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10 SEPTEMBER 1987



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## **East Europe**

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## EAST EUROPE

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HUNGARY

ERRATUM: This article republished from  
JPRS-EER-87-116 of 24 July 1987 to  
provide complete text.

POLITICAL

## WWII PEACE TREATY ON HUNGARIAN MINORITIES FAULTED

Budapest HISTORIA in Hungarian No 5/6, 1986 pp 62-64

[Article by Sandor Balogh: "The 'Hungarian Question' at the 1946 Paris Peace Conference"]

[Text] (In 1987 the HISTORIA series will publish the volume titled "Magyarok a Kárpát-medencében [Hungarians in the Carpathian Basin], which surveys the history of national and nationality issues from the Conquest to 1948. Below we publish one of the essays from the volume. The Editors.)

On 29 July 1946 the 21 nations which won the Second World War opened their Peace Conference in the French capital city. The task of the Paris Peace Conference was to put an end to the Second World War by creating a Peace Treaty, and above all to prevent the re-birth of Fascism in any form. However, it was evident from the beginning that this conference could only incompletely meet the expectations surrounding it. After all, the intent was not to decide the general fate of all defeated nations, only that of Italy, Romania, Bulgaria, Finland and Hungary, that is, the countries whose governments were allied with Hitler's Germany.

The issues connected to preparing the Peace Conference were first raised at the meeting of the foreign ministers, taking place in London between 11 September and 2 October 1945. However, the representatives of allied powers could agree only to continue their discussions at a later date. In London, the foreign ministers of the United States, Great Britain and France proposed the modification of the Hungarian-Romanian border in favor of Hungary, but this was rejected by the foreign minister of the Soviet Union. (Just as a reminder: the peace treaty signed on 4 June 1920 in Versailles' Petit Trianon palace gave 102,000 square kilometers of Hungary's territory to Romania, and with that 1,664,000 ethnic Hungarians came under Romanian authority.)

The next meeting of the foreign ministers (held in Moscow between 16 and 26 December 1945) decided on drawing up peace treaties for those countries whose governments allied themselves with Hitler's Germany during the war.

For Hungary this decision meant that the country was able to move toward making peace, and thus toward wholly regaining its national sovereignty. However, the successful preparatory activities of the Ferenc Nagy government

were seriously hindered, because neither the issue of the so-called 'Danubian Swabs' ethnic group, nor those connected with the planned disenfranchisement and mass expulsion of Czechoslovakia's ethnic Hungarians received acceptable solutions at either the domestic or the international level.

In accordance with the declaration of the Potsdam Conference and the decision of the Allied Control Commission, the first group of ethnic Germans were expelled from their homes near Budapest in early January of 1946. They were transported to the American occupational zone of Germany, and they were followed by other groups from other regions of Hungary, primarily from Transdanubia. Late in 1946, however, the United States changed its position on this issue; it rejected the policy of expulsion and accepted no more expellees in its zone of occupation. Beginning with the spring of 1947, however, additional groups of Hungary's ethnic Germans were expelled; but this time they were not taken to the American, but the Soviet zone of Germany. Somewhat more than 50,000 of them were transplanted to the territory presently constituting East Germany. If we include this number, altogether some 200,000 ethnic Germans were expelled from Hungary, compared to the 500,000 established in Berlin by the Allied Control Commission; a figure which, by the way, was well above the total number of Germans living in Hungary. After the middle of 1948 the human and civil disenfranchisement of ethnic Germans gradually came to a halt in Hungary, and the 1949 Constitution established the equality of co-inhabitant nationalities, but the expulsions (which were primarily conceived abroad) and their consequences injured thousands or tens of thousands of politically innocent people, left their traces in people's memories for a long time, and continued to complicate the international as well as domestic situation of Hungary.

The program of creating a Czechoslovak state was based on the internationally recognized principle of legal continuity reaching back all the way to 1919, and in late 1942 and early 1943 the president of the republic, Eduard Benes, and the London exile government augmented this with demands for the expulsion of ethnic Hungarians. In the spring of 1944 these demands were accepted by the the Czechoslovak communist exiles living in Moscow, and in late 1944, early 1945 by the Slovak National Council. Simultaneously, Czechoslovak emigre circles made every effort to convince the Western great powers that, in addition to Germans, Hungarians must also be expelled from Czechoslovakia. (According to their 1921 census, there were 648,000 Hungarians living in Slovakia.) Yet, they did not succeed in obtaining consent from either the Western great powers or the Soviet Union to execute such expulsion. At the end of the Second World War, the authorities of Czechoslovakia resorted to depriving ethnic Hungarian residents of all their rights, persecuting and expelling some of them, in order to achieve some of their original aims.

On 27 February 1946, Hungary signed an agreement with Czechoslovakia concerning an exchange of residents, stipulating that the Czechoslovak authorities would remove as many ethnic Hungarians from the territory of their state, as the number of Slovaks--in 1941, there were about 80,000 of them living in Hungary--voluntarily report for re-settlement in Czechoslovakia. Obviously, Czechoslovakia insisted on retaining the right "to choose," because this was the only feasible method for changing the ethnic face of the largely Hungarian communities along the border between the two countries. In any

event, the entire content of this agreement revealed that it was not signed by two equal nations, but by the victorious Czechoslovakia and the vanquished Hungary. Hungary's concurrence could be explained at best by the fact that the Ferenc Nagy government (whose freedom of action on the international scene was limited by its isolation) saw this as the only alternative by which to end unilateral expulsions and the application of severe and injurious decrees against ethnic Hungarians.

Instead of improving, however, the relationship between Hungary and Czechoslovakia deteriorated even further after the exchange agreement went into effect. The Prague government saw the agreement as only the first step toward accomplishing the complete removal of Hungarians. Newer measures were introduced: For instance, based on the 17 June 1946 decree of the Slovak commissioner for internal affairs, they undertook a so-called re-Slovakization action among the Hungarian-speaking population. This meant that people were faced with a choice: if they declared themselves to be Slovaks, they could regain their [Czechoslovak] citizenship, otherwise they would have to leave the land of their birth, they would be expelled from Czechoslovakia. This action was purportedly based on voluntary choice, but in fact its goal was to force masses of non-Slovak speaking Hungarians to declare themselves to be Slovaks. Having already suffered through months of harassment, with their existential security seriously shaken by recent events, and seeing no hope for receiving support from any source, many of Czechoslovakia's ethnic Hungarians obeyed the will of the authorities. In the course of the campaign, some 400,000 of them "declared themselves" to be Slovaks. However, even under these circumstances, the people of several districts (such as those of Komarom, Parkany and Feled) resisted the pressure. Using the provisions of a 1945 decree concerning public works, in late September and early October of 1946 authorities had tens of thousands of Hungarians transported to Bohemia, primarily to districts that were recently emptied of their German population.

Due to differences of views between the two governments, and specifically on account of the lengthy debates concerning the implementation of population-exchange, the resettlement of Hungary's Slovaks and the reciprocal expulsion of Czechoslovakia's Hungarians only started in April 1947. As of April 1948, the number of Slovaks who voluntarily left Hungary was 73,273, while 68,407 Hungarians were expelled from Czechoslovakia. There were an additional 6,000 persons officially designated as leaving Czechoslovakia from Hungary "of their own free will." In fact, however, the number of those arriving in Hungary was even greater. We must consider as a separate category the case of those 20-30,000 people who were expelled--in a move contrary to the provisions of the armistice--because they moved to the Northern Highland region after 2 November 1938; but, of course, they contributed to the problem of others for whom new homes had to be created. In addition, there were a considerable number of those who originally came to Hungary "only for a temporary stay," and now found refuge with their relatives and acquaintances in the villages along the border, or those secondary and post-secondary students who originally started migrating in order to continue their studies. In the end, most of these ended up settling in Hungary.

The final settlement of debates between the two neighboring countries was significantly expedited by the takeover of political power in Czechoslovakia,

occurring in February 1948, consequences of which include reviewing the expulsion policies employed against Hungarians. However, the final cessation of expulsions had to wait until 16 April 1949, when the relationship of Czechoslovakia and Hungary came to be guided by a treaty of friendship, cooperation and mutual assistance.

But there were countries other than Czechoslovakia from which ethnic Hungarian residents were forced to leave after the Second World War. The 1949 census offers some ideas as to the number of Hungarians who moved to Hungary from the neighboring lands. According to data contained in the census, in 1949 there were 376,173 persons living in Hungary who were born abroad before 1938. Of these, 133,563 were of Romanian, 118,582 of Czechoslovakian and 65,877 of Yugoslavian birth. This means that the number of Germans expelled from Hungary, or that of Slovaks resettled in Czechoslovakia.

