and broadened, the volume of bills of exchange has expanded, and financial advice by bankers is a new and increasingly expanding service.

—A stronger capital flow has begun through the banks (the issuance and conveyance of stocks and bonds, the exploration of new investment and entrepreneurial opportunities), and this, at the same time increased the banks' purview, their opportunities to provide financing.

—The businesslike functioning of commercial banks and regulation provided by the central bank made it possible to bring to an end the long-criticized, rigid system of the financing of current assets.

—Elements of a flexible, differentiated interest policy have appeared with respect to both credit and deposit policies; in several places interest rates reflect the credit standing of the client, the risk reflected in the placement of the loan; interest paid on deposits also reflects a broader scale depending on the term and size of deposits.

—Signs that suggest the existence of competition between banks have appeared early, representing competition for clients and for funding sources; between July and September some 80-100 enterprises and cooperatives changed banking relationships—this trend strengthens those banks (e.g. the Foreign Trade Bank [KKB]) that started out without or with only a few clients.

—A money market has evolved between banks, the first cases of joint enterprise financing and joint risk-sharing have appeared.

—The activities of specialized financial institutions has increased, and in certain lines of business (e.g. leasing, attraction and investment of venture capital and deposits) these institutions emerged as competitors.

The presently functioning 12 specialized financial institutions clearly show a developing trend both in terms of organization and functional content. This year they will become stock corporations; some have expanded their capital and business activities to such an extent that they were able to aim for a licence which qualifies them to operate as commercial banks.

The initial activities of the two banks that have mixed ownership (foreign-Hungarian) were characterized by adaptation to the Hungarian enterprise environment, along with caution. Both financial institutions established foundations for further development, and operate with a profit.

Monetary regulation and the application of monetary instruments has shown initial results, even though for the time being these results are not spectacular, primarily because of the limiting factors mentioned in the introduction. It is significant that despite all the pressures to the contrary, the rules of central bank refinancing are standard—the central bank reacted in a flexible manner to the effects of economic and financial processes during the year. It is equally significant that the banks' opportunities to obtain refinancing were narrowed by the fact that part of the central bank's resources—which, for the time being are modest but hopefully will increase—were available only in lieu of letters of exchange and discounting.

More experience over a longer period of time is needed for the evaluation of interest and reserve policies. Consistent with intents reflected in economic policy, demand for credit was reduced during the year: interest on short-term loans was increased by 2 percent, a measure which proved to be necessary.

State banking oversight prompted banks to pursue well-chosen and relatively well-defined areas of activity, which served the security of the banks as well as of their clients.

In addition to summarizing the favorable signs and tendencies, it is also necessary to review and evaluate the unfavorable experiences. Only by recognizing these can the banking sphere improve its functioning, take further, progressive steps, and make necessary decisions.

It would be tempting to assess the functioning of the banking system by viewing only the direct and indirect effects they had on the functioning of the economy, and the kinds of tangible results these effects produced. After all, banking reform took place not for its own sake, but for the sake of a faster development of the people's economy. As mentioned before, however, as of today the influence of the monetary sphere is substantially less than what would be desirable, and therefore one should not attribute to the monetary sphere alone some unfavorable developments or the absence of some anticipated results. Nevertheless it is worthwhile to review and evaluate certain economic and financial processes that have a definitive effect.

This year's economic and financial processes suggest that the liquidity, the financial position of enterprises and cooperatives has improved as compared to a year ago, and that it is better even if one considers what would be warranted by the performance and situation of the economy. While economic growth took place at a pace slower than planned, and efficiency indexes have not improved appropriately either, this year there are fewer financially troubled enterprises, and the amounts awaiting to be settled are lower. While enterprises required, alternatively, banks granted fewer investment and short-term credits, enterprise deposits were higher in September than a year before, and this is characteristic of the entire year. At the same time, enterprise payments for investments have increased over the previous year's levels. State subsidies, inflationary price gains, as well as the fact that despite all this, the payment of enterprise profit taxes is lower this year than a year before plays the main role in all this.

Even though the banks' liquidity level, as regulated by the MNB virtually throughout the year, would have enabled banks to take advantage of opportunities, they failed to do so. They moderated the amount of credits granted. The sole question is whether they have moderated their credit grants sufficiently? Namely, one could have expected from the outset that once able to review the inherited, aggregate outstanding credits, the banks

would reexamine their situation and endeavor to collect on outstanding credits of a questionable nature. They would tighten credits to debtor enterprises whose credit experience was adverse, as a result of which liquidity disturbances would increase. This, in turn, would lead to an increased number of bankruptcy reorganization and liquidation proceedings, a majority of which would be initiated by the banks. Following a few "spectacular" bankruptcy proceedings at the beginning of the year, this did not continue as a trend, even though it is apparent that well-known mismanaged enterprises did not suddenly improve their practices. The question can be answered and explained in two ways.

Under the new circumstances the fact of being threatened by bankruptcy proceedings, perhaps precisely at the behest of the banks, forced certain actions by enterprises which raised hopes for evolution. As a result of these actions the banks manifested more tolerance in their financing practices. Insofar as this is so, this must be viewed as a favorable effect! There exists, however, a phenomenon in banking competition by which credit denied to an enterprise by one bank which follows realistically stringent criteria responsive to present-day requirements, is accepted, without concern, by a perhaps more liquid, or specialized financial institution. Having experienced this, the next time around the first bank would also try to find a way to satisfy the credit needs of an enterprise whose credit standing is not the best. This is an unfavorable phenomenon, and by all means contributes to the fact that far fewer bankruptcy proceedings are being initiated than what would be expected or justified, even though today there are quite a few enterprises which are permanently insolvent.

This too shows, but other phenomena also confirm that the order of banking competition, and in general, competition in the money market has not yet evolved. Without tradition and without written rules, the "unwritten" rules always prevail. What do I have in mind? One cannot really view free support without requirements, the refunding of commission without requirements, or the making of promises or credit grants without proper foundations as a competitive process that befits banks. These may be attributed to the initial, transitional period.

Because of the brevity of time passed, a leadership, decisional, responsibility and control system that corresponds to rules governing stock corporations has not yet evolved. Such rules would pertain to the role of corporate bodies (general meeting, directorate, supervisory committee), the limits of independence by which business decisions are reached as those exist between the representation of ownership interests on the one hand, and operational bank management on the other, and the practical methods by which bodies that make ownership interests prevail. The advantages of the corporate form can evolve only if these executive bodies participate in

management and decision-making pursuant to task assignments made in advance and pursuant to the decision-making authority of these bodies, and thus make ownership interests prevail.

The establishment of the new banking system necessitated a number of compromise solutions with respect to material, personal and technical viewpoints. In the process of organizing a banking industry the removal of functions from the MNB was accompanied by much concern, and in this respect a number of tasks still confront the banks. The situation given, as well as rational considerations dictated the fact that computers temporarily remaining within the MNB organization perform the internal and external settlements for the commercial banks, in other words, that those computers perform both the internal and external money transactions of banks. At the same time, the central bank provides various types of information to commercial banks, that information, however, does not satisfy the banks in every respect.

A number of concerns arose also with respect to monetary regulation, the application of monetary instruments, as well as regarding the central bank's guidance and control. A majority of these concerns arose simply on grounds of lack of precedents and experience, and to a smaller extent from the people's economy plan—from requirements for balance. These tasks could be accomplished previously at a single banking level. Now they had to be resolved within the dual banking system. Meanwhile, however, classic central bank functions, such as the application of the effects of interest rates—which in the domestic economy were not yet sufficiently effective instruments—and open market (securities) transactions could not be utilized to regulate the money supply.

Our given factors render the liquidity of commercial banks far more dependent on the central bank than it is customary elsewhere. Although regulation by way of a broad refinancing credit bracket simplifies the tasks of the central bank, at the same time it also establishes a responsibility in the framework of standard regulations by which the central bank influences the liquidity of banks, and thereby the money supply in harmony with the realistic needs of the economy. In this respect, while solutions concerning methods to be applied were debated (e.g. refinancing relative to capital), periodically the banks showed an exaggerated liquidity. In addition to the relationships discussed earlier, this could have been prompted by the fact that as of today the banks lack adequate experience with respect to their own opportunities to create money (the multiplier effect), which is capable of multiplying the amount of money placed into circulation by the central bank.

Timely Issues Pertaining to Further Development

Although the development of the banking system had antecedents, the essential transformation took place at the beginning of the year. Initial experiences show that

the transformation, its management and solutions were timely, and that considering the given factors, they proved to be correct. At the same time, however, as we always emphasized, we are not facing a completed action, instead we are dealing with a process. By now, further development must take place increasingly in response to economic financial needs, in a manner influenced by market and competitive conditions, nevertheless within the framework of the already established regulations. Some obstacles must be removed from the path of this evolution by way of central decisions and rules.

The need for further development within the banking system pertains particularly to the performance of banking services for the consumer, and in regards to foreign matters, generally speaking matters related to foreign exchange transactions.

Regarding the timeliness of consumer banking the first task is to resolve existing constraints. In addition to the fact that there is a need to generalize the activities of commercial banks, and in this context also the activities of the National Savings Bank [OTP] and of saving cooperatives, under today's economic situation the stimulation of savings in the interest of balance and economic development is of particular significance. It is known that the rigid separation between enterprise and consumer finances was prompted in part by the divergent tax structure applicable to the two sectors (in essence, the consumer did not pay taxes after his income), which then reemerged in divergent levels of interest rates; and further, by the fact that the state's socio-political subsidy became part of residential credits extended to the consumer. Finally, one must consider that the source of credits extended to the consumer is the savings deposits held by savings institutions.

With respect to interests, the introduction of personal taxation, the taxation of interest income in theory eliminates substantial differences between the two levels of interests, and thus from the standpoint of interests, the obstacles to extending [the authority of] commercial banks' to accept consumer savings deposits cease to exist.

Various recommendations were made regarding the socio-political support of residential construction, the resolution of this issue outside the credit sphere, and the placement of consumer credits on business considerations. The wide-ranging debate of these issues, subsequent decisions and the introduction of the system, however, requires more time. Arguments protective of the resources that supply consumer credits are valid. The partial diversion of these resources to commercial banks, and the diversion of those resources by commercial banks into yet other directions would raise serious balance and social problems in the absence of simultaneous regulation. And yet, would it be possible in the short run to make progress in this respect?

I am not only thinking that it is—I also think that it is necessary. Because if we make the change dependent on the full establishment of all conditions, we would postpone making a decision for an indefinite period of time. Instead we should concentrate on how we could start the process by using temporary solutions. One must also take into consideration that if we now permit commercial banks to accept savings deposits, this new type of business would evolve only slowly and gradually because of a lack of branch offices, and the absence of technical and personal conditions. On the other hand, if these banks do not receive a definite promise at the earliest possible date concerning the use of their otherwise existing licence, the banks will not start preparations, and thus the necessary conditions will not evolve. Accordingly, there evolves a vicious circle.

Based on today's personal and material conditions banks could begin their consumer activities primarily with the issuance of securities, such as bonds and other new types of securities, e.g. certificates of deposit. One must also prepare for a possible larger inter-bank rearrangement of resources by providing appropriate central bank and banking supervisory regulations in order to secure the sources of consumer credits. A number of solutions could be formulated for this purpose, so that they stimulate banks to develop appropriate forms for savings, and at the same time ensure that the lending of such resources takes place in a manner responsive to purposes deemed important from the people's economy standpoint, including residential credits. In the future it will be necessary to reconcile and to coordinate in advance the rate by which bonds are sold to the public, in order to prevent unexpected and undesirable spontaneous processes.