The program of the Hungarian government's preparation for the peace treaty was first discussed in detail by the leaders of the country's coalition parties on 24 April 1946, after a government delegation, led by Ferenc Nagy, visited Moscow. Among other things, the leaders concluded that the only country against which Hungary will present territorial claims at the peace conference would be Romania, which was also one of the defeated German allies. The armistice involving Romania has not yet made a final decision concerning the fate of Transylvania. (The point is very important to know that Hungary's claim concerned about 20 percent of Transylvania's territory, that is, about 22,000 square kilometers).

However, the Council of Foreign Ministers--which, in its plans concerning the Hungarian peace treaty, wished to propose substantially the 31 December 1937 borders as final--reveled in its declaration of 7 May 1946 that the aspirations off the Ferenc Nagy government did not enjoy the support of the victorious allied powers. Yet, the leaders of the coalition parties drew divergent conclusions from this. The Communist Party strived primarily to safeguard the nationality rights of the 3 million ethnic Hungarians who would remain beyond the country's borders. The Smallholders Party, on the other hand, took up the challenge of territorial solution. Accordingly, [the Smallholder Prime Minister] Ferenc Nagy decided to visit Washingtgon, London and Paris, but the discussions of government delegations in Western countries (between 12 and 25 June 1946) did not promise to support the Hungarian positions, specifically those concerning territorial claims, at the peace conference. To be more precise, the United States would have been willing to support the Hungarian claims only if the Soviet Union would have done likewise.



The failure of Hungary's delegation in the West did not only make uncertainty and confusion to prevail in government circles, and especially in the Smallholders Party; it also meant that Hungary's foreign policy aspirations became isolated, and the country's relations with the neighboring countries perceptibly deteriorated. Thus, primarily because of the sins of the [prewar] Horthy regime, Hungary bore the heavy contradictions of the coalition government, was substantially isolated and more or less disillusioned as it went to the conference that was supposed to finalize the terms of peace.

It took the territorial and political committee that dealt with the Hungarian peace proposal on 28 August 1946 only minutes to decide Transylvania's fate. The reason: There was no one among the members of the committee who would speak in support of the Hungarian petition. By contrast, the Romanian territorial and political committee, which met at about the same time, decided--after four and a half hours of procedural debate--that the representatives of Hungary and Romania would be given a chance to talk about Transylvania before the joint meeting of the two territorial and political committees. At the joint meeting, which took place on 5 September 1946, the victorious allies also rejected Hungary's territorial claims--which in the meanwhile was reduced to 3,000 square kilometers--and re-established the Romanian-Hungarian border existing before the Second Vienna Award.

After this, the Hungarian territorial and political committee devoted its attention to the issue of enlarging the "Bratislava bridge-head," which the Czechoslovak secretary of state demanded on military grounds, and for which the Soviet deputy foreign minister argued as an urban development necessity, as well as the issue of unilaterally expelling 200,000 ethnic Hungarians from Czechoslovakia over and above the number determined by the population-exchange agreement. In the end, the committee modified the 1937 border in favor of the petitioning country by awarding three Hungarian-populated communities--Dunacsucs, Horvatjarfalu and Oroszvar--covering an area of 43 square kilometers to Czechoslovakia. Since neither the members of the committees nor the two interested parties could not agree on the issue of unilaterally expelling 200,000 Hungarians, the victorious powers inserted the following passage into the Hungarian peace treaty: "Hungary shall conduct bilateral discussions with Czechoslovakia for the purpose of settling the issue of those ethnic Hungarians residing in Czechoslovakia who are not transferred to Hungary under the provisions of the 27 February 1946 population exchange agreement. In the event that no agreement comes into existence within six months after this treaty takes effect, Czechoslovakia will have the right to bring the issue before the Council of Foreign Ministers and ask the Council's assistance in achieving a final solution."

The 6 October 1946 decision brought a substantial change to the issue of Hungarian-Czechoslovak population exchange. The modified proposal was certainly more favorable for Hungary, at least in comparison to the original proposal. In principle, opportunities for unilateral Czechoslovakian expulsion have been eliminated, and compelled Czechoslovakia to seek a solution through bilateral discussions. The United States and Great Britain had the greatest role in rejecting the original proposal, but a unanimous decision could not be passed without the concurrence of the Soviet Union.

Hungary's economic obligations were discussed by the Balkan Economic Committee. This committee had no intention to listen to the Hungarian delegation, and in the end they did not do so on any issue. Thus, the Hungarian delegation frequently obtained information concerning the proceedings before this committee only afterwards and indirectly. The United States proposed that, in order to help Hungary economically, the country's States proposed that, in order to help Hungary economically, the country's reparation obligations be reduced from 300 to 200 million dollars, but the Soviet Union opposed this, pointing out that if the United States wished to alleviate Hungary's economic difficulties, it should have returned those Hungarian properties that were in the American zones of occupied Austria and Germany. After this, the United States was no longer able--without loss of prestige--to insist on its original proposal, according to which Hungary would have to pay 100 percent war reparations to foreign citizens, especially in view of the fact that the Soviet Union proposed only 25 percent reparations. Primarily because of Great Britain's resistance, the Soviet proposal could not be passed by the committee, which finally settled on 75 percent reparation level, proposed by France. The committee vetoed the proposal concerning the returning of Hungarian goods taken abroad during the war. The same fate was accorded the Hungarian claim of several hundred million dollars against Germany, while German claims were upheld as part of the debt owed by Hungary to the Soviet Union.

The military committee of the peace conference took less than one hour to settle all military aspects of the Hungarian peace treaty. According to its terms, Hungary's land forces were limited to 60,000, and the size of its air force to 5,000 persons.

The general assembly of the Peace Conference voted on the proposed Hungarian peace treaty on 12 October 1946. However, even that body could not settle every issue completely. Thus, after the Peace Conference ended, it was up to the November session of the Council of Foreign Ministers to define "the text" of the treaty and to decide several unsettled issues. By the time the New York session of the Council came around, Hungary

was interested only in economic points and the issue of Danube navigation. The Council of Foreign Ministers reduced the amount of reparation to be paid to foreign citizens to 66.5 percent.

The Hungarian peace treaty, signed on 10 February 1947 in Paris, was strict and burdensome. Even after having been reduced from 75 to 66.5 percent, the amount of war reparations presented a heavy burden for the national economy which was just being reconstructed. Moreover, the peace treaty obliged the Hungarian government to turn over goods and cultural values, the origins and ownership of which was at least debatable. When it came to the nationalities, including of course the Hungarians, the treaty considered their treatment the domestic affair of those countries who now had jurisdiction over them. The omission of clarification and regulation of nationality issues could not be balanced by the declarative recognition of human rights and the acceptance of the UN's founding charter, because nationalities could have taken advantage of those rights only if certain basic nationality rights, such as those of language-use, would have been legally recognized and defined. In any event, this was necessary because the Peace Conference made its decisions without even once asking the wishes of the population group involved: in which nation would they like to reside? Moreover, even before the Peace Conference was over, several member nations openly rejected the UN Charter's applicability to nationalities.

At the same time, together with its shortcomings and contradictions, the signing of the peace treaty was an important milestone for the independence and freedom of the Hungarian nation. This was the document that assured international recognition for the people's republic, and laid the foundations for international cooperation. In addition, the anti-Fascist and democratic prescriptions of the peace treaty--similar to those of the armistice--created a favorable global background not only for the preservation of popular democratic achievements, but also for their further development.

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HUNGARY

POLITICAL

UNDEFINED OWNERSHIP CONCEPT IN SOCIALISM SEEN AS CHIEF OBSTACLE

Budapest VALOSAG in Hungarian No 4, 1987 pp 1-7

[Article by Pal Guban, Emil Cservek: "About Ownership"]

[Text] The process of economic management reform includes disruptions and contradictions which have significantly changed the relationship between the state and the enterprises. The lead role has shifted from plan directives to economic regulations, the latter, however, despite a number of modernizations and improvements, are not responsive to the multiple demands faced. For this reason a sense of uncertainty and a wait-and-see attitude became characteristic of economic management, enterprises as well as of society. Traditional reform thinking too has reached a low point--it seems as if the possibility of any further regulatory change had been exhausted. While pondering further possible directions in which to proceed, the present situation prompted us to transcend the regulatory system and to find the presumed deeper roots of the problem. Thus we reached the issue of social property, and the authority to deal with that property. The following is an analysis of some aspects of that complicated issue.

Looking back at post-1968 economic policy, it is appropriate to state that the countless regulatory changes did not produce the desired results. This then prompted the following question: whether the high or low level of efficacy in economic performance depends solely on the regulatory system and on consistent compliance by enterprises with that system? Let us take a brief detour before answering this question. Once we attribute such great significance to regulations, it is logical to say that the apparent problems also must be traced to the imperfections of these regulations. Indeed, this has happened in real life: in the aftermath of 1968 the professional press has dealt a great deal with the effects of regulations. Its critical fire power focussed on the worst-functioning regulatory elements and besieged economic management so that it work out a more compatible system. Following waiting periods of varying length, central management abided by these critical observations and tried to

implement the recommended changes. But in spite of all the changes, the regulatory system remained imperfect--at best the tensions were shifted from one area to another. The situation was further complicated by the fact that the post-1973 global economy presented a new, dangerous kind of challenge to national economies.

Neither did the events since 1968 provide enough time for the formulation of a relatively stable, smoothly functioning regulatory system. For this reason we feel that from the viewpoint of the economy as a whole, the regulatory system is not the sole matter at issue. Efficient and effective economic management depends also on other conditions--these conditions go beyond regulations, and are more determinative than whatever regulatory system exists. Therefore, in response to our earlier question regarding the uniqueness and the deterministic nature of regulations, the answer is "no".

#### A Hypothesis Concerning Our Malfunctioning Economy

Why would an economy, in which the basic means of production are part of social property, not function well? There is already a substantial body of literature concerning economic functional disturbances, but so far insufficient attention was paid to the issues of property and ownership (even though KOZGAZDASAGI SZEMLE has presented a debate concerning property issues.) (Footnote 1) (The debate was prompted by a book "Indirect Economic Management--Enterprise Production And Property Rights" by Tamas Sarkozy--Akademia Press Budapest 1973. The debate lasted for years and involved a number of participants.)

At first glance we could say that an economy of that kind will not function because the relationship between the regulators (the state) and the regulated (the enterprises) is not sufficiently clear-cut. In this system of relationships the most important, yet most conveniently unresolved issues pertain to property and ownership. At the abstract level of the Constitution--our most important legal authority--the concepts of property and ownership are clear-cut: the basic means of production are the property of society, and all property rights are represented by the state, in the name of society. (Footnote 2) (Article 6, Section 1: "... the foundation of the economic order is the societal ownership of the means of production". Article 8, Section 1: "State property constitutes the property of all the people". Constitution of the Hungarian People's Republic, Kossuth Publishers 79.) There are no fixed points beyond these statements. One cannot, for example, unequivocally state, through which of its organs the state exercises and enforces the functions of ownership. Based on several decades of experience one may say that the various ministries are not suitable for the performance of these functions, nevertheless it is the ministries that have made representations and continue to make representations to the effect that they are the owners. Prior to the introduction of new forms of enterprise management the ministries were the "genuine" owners--after all, it was the ministries that appointed enterprise directors. Such appointments constitute an exercise of the legal powers of proprietors. Under new forms of enterprise management the "person" of the owner is even more ambivalent. According to the Constitution, the enterprises and the enterprise collectives cannot be the owners, "they" are only the users of social property entrusted to them.

Neither would the unequivocal, satisfactory settlement of ownership rights mean that everything had been settled with respect to property. It is for instance the owner's right to determine the manner and purpose of the utilization of his assets. By virtue of its terms, social property must be put to use in the interest of society as a whole. But who could define today what the interests of society are? It is unlikely that an interest of this kind will ever be defined with ease. Even if one assumes that a single societal interest for the utilization of property could be defined, one question remains: who will represent that interest? We may want to think that Parliament, the highest popular representative body would be the representative. One would have to admit though that within today's constellation Parliament would not be suitable for this task. In spite of some changes in a positive direction, the Parliament's authority remains mostly formal.

The real users of the means of production that are part of social property, are the enterprises. Through regulatory actions, the owners' representative (the state) endeavours to stimulate the enterprises for the most efficient utilization of the production factors entrusted to them. In this context the adequacy of regulation assumes a high degree of significance only if the issues pertaining to ownership have been settled adequately. Let us assume that these issues have indeed been settled. If they are settled, what is the interest of the enterprises (which, as we know is not homogenous either)? The enterprise is interested in maximizing profits and to thus maximize the wages of its workers. On the other hand, society's interest is that the enterprise's assets serve to maximize the welfare of the community. For this reason enterprises serve the interest conveyed through regulations only to the extent that enterprise interests prevail. It is the regulator's responsibility to assure that regulations work in tandem with enterprises and not against them. If regulations work against enterprise interests, a counter-interest appears in the business sphere. (There are so many examples for the latter situation that it is not worth referring to specific instances.) This then can produce the undesirable situation of mutual lack of confidence. The frequent and increasingly stringent regulatory changes of the recent past have lead to such situations.

Increasing the stringency of regulations could be perceived as a positive trend only if the increased stringency serves the interests of progress (e.g. structural transformation.) But the increased regulatory stringency of the past several years fundamentally served the purpose of an increased centralization of the societal net income. This became necessary because enterprises and trades that lost money had to be kept alive artificially. Year after year, this situation placed increased burdens upon the state budget. Regulatory changes work to the detriment of profitable enterprises, while at the same time provide an undeserved protection to losing enterprises. In this way regulations cannot fulfill their original function, because to a large degree they perpetuate inefficient activities. For this reason, in reality it is not the real interest of the owner (society) that prevails, instead some partial interests (losing enterprises, special trade interests) become dominant.

In its capacity as the user of the means entrusted to it, the enterprise has only a short-term interest, because an enterprise is more interested in making money than in increasing its net worth. On the other hand society, in its

capacity as the owner, is not only interested in the efficient utilization of the means of production it owns, but is at least equally interested in the growth of these means of production. Thus far, increased enterprise net worth did not appear as an independent goal, and for this reason the economic regulators did not orientate the various business units in that direction. Moreover, during the most recent restrictive years, accumulations were subject to various surtaxes, and, on occasion, to after-the-fact withdrawals. This presents a paradoxical situation. It is being viewed as a "normal" enterprise endeavour to utilize the means of production with as much profit as possible, and to be less interested in the growth of those means of production. What seems as incomprehensible, however, is the fact that the state, in its capacity as the owner's representative provides a regulatory system which forces enterprises to adopt a short-term perspective, and to conduct their affairs as if there were no tomorrow. It would, of course be understandable that in certain time periods accumulation is restricted, but under no circumstances can such restrictions be continued for several long years without depreciating production capacities, and by virtue of such depreciation, violating the long-term interests of society.

The above paradox has yet another side. Socialist experiences thus far show that it is primarily the enterprises--in other words the users of the means of production--which endeavour to increase their net worth. (Footnote 3) (It is well known that the overall size of an enterprise--net worth, number of employees, value of production, etc.--is a definitive factor with respect to bargaining positions and the influence exerted by enterprise managers. For this reason growth is in the primary interest of enterprise management, and only indirectly does it become the immediate interest of the entire enterprise collective.) This phenomenon too demonstrates that under socialist conditions the circumstances that attend ownership, the exercise of ownership rights and the use of property, i.e. the means of production, are not settled. We believe that this situation is the fundamental cause for the low rate of utilization of our factors of productions. Accordingly, ownership presents something more than a theoretical issue.

Fundamentally, socialism was brought about to counter the previous system, i.e. capitalism. (Footnote 4) (Today's capitalism, however, presents a profoundly and fundamentally different challenge.) This was satisfactory from an ideological viewpoint--i.e. the recruitment and revolutionary incitement of masses so that they come into power. Following the victory of a socialist revolution, however, the task that presents itself is the formulation of a new kind of society. To accomplish this, it is not sufficient to interpret socialism as the counter-point to capitalism. In order to find the form and the framework of social property that replaces private property, we must first define positively the essence of socialism. The liquidation of the private ownership of the means of production is an indispensable condition for bringing exploitation to an end. We must recognize, however, that by creating social property, not only private property, but also the direct relationship between owner and property had come to an end. The indirect character of the relationship between property and the owner thus produces a new situation. We have yet to find the most appropriate functional framework for the new type of property, and its system of relationships. (Footnote 5) (Nothing suggests that there are salutary solutions for these problems. Tibor Liska's workings

are interesting and nouveau in this respect. The results of Liska's research are presented in his studies and in interviews. Liska: "The socialist enterprise" sector's "planned market", in "Kritika Es Konceptio", Magveto Publishers, Budapest 85 pp 117-187; Liska: "Attempts For Internal Enterprise With Entrepreneurial Socialism" MOZGO VILAG No 3, 86 pp 81-93; Zoltan Farkas: "Reform And Attempt", an interview with Liska MOZGO VILAG No 3, 86 pp 67-81; Andras Korossenyi, Sandor Turei: "Liberal Influences Affecting The Theory Of 'Socialist Enterprise'" a conversation with Liska MEDVETANC Nos 2-3, 85 pp 277-295; Writings by Rezso Nyers, Jeno Barsony, Istvan Siklaky, Lajos Bokros, Janos Kornai, Ivan T. Berend, Marton Tardos concerning Liska's workings, in "Kritika Es Konceptio", Magveto Budapest 85.)