Under conditions when as a result of larger paced consumer price increases an increasingly larger portion of savings is being spent on consumption and frequently on unwarranted degrees of unproductive investments, the banking sphere assumes a particularly large responsibility. Maximizing the productive use of such savings is one of the key issues of our development. Accordingly, one must take into consideration rather complicated, mutually contradictory points of view, such as stimulating savings without infringing upon the budget, while simultaneously ensuring the availability of consumer credit resources and preserving the monetary balance.

Considering the increasing consumer demand for banking services it would be appropriate to accelerate the organization of savings activities in the framework of the postal service. Similarly, it would be useful to show a green light to savings cooperatives, so that they can establish a joint bank while retaining their independence. Without such measures the effective participation of saving cooperatives in the flow of capital is inconceivable, and further, the modernization and development of their functioning, and thus services provided by this organization will increasingly fall behind expectations.

As of today, the decentralization of foreign exchange transactions present some difficult problems. In this context the MNB performs the functions of the central bank, of the foreign exchange authority, and of a foreign exchange trading bank. The need to decentralize the foreign exchange banking functions emerges from other parties, mainly from the commercial banks. Opposing views emphasize the importance of unity in foreign exchange management, especially under today's conditions of Hungary's external balance.

Taken individually, the arguments and counter-arguments presented in the course of debate are correct, but one cannot debate outside of the spacial and temporal context. One can do so only by considering today's realities. How the central bank and foreign exchange authority functions should be performed is not at issue. From the standpoint of decentralization the various business transactions involving foreign exchange are at issue, including foreign credit transactions. Steps toward decentralization are subject to the existence of certain conditions, and before anything else happens, these conditions must be established. These are:

—one must not endanger the continuous process of borrowing and repaying which is necessary from the standpoint of sustaining solvency;

—establishment of the (material and personal) conditions for banking industry foreign exchange transactions within commercial banks;

—establishment within the central bank of means and methods suitable for the control and verification of foreign exchange transactions at commercial banks.

Based on the consideration of these conditions a timeschedule should be established for the decentralization of individual tasks. It is apparent that the decentralization of the financial administration of foreign trade, i.e. the enterprises' foreign financial transactions could and should be resolved before resolving the issue of active participation in credit transactions. With respect to the first case the competitive equality of commercial banks calls for decentralization at the earliest possible date (it is the KKB and the mixed banks that conduct this activity, but here too, the financing advantages that stem from today's central solutions suggest circumspection in the process of implementation).

With respect to credit transactions it would be warranted to differentiate between consortium credits, finance credits, bonds and individual project credits. The theoretical possibility for involvement by commercial banks exists even today (e.g. with respect to individual World Bank credits), and quite naturally only on the basis of specific permission granted by the MNB, in its capacity as the foreign exchange authority. In this respect practical considerations, and the resultant financial advantages and disadvantages serve as determining factors.

The management of the national debt, and the related need to secure renewed financial credits can be perceived only as MNB tasks and responsibilities for a long time to come.

The unavoidable distortions that result from the varying size and organizational structure of banks can be resolved only slowly, even if there is a free choice with respect to banks. Also for this reason it appears as warranted to licence as commercial banks one or two specialized financial institutions which have matured to accept this task. The possibility that mixed banks maintain accounts should also be examined. These banks are technically prepared for the task, and this line of business could stimulate the banks to draw in several foreign sources for the development of their Hungarian client enterprises and cooperatives. This would be consistent with the original purposes of these banks.

The question occurs: under what conditions could enterprises maintain accounts at several banks? In other words: is it justified to continue to attribute a special role to the depository account used for settlements? This is a constraint which needs to be resolved.

Any forward step that can be taken in this area would contribute to a healthier banking structure, to the evolution of several medium-sized commercial banks. In the interest of reestablishing the economic balance it would also be justified to stimulate the efficient functioning of commercial banks and specialized financial institutions by improving the quality of direction and regulation provided by the central bank. Conclusions must be drawn from experiences thus far—while retaining features that worked well, it is primarily through refinements that the harmony between the liquidity of banks and real opportunities should be achieved. In this way, the funding of the economy would be also within the limits of possibilities, while exerting appropriate pressure to discourage and liquidate inefficient loss operations.

It would be warranted to encourage the funding of transactions in harmony with real processes by stimulating the expanding transactions in bills of exchange. Accordingly, it could be recommended that central bank regulations expand the opportunities for discounting bills of exchange in contrast to straight refinancing, and that this be supported also by interest rate policies.

In the absence of opportunities to expand central bank funding sources, it would be useful to increase the motivation of banks to secure their own, permanent sources of credit for purposes of granting medium-range and long-term credits for developmental purposes. The motivational and activity sphere of banks can be increased if they can use a realistic proportion of their long-term deposits for purposes of investing or of granting long-term credits. In placing moneys derived from their own resources the banks would be still obligated to take into consideration the purposes expressed in the

guiding principles of credit policy, and would have to finance these in appropriate proportions. In the interest of improving the external balance, and in order to support export-oriented developmental policies, this stringent constraint must be maintained in the upcoming period, and banks must be held accountable for having abided by that constraint. However, since the volume and ratio of credits in enterprise development is low and cannot be increased by spectacular proportions, structural transformation and export development depends not only on credit sources, but also on the development of the enterprises' own developmental resources. This can be influenced by banks only if in the process of granting credits they view enterprise developmental policy as a whole, and draw in as much as possible from the enterprises' own resources for investments financed through credits. This is in their own interest also—risks can be reduced and the banks can satisfy the credit needs of more enterprises.

Already in 1988 deficiency bills will play a role in the development of central bank regulatory methods. Deficiency bills serve to finance the temporary budget deficit. The central bank can use this means to influence—to expand or to contract—the money supply by selling, or buying back deficiency bills to or through the banks.

Finally, there may be a need to modify the interest rate system and interest rate policies. Interest rates on short-term credits were raised during year, while interest rates on medium- and long-term credits were left unchanged. This situation served to deteriorate and to bring to an end the earlier proper relationship in which credits involving greater risks were subject to higher interest rates. It is necessary to restore the earlier situation, and irrespective of how painful, such restoration can be accomplished not by lowering the interest rate on short-term credits, but by raising the interest rate on medium- and long-term credits. Within this, however, there is a possibility for a number of refinements, and interest paid on deposits also must be adjusted correspondingly.

Existing computer technology is insufficient to permit the banking system to respond even to present-day expectations. A rapid development in the computer technological base is indispensable to the expansion of the banking business, for the development of a banking network, and for the performance of tasks that emerge in the form of consumer and private sphere banking transactions. In my judgment development is warranted in two directions. First, the organization of a clearing central in which every bank that maintains accounts participates would be necessary for the fastest possible turnover of money and for the information that can be derived therefrom. Second, every bank should establish its own conception of computer technology and of a corresponding system which accommodates other banking transactions, internal records and reports. Such choices should be made from the standpoint of both efficiency and the development of the banking system.

The county network of MNB has an appropriate place and role within the increasingly developing, decentralizing banking system. Aside from the classical functions of central banks, such as central banks being the foreign exchange authority, the maintenance of accounts and economic tasks, an increasing role will be assigned to the MNB county network in the administration of bills of exchange and later in transactions involving securities. MNB county directorates will face increasing tasks relative to cooperation with banks and financial institutions operating within the respective counties, in obtaining and exchanging information, and in the exploration and resolution of local problems related to monetary policy.

Summarizing the above we can state that most of the the experiences related to the transformation of the banking system so far are favorable. It can be expected that in the near future further organizational development may take place in regards to the expansion of both the individual functions, and the clientele. New commercial banks may emerge—these and the existing banks also will expand their networks, there will be more actors in the organization of financial institutions, and the conditions for competition may improve.

International experience indicates—and in Hungary this is becoming increasingly clear—that every detail of banking activities cannot be constrained by legal provisions and by central bank regulations. This would be unwarranted, anyway. At the same time the complexity of the economy presents new issues that are to be resolved every day. These issues emerge both in the context of relationships between the banks, as well as in the relationship between the central bank and the banks. They emerge as a result of both the competition and business cooperation between the banks, as well as from expectations related to monetary policy. From the central bank's standpoint consultation with the banks becomes necessary in the course of preparing for, and in the process of implementing monetary policy decisions. Again, based on foreign experience, verbal agreements, the given word plays a rather significant role in the relationship between banks, and the banks' relationships with the central bank. In this way a rather large volume of written bureaucratic regulation can be spared, while at the same time verbal agreements may have more force than written rules or agreements.

The MNB president consults with the heads of commercial banks on the most important timely issues at regular meetings for purposes of mutual information exchange. This is an indispensable forum for the actors of the new banking system, irrespective of the fact that a formal Banking Council, with its own bylaws and agenda-like tasks has not yet officially evolved.

The results of the steps taken thus far provide encouragement for the further continuation of reforming the banking and credit systems. We should do so in a manner and at a pace that helps bring about balance and supports evolution.

Economist Sees Urgent Need For Development of Capital Market

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in Hungarian 16 Jan 88 pp 50-52*

[Article by Laszlo Antal: "Capital Market Possibilities: Conditions of Uncertainty"]

[Text] When the flow of operating capital is not allowed to be regulated by the market place, and when instead it is shaped primarily by the state budget, this may lead to failures to invest available capital in the most profitable activities as well as to enterprise indebtedness. This is why, as the author of our article explains among other things, our chronic lack of capital, our restrictive economic policies and our inability to resolve the problem of deficit-generating activities, scaled-down and deteriorating enterprises have made the expansion of capital market institutions so urgent.

A modern economy is characterized by gradual growth, and by constant changes in the demand structure and in the technology of production that are never accurately predictable. Under such circumstances, therefore, we are forced to redistribute a significant proportion of the generated savings, i.e., to use some of our revenues for expanding activities that are not only not the sources of those savings, but which often are not even a part of the same undertaking.

In the traditional planned economy (or plan instruction system), the direction of redistribution is determined by the central plan, while in a market economy it is defined by the (often state-policy inspired) expectations of individual producers. Whether it is controlled by the central plan or by the capital market, in both cases the redistribution of savings are based on (ex ante) value judgments regarding the future. The difference, however, is that in the traditional planned economy there is an autonomous central plan which forces market interest motives to yield to trying to trace back today's investment needs from an imagined future capacity and production structure. According to this concept the existence of a capital market would be not only unnecessary, but downright disturbing. Theoreticians of the planned economy concept have asserted that the superiority of central-plan based redistribution over a market-based one lies precisely in that under the former it is not important for every investment to be profitable. The important thing, according to this concept, is for the redistribution of resources to take place as envisioned by the various planning apparatuses, as it views economic rationality not in terms of high returns on individual investments, but as a product of harmony among the various processes involved. (This is why they had placed such great emphasis on the rapid build-up of heavy industry in every socialist country.)

Within the context of a traditional planned economy, therefore, the capital market is an alien concept, despite the fact that from time to time it, too, must redistribute its elements of production (i.e., from one production activity or branch to another), and do so on incredibly short notice.

In Hungary, the situation changed somewhat with the introduction in 1968 of the economic reform. One of the basic assumptions behind this reform of our socialist economy was that we had to stimulate the market by giving enterprises greater autonomy in deciding how to use their available resources, where to obtain the necessary input from, how great a selection of products they should offer given their production capacities and to what extent they should make use of those capacities, and also in choosing the right partner (including foreigners) to market their products. According to the proposed reform plans, more significant structural changes and the decisions on which they were to be based would continue to remain within the sphere of the central planners' authority. So while the reform concept had recognized the importance of the market, it had stopped short of embracing the notion of a capital market.