The contradictions and the paradoxical nature of the presently functioning system of social property does not render itself as a settled solution. It lacks theoretical foundations and basically serves the interests of power and management. (Footnote 6) (Ivan T. Berend points out this problem too in "Reform, Economy, Ideology". A conversation between Berend and Andras Sylvester VILAGOSSAG, Nos 8-9, 86.) And the concept of social property itself is highly abstract--it has no specific content. (Footnote 7) (Prior to the publication of Balazs Hamori's book, all political economics textbooks presented socialist property relationships in a simplified and unsatisfactory manner, if one considers the role and significance of such relationships. Hamori: "Political Economy 3. The Theory Of Socialist Economics" Economic and Legal Publishers, Budapest 85.) And this is not merely a theoretical, scientific problem, it also has serious practical consequences. Among these: within socialist society the basic means of production are part of social property, therefore the citizen is simultaneously a worker and an owner. Political economics textbooks put it this way: in socialism, the person of the worker embodies the dual function of working, as well as of being the owner. This represents something that from the viewpoint of owners exceeds the conditions of capitalism. But could we say that employees really consider themselves as owners? Sociological studies and everyday experience suggest that people do not feel that they are the owners. (Footnote 8) (Lajos Hethy: "Plant Democracy And The Workers" Kossuth Publishers, Budapest 80; Hethy: "Economic Policy And Interestedness" Kossuth Publishers, Budapest 83; Csaba Mako: "Work Process--The Force Of Social Conditions" Economics and Legal Publishers, Budapest 85.) Even active workers are viewed by enterprises as employees, and only on very rare occasion (or perhaps never) do enterprises seek the workers' opinion in their capacity as common proprietors.

We did not even bring up the matter of inactive citizens not taking advantage of their rights as common proprietors. Accordingly, the essence of the situation is that by law the citizens own the means of production, but at the same time, to date the practical conditions for asserting these rights do not exist. This factor hinders the citizens' ability to identify with socialism and this lack of identity also produces economic contradictions.

As the owners' representative, the state is the de facto owner of the means of production. Consequently, the state is the most important entrepreneur. State paternalism and the high degree of concentration of the societal net income follows as a result. The socialist state plays the role of the "provider" both with respect to enterprises and people--it "provides", for instance,



various financial resources to enterprises, and social subsidies to citizens. In this context the state is a "provider of graces", whereas whatever the state can provide was produced not by the state, but by society. Accordingly, the state at best redistributes and returns. The following statement is false: "the state supports the enterprises as well as consumption by the people."

Hereinafter we will consider only the relationship between the state and the enterprises. As long as the state controls the great bulk of societal net income, under the direct management system enterprises will be fully financed by the central budget, and will be partially financed thereafter. The opportunities of expanding these resources fully or partly hinge upon the state's scheme of redistribution. The state, however, cannot sense the limits of expansion, therefore its policies constitute over-commitments, and those over-commitments were even greater prior to 1968. Accordingly, the financial limits of enterprises are flexible. (Footnote 9) (Janos Kornai analyzed the functioning of the socialist economy in his foundation work "Shortage" KJK Publishers, Budapest 80.) This then produced what has become a virtually constant appetite for investments funds, one that cannot be supported by production factors. The economy functions as an economy of shortages, and this is the "normal" condition of the socialist economy. This "normal" condition, however, is by far not satisfactory from the viewpoint of fulfilling normal demand. Only the satisfaction of demands can be perceived as the fundamental catalyst of production. In the final analysis, the 1968 reform had as its aim the liquidation of shortages. As one of its most pronounced changes, it established an enterprise interest in profitability. This change, however, did not produce all the anticipated results. Seeking the path toward least resistance, the enterprises reacted in a "monopolistic" fashion, instead of viewing the satisfaction of demand as the means for accomplishing their own goals. They were able to do so, because enterprise profit motivation came about not as a result of market controls, but in the absence of market controls. (It was possible to establish profit motivation through provisions of law, but laws cannot create markets.) And it is for this reason that profit motivation may produce results that are to the detriment of consumers and of society as a whole. (Enterprise endeavours to gain "indecent" profits cannot be successfully remedied through bureaucratic means. The most appropriate method for this is a "consumer's" market, which does not exist, however!) Accordingly, the contradiction between societal interest and enterprise interest has survived. Only the manner in which this relationship presents itself has changed.

In spite of reform and a further development of the management system, enterprises are still not interested in the maximum satisfaction of consumer demand; it is not in the enterprises' vital interest to accomplish continuous technological and technical renewal. Thus their backwardness, as compared to developed countries, continues to increase; as a result of the above our position in foreign markets is deteriorating; both a continued shortage and a current, stagnant inventory simultaneously characterize the economy; in an economic environment of overly high demand, enterprises are not interested in thrifty management because their increasing expenses can be easily reimbursed from the consumer's pocket.

On occasions when there is a shortage in production factors or in consumer goods, some principles of the socialist economy trigger an administrative distribution of these factors or goods by the state. Since interests have not emerged and have not been successfully represented so far, interests and administrative distribution cannot clash. For this reason the beneficiaries of administrative distribution will include some firms that do not deserve to be among the recipients. These, nevertheless possess sufficient power. This situation too increases the need for subsidies, which in turn can be financed only through a renewed centralization of income. As a result, the process of redistribution will constantly increase, but the principles and the size of the redistribution process are largely unknown to the public. From time to time, these "principles" change their meaning, and not always in a forward direction. The excessive growth of redistribution brought along a situation in which the fiscal sphere assumed an unprecedented role since 1979. This, in turn renders enterprise decisions as uncertain.

Our often sluggish and malfunctioning decision-making system too reflects the lack of clarity regarding ownership issues. This is so by "necessity", since it is the owner's right to make decisions. But just who the owner is has not been clearly defined. For this reason more than the necessary number of government organs simultaneously participates in decision-making (thus the sluggishness.) There are, however, only a few decision-makers who would be clearly responsible for the decisions and could thus be held accountable for the consequences.

Economic management reform was implemented in several waves, and is not complete even as of today. Virtually without an exception, the further development of the mechanisms revolve around the changing role and relationship between the state and the enterprises. Thoughts concerning economic reform, however, have so far neglected to deal with the individual. Reform has produced virtually nothing new regarding the legal capacity of the owner-manager. His legal status as an employee has not changed, and his awareness of ownership could not increase because not even economic management reform provided a real content to the category that deals with property and ownership. The foundations of issues pertaining to ownership were left untouched by reform. The worth of the individual has not appreciated, even though reform cannot be perceived exclusively as the "internal affair" of the state and of enterprises. It is the individual who carries the seeds of change. It is the individual who "makes things happen" and for whom all this is happening. We must not assume that the individual or society will manifest spontaneous enthusiasm about something new while his or its role in the process, and the advantages to be derived from the process remain unclear. The necessity of reform has been supported only by practical economic and political reasons (which are valid in and of themselves!) nevertheless the human side of the process, the effect of reform upon human beings remains unclear. And since reform has been, and continues to be fundamentally an affair of the state and of enterprises, it is no wonder that further developmental measures have been exhausted in the process of changing the regulatory system, and to a small degree the system of management and direction. In order to accomplish an appreciation of the worth of the individual, in order to permit the human potential to evolve, the working man must be liberated from his present role of being a mere "cog-wheel". In the interest of accomp-

lishing this, large plants should utilize management practices that have been proven effective internationally in small plants: to internally structure plants to the extent permitted by the internal division of labor. By using this management technique we could come closer to the individual, keeping in mind the principle that the individual is the real subject of motivation. In order to provide more successful motivation, however, we must introduce an enriched incentive system. So far the undifferentiated financial means constituted the bulk of the incentive system, these, however, did not produce the desired effects because of their undifferentiated nature. If we follow the above described path we will reach the issue of work ethics, without which there is no production, no quality, no efficacy, etc.

Reform should be turned into a social cause and a social program. This, however, presumes that the changes should not be brought about solely by political and economic experts. In the course of further reform developments it would be necessary to rely more upon the theoretical achievements and findings within sciences related to economics. Having their own value systems, these sciences would be helpful in accomplishing an interdisciplinary approach to reform, permitting politicians and scientists to find the appropriate, long-awaited answers to unresolved issues. We should also find a method by which society as a whole could debate the merits of possible alternatives, prior to final decisions.

#### The Practical Problems Of Our System Of Ownership

(1) Societies founded on the principle of private property are not confronted with problems when exercising rights of ownership. In these societies it is clear that whoever the owner is has a legal right to perform the functions of the owner and to use his property pursuant to his interests. Under that concept of ownership, as for instance in capitalist systems, it presents no difficulty if the ownership of capital and the actual functions are divorced from each other. In such cases the manager acts as the owner's agent.

Exercising the rights of ownership under a socialist system, however, becomes complicated because the means of production constitute social property. Here too we know who the owner is: collectively all the citizens of a given country. It is this collective ownership that presents the issue of how the citizens can exercise their rights of collective ownership. We do not yet have the appropriate answer to this question. Up until 1984 the ministries exercised the rights of ownership (establishment and discontinuation of enterprises, appointment and compensation of enterprise directors, etc.) Nevertheless it is appropriate to ask: to what extent an organ of state power (the ministry) is suitable and authorized to exercise ownership rights. In modern societies the classic function of ministries is professional guidance and not the exercise of ownership rights. The histories of socialist economies prove that ministries are not suited to perform ownership functions because such functions are alien to bureaucracies.

Beginning in 1985, the enterprises within the competitive sphere turned into undertakings managed by enterprise councils, alternatively by management elected by the workers. By virtue of this act the ministries yielded the authority to exercise ownership rights to the enterprises. From a legal

standpoint, however, this solution remains problematic, because the means available to enterprises are part of the social property, while under the new management system they suddenly qualify as group property. In our judgment enterprises are not authorized to represent themselves and to act as exclusive owners, because they are only the users, and not the legal owners of the means of production. (Footnote 10) ("Section 9. State enterprises and business organizations independently manage the assets entrusted to them, consistent with the general interests of society and with the methods and responsibility specified by law.") But if we accept the enterprises as rightful owners, what right do governmental regulatory authorities and other organs have to require reports from enterprises, and to hold accountable enterprise collectives as to the manner in which they utilize their assets? The appearance of new forms of enterprise management also prompt the question of whether these changes represent a substantive step forward for economic management, as long as the status of enterprises within the people's economy remains unchanged. The overall authority of enterprises has not increased at all, only the circle of decision-makers has changed.

(2) Uncertainties surrounding ownership rights also create difficulties with respect to capital allocation. Now that we recognized the significance of the automatic nature of the above mechanism after so many decades, we must provide conditions under which this mechanism can function, such as the market valuation of production factors. In our view, however, this cannot be brought about smoothly either, because we cannot find the "real" owner. It is the interest of the owner to invest his assets so as to maximize profits, and to quickly withdraw capital from investments that do not permit him to maximize his profits. All these processes are difficult to realize unless we know who or what the owner is, and who decides. Are the ministries or the enterprises the decision-makers? Whose interest is it to ensure the maximum profitability of capital investments? If it is society's interest, to what extent can we consider society as an owner who makes decisions? If someone makes decisions for society, how can we be assured that the decisions are in the maximum interest of society? For the time being, there are no answers to these questions. The risk of making decisions is further increased by the artificial pricing system, which distorts the value of real societal investments and disorients decision-makers.

(3) Many of our enterprises have been loss operations for years, or have functioned at low rates of efficiency. This places a rather heavy burden on society. In our view the unresolved issue of losing enterprises too is related to the issue of ownership. As long as the "owners" and the users of the means of production are not directly interested in the profitability of those means of production, efficacy is degraded into a low priority concern. Decision-makers are captured by the dangerous illusion of having access to a resource, part of which can be used for the long-term maintenance of inefficient operations. These resources come about as a result of the large-scale centralization of the net societal income--except for the fact that there is no way to stop on this downward slope. Confidence in the certainty of state subsidies makes the beneficiaries complacent and presents economic management, and mostly society with a no-choice situation. Summarizing the above reasoning: in the absence of conditions providing for ownership there is no efficacy, and without efficacy one cannot discuss management in the real sense of

that term. One may only consider the utilization of production factors, in many instances the wasteful utilization of these factors.

(4) In the event that the fundamental means of production are part of social property, workers possess both the right to work and to exercise their ownership rights. In this case--in theory only--their income should consist of two parts: (a) an income commensurate with work performed, and (b) a share of the profits based on ownership rights linked to the means of production.

In today's practice, however, one cannot say that these two sources of income are truly a part of the active workers' income. In earlier days (beginning in 1958) they introduced a profit-sharing system. By now that system has gone down the drain. At the time it functioned, profit-sharing depended on the work accomplishments of the collective, even though workers were not the collective owners of the means of production within their respective plants. They were the collective owners of the aggregate means of production of the entire people's economy. Accordingly, if we view profit-sharing as income derived by property owners, it should be paid out of the net income of the people's economy. On the other hand, only the enterprise workers were entitled to profit-sharing, while every citizen is part-owner of the assets that constitute social property. Accordingly, income from profit-sharing should have been provided to each citizen as a matter of fundamental right.

We believe that the time has come to resolve the problems related to ownership in a satisfactory manner. This can be accomplished through appropriate scientific research. By settling these issues the socialist conditions of production will become more clear and more unequivocal, and some heretofore dormant energies will be activated. Just how great a driving force is implicit in settled, unequivocal conditions of ownership can best be seen from the evolution of the second economy in Hungary and its significant role in national income production that was achieved within a short period of time. (Footnote 11) (Ivan Illes presents noteworthy data in this respect in his study "Structural Changes In The Hungarian People's Economy--1979-1985" TERVGAZDASAGI FORUM No 1, 85 pp 3-13.) Namely, within this sector of the economy it has henceforth become clear who the owner is (in household farms, civil law associations [PJT], business associations [GMK], and in the lease of units within the hospitality industry and of retail outlets, etc.) Everyone knows what the owners' interests are, and what kinds of results the owner wishes to accomplish by making use of his own assets or the lessors' assets. In addition to its settled relationships of ownership, the success of the second economy can also be attributed to its decisive integration into the marketplace, from the beginning.

The intent of this study was to point out the broad spectrum in which the negative effects of unresolved issues of the ownership of social property exert themselves. As a result of these problems, under socialist conditions citizens are unable to rise above the status of being wage-earners, and to sense, by virtue of their own situations, that they are part of the collective ownership of the means of production. This situation is accompanied by economic disadvantages and problems in the sphere of consciousness, in terms of one's identity as a citizen.

A significant amount of assets and knowledge has accumulated during the several decades of socialist construction. Our society cannot be indifferent concerning the manner in which we put to use these assets and knowledge, the outcome of this use, and the role we assign to our citizens in ordaining this use.

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HUNGARY

POLITICAL

HORVATH, POZSGAY, NAGY SUPPORT INDEPENDENT YOUTH GROUPS

Budapest IFJUSAGI SZEMLE in Hungarian No 3, 1987 pp 3-11

[Article: "Questionnaire on Youth Community Initiatives"]

[Text] Three questions concerning self-initiated youth organizational endeavours were posed to the chief officers of the most significant political organizations in Hungary. The replies of MSZMP CC secretary Istvan Horvath, KISZ CC secretary Imre Nagy and PPF National Council general secretary Imre Pozsgay are printed below. (Footnote: we forwarded our questions to Sandor Nagy, secretary of the National Council of Trade Unions [SZOT] also. Nagy claimed that he was preoccupied with other business and did not respond.)

[Question] It is commonly known that various organizations provide important forums for the politically sound integration of youth into society. At this time we do not wish to discuss the traditional organizations which have a nationwide network. Instead, we have in mind smaller organizations which come about in response to local needs and initiatives. In your judgment and experience, what kinds of new needs and new opportunities helped the revival of local, spontaneous organizations?

Horvath: First, a word concerning your methodology. You requested the officers of four political organizations to express their opinion concerning the necessity of, and opportunities for local youth initiatives. I approve of this practice, because it is in this way that the several aspects of an issue can be seen and analyzed. This peculiar type of "competitive bidding" offers a good chance for the full discussion of issues, and for the comparison of similarities and differences between the viewpoints of various political organizations. I believe that the sure winner of this competition is the reader. Even though through the written word, the reader is able to participate in political dialog.

Regarding the substantive issue, it is my judgment that the combined effect of several factors contributed to the evolution of an environment that favors spontaneous initiatives, self-inspired organizational work, and within that the related youth activities.