The 1968 reform concept, incidentally, had contained a number of compromises, mostly for tactical reasons, based on the assumption that as the economy improved these could be gradually eliminated; the rejection of the idea of a capital market, however, had not been one of these tactical compromises.

First of all, it had been thought that the existence of a capital market would hinder the implementation of our central investment policy, which even proponents of the reform program had considered to be the cornerstone of a planned economy.

Secondly, opponents had claimed that a well-developed capital market might result in income developments and redistributions which in the case of the enterprises and certain employees would be governed not by the amount of effort expended, but by the profitability of that effort, in other words, by how well the capital invested was being utilized. If, therefore, enterprise and personal incomes could be shown to be based not on labor but mostly on property, then—according to the prevailing beliefs of the 1960's—this would be tantamount to espousing economic laws that were alien to the very essence of socialism.

Thirdly, it had been believed that the decentralization of decision-making authority among the enterprises would require strong centralization within the banking system, including the replacement of the natural control mechanisms of the past with tight financial (bank) controls. It was this belief that had served to justify the preservation of a one-tier banking system under which central bank and enterprise level credit decisions were all made within a single system. It was also this notion that had

perpetuated the sharp separation between our enterprises and the populace in the area of financial services. (Granting credit to the populace and handling deposits were also the exclusive duty and right of a single special financial institution.)

Until the very end of the 1970's, the number of capital redistributions based on market motives had accounted for no more than 4 to 7 percent of our annual investments. This in itself would not have been a problem, but on top of everything we had neither a stock market, nor any financial institutions that would have been authorized to deal in stocks or to perform venture-capital related transactions. Consequently, the only way to obtain permanent—i.e., non-repayable—capital was by going after some kind of a state investment subsidy, or by taking out long-term, low-interest loans at extremely favorable terms which in case of need could even be rescheduled. (These were credits only in form, as the resumption of payment on overdue accounts usually required the granting of new loans and supplemental allowances.)

Under this system, exceptional improvements or declines and failures were the results not of market motives, but of decisions made by the state apparatus or the bank which played a very similar role.

The basic hypothesis, therefore, on which the 1968 reform had been built was that working toward ensuring a return on our investments was perfectly compatible with our centrally identified (or approved) investment goals. This was considered to be true not only in the area of credit-generated investments but also in the area of state subsidies if the enterprise receiving the preference was required to pay some kind of interest or a share of the profits.

The economic system that came into being after 1968 was indeed significantly different from the preceding (plan instruction) system. The reformers' prediction, however, that the enterprises would be guided by market-related motives failed to materialize. While mandatory plan instructions were eliminated, the most important characteristics of a market economy did not evolve. Among them the recognition that prices are the primary factor in establishing the proper balance between supply and demand; that the enterprises' desire to expand and invest is generated principally by market perspectives and the prospect of profit making; and that the most important measure of success and failure is the market. The relationship among our producing enterprises (in direct contradiction with the requirements of the consumer market) was still characterized by constant shortage situations, and the hierarchical dependence of enterprises—on the apparatuses of control—continued to be strong. The previous practice of simple plan bargaining—pertaining to material distribution and production tasks—was replaced by taxation and regulatory bargaining concerning the conditions of our financial system and the preferences it had to offer.

One consequence of this system was that it actually encouraged enterprises to spend their earnings as quickly as possible. For everyone knew that the conditions of taxation could change at any time, and that the government could even place restrictions on how much of an enterprise's fixed savings could be spent, or make those savings lose their value altogether with the introduction of special taxes (e.g., the accumulation tax). They also assumed, that once they had undertaken a major investment, the control apparatuses or the bank would somehow provide them with the financial resources needed to complete the project (even if getting a return on the investment appeared unlikely, or if the market perspectives seemed unfavorable.) Add to this the realization that a significant investment, the resulting new profile and the expansion of the size of the operation would increase the bargaining power of the enterprise as well as the prestige and political clout of its managers.

So it is understandable that—irrespective of the prospects of profitability—every enterprise tried to expand its own activity. It came to be in the vital interest of the enterprises to put their financial resources to use within their own operations, to spend those resources as quickly as possible, to get into some specific investments, and if possible, to become indebted to the bank. It became imperative, in other words, to use all available accumulations within the enterprise's own scope of activity. It also meant the deterioration of the centrally envisioned original intent—i.e., "to marginalize the inter-enterprise flow of capital"—into a selfish enterprise interest which continued to assert itself even when the leaders of our economy would have liked to develop a capital market.

Only in highly exceptional cases was there any buying or selling of active capital goods. It simply was not in the interest of the enterprises, as buyers, to do so (for there was no threat of bankruptcy). The economy also lacked the necessary capital market institutional system and the organizations, individuals and groups that would have actually managed these resources. And finally, our legal system itself was such that it hindered integration among the various forms of ownership—state, cooperative, private and small business—i.e., the selling and buying of capital goods.

The highly limited possibility of capital goods, savings and income redistribution had led to a number of problems that proved to be very difficult to manage within the framework of this indirect economic mechanism.

The macrolevel regulation of investment demands was both cumbersome and uncertain. This problem had already been known in the plan instruction system, but back then it had been of a different nature. Invariably, the plan which had been a reflection of the expectations of the central economic leadership, had been based on optimal assessments of our growth opportunities. Add to this the pressure from the branches and enterprises aimed at exacting even greater investments. The central

economic leadership was simply unable to keep the situation under effective control. In the indirect system that has evolved since 1968, however, problems that could have been resolved in the past by way of administrative income redistribution now require the artificial generation of surplus incomes which is forced upon the system precisely by the inner logic of its financial regulations. At the same time, monetary regulation of macro-level demand has not worked. Hence this role, too, has been filled by the fiscal sphere in the form of taxes and frequently changing financial regulations (usually introduced as supplemental taxes aimed at making investments more costly).

Another unmanageable problem has stemmed from the fact that our financial leadership has been forced—due to a lack of alternative means of obtaining permanent capital—to look into financing arrangements that followed the logic of the capital market which has helped enterprises with favorable profit prospects to become permanent—or at least more than just short-term—sources of surplus. (One typical such arrangement has been the basic allowance scheme under which the state's interest, just like that of a stockholder, lies not in getting back its capital, but in earning high dividends.)

Such efforts, however, cannot succeed. For in practice, resources provided in the form of non-repayable or very long-term state subsidies are considered "cheap money." This means that it goes not to the most profitable and most growth-oriented enterprises, but to those whose development goals had already been approved by some official forum, but which even with the best of intentions could not be "fit" into the mold of a good credit risk. The result, consequently, is a negative flow of capital.

Hence the developments have been logical. Due to a lack of opportunities to obtain fixed capital through the market place, rapidly developing enterprises whose "dynamism" stems from central subsidies quickly run out of steam and become indebted. The result has been periodic waves of indebtedness during which simultaneously several enterprises have found that under the given regulatory conditions their enormous and ever growing debt obligations had become simply impossible to repay. The rapidly developing enterprise (which can drastically increase its capital) would, sooner or later, find itself in a financial bind for it is impossible to expect an investment to pay for itself from the earnings it generates.

On the other hand, enterprises with a strong interest in obtaining central resources are also keenly aware that it is simply impossible to enforce any criteria having to do with any set rate of return. Hence when contemplating making an investment they fail to give adequate consideration not only profitability but event to marketability. The two sides—i.e., the unrealistic requirements set by the regulators, on the one hand, and by enterprise aspirations unbound by any required rate of return—usually act together in bringing about many of these

financial predicaments, and are equally responsible for the accumulation of enterprise debts that have proven to be simply impossible to repay.

The end of the 1970's gave rise to a new type of problem. Economic policy makers have been forced to abandon attempts at trying to build up every branch and enterprise of the economy (unless they prioritize their goals). In the case of the so-called crisis branches—which presently include metallurgy, coal mining, meat processing and high construction—we must give serious consideration to the strategic possibility of cutbacks and capital withdrawals. There are a growing number of enterprises which even though they may not belong to any of the branches listed above are facing bleak prospects of development or even survival. Under our legal system—until the introduction of the bankruptcy law in 1986 and the establishment of new enterprise forms in 1985-1986—it was the branch ministries (with input from the financial institutions, i.e., the Ministry of Finance and the bank) which had the task of deciding which enterprises were to be cut back or have capital withdrawn from them. Yet the ministries had no vested interest in making these kinds of decisions. Moreover, enterprises on "death row" enjoyed considerable support from regional state and party leaders.

Consequently, decisions pertaining to the reorganization of deficit-producing enterprises and branches were made slowly, after a long, bureaucratic process of bargaining which only exacerbated the losses connected with these types of decisions. Who actually has the responsibility of deciding the fate of the crisis branches and consistently money-losing enterprises is a question that has been shrouded in uncertainty to this day.

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New Entrepreneurs' Association Complains of Tighter Regulations
25000112a Budapest HETI VILAGGAZDASAG in Hungarian 16 Jan 88 p 7

[Article by Julia Lajos: "Small Entrepreneurs' Association To Form"]

[Text] Preparations are under way to establish a collective entity, a representative body of both unincorporated and incorporated private businesses in Hungary: the statutory meeting is slated to be held on 20 February, at 10:30 am, at the MOM [Hungarian Optical Works] center.

The creation of a body to represent the interests of private entrepreneurs has long been on the agenda. So far they have had no uniform interest representation: the task of representing the interests of private cooperatives had been delegated to OKISZ [National Federation of Artisan Cooperatives], while the authority to promote the interests of business partnerships, corporations, enterprise workers' business partnerships and business

operated by contract had been conferred upon the Hungarian Chamber of Commerce by the Council of Ministers, despite the fact that these business entities were not allowed to be members of the Chamber. In 1986, with the revision of the statutory provisions governing private businesses, some of the economic work partnerships were placed under KIOSZ [National Organization of Artisans].

There is another reason why setting up a Small Entrepreneurs' Alliance is justified: since 1982, the size of the small entrepreneur section of the Chamber has increased tenfold, to 3,600 members. Holding such a huge group together has become an increasingly unmanageable task for the Chamber. Another argument for the establishment of an independent body of interest representation, according to the leaders of the alliance, is that by being able to take a joint stand, an independent organization of private entrepreneurs could lend more weight to such demands as the call for the elimination of the specialized tax levied on business partnerships, corporations, enterprise workers' business partnerships and specialized groups. The KIOSZ and the OKISZ have been more successful in this area: the discriminative special tax applies neither to the private artisans, nor to the small cooperatives.

The Small Entrepreneurs' Alliance will function as a legal person, operating according to the law governing associations and overseen by the Hungarian Chamber of Commerce. It will be a self-supporting entity, maintaining itself from the membership dues it collects. "As an association we intend to take a stand against the tightened regulations that have been imposed on private businesses by the tax system introduced on 1 January," stressed Peter Simsa, president of the small entrepreneurs section of the Chamber. He added: the data showed clearly that the people most dramatically affected by the tax increases were the members of unincorporated private organizations. The tightening affects 80 percent of the more than half million members employed in various businesses, which may have a determining impact on the future of private ventures. This year, payments to the state by people earning a net monthly income of 2,000 to 6,000 forints in ancillary activities have increased to 336 to 350 percent of last year's obligations. This is expected to have a detrimental impact on ancillary activities, i.e., on work performed in second jobs. Income withdrawals from full-time private entrepreneurs have also increased significantly. In 1988, the withdrawals affecting today's average net monthly income of 8,000 to 16,000 forints in this category has risen to 113-137 percent of last year's levels. This despite the fact that last year's withdrawals had already hindered performance in many cases, explained the president of the section.