The present state of our political system is probably the most significant factor. During the initial phases of socialist construction the then prevailing political trend quickly pulled the rug out from under small and large organizations which did not conform to the only model viewed as leading to salvation. That model was a simplistic and centralistic one. Just as with respect to other individual action, a low value was attributed to individual political initiative. At the same time an over-priced central "wisdom" was imparted by a few--presented in the more palatable term of "collective wisdom". All this signified not only a political style, but also showed a lack of political confidence in the great masses of people. In terms of organizational life the consequence could be foreseen. In response to political attacks and administrative actions, organizations that were not part of the preconceived--and let's spell it out: bankrupt--design, shrunk and ceased to exist. This fate confronted traditional organizations, as well as those that emerged during the effervescent period following liberation--irrespective of their political content. And this applied to youth organizations too. These activities were (self)-justified both in terms of ideology and ethics on grounds that only centrally controlled organizations represented the interests of people. This was true with respect to the essence of our social transformation, except for the fact that in terms of the Marxist-Leninist ideal of social self-governance, the conceptual separation of the idea of "for the people" from that of "by the people" was alien. For three decades now, the combination of these two concepts has prevailed as the political standard, nevertheless the standard has not become a matter of fact practice, at least not to the extent deemed desirable.

It is for this reason that I feel that the developmental trend of our society that is building socialism points toward the fulfillment of democracy and self-governance. Democracy and self-governance, however, would be hard to perceive solely by virtue of official institutional actions. They cannot be perceived without the active participation and sharing of responsibility by citizens, and without their autonomous action in public life. It is this consideration that necessitates the support and stimulation of individual initiative, and of various forms of self-inspired community action.

Equally it is a fact that in today's complex world the need for belonging to human communities, and the role of such communities has increased. There is an increase in the number of personal friendships that has come about in homes and at the workplace, and in the number of activities that are based on common interests and on common occupations. The utilization of the energies produced by these social activities is in the interest of both the political sphere and of the citizenry.

Quite frequently I notice a differentiation between "official" organizations and "spontaneous" organizations. I wish to emphasize that the "either-or" attitude is characteristic of both sides. I do not believe that there is a basis to make such distinction. This would be a qualification that suggests



prejudice and would be misleading. I wish to state positively that I can only accept an "also-also" approach. The development of our society requires the further building of traditional organizations, just as it needs to support and to utilize local initiatives in the interest of realizing societal goals. Regarding our youth, the Party has recognized and emphasized this fact already in the early seventies. The Party's position in those days defined the right of our young to have an opportunity to become active in neighborhood clubs, specialized groups, handicraft shops, hobby groups, orchestras and cultural groups, in addition to being active in developing KISZ according to the Party's program. Nevertheless the fact remains that during the past decade and a half, actual changes amount to less than what they should and could have been.

Lack of courage, an abstinence from anything that is new, complacency, and even a strict division of labor among the young played a role in bringing about this situation. A number of initiatives and ideas proposed by the young fell to the wayside as a result. This is creditable to a perspective by which any and all activities were supposed to receive an official label. And the KISZ organizations, which willingly or unwillingly took control of the above mentioned initiatives, became over-burdened and often lost their character. This is why the October 1984 CC position concerning youth policies was so timely. It restated its thesis of the seventies: the Party expressed its support of the creation of youth organizations that exert efforts in the interest of societally useful purposes under appropriate political direction. The party endorsement also expressed a need for the oversight of the legality of the actions of such organizations.

In summary, I feel that beginning in the mid-eighties, all social conditions, a real political will, as well as the citizens' needs have come together. This permits the evolution and revitalization of local youth initiatives and their spontaneous forms of organization. It is our joint task and responsibility to see to it that good use is being made of this opportunity in the interest of activating the growing generation with respect to its role in politics and in public life.

[Nagy] Over the past several years we frequently discussed the place and role of local, spontaneous organizational work and of small communities of people. By virtue of these discussions we often feel that we are dealing with a new phenomenon, even though this is not a new phenomenon. Small communities and spontaneous organizations did exist before, on the other hand, even today, their number is not really great. It is the relationship between these organizations on the one hand, and the party, the state organs and the "large" social organizations on the other, that is fundamentally new. In contrast to a strong "integrationist", "incorporating" viewpoint espoused earlier, today's characteristic watchword is assistance, tolerance and respect for the independence of small organizations. We practice the meaning of these words in an increasingly large number of places, in other places we at least reiterate the words.

Why this change in political viewpoint? First, the unavoidable inflexibility, the strong directional attitude, the overly formalized structure and bureaucracy that characterizes large organizations turned away a segment of our youth

from these organizations. In general, however, this turning away is not accompanied by a discontinuation of membership status (e.g. KISZ, trade union,) but rather with a relaxation of the emotional-political ties with the organization. As a result of a disappointment everything becomes overstated: small things in the context of large organizations, spontaneous matters in the context of organized matters, and independent, self-motivated actions in the context of directed action.

This effect is reinforced by the fact that there are countless fields of youth activities which are difficult or impossible to accomodate within the traditional structure of large organizations (e.g. peace groups, environmental movement.) It is also worth mentioning that a significant part of leisure-time activities has discontinued at schools and workplaces, and was resumed in homes.

Having recognized these proceses, the Party CC has made a decision in its October 1984 position concerning youth policies. According to the CC, small communities of people must play an important role within a more organized mechanism designed for the young, and that the establishment and functioning of these groups must be assisted and encouraged. This new view was particularly emphasized with respect to political work that lay ahead and was aimed at teenagers. It was and is with respect to teenage political work that in the opinion of many, KISZ was supposed to integrate everything, and that everything spontaneous would be suspect. Stated properly, it is with respect to teenagers that we should have taught and prepared to mold a far more sophisticated, more diverse organizational model for public life.

Pozsgay: Indeed, the spark that catapulted the need for these organizations has never faded, but it was dormant for quite some time. In order to attend major social transformations, in order to implement the revolutionary initiatives that impact upon the fate of millions, there is a need for vertically structured central organizations. The endeavour to centralize was so successful that in the end any local or citizen initiative became suspect. The new system required the commitment of millions. So far, so good. But in the meantime the new system frequently became offensive and impatient, it involved itself in individual lives to an extent far greater than what would be permissible, and unnecessarily demanded an open testimony as to each individual's view regarding political issues. We are familiar with the consequences: in too many instances pretense replaced the true testimony of commitment, and we have seen the morally destructive effects of this.

The necessity of further developing socialist democracy also made us recognize that in order to truly activate society it is indispensable to have citizen initiative. Citizen initiative has yet another favorable outcome: it renders the existence of strongly centralized, national organizations more authentic. In other words, the Party, the PPF, KISZ, and the trade unions can really prove their intent to democratize only if they do not manifest opposition to local and spontaneous associations, and instead view these organizations as a resource.

Unquestionably, it is democratic evolution that enabled the development of these new organizations. It was at this point that people began to discover

their individual significance. This recognition was enhanced by the circumstance that as a result of the worsening economic situation many people came to realize that without exploring and recruiting their own resources they would not be able to make changes and improvements. Those who have come thus far in their recognition process would want to take fate into their hands, and for this reason would create associations and partnership. This applies to both young and old. These organizational activities usually follow generational divisions. But it does not matter if some of these organizations come about along generational lines, because this too has great significance in the process of socialization.

[Question] What kind of assistance can these smaller groups render in resolving our social concerns on the one hand, and in improving the general attitude of various strata among the young, on the other?

Horvath: Small youth communities and spontaneous organizations can in many respects fill gaps, and may contribute to the broadening of narrow cross-sections of public life. What does this mean in practice?

The fact is that large, structured political institutions are able to differentiate their activities only to a certain extent. Considering their mission and size, there is only a limited opportunity for the reconciliation of differences. It is almost impossible to assure the maintenance of political action unity simultaneously with allowing real-life differences to prevail with respect to details, or regarding peculiar issues. Associations, clubs, circles and other similar forms of activity serve the purpose of surfacing and realizing small group interests and endeavours. Their loose, flexible organizational framework, their well-defined spheres of activity may be viewed as an education in democracy. Errors made by small organizations are accompanied by virtually no risk. Within these organizations the young can gradually acquire a sense of preparedness to make decisions and to govern themselves, without experiencing particular problems. There are a number of societally useful activities and occupations for the young within small organizations which KISZ, for instance, would be able to realize only at the cost of damaging and distorting these activities. At the same time, absent these activities, school and residential life would be deprived of something worthwhile and would become more monotonous. As long as this is so, why shouldn't we support these activities, moreover, why shouldn't we provide an incentive to these forms of activities pursued by the young.