The complaints of small cooperatives are directed primarily at the restrictions that have been placed on the heretofore free use of their assets. the possibility of

distributing assets based on business and economic considerations were curtailed by the Ministry of Finance last year, even though these assets, already taxed, had been generated with the small cooperatives' own capital and the labor of its own members. Limiting its movement is tantamount to a kind of quasi-nationalization of small cooperative assets which is neither politically, nor economically called for, pointed out Peter Simsa.

These recommendations, incidentally, have already been forwarded by the small business section of the Chamber to the ad hoc committee of parliament in charge of tax matters. It is expected that once—as the plans suggest—the association is formally established on 20 February, there will be more unified and more effective attempts to carry these recommendations through.

9379

Tentative Initial Step Toward Stock Market Analyzed

25000112b Budapest HETI VILAGGASZDASAG in Hungarian 23 Jan 88 pp 4-5

[Article by Gyorgyi Kocsis: "Domestic Securities Trade—The Slogan: Stock Market"]

[Text] Following an introductory session to be held on 19 January, the 22 Hungarian financial institutions will hold regular securities exchange meetings every tuesday. The interbank agreement establishing the practice, which at the same time also sets certain guidelines for registering and releasing stock information, is considered by many to be an important step along the road toward the reestablishment of the Hungarian stock market that had been closed down after the war.

"The 12 financial institutions that have signed the Hungarian securities exchange agreement are inviting applications to fill the position of director of the technical committee on securities...." began a job advertisement, which in the past few weeks has appeared several times on the pages of our domestic papers. Outsiders not familiar with the professional-official trade jargon would find it difficult, even after a thorough analysis of the text, to determine exactly what kind of a job the advertisers are really offering, were it not for the last line in the ad, "Slogan: Stock Market," to shed light on its ambiguity. For the director sought in the announcement is to head an institution which elsewhere, in its more developed form is referred to as the stock market. Many domestic financial experts are predicting that by the 31 January application deadline there will be—if only in an embryonic form—a stock market operating in Budapest as a result of a recent agreement among 22 Hungarian financial institutions.

Naturally, the actual signing of the agreement is not without some background. As early as last summer, the banks involved in the spectacularly flourishing bond, and the currently still modest stock trade had published

a Communiqué (HETI VILAGGZDASAG, 25 July 1987), in which they had proclaimed that "...in the future they wanted to cooperate on a regular and organized basis, with a view to expanding and standardizing the Hungarian securities market, to increase the volume of securities exchanged and to coordinate their trade." As to the question of why any of this was necessary the following explanation had been given at the time by Zsigmond Jarai, main department head of the Budapest Bank (BB), considered to be one of the principal players in a future stock market: "Many of the banks involved in the bond trade are on the opinion that considering the size and growth of the volume of securities traded, cooperation has been intermittent, disorganized and cumbersome..."

It is true that the news concerning the issuing of newer and newer stocks have provided virtually daily munitions for the press, and that the various banks have been regularly publishing their price lists; presently, however, neither the private bond buyer, nor the economic organizations, nor even the experts of our financial institutions have a consistently comprehensive overview of the domestic securities market as a whole or of the changes affecting it. Yet without this not only does every business decision stand on shaky foundations, but the fragmented and intermittent nature of market information also makes it possible for a selected number of individuals to keep well informed and to enjoy the benefits of that privilege while perhaps denying others access to the same information. Giving the securities-issuing banks an equal chance to compete and making information available to the public at the same time also promote the interests of bond owners—the argument goes—by allowing a bond buyer in Szombathely, for example, to weigh his investment alternatives on the basis of the same considerations as someone, let us say, in Debrecen.

It has long been known that the stock market is an economic institution which is meant to be equally accessible to all, and where the wealth of information that gives everyone an equal starting chance can be collected and turned into public property. It was this recognition that prompted the 22 financial institutions—which today encompass all of the institutions involved in the securities trade—to sign their 12-point agreement, thus formalizing their earlier decision to cooperate.

Essentially, what the experts of these financial institutions have had to work (find) out were the procedural rules—or so-called usances—to which they wanted to commit themselves, one another and—since theirs is an open agreement—any future partners who may want to join. The document also commits the signatory financial institutions to filling out a form (contract note) designed to provide certain specific information about every single stock transaction they enter into with outside clients and to sending a copy of each to the so-called technical committee.

They have also decided that in order to better facilitate trade among themselves, once a week, on Tuesdays, they would hold "securities exchange meetings," or so-called stock-market days at the Budapest Trade Center. On these days, specially designated members (dealers) of the signatory financial institutions, registered in the Representative Registry kept by the technical committee, could trade securities with their employers' authorization. Only stocks included on the so-called list of securities may be traded. Now, at the outset of the experiment, every security has been registered, however—as we have been told by officials of the technical committee—it is conceivable that in the future certain bonds and stocks which lack the proper guarantees will not be included on the list or be accepted only against a substantial deposit. According to the strictly prescribed choreography, "the stock market days" will be kept exclusive as agreed; only the registered representatives of the signatory financial institutions, enforcement agencies and other guests with visitors' passes will be granted admission.

The "dress rehearsals" for the coming stock market days, incidentally, have already been held. As it was reported in the papers, in November 1986, the financial institutions had organized bond exchanges on two occasions. At that time—by holding separate auctions for public and enterprise bonds—bank officials merely wanted to see what kind of security prices would evolve as a result of a meeting of supply and demand, and how these prices differed from the selling rates proposed by the banks.

"One of the primary goals of the signatories is to be able to register, process and publicize securities transactions," states the new agreement signed by the financial institutions. This is the purpose of the earlier mentioned contract notes which will be used by the technical committee to keep informed about the volume and price of securities. The committee will process the information thus gathered, and every Wednesday—broken down by securities—it will publish the weighed averages as well as the lowest and highest prices posted in the transactions of the previous stock market days; the same data will also be made available for securities transactions that transpire on non-stock market days. The agreement makes it clear that the specific details of individual transactions are to be kept secret by removing from the contract note the name, address and account number of both the buyer and the seller.

In addition to publishing the average prices, the technical committee will also provide the public with an assessment of the volume of trade. So while until now the only information the public has had access to in the papers (including HETI VILAGGZDASAG) was the price at which a given bank was willing to buy or sell bonds the following week, from now on while the banks will still be free to set their own prices people will also be able to learn what the average price was at which the actual deal had been concluded. The real importance of this kind of information, say the experts, lies not so

much in regulating the still prevalent fixed-interest and mostly state-guaranteed bonds, but in trying to keep track of the prospectively growing number of dated transactions and particularly the growing volume of higher-risk stocks. And although the volume and economic importance of the latter is still negligible—the resale of the nearly 11 billion forints worth of stocks that had been put on the market at the time of the establishment of the commercial banks—there are many who believe that this is a chicken-or-the-egg type of a problem: as long as there are only a few stocks there can be no stock market, and until there is a stock market the number of stocks cannot grow.

Others, on the other hand, are concerned that by virtue of their agreement to establish a stock market, the financial institutions will form some kind of a price cartel. Although the analogy is obviously flawed, there is truth to the contention that in the stock market the banks are playing the role of brokers who will continue to shape “consumer prices,” i.e., selling prices independently, by taking into account the prices evolved in the market place. The most effective way of averting the danger, or rather alleged threat of cartel formation is by allowing more and more specialized stock brokerage firms to join the agreement.

For now, the organization and operation of the still embryonic stock market will be financed—with a projected budget of 6 million forints for the current year—by the signatories to the agreement; the setting up of a computerized inter-bank system needed to ensure the continuous flow of information, however, requires a great deal more money. According to the plans, by 1989 the organization will have to have established itself as a legal person—since it still does not have that status, the labor law, for example, requires that its director to be chosen through competition to be hired as an employee of an outside organization, in this case Financial Research, Ltd., which will have to pay him from its own revenues.

The question is obvious: what guarantee is there that the stock market will indeed be a reliable repository of information, or that the financial institutions will live up to their voluntarily undertaken obligation to release data? Even though the agreement signed by the 22 participants contains only one punitive sanction, i.e., exclusion from a stock market day, the experts have argued with commendable good faith that in the world of finances untrustworthy partners will disqualify themselves from profitable cooperation with others.

9379

Economic Chamber Discusses Enterprise Problems, Economic Tasks

25000115 Budapest HETI VILAGGAZDASAG
in Hungarian No 4,30 Jan 88 pp 4-6

[Article: “Credit Squeeze”; boxed material as indicated]

[Text] Since the Hungarian enterprises’ interest-representing organization [the former Hungarian Chamber of Commerce] was renamed the Hungarian Economic

Chamber (MGK) as of the first of this year, its Presidium met for the first time on 19 January. Before this forum, the Chamber unambiguously supported the economic stabilization program that the government had prepared last year. According to the views expressed by enterprise chief executives, however, business conditions have not yet changed in the promised and desired direction.

In his opening address at the meeting of the Presidium, Tamas Beck, the chairman of the Hungarian Economic Chamber, said: “In recent years, at meetings marking the start of a new year, it was very often claimed that we were facing a decisive period. Well, we are not making this claim for 1988, because a single year cannot decide the fate of a country’s economy. But the multiyear trends that have emerged and are emerging as a result of the economic processes most certainly can. These trends will determine the significance of 1988. In other words, the point is not merely that the slow economic growth since 1985, and the considerable worsening of our balance of trade denominated in hard currency, have undermined our financial and moral credibility, both at home and abroad. There is also the added fact that the significant decline of the living standard this year, and especially the sharp decline of real wages, can be expected to sorely test the tolerance of society and of the enterprises.

“These problems will generate numerous conflicts of the kind that manifest themselves at the microeconomic level and have to be solved there. At the same time, we will have to produce successes in 1988, because what is at stake is to maintain our economy’s ability to function, and to prove wrong our emerging unfavorable image. In sum, then, this is what it is all about. We have to prove ourselves able to solve the economic tasks, and to shape and direct our own destiny.”

Further on, the chairman of the Chamber continued as follows: “It will lead to no good if we blame the government for our understandable sense of unease and forget about what we ought to be doing jointly. But the fact remains that the enterprise sphere has not received from the tax reform what it reasonably expected, and what the economic administration explicitly promised at the start of changing the tax system. The principles of not bailing out inefficient enterprises, of equal opportunity, business-organization neutrality, and regulation based on the types of economic activity, have been violated in many instances. And it is likewise true, of course, that not only we, but also the fiscal administration is coping with difficulties and is not getting from the tax reform everything it expected to get. Nonetheless, we have to say that we must do everything possible so that the economic processes may provide opportunity for achieving the original expectations,” Tamas Beck emphasized.

The chairman of the Hungarian Economic Chamber briefly evaluated the principal economic indicators for 1987 and then reverted to the new tax system: “The period of changeover to the new tax system harbors considerable uncertainties, and we have to call them to

the economic administration's attention. The first question concerns the protracted drafting of the statutory regulations, failure to clarify certain points, and the considerable delays. Because of this, most business organizations have been unable to draft their annual plans in due time. There are also indications," the speaker continued, "that adjustment to the new conditions is taking more time than in the past, because of the uncertainties in the financial climate and in the development of the price processes. This could be an obstacle to cooperation between enterprises. From a wide circle of enterprises we are also getting signals that the 1988 wage-regulation limits do not allow sufficient scope for rewarding performance," Tamas Beck said.

"The deeper we go from the level of principles and laws into the specific reality of the enterprises, the more there are questions that can be justifiably raised, and issues for which we do not yet have answers," the chairman of the Chamber pointed out. "This may be regarded as natural to some extent. We cannot assume that every impact of a change affecting the entire economy can be assessed in advance. However, we can and do expect that the authorities' approach to the enterprises' problems during the transitional period be not punitive and disciplinary, but helpful and understanding."