In my judgment it would not be too much to consider the possibility of a system of conditions under which teenage children could form self-educational communities.

Today local public life is certainly one of the narrow cross-sections of socialist democracy. Within that the participation of the young in public affairs is at a sensibly low level. In order to improve this situation it is important that the young become acquainted with, and experience public action at the beginning of the process that integrates them into society. Today's small youth communities may acquire a larger share of responsibility regarding this matter, than what they actually have. It should become a matter of fact both among the young and among adults that teenagers and those in their

twenties have a right to judge, and participate in the administration of local affairs. This right is conveyed to them by virtue of their citizenship. We must realize this: it is an important criterion of the further development of socialist democracy that we discontinue the paternalistic, foster-parent attitude manifested toward the young. This purpose will be positively served if in schools, workplaces and in residential settings we make it an accepted general phenomenon that self-motivated youth communities and other forms of work are accepted.

Nagy: Local organizations and small groups can directly contribute with their activities to the realization of one or another societal goal or task. Suffice it to mention a few of the many possible examples: urban beautification, environmental work, tradition building in communities. The societal utility of these projects however, is low, so far as I am concerned. I know that this may sound odd. In their totality, however, these activities are less significant than some overall effects which I am about to outline in three parts.

First. Such activities provide sensible opportunities for action--spheres of action that are valuable from the viewpoint of the individual and his immediate or extended milieu. These activities provide a sphere of action, where one can work with great faith and determination, where direct community control exists, where the well-perceived viewpoint of "I do what I want to do, and I will do it as long as I want to do it" prevails. Perhaps I need not prove that today, when a significant number of young do not find their place--cannot find sensible activities that are useful from the viewpoint of both the individual and the community, and therefore "discharge" their energies in damaging, and although rarely, but in criminal activities also--well, in such situations one cannot underestimate the societal significance and utility of spontaneously organized small groups and of various self-motivated youth communities. We are not saying, of course that they would, or could take over the role of the large organizations, nevertheless they have supplemented, and indispensably continue to supplement the large organizations.

Second, these organizations enhance the process of socialization. Within a small community one can directly learn to practice democracy, the practice of tolerating different viewpoints becomes a trait and a value, and so do the clear recognition of interests and practicing politics that is built on such intertests. Young individuals active in small communities can acquire these values (autonomy, democratization, etc.) These values are particularly significant in the present phase of social development. Of course, we are not saying here that these purposes are being served solely by small communities. (On occasion one comes across such extreme views also.) But the measure of how much more democratic and tolerant the large organizations have become, is shown in their daily interactions with small groups and organizations in various areas.

Third, these small groups provide an opportunity for liaison with, and a vehicle to "reach" young people, who otherwise could not be approached, and thus cannot be influenced, and cannot be convinced. This kind of liaison may emerge in the form of sharp debates and conflicts too, but openness makes it politically viable to settle these matters, and thus it is much better to

settle matters in the open than leaving them suppressed or veiled, or swept under the rug. Accordingly, the small communities have an essential role in implementing the PPF policy of alliances that will gain new emphasis in the latter part of the eighties.

Pozsgay: These small grouping are politically significant because they help the evolution of a sense of self-governance among the citizenry, and strengthen the sense of responsibility in others. Such organizational activities may become the classrooms of political culture also for the young. In the most direct fashion they reveal what their interests are, and they also state that others may have different interests, and that such conflicting interests are consistent with human nature. They teach conflict management, but if necessary, also the toleration of conflicts. This kind of experience and perspective also makes a person feel good.

There are many practical benefits flowing from these organizations because most of these organizations are created to perform specific tasks. If emphasize most with youth association, which, regardless of their purpose --environmental protection, maintenance of university clubs, residential protection and care, etc.--are pregnant with opportunities for the cultural development of the participants. These participants, along with their provincial outlook, pay attention to the development of the nation, and by observing national affairs, they develop a sense to look out for humanity as a whole. Such need is recognized only by people who feel at home in their own milieu.

[Question] In the framework of continuing reform, what role can the above-mentioned organizations play? How do you perceive their coexistence, their cooperation with "classic" political and social organizations?

Horvath: Not unlike traditional political organizations and institutions, various local and small organizations also play a role in the realization of our political program--the accomplishment of our societal goals. We should further develop social interactions by establishing methods of joint action and cooperation with an appropriate content and structure.

I would like to remind everyone that both during the underground era and the legitimate years of the Hungarian workers movement rich experience was gained as a result of cooperation with artistic, physical fitness and other youth communities. It was not only necessity brought about by being in the underground that shaped various efficient forms of cooperation. These organizations served as vehicles for gaining the confidence of youth, and to convince youth concerning politics. In many instances there was no substitute for these kinds of organizations. Needless to say, today's situation is different. But just as it would be damaging to mechanically adopt the methods of 40-50 years ago, it would be a mistake to disregard the experience gained in the past.

I wish to underscore that Party documents emphasize the importance of political direction. Equally, I would like to underscore that political direction must not mean the full enforcement of a political will that emanates from the top. The critical issue is the extent to which members of official

institutions can achieve result by exerting influence, providing examples, and through persuasion. Real political direction takes place in the physical presence of the young and of their adult environment. This kind of political influence is conveyed by words, directly, while living and acting together with the young. Opportunities for providing such influence and direction lends itself in small organizations. We want party organizations to encourage and support youth initiatives, as well as their small community endeavours. We will treat these as well-intended phenomena that are consistent with social development.

I will note, however, that in this area too we need to exercise sensitivity on both fronts. We do not approve of a mentality that is suspicious of any community organizational work not sanctioned at the top, and we do not endorse the idea of cutting off relations with such organizations and arming ourselves to the hilt. We cannot justify this kind of mentality, just because recently there were some "false prophets", who tried to enlist one or another self-motivated youth community for purposes of ulterior political purposes. Quite naturally, such attempts will be dismantled also in the future. However, it would be politically shortsighted if in response to an unfavorable phenomenon --error committed in the initial phase of organization, we would tie into knots the life and coexistence of a youth group. Our youth deserves our confidence. It is in the spirit of confidence that we must view the formation of youth organizations. I am convinced that in the proper place, in their own ways, these groups will promote the broadening of socialist democracy and will help assure the purity of public life.

Nagy: In and of itself the existence of small communities exerts influence in the direction of societal reform processes. Let us not think, however, that all small groups possess a reform perspective. Behind the mask of our society's well-articulated intent to reform there is an anti-reform sentiment, even though that sentiment may not be conscious. This situation is characteristic of spontaneous groups too. I view this as a natural, moreover as a necessary phenomenon.

Today we are mutually learning how to coexist and to cooperate with the classic, large political and social organizations. There are still many amorphous factors. Large organizations must learn how to render assistance in a manner that while rendering assistance their help does not integrate and occupy, and that while rendering assistance they do not provide directives. Instead they should endeavour to exert influence, so that they can affirm the existence of a community and at the same time render support and conduct serious political debate. We must incorporate these elements of perception into the political system and culture we are accustomed to. And in the same vein, small communities too must learn that not everything is bad that emanates from what is large and organized, that they too need the presence of large organizations, that they too need to support large organizations, and that they must be tolerant, seeking out opportunities for contact.

This is the way I see the future, and since its 11th Congress, KISZ has conducted its politics in this spirit. Around the large, traditional social organizations there should be flexible, differentiated, varied groups of small communities. Part of them should be an organic part of KISZ, others should

keep in touch in an informal manner, and yet others will have no contact with large organizations. All this is not a strict, static model. The model would constantly change responding to the organizational dynamics of the small groups.

Pozsgay: The increasing number of voluntary associations and partnerships in itself represents progress in the reform process. In other words, it means a departure from the adverse reflex we have experienced to date--a reflex that discovered a menace in these groups. More important: the opportunity for reform dialog to be conducted within society will increase. To accomplish this we must accomplish that the "classic" social and political organizations consider these associations as real partners, and that they not endeavour to act as their foster parents. In this way we can accomplish that citizens --young and old--who stand on grounds of constitutional order and of political consensus feel as active partners in the comprehensive reform that transforms and builds this country.