The chairman of the Chamber presented several proposals that would ease the enterprises' burden of administrative chores: "Let there be an end to unwarranted licensing requirements, and let the managements of the enterprises have broader decision-making authority. We can cite examples of the enterprises' excessive reporting obligations, ranging from fire prevention to foreign trade. It is shocking how many approvals are sometimes required for a single, more complicated foreign-trade deal that clearly serves the country's foreign-exchange interests; and without regard for the fact that the world market and the foreign partner rarely have the time and inclination to wait out this process. Therefore we propose the launching of a joint struggle for the enterprise sphere's deregulation," Tamas Beck called upon his audience.

It is understandable that the safeguarding of the enterprise directors' interests is one of the central issues before a forum where enterprise chief executives constitute an overwhelming majority. The chairman of the Chamber had, among other things, this to say on the aforementioned subject: "On several occasions during the past two years, the Hungarian Chamber of Commerce attempted to improve the safeguarding of the enterprise directors' interests. We are unable to report much success so far. In 1988, when the terms of several of the elected enterprise directors will already be expiring, this question will be extremely timely. At present, joint work with the SZOT [National Council of Trade Unions] is unfolding in several areas. It appears that joint action will be possible in the matter of abolishing discrimination against enterprise directors. What we are referring to here is that the enterprise director cannot get

a loyalty bonus, the period of notice to which he is entitled has not been regulated, and whether his status is that of an employee or of an entrepreneur is still unclear. We would like to ensure a transition, the option of honorable retirement after honest service, for enterprise directors who choose to retire or are forced to do so. We foresee problems also in conjunction with determining the gross personal merit pay of enterprise directors."

Closing his introductory address at the meeting of the Presidium, Tamas Beck called attention to a development that—in his words—could disrupt economic activity this year. He said: "The Hungarian National Bank has tightened its conditions for discounting the loans provided by the commercial banks. Therefore these banks are calling, one after the other and on 15 days' notice, their working-capital loans to enterprises and other players in the economy.

"This credit squeeze has nothing to do with the credit-worthiness or financial situation of the enterprises; indeed, it is merely the implementation of a central monetary-policy regulation. The reduction of the volume of credits outstanding at an impossibly rapid rate, by calling on unprecedented short notice a substantial proportion of the credits against accounts receivable in industry and agriculture, is causing insurmountable difficulties. We agree that improvement of our balance-of-payments situation requires decisive and harsh measures, but the proportions and rates now being implemented cannot be maintained without serious economic disruptions and losses," the chairman of the Chamber emphasized.

Naturally, discussion of this range of topics, and the analysis of how relations between the enterprises and the credit sphere have been developing, continued at the meeting of the Presidium. Mrs. Gustav Novak, deputy director of the Hungarian Credit Bank, declared: "Monetary constraint is already jeopardizing current production." Responding to the representative of the Finance Ministry who had interjected the remark that the purpose of the new measures was to force selectivity, the speaker asked: "How could a commercial bank force selectivity when its scope for lending has been narrowed, quarter by quarter at first and then month by month? The commercial banks received three-fourths of their credit resources from the Hungarian National Bank; therefore any measures by the central bank ripple through immediately. Thus long-range planning is impossible, and the commercial banks' scope has been narrowed," she said. The deputy director general of the Hungarian Credit Bank questioned the feasibility of soaking up the enterprises' real or imagined excessive liquidity with the help of such tools. She noted: "About half of the economy's players are not even using credit, presumably the very ones who are not expanding their economic activity. Specifically they are the ones whose liquid assets ought to be reduced, but they are not even in contact with the credit sphere."

Imre Kovacs, the head of the MSZMP Central Committee's Department of Economic Policy, replied that, to his knowledge, the government is not in agreement with this practice of the banks. The fact is, he added, that the two large commercial banks have disbursed more credit than they should have, and this situation has to be corrected. In calling the loans and credits, however, the banks are not exercising the care expected of them, and producers justifiably object to this. Tamas Beck ended the discussion of this topic by saying: "First it should be verified that there actually is too much money in the market. But until this is suitable substantiated, the Chamber will avail itself of every possible forum to voice its opinion to the contrary."

It is hard to say how typical of the enterprise directors' mood are the inferences that can be drawn from the contribution to the debate by Andras Gabor, the director general of Tungfram, but he probably is not alone. "There was not a single day last week without some bad news. On Monday, I learned that the banks have raised their interest rates. On Tuesday, it turned out that our proceeds from export to socialist countries would be lower by 100 million forints, because of a [government] measure. On Wednesday, the coproduction of Zastava motor vehicles became more expensive for us; they want us, domestic coproducers, to absorb the price increase of the motor vehicles. On Thursday, I learned that we could join the wage club [the enterprises that are permitted to raise wages] only at the cost of giving up 120 million forints more in subsidies. On Friday, we were informed that the changeover to gross wages would reduce net income by at least 10 percent. The management of the enterprise will hardly be able to espouse economic policy if it loses its credibility, in part because it itself has become discouraged, and in part because of the many unexpected measures. This way it will be difficult to boost the morale of workers worried about their living standard," argued Andras Gabor.

Although from a different aspect, Adam Angyal, the director general of the Ganz Danubius, also reported on some elements of the mood at the enterprises. In his opinion, a distinction ought to be made between truly loss-making enterprises, and the ones which—as he put it—are seemingly operating at a loss on the basis of their financial indicators, but actually are viable enterprises. "An excessive number of enterprise liquidations would impair the economy's ability to function," declared Adam Angyal.

Responding also to the previous speaker's contribution, Ferenc Horvath, state secretary of the Ministry of Industry, adopted the standpoint that the Hungarian economy is still far from making economic rehabilitation or liquidation the general rule. The economic administration, as he put it, cannot be accused of pushing over the ledge the enterprises that are experiencing economic difficulties.

Laszlo Prager, the director of the Research Institute of Domestic Trade, brought up another topic. "While the servicing of our foreign debt still remains one of the

taboos, it determines practically every step we take," he said and then continued: "Forcing our export to capitalist countries is one of the obstacles to restructuring. The economy is moving along a fixed trajectory, and that cannot be called economic policy. So far as the concept of economic policy is concerned, the Chamber proposed already at the time of drafting the 7th Five-Year Plan that the restructuring be carried out in the first two or three years, even at the cost of temporarily increasing our foreign indebtedness, so that in the second half of the plan period we can already accelerate our economic growth."

Responding to the previous speaker's contribution, Imre Kovacs, head of the MSZMP Central Committee's Department of Economic Policy, emphasized: "We have always had an economic policy, and we have one now. It is another matter that our economic policy has not always been able to provide suitable answers to the existing problems; or if it did provide suitable answers, we have not always succeeded in implementing our economic policy."

At the end of its session, the Presidium of the Hungarian Economic Chamber approved the submitted materials: a document entitled "The Key Tasks of the Hungarian Economic Chamber"; an analysis of how to handle the economic problems resulting from the tax reform's implementation; the work schedule for the first half of 1988; the report on the Chamber's 1987 budget, and its proposed budget for 1988. The organization's 1988 budget is a balanced one, with 250 million forints of estimated expenditure and the same amount of estimated revenue. A rise in revenue is expected as a result of several measures. These include, among other things: small cuts in the Chamber's staff; less generous subsidies for participation in exhibitions abroad; and an increase of membership fees for the lower categories of members.

[Box, p 5]

Key Tasks

According to the approximately 15-page document entitled "The Key Tasks of the Hungarian Chamber of Commerce," which the Presidium approved at its meeting, the Chamber formulated its key tasks for 1988 so that they may contribute toward the time-commensurate realization of the government's work program, and toward achieving the fundamental economic-policy objectives. The document specifies that it regards the creation of stability as the government's primary task in 1988. An indispensable prerequisite for this is the improvement of external economic equilibrium, which in its turn requires a uniform system of foreign-trade incentives, the coordination of export and import, and an active exchange-rate policy. The Chamber intends to provide effective assistance for all this.

The expansion of foreign trade, according to the Chamber's program, can be achieved not only by processing the available market information, finding new markets and uncovering the small stocks of exportable goods, but also by improving delivery discipline or by offering more favorable payment terms. To attract foreign capital investment more intensively, the Chamber intends to make more active the consulting organization it set up earlier, and will facilitate—by developing its direct relations with enterprises—access to CEMA markets for the joint ventures in Hungary. The program mentions that this year the Chamber will draft a proposal outlining the conditions under which wholly foreign-owned enterprises could be established in Hungary.

The Chamber's sections will continuously monitor in 1988 the changes that the tax reform's income-rearranging effect will produce in the life of the enterprises—promises the program that the Presidium approved.

The Chamber intends to actively participate in drafting the new 1988 Company Law. It will prepare continuing studies on the experience in conjunction with the tax reform's practical implementation, and will inform the economic administration about the disturbances in the course of implementation. When individual enterprises are liquidated, the Chamber will also evaluate how the meetings of the creditors and debtor were organized and conducted to attempt a composition or extension. The Chamber will join in the work of drafting decisions on social policy and will continually monitor the experience in conjunction with establishing and using the Employment Fund. It will also provide a forum for reconciling the problems arising from exercising parallel rights to engage in foreign trade.

As the document emphasizes, in its external economic activity the Chamber intends to let the expansion of socialist import play the primary role, because this is a prerequisite for the equilibrium of socialist foreign trade.

In trade with advanced capitalist countries and developing countries, the Hungarian Economic Chamber will give preference to coproduction arrangements, to the introduction of new products, and to foreign-trade activity of the entrepreneurial type. The document outlining the Chamber's key task for this year states, among other things, that the Chamber will concentrate on expanding relations with the EEC countries and the United States among the developed capitalist countries, and with the solvent countries of Southeast Asia and Latin America among the developing countries.

1014

POLAND

ZYCIE GOSPODARCZE 'Briefs' Column

Last Week in Poland

26000195a Warsaw ZYCIE GOSPODARCZE in Polish No 4, 24 Jan 88 p 2

[Excerpts] **Bank President on Money Supply**—"In 1988 the role and impact of the money and credit policy on

Poland's economy will increase," said Polish National Bank president Wladyslaw Baka. "We are assuming a restriction of the money supply and gradual withdrawal of inflationary surpluses. Through a significant increase in bank rates we want to establish a permanent mechanism for savings and, at the same time, efficient use of credit. A proposal submitted in the Sejm deals with a 30 percent maximum rate and an increase from 12 to 18 points in the central bank's rate. The relief system will be set in order to eliminate the function fulfilled by the bank of redistributing funds from more prosperous to less prosperous enterprises. These plans are related to the reorganization of the structure of banks in Poland."

OPZZ Housing Conference—"The drastic housing situation requires immediate solutions." "Without housing there is no family or upbringing." "We demand that construction be liberated from the bureaucratic corset." These statements accompanied those who came to Warsaw from throughout Poland on 16 January to a conference of people without housing called by the OPZZ. Several hundred people came together from among the huge masses of those who have no individual housing, who are waiting with a feeling of hopelessness in housing cooperatives and those who do not want to want and have taken the matter of building their residences into their own hands.

Fruit Farming Group Formed—Delegate Ignacy Wall presented to reporters the goals of a group recently established in the Sejm, the public support group for orchard revitalization. Established on the initiative of deputy speaker Jerzy Ozdowski, the group will deal with seeking out allies to support the program for revitalization and modernization of Polish fruit farming worked out by the Ministry of Agriculture, Forestry and Food Management and ratified by the government. The Church Agricultural Committee also wants to participate in implementing the government program for revitalization of fruit production. The committee is prepared to finance the purchase of 7,000 sawmills, using for this purpose money from the fund to aid establishment of rural water supply systems.

Energy Consumption Statistics—In Poland 3 to 4.6 times and in Warsaw 3.75 to 5.6 times more energy is used per square meter of useable area than in highly developed countries. There for years construction of houses with an annual energy requirement of 80-120 kilowatt hours per square meter has been a normal occurrence.

Investment Figures Reported—Plans for capital spending in the food complex were not fully realized either in 1986 or 1987 and were exceeded slightly by investments in the entire national economy. Advancement in the National Socioeconomic Plan [NPSG] after two years came to 39 percent in the national economy and only 34.5 to 34.6 percent in the food complex. Investments in agriculture are proceeding best, with capital spending in the agricultural and food industry somewhat weaker and worst in

industries that support agriculture, where advancement in the NPSG did not even reach 30 percent. From an interview with Prof J. Zegar in RZECZPOSPOLITA.

Economic Cooperation Results—"We can evaluate favorably the effects of economic cooperation with foreign countries, particularly foreign trade, against the background of results achieved by the entire economy in 1987," said minister Wladyslaw Gwiazda. The goals of the National Annual Plan in both payments areas were fully realized and exceeded. Particularly favorable results were noted in the second payments area. Exports that exceeded the plan permitted greater than anticipated non-foreign currency imports and the working out of a credit balance of nearly \$1.3 billion.

OPZZ Adopts Price-Income Position—The OPZZ Council adopted its "Position on price and income policy in 1988," wherein we read, "The OPZZ Council asserts, on the basis of the opinions of plant and nationwide union organizations and provincial trade union agreements, that trade unions do not concur with the terms of the price and income policy for 1988 offered for consultation, since the proposed means of compensating costs of living do not ensure preservation of the level of real income in worker, retiree and pensioner families. The proposed direct compensation of 1,750 zloty in worker and 2,800 in retiree families will elicit public indignation, while the proposed index of general price increases will generate distrust and disbelief in public sentiment." Report on page 4.

2776

Lack of Factory Wage System Implementation Defeats Reform Efforts

26000178c Warsaw ZYCIE WARSZAWY in Polish
29 Jan 88 p 3

[Statement by Jozef Grzegorzczak, director in chief, Uniontex, in interview by Zbigniew Grzegorzewski of EXPRESS ILUSTROWANY (15-17 Jan): "Ailing Reform"]

[Text] In half of the enterprises plant wage systems have not been introduced yet, which means that they are paying people according to the old system from before the reform. And, after all, a good wage system means good productivity. It increases production. Such a half and half situation is testimony to the weakness of the reform.

A director who has not introduced a plant wage system and is not anxious to implement the reform theoretically receives less pay, but he receives a 300 percent bonus from the minister, and it all comes out the same. From their earnings it is impossible to tell the directors heading well-run enterprises from those running companies with poor results.

The reform system is sick. Its health is broken. In all this there is too little cohesiveness, too much spontaneity, not enough consistency.

10790

Factory Wage System Encourages Quality Production, More Independence

26000178a Warsaw TRYBUNA LUDU in Polish
29 Jan 88 p 2

[Article by Krystyna Sonntag: "Plant Wage Systems—Greater Independence"]

[Text] A few years ago, when the law on the principles for creating plant wage systems was passed, the attainment of what had always been one of the weakest links in the economy, the incentive function of wages, seemed to be within arm's reach. Time showed that the golden fleece was not so easy to acquire.

The law contained detailed regulations concerning the introduction of changes into wage systems. Despite these regulations, which were also backed by the need to obtain central approval (the founding body passed judgment on plant proposals and the labor ministry approved them), it did not prove possible to work out clear principles fully accepted by the workers concerning a direct relationship between wages and the quality and productivity of work or to put the internal wage ratios into any sort of order. For many enterprises this was just an opportunity to increase wage levels.

Necessity of Bringing the Law Up-to-Date

It, therefore, became essential to draft a modernized version of the law, especially since its provisions must correspond to the regulations of the labor code, which specifies that the plant wage systems are to be a component part of the collective labor agreements.

In December, in keeping with the schedule of program tasks for implementing the second stage of the economic reform, the draft to bring the law up to date was presented to the OPZZ for its opinion, and the proposed amendments were accepted. Here are the changes.

First of all, in keeping with the spirit of the second stage of the reform, we must emphasize that a basic condition for implementing the plant wage system, or ZSW, is that the plant must have the funds to finance obligations stemming from the agreements. In other words, only those enterprises that have good economic results, that is, that have the money available, will be able to have consistent wage increases. This important principle just about automatically relieves them of the need to maintain various sorts of retrenchment measures previously used in creating plant wage systems, because the authors of the draft wisely assume that one really keeps careful accounts of one's own cash drawer, apply correct and

rational ways of distributing the money on hand. Therefore, the past special centrally established conditions are not necessary. Besides, experience shows that people get around them.

At present, the two sides, enterprise directors and the trade unions, will therefore be entirely independent, within the framework of the agreements entered into, to determine the size and ratios of various component parts of wages.

Giving up the Registration Requirement

A consequence of this assumption is cancellation of the requirement that plant wage systems be registered with the Ministry of Labor and Social Affairs. Therefore, the past bureaucratic delay is at an end, but the responsibility for seeing that the agreements fit the law and the resolution of possible conflicts will rest with the parties making the agreement in the enterprise.

A substantial share of the wage components will cease to be assured the employee by law, and the method of calculation will depend on the agreements made in the enterprise. In this situation it is obvious that differences will occur in the sizes of functionary income, seniority supplements, and anniversary bonuses in the various workplaces. This also applies to the size of additional earnings for work during the night shift or under conditions that are injurious to health or particularly dangerous or monotonous.

The only remaining guaranteed components of the wage are basic pay, retirement provisions, pensions, and payment for overtime. Until the implementation of wage tables based on the evaluation of jobs, basic wages will only set in terms of the minimum intervals between the rates in various wage categories.

The enterprises' possibilities for structuring wages have been greatly expanded. This is mainly visible in their freedom to choose how they calculate the components not covered by guarantees in the law. For example, the rate for a position may be based on the lowest wage step, as in the past. Another variant is also provided for, which permits plants with a conscious employment policy to make it an instrument for stabilizing the work force. The seniority supplement will be based on a series of steps which rewards employees for the number of years they have worked in the enterprise. No upper limit is set here.

Similar principles will apply for anniversary bonuses. It is worth emphasizing that these bonuses may be awarded after only 15 years, according to the new law, not at the end of 20 and 25 years, as in the past.

Setting the Upper Limit

In terms of the supplement for special duties, the draft of the law does away with making the size of the supplement dependent on the plant category and gives the plant the freedom to set its own ceiling. Here it is essential to state that salaries for management in socialized places of employment are excluded from the plant wage system. They will be regulated separately, in keeping with the law on socioeconomic planning.

If an enterprise is not included in a collective labor agreement, the plant wage systems will be introduced by way of a plant collective agreement. Then elements not directly connected to wages, such as social benefits, occupational health and safety, and the like, will be included.

Plants Have a Free Hand

The plants have a free hand, but as the draft updating the law states, they must remember one thing, that they are bound by the unyielding principle that the cloth must be cut according to the possibilities provided by the financial material produced in the enterprise, because it does not depend on any outside sources. On the other hand, the freedom given to structure wages is mainly to help increase operating efficiency, to create conditions for production growth by paying more for productive work. Of course, this is contrary to primitive egalitarianism and "equalizing" policies.

10790

Free Food Supply Market Favored

26000178b Warsaw ZYCIE WARSZAWY in Polish
29 Jan 88 p 3

[Statement by Prof. Rudolf Michalek, member of the Presidium of the Main Board of ZSL and Sejm deputy, to Tomasz Ordyk of GAZETA KRAKOWSKA (14 Jan): "Free Food Market"]

[Text] I am convinced that the society would gain from implementation of a free food supply market, and fairly quickly. Yes, the first reaction will be an increase in prices, but as production increases, the prices have to drop. The farmer has to sell what he produces. He is not going to wait for a better market situation, because he loses by waiting. He will not process the food. He will not store it. In the situation of a stabilized market, the producer thinks about how to sell his products, looks for favorable contract agreements. There is no room for speculators or intermediaries. The state's role would be limited to essential intervention.

I have recently been hearing proposals made by important people about freezing food prices. This is a very typical example of acting under the pressure of public opinion. Advocates of such decisions maintain that these food prices fan the fires of inflation, but this is not the

way it is at all. The directors of many enterprises claimed that the 12-percent tax threshold hampers incentive. In many instances that mark was exceeded and wages increased, but there were no more goods on the market. Because of frozen taxes, the budget was 200 billion zlotys in the red. In this situation how can you talk about economically healthy foundations for the functioning of agriculture? I repeat once again: If we want to freeze food prices, let us also think about a way to freeze stomachs.

10790

ROMANIA

Measures To Increase Passenger Car Exports Outlined

27000053 Bucharest *REVISTA ECONOMICA*
in Romanian 8 Jan 88 pp 15, 16, 18

[Article by Vasile Zirnoveanu: "Utilizing the Potential for Technical and Commercial Creativity"]

[Excerpts] As an industrial sector of major international significance due to its potential to promote the development of related industries and to create employment, the automobile industry is given particular attention in our country, too, and this has been the case especially in the past 20 years. Thus, within the framework of developing the key branches of the machine-building industry, after 1965 a strong automobile industry was established, capable of meeting both domestic requirements, in keeping with the continuously growing standard of living, and the need for efficient participation in international economic exchanges.

Following the rapid development of the production of passenger cars and utility vehicles, Romania has increasingly asserted itself in the world as an exporter in this area. Automobile exports, which make up almost 10 percent of Romania's machine-building exports, increased year by year at progressively higher rates, so that currently Romanian cars can be found in countries traditionally known as car manufacturers (for example, Italy, Canada, Great Britain, etc.), where expectations are very high regarding quality, performance, and affordability.

Key Technologies Incorporated in Passenger Cars

Romania began exporting cars in the 1960's. Exports steadily increased, to the point where they are now comparable to those of the major manufacturing and exporting capitalist countries. This is due to the faster dynamics of automobile exports as compared to the production dynamics, and to the fact that demand for Romanian cars increased in international markets. The harsh competition existing in the international automobile market compels the manufacturer to constantly pay attention to his competitive position and to measure himself against international quality standards. After

1983 the international automobile market made a significant recovery; by 1986 it attained record levels concerning both demand and offer. This turnabout occurred simultaneously with a massive process of restructuring and reorganization, a process that affects all the facets of the automobile industry system and that presupposes rapid adjustment of this industrial sector to current market conditions. The process of restructuring and reorganization is currently channeled in two major directions. First, there is a tendency to internationalize production; thus, on the one hand, the major manufacturer firms make massive investments in other countries (they also move production abroad), and on the other hand, there is expanded cooperation among producers (whereby stress is increasingly put on production integration and even "globalization"). The purpose of these actions is mainly to reduce production costs, to jointly develop new products and technologies, to manufacture parts jointly, to increase sales, and to penetrate protected markets.

Secondly, production processes and product technologies are being fundamentally changed through the incorporation of the state-of-the-art in science and technology, thus ensuring that the auto industry preserves its pioneering role for promoting key technologies. Consequently, the manpower employed in the auto industry has been considerably reduced and its structure has undergone qualitative modifications. Under the impact of technical progress, plant organization is subjected to fundamental changes. The flexible manufacturing systems (FMS), the use of robots and computerized planning and production (CAD/CAM), and even their integration within a uniform system (CIM) are completely changing the structure of automobile plants and have direct effects on increasing labor productivity, reducing production costs, and enhancing production flexibility. The changes occurring in manufacturing plants are accompanied by intensive efforts to reorganize the entire system of the automobile industry, both the units hierarchically higher and lower than the production units.

Thus, a completely new industrial structure is being created, a structure characterized by the employment of fewer workers, the introduction of key technologies, and a combination of the principles of mass production with those of individualized products aimed at each segment of the market.

Production Restructuring Permits Great Commercial Freedom

Despite the predicted rebound in international demand, competition tensions will remain high in the field, which means that exporters will have to make special efforts to maintain the competitiveness of their products and to implement an "aggressive" marketing policy.

The following are examples of means used to attain those goals:

—Faultless organization of service networks in each market.

—Post-sale warranties constitute an important factor of competitiveness in the automobile market. Of course, in order to afford extensive warranty terms while ensuring that the cost of repairs during the warranty period do not exceed the limit of planned expenditures, quality and life span must remain consistently high.

—Improve the external aspect of the cars and make consistent efforts to produce new models at the shortest possible intervals (even though structural changes or improvements may sometimes be negligible). This is a method of holding the interest of potential buyers, as well as an efficient investment.

—Deliver automobile parts and subassemblies to be assembled in other countries, especially in the developing countries. This commercial strategy, which permits the major producers to expand their presence in the international market, also allows them to maintain a wide network of auto assembly plants abroad, and that is an important element. At present there are over 600 auto assembly plants in the world, located in 91 countries.

—Intensified commercial promotion and publicity as a means of increasing the sales of the major manufacturers in the field. The major auto manufacturers on the average spend 3-5 percent of their business volume on advertizing. In addition, they implement particularly aggressive practices—which put great pressure on prices—regarding low interest loans to buyers and considerable rebates for purchasing cars on stock and for payment in cash. Manufacturers use market promotion strategies that ensure the continuity and volume of exports. They organize extensive sales and service networks, and carry out aggressive regional promotion campaigns. On the other hand, they normally avoid areas in which the market capacity and the competition permit only a small volume of sales, and which consequently do not justify the organization of local service outlets and other promotional measures. Consequently, the marketing strategy of the large firms is aimed not so much at expanding sales geographically, but at more firmly securing their hold on markets in which their sales chances are comparatively better.

A Market for the Best

In order to ensure higher production and export volumes for Romanian made cars amid the above, briefly presented, international conditions, aside from properly organizing the production of marketing of these products we must also take additional technical and commercial measures. The manner and dispatch with which we resolve these problems will influence the future development of auto production and export in our country because—assuming that the predictions concerning the future development of the international auto market materialize—it is not the capacity of the international

market, nor a possible market demand slump that can impede or limit the promotion of Romanian auto exports. Exporters will always be able to penetrate, maintain, and expand international markets if they respond to market demands. Along this line, the following aspects are offered for consideration:

Technical Aspects:

—Diversify the range of auto manufacture by selecting judiciously chosen basic models and adapting them to the trends of international market demands; examine the possibility of building—perhaps on the basis of an original concept—a new family of medium-size cars (1,300-1,500 cc).

—Standardize auto parts and subassemblies, with a view to expanding interchangeability. Standardizing the structural systems of cars belonging to the same production range makes it easier to diversify production, simplifies post-sale repairs, and reduces the investments required to manufacture spare parts and to furnish equipment for service workshops.

—Ensure that technical work precisely conforms with technical blueprints and production norms; improve supervision at each stage of production, as well as final quality control. For example, it can be demonstrated that the success of the Japanese auto industry in recent years is due to, among other factors, the particularly high quality of Japanese products. This high level of quality was attained by organizing strict quality control throughout the entire production process, and by holding each worker responsible for quality.

—Improving the appearance of cars and paying greater attention to design, finish, maintenance, and auxiliary material (certain tools, technical information, etc.).

—Improving the technical parameters of the cars by: reducing metal and fuel consumption, increasing the life span, reducing maintenance and repair costs, increasing efficiency and making the cars more economical, reducing pollution (sound and chemical pollution), and enhancing safety features.

—Adaptation to international standards (valid in the major importer countries).

—Testing prototypes in representative foreign markets before beginning mass production.

—Securing recognition from specialized, reputable foreign institutions.

—Manufacturing a greater number of Aro-10 Diesel cars; furnishing Aro-24 utilities with Diesel engines in keeping with the anti-pollution norms in effect in west European countries.

—Increasing driver and passenger comfort (by expanding interior and luggage space, providing optional features, etc.).

—Increasing production flexibility, so that modifications requested by foreign customers can be made easily and fast; establishing separate production bays for this purpose in the production plants.

—Establishing at production plants sections working exclusively on spare parts, or systematically manufacturing spare parts on the regular production lines; as an alternative to the above, establishing independent industrial units for the production of spare parts.

—Adjusting our innovative capabilities to the dynamics of the steady and rapid research and development efforts made to improve our products, in keeping with international market features. Competition in the auto market is currently extremely fierce and consequently, manufacturers in the field must intensify their efforts to continuously improve the products they launch on the market, and to increase, on a yearly basis, the material and human resources engaged in research and development.

Commercial Aspects:

—Continuously improving the organization of sale and service networks for Romanian-made cars sold abroad; supplying spare parts either directly, or through a storage network; providing the necessary number of properly equipped mechanics to provide technical assistance with exported Romanian cars, on a par with the assistance offered by the competition; establishing a national store of spare parts with a view to ensuring prompt dispatch of spare parts for exported or domestically sold Romanian cars; matching the warranty conditions offered by the major auto producers and exporters.

—Developing the production and export of automobiles in the form of CKD and SKD designed to be assembled abroad, at a first stage; at a second stage, beginning and developing exports of Romanian assembly lines; cooperation with partners in the countries of destination of those assembly lines with a view to developing local auto assembly.

—Continuously improving advertizing and commercial promotion for Romanian-made cars, by reorganizing the relevant section of each enterprise and staffing it with the personnel necessary to appropriately and efficiently carry out all the forms of advertizing, in line with the practices of the major foreign manufacturers. The unpropitious conditions that prevailed in the international auto market in recent years have prompted intensified advertizing and promotional campaigns; in 1980 the major auto manufacturers spent 3-5 percent of their business volume on advertizing.

—The auto exporting enterprise itself must directly study foreign markets; its price, conjuncture, and marketing department must be reorganized accordingly and must be furnished with all the necessary material and forces; a prompt and efficient system must be established to procure the necessary information and to base international marketing studies on that information; expanded market canvassing projects.

—Reorganizing and developing the network of representatives abroad of the Romanian auto exporting enterprise; assigning the permanent delegates to continuously study the market and report back to the enterprise, simultaneously with their current duties regarding exports to the respective market.

—Focusing export efforts on markets capable of absorbing the greatest part of our offer in the field; organizing long-term exports to those countries, by utilizing the entire gamut of means of export promotion; giving up markets whose capacity and competition conditions permit only a very small sales volume and do not justify the organization of appropriate local service outlets and other promotional measures; adopting modern forms of foreign trade, such as auto transportation associations, leasing, and auctions.

—Ensuring that some manufacturers of parts and subassemblies become specialized in a certain production, so that they can expand production sharing and marketing with prestigious foreign manufacturers.

—Bringing out a specialized annual publication concerning the Romanian auto industry and market (which should also feature references to the international market), similar to existing publications brought out at a national level by the major auto manufacturers and exporters, and in certain socialist countries. The purpose of such a publication is to apprise the international public of the capabilities of the Romanian auto industry.

HUNGARY

Number, Kinds, Influence of Religious Basic Communities Seen Growing

25000103 Budapest IFJUSAGI SZEMLE in Hungarian No 6, 1987 pp 70-76

[Article by Istvan Kamaras: "Intimate Basics: About Religious Basic Communities"]

[Text] People need relationships with other people, according to their own individual preferences as to the extent and orientation of these relationships. Most of the people living in European societies today can bring harmony between themselves and other people, within themselves, and between themselves and transcendence only through (simultaneous) experiences in relationships of various kinds. These also include "large-scale" communities such as humankind, nation, ethnicity, Christianity, the Church, the geographical area or the subculture, as well as medium-scale ones such as professional groups, associations, parties, parishes and clubs. In addition to all of these (and to the inherited family), to belong to a selected close community has also become a more and more basic need—partly because the larger-scale communities have ceased to exist, have wasted away, have become distorted or have lost their credibility, partly because even the family has in many cases lost its function of the "intimate base," and partly because the depth and quality of human and social relationships have generally deteriorated.

Among the various small communities, the small religious communities (especially the so-called "basic communities") no doubt belong in today's Hungary among those which successfully function as the "intimate base," i.e., a secure and trustworthy basis which one can leave, to which one can return, against which things can be measured. One of the (main) reasons for this is that, unlike most small communities of similar type (in which the common denominator is constituted by joint activities, by similar lifestyles and by the question "how"), these are characterized more by a common value system and the similarity of the answers to the question "why" and less by activities, rites and customs. They are small groups in a sociological sense and small communities (generally having 7 to 15 members) in a socio-psychological sense; under favorable circumstances they may develop their own variation of the "we-consciousness" of belonging to larger units, in this case to the Church, to the local church or to the parish. In this way their uniqueness may belong to the whole in the form of a small community.

The Character of Their Individuality

"Hundreds of religious communities (their estimated number in some sources is between 4,000 and 5,000) are being formed and are engaged in noteworthy activities in self-education, culture and religion. The religious commitment of their members occasionally even revives the

life of traditional congregations and parishes," wrote Miklos Tomka (Footnote 1) (The Role of Religion in our Society. KRITIKA, 1985/1.) who notes that most members of these communities are young, urban and well educated. Already in the late 1950's, many small communities existed and thus dozens of today's communities have a history of 25 years or more; however, the big "boom" took place in the late 1970's.

The fact that significant changes took place in 1976 in the relationship between state and Church unquestionably played an important part in this, as demonstrated by a few researchers. (Footnote 2) (P. Istvan Kerekgyarto: Catholicism, Religious Basic Community and Political Socialization. Youth and Political Socialization. Budapest, Kossuth Publisher—Sociological Institute, 1987; Imre Andras: The Religious Basic Communities. KATOLIKUS SZEMLE, 1980/2.) This was when Laszlo Lekai became cardinal (this is important because most of Hungary's small religious communities are Catholics), this was when the commitments accepted by signing the Helsinki Accord were ratified and thus the state gave an even stronger guarantee for the freedom of religion which had already been included in the 1949 constitution. A 1976 statute even allows private citizens to meet in private homes for religious activities, and this is important with regard to our topic, for a significant part of the small religious communities are not connected to one or another parish but are instead organized according to other principles.

Distrust on the part of both the state and the churches has significantly decreased by the late 1970's and early 1980's. The reason for "state distrust" could have been, on the one hand, that the spontaneously developed communities are difficult to oversee and, on the other, that a tiny part of them professed views that were unacceptable for the state (e.g., the refusal of military or armed service). The main reason for "church distrust," on the other hand, could have been the hostility of a small part of the communities toward the institutions and the hierarchy. Several researchers think that the cause of the sudden proliferation of basic communities is the need for a reformed Church and that an important component of this need is criticism of the Church as an institution, not from without but, in a broad sense, from within, for most members of the basic communities regard religiousness as an inner and personal thing—and not an external and formal means. According to Ervin Csizmadia, the fact that an increasing number of the young generations choose this kind of religiousness is a sign of an unresolved relationship between the institutions and individualization. He quotes Laszlo Nemeth according to whom "the institutions are unable to follow the passion of self-realization," then he continues by saying, "And the proliferation of basic communities is not simply a withdrawal to personal lives but rather an attempt to bridge the conflict, a self-institutionalization as it were." (Footnote 3) (Ervin Csizmadia: Religious Autonomy, Secular Autonomy, and Generationalism. KRITIKA, 1986/10.) I could add that it is a form of local

society, or perhaps more precisely, of local action. I think that the need, which perhaps coincided with the views of the 2nd Vatican council, namely, that a young person, be he or she a Christian or not, should be able to express an opinion as an adult and as a member of the Church with equal rights, and that the people's Church should become the church of the believers, is also an important motive. In the writings of certain authors the "basic community" is depicted as a critical opposition to the institution and office of the Church; however, most basic communities are rather the foundation (basis) of a reviving large community (the Church), i.e., they are communities that are taking more and more responsibility for the large whole: they are building as intimate bases and not as shock-brigades. For today's average Christian is not less of an individualist than a non-Christian.

The individualization of salvation is an important element of Jesus' redemptive work; another element is that—with Zoltan Endreffy's words, "it molds God's people into a contrast society which, as a visible community serving as a lighting sign, transmits salvation." (Footnote 4) (Zoltan Edreffy: Church and Community. VIGILIA, 1987/4) However, this contrast society is not a contra-society but rather a community in which people live differently from the general custom.

Salt and the Salt-Office

It is no doubt true that some religious basic communities think that they are the salt and the Church institution is the domineering or captious salt-office. How do the basic communities operate? To what extent are they connected to the parish? Ernst Huber, one of the most prominent bishops of the Dutch Catholic Church, gave the following answer to these questions: "The word basic community was created in Latin America. In Europe it means something else. This name is used for special groups operating at the parish; they are involved in the liturgy, religious instruction and the relations between the Church and society. In a narrower sense of the word, the basic communities operate side by side with, but independently from, the Church." (Footnote 5) (The VIGILIA's talk with Hubert Ernst) Whether inside or outside of the institutional Church, whether supporting, reforming or criticizing it, I believe it is true of every religious basic community—although not to the same extent—what Ferenc Merai says of the small group, namely, that it is a social formation, that it is outside of the legal system that is connected to the macrosocial institutions, that its development points toward an institutional existence, and that, 'as a spontaneous network, it is lurking in the background as an unfixed but present supplement of the institutional network.' (Footnote 6) (Ferenc Merai: The Hidden Network of Communities. Budapest, Economic and Legal Publisher, 1971.)

"Was it man who left the Church or was it the Church that left man?" asks T.S. Eliot. The historian and the sociologist may talk about both processes, but they may also say that the religious basic communities are the

authentic places where the Church, whose certain institutions may appear empty to several millions of religious people, may survive. They are places for many where it can be experienced what Saint Paul thought was the essence of the Church, i.e., the largest Christian community, namely, that "you are members of each other"—which is characteristic of any real community. Most religious basic communities, including most of Hungary's "intimate bases," recognize that not only salt but also a well-functioning salt-office is needed for putting spice into our lives. They profess not only that the Church is guided by the Holy Spirit but also that the Holy Spirit's potential depends on Christian unity, including the unity between the various factions of the Church.

The Varieties of Individualism

It is enough to stay within the country's borders to see the variety of religious basic communities. The organizing mind is always prone to analyze, and if it is biased or to any degree, then it is also prone to differentiate between the "adequate" and "inadequate." This is what Laszlo Cardinal Lekai did in 1982 in a statement made to foreign journalists: "There are 2 kinds of basic communities in Hungary. One is the so-called regnum group which is Catholic. Two years ago I was with them in Nagymaros, 2,500 young persons were present... There is also another kind, and I think that they are not entirely Catholics: it is Father Bulanyi's basic community. He really accomplished and organized wonderful things, but I can describe his great impact with the words of Saint Augustine: Great strides outside of the ways of the Church." (Footnote 7) (SALZBURGER NACHRICHTEN, 15 May 1982.)

Well, the 2,500 young Christians represented at least another 5 or 6 kinds of basic communities at that youth meeting in Nagymaros—even if only the most important trends are considered. What was the cardinal's justification for calling these basic communities, which are often called "Bulanyist" because they follow some of the conceptions of Piarist monk Gyorgy Bulanyi, not entirely Catholic? It is believed in these circles that the greatest value of Jesus' teaching is love, and its concrete manifestations are giving, rejection of violence, and service. In the practical implementation of this program, some people, citing moral causes, refuse to do military or armed service.

With regard to the so-called "regnum groups," both the meeting mentioned and earlier and subsequent Nagymaros meetings (as well as other meetings of spiritual and cultural exercises) saw the participation of a good number of basic communities which are also influenced by the spirit of the Regnum Marianum (which was founded in 1903 for the purpose of ministering students and which is considered as the precursor of the scout movement) and which use in their *ars poetica* key words such as Christianity, culture, and Hungarian identity.

But, then, the basic communities at Nagymaros also include the charismatic, the Taisei and the Focolare ones as well as the most diverse combinations of these.

However, the picture is much more colorful, there are many more colors and symbols on the map of basic communities. There are those basic communities which are only 1 or 2 years old, and there are those in which the children of the members are already members themselves. There are those which follow a model and those which are unique, those which are activating or activated, stable or unstable, closed or open, those which meet frequently or infrequently, those led by clergymen or by civilians, those which are administered from above or from within, and those which are homogeneous or heterogeneous in their socio-demographic composition. There are those which offer answers to the question of how and other to that of why. They include ones which are almost sects, subcultures, havens, reclusories, clubs, brain pools, workshops, frameworks maintained by routine, and self-sustaining fields of energy.

They also differ in their main activities. Some are involved mainly in studying and education, others are involved in socializing and entertainment, in prayer and liturgy, in action and work (charity service or parish activities), in helping each other, in orientation and maintaining relationships, or in testifying; and there are, of course, communities with single or multiple functions.

Possibilities and Value Sources

Possibilities, to do what? Sources of what values? What do they exclude? What do they slow down, what do they hinder? In the basic communities of Pecs, which had been established from the very best (one could say distilled or refined) of the larger groups of religious instruction, P. Istvan Kerekgyarto (Footnote 8) (P. Kerekgyarto: op.cit.) found the presence of marked values such as humanity (love and friendship), the acceptance of sacrifice, love of work, communal feeling, and peace and internationalism, i.e., values (which, by the way, coincide with "central" desires) which are often regarded as absent by youth specialists, educators and leaders of the youth movement. In studying the value system of members of 15 to 40 years of age of basic communities in Budapest (95 percent of whom were students or intellectuals), I also found similar things. From the 18 life objectives that could be chosen, the first place went to salvation, inner harmony, love, family security and friendship, and from the 18 attributes, the winners were willing to help, loving, responsible, forgiving and unbiased. Characteristically, among the values that were not listed but were missed by them (Footnote 9) (The Rokeach value test), the most often mentioned words were humility, unselfishness, love, patience, modesty and empathy. Self-esteem, inner harmony, salvation, freedom, wisdom, openness and discipline were mentioned as the most problematic (unclear and debatable) values for them.

Material affluence, a pleasant life and aspirations were considered as the opposites of the values that are important (considered Christian) for them. There is no consensus even in their communities in the evaluation of material affluence, love, lack of prejudice, freedom, pleasant life, compliance, discipline, human self-esteem and happiness. They feel that greatest differences of opinion between Christians and Marxists arise mainly in connection with the issues of salvation, material affluence, social recognition, freedom, forgiving, happiness, equality, pleasant life and willingness to help.

Christianity is much more an event than a system of ethics, maintains L. Giussani, the charismatic leader of the *Comunione e Liberazione* (unification and liberation) movement which was started in Italy. (Footnote 10) (A Choice Between Two Images of Man. VIGILIA, 1986/11.) According to them, the greatest possibility and value for the basic community is communion, i.e., the meeting with Christ which can take place in a community worthy of man. This basic communal movement does not consider itself as a kind of "salvation army," for, according to L. Giussani, for instance, "that which saves is not the success of our activity and is not the victory of the Christian value system but is solely the presence of Christ." Still, in most cases the intimate bases do not become inbred, for most of them also have some kind of a social program which, in L. Giussani's words, is something like this: "The patience required for humble and persistent work that deeply affects the life of a society can be found only in people who found themselves in their faith, who found the secure point of their personalities."

Confessions and Functions

Members of Hungary's diverse basic communities made the following comments on these communities.

"They give one the opportunity to be personal in time and to be objective about, and express oneself without shame."

"It is the sweet empty lot where even Nemecek [a little guy; reference is to a child character in a popular youth novel] is honored who feels both at the bottom of a rigid hierarchy and exchangeable with anyone else; here he can be of value and may experience that every human being is a majesty."

"It gives an opportunity to talk, which may be lacking even in couples' relationships, although the world's reality to be experienced is hanging on the thin thread of communication and talk."

"It is an opportunity to establish a community whose colors do not fade because we can see Christ, the source of light, in each other's eyes at anytime."

"It is an ideal terrain for the practice of the various kinds of love and for being a friend, a lover or a wiseman and for learning how to use one's power and how to be patient."

"It is a place where I can listen to my own voice which is one of the voices of the polyphonic Church; I can listen to my soul that speaks from within."

"It is a place where His presence demands that I take off the roles and masks, where I must be personal, i.e., courageous."

"It is a place where rational faith can become creative, i.e., active."

"I can be a member of a humble vanguard."

Of course, the basic community can be a place of intimacy, pleasure, demeanor and refuge; it can be a fighting unit, an elite club or a racing team. These communities also have their ailments and parasites. Several communities took a rather long time to realize that the best way to deal with conflicts, which can happen even in Christian communities, is not to iron them out immediately or to find a common denominator but to see them through to a solution. They also learned (or if not, they ran aground as a result) that identical value systems by themselves are no guarantee for smooth communication, for the communicating persons, no matter how unified they are "in Christ," differ in their tastes, personalities and lifestyles. They could also perceive (or if not, they suffered as a result) not only that the social world has no mechanism which automatically eliminates the differences in equally important goals and values, but also that love is suitable for establishing mutual interests only if it is coupled with a sense of reality and know-how. Here, too, the realistic norms and those dictated by the ideal clash (should we be heroes, saints or human beings?); here, too, one must reckon with the dangers of collectivism (bustling about or being devout—both hinder close relationships), that of infantilism (when the intimate base that is becoming inbred overly protects its members from the hardships of adult

life), that of becoming one-dimensional (elite people praying, people being merry in their own circles, people who explain everything by a lack of love), that of the lack of identity (imported styles, unsuitable tasks) and, most of all, with that of becoming sectarians.

The basic community will have a smaller chance of becoming esoteric, a seclusion of eccentrics or a sect in the field of energy of similar basic communities (in the flow of a trend); of course, this may endanger even a group of basic communities that follow the same trend if it has no live connections with the larger units.

The basic community, which strengthens the awareness of quality, the awareness of eliteness that is coupled with responsibility, and the awareness of service, and which is not a group of outstanding and criticizing people only (it is another question that the mere existence of basic communities may be a criticism of the operation of religious institutions), it may mean, simultaneously and under optimal conditions, protection and responsibility, acceptance and mission, an opportunity to experience the coexistence of universality and individuality, and opportunity to serve (to comply) and to initiate, to heal oneself and others, to seek partners and to find human companions; i.e., it may mean for its members both a sociological/socio-psychological and a transcendental reality simultaneously.

Despite their number and significance, we know rather little about the basic communities, for they have hardly been given the publicity that would be given even to a subject of research. But, in order for them to become challengers and catalysts, they should have more publicity.

*Editor's comment: the author's article on basic communities is only one of the many possible views on the subject. We are aware that the issue may touch upon many kinds and, from various aspects, more complex interests. For this reason, we would be happy to publish other views as well.

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