12995

CSO: 2500/432

HUNGARY

POLITICAL

NEW MSZMP CC SECRETARY DESCRIBES LIFE IN BARANYA COUNTY

Budapest PROPAGANDISTA in Hungarian No 1, 1987 pp 91-96

[Article by Janos Lukacs, former first secretary of the MSZMP Baranya County Committee, appointed at the June 87 Plenary Session as MSZMP CC secretary in charge of party affairs]

[Text] Considering its geographic size, Hungary is not large, yet there are significant differences between the features of various counties. These features may serve as a starting point for the building and organizing of society--they provoke thought and action. The various features of the several counties are considered in the context of national politics as well as in the state and political management of the individual counties. Opportunities flowing from geographic features and settlement patterns, the prevailing economic and production structure, the social structure, the size of intellectual wealth and the standard of the prevailing work culture are important factors in choosing management techniques and appropriate action.

On the national scale the County of Baranya has an average size. Its 4,487 square km area and its population numbering 433,000, however, make Baranya the most densely populated county (97 people per square km) West of the Danube. Its settlement structure is characterized by small villages. There are 296 settlements in the County and the City of Pecs has 173,000 inhabitants. In addition to Pecs, the County has four small cities and 291 villages. The fact that 198 settlements have less than 500, and 105 villages have less than 300 inhabitants is a virtually unique feature in Hungary.

Baranya County villages attract people, and thus the rate of village population retention is high. Coordinated efforts over the past years have slowed down the exodus from most of the villages, moreover, in spite of negative demographic trends, the number of inhabitants has increased in more than 50 villages. Urbanization nevertheless continues as a result of a population flow toward the cities, but at a slower rate than before.



Baranya is an ethnic county. It has 40,000 German and 10,000 South-Slavic inhabitants. Its Gypsy population stands at 23,000.

From among Baranya's natural resources, energy-producing minerals have a decisive influence. For 200 years now, Baranya is the only county that yields coking coal. Uranium has been mined for the past 30 years. Development of coking coal exploration and the 30 billion forints Lias-program investment aimed at the technical reconstruction of the mines of Mecsek, is one of the largest investment projects in Hungary. It is worth mentioning that the great bulk of the Mecsek mountains is made up of limestone. Limestone by itself, or mixed with clay largely determines the County's industrial structure which consists of building materials production, Zsolnay porcelain products, cement and lime production, and stone quarrying. The weight of the resource exploration industry is well manifested by the fact that it attracts 30 percent of the industrial workforce.

Natural features, such as the soil and the climate (2,000 hours of sunshine,) and an above average size forestland that occupies 22 percent of the County's area favors agricultural production. The vineyards and wine culture around Pecs, as well as in the areas of Villany and Siklos have a historic past. Production averages for produce and animal husbandry--in other words: basic production, stands at an 86 percent ratio which is higher than the national average. Farm cooperatives and state farms were able to increase their production and income even during the draught-stricken year of 1986. In that year these farms produced more wheat, more industrial plants, grapes, fruits, meat and milk than in 1985.

Based on agricultural production, a broad, vertically structured food processing industry evolved over a period of several decades. Except for candy manufacturing, Baranya has all the other types of food producing and processing industries. The food industry evolved in a rather dynamic and successful fashion: it was the lead industry during the County's 5-year plan period.

Leather tanning and manufacture at Pecs maintains a high standard and represents a tradition. Some factories renowned throughout Europe are located in this area: the Leather Manufacturing Works of Pecs, the Hunor Glove and Leather Garment Factory, the Szigetvar Shoe Factory, the Carbon Enterprise of Komlo, the Glove and Decorative Leather Goods Cooperative and the Kossuth Shoe Cooperative, both of Pecs.

Machine industry is an important part of the County's economy. This branch of industry has some roots here, but its dynamic development took place only during the past ten years. Today the machine industry produces modern products under relatively modern circumstances.

In addition to the economic factors, science and culture exert a rather strong influence in Baranya. The important factor in this respect is that 18 percent of the County's population, or 78,000 individuals are members of the intelligentsia whose activities and professional know-how have greatly influenced the achievement of economic, administrative, educational, cultural and health-care objectives, have contributed to the appropriate functioning of public life and

of various forums at the workplace and in homes. Higher education at Pecs has a 600 year history (Hungary's first university was founded in Pecs in 1367.) The university's basic task is to provide expert professionals in various fields. Almost 6,500 students study at Pecs, aiming for careers in medicine, education, law, economics, industrial engineering and music. Baranya's institutions of higher education also are centers of scientific research. There are a number of researchers in the enterprises as well as at the Dunantul Scientific Institute. Some 300 white-collar workers--holders of science degrees--participate in the coordinating activities of the Academic Committee of Pecs, and thereby contribute to the fulfillment of societal needs and of the County's economic goals. They do so with increasing success. Intermediate level education too is highly developed and diversified: there are 8 gymnasiums and 26 specialized institutions in the County.

We view Baranya's cultural life and sports as indispensable factors for both intellectual and economic progress. Our cultural life is broadly based and rich in content, and shows an upward trend. Four-hundred creative artists are active in our renowned institutions. The National Theater of Pecs, a philharmonic orchestra of its own, a tri-lingual regional radio and television network, the newspaper DUNANTULI NAPLO that appears also on sundays, a literary newspaper, an extended network of museums, the Workers Sports Club of Pecs, and other sports associations are organic parts of the County's profile.

The results of political, state, economic and social activities within the County are encouraging. Development projects sponsored by the councils are aimed at basic service provisions. They do become reality in Baranya. Residential construction is properly paced and dynamic. About 80 percent of all residential construction is financed through private resources, with significant state support and subsidies, of course. The availability of residential dwellings within the County, however is worse than the national average: 300 persons occupy each 100 apartments.

A substantial majority of the production, service and supply collectives stands fast. The relatively favorable natural features, the social and economic structure that has evolved, and the people's work produced a per capita income that has exceeded the national average over a period of time.

The standard of living of our people is better than in most counties--as measured by e.g. the number of physicians per 10,000 people, the number of hospital beds, the standard of nursing facilities, and a number of residences that are linked to the county's water supply and sewage system. Baranya has the highest per capita car ownership in Hungary.

Our accomplishments nevertheless, fall short of our projected goals and needs. Economic efficiency and resource renewal processes have not evolved to a satisfactory degree. Intellectual capital, technical and engineering work, scientific activities are not being utilized and compensated for at a level that would be desirable and necessary, and work culture stands at a less than satisfactory level. Without these, products and services will not attain higher qualities, increased efficiency and saleability, and economic efficiency in general cannot improve.

The 13th congress of the MSZMP developed a program designed to invigorate our economic and social development. For this reason it is quite natural and necessary that today the party focusses on the many questions that attend the issues of how to provide a thrust to the economy, how to encourage the evolution of quality criteria, how to strengthen the socialist features of our society and how to broaden socialist democracy. Our starting point is this: considering that Baranya's economy is quite strong, it depends on us too how our affairs will evolve. We hold great strength. Just to give a sense of our strength: the annual value of our industrial production exceeds 36 billion forints, and that of agricultural production exceeds 14 billion forints. Construction industry production is at the 2.5 billion forint mark.

Accordingly, it does make a difference to what extent we consider the County's features, how we make use of our intellectual and material values and resources, and what kind of quality, effectiveness, volume and efficiency our industrial and agricultural establishments can show.

Our task, and the county leadership's task is to provide appropriate circumstances and adequate conditions for creative work and enterprising initiative, so that the County's resources can be best utilized in the interest of appropriate progress. We accomplish these tasks by considering and taking part in political and economic policy development, the formulation of legal and economic regulations, and through the independent and responsible definition of tasks.

In the course of our guiding, helping and controlling work we pay most of our attention to the human factor, on leadership development, on the improvement of organization and discipline, on the functioning of political mechanisms in a manner consistent with their purpose, and on their constant renewal. With the coordinated work effort of county-level political institutions we influence the improvement of the socialist character of human conditions and lifestyles, and improve the conditions under which social justice prevails. We view these as the key questions. In spite of the strong deterministic effect of external, international political and global economic circumstances we profess: the continued evolution of our affairs also depends on us--physical and white collar workers--leaders and subordinates.

12995

CSO: 2500/446

## SOCIOPOLITICAL GROUPS, CLUBS ENCOUNTER OFFICIAL OPPRESSION

Budapest IFJUSAGI SZEMLE in Hungarian No 3, 1987 pp 50-61

[Article by Bertalan Diczhazi, chemical engineer and leader of the Circle 405: "An Outline Concerning Socio-Political Circles and Clubs"]

[Text] Beginning in the late seventies, an increasing number of circles, clubs and organizations came into being in Hungary. These groups deal with social, economic and political issues. New groups continue to organize, while others discontinue their functioning. Socio-political circles and clubs function primarily at universities and university colleges, but a significant number can be found within cultural homes and social organizations also. They may be characterized as having a systematic series of programs centered around a specific conception presented in the framework of lectures and debates, and by the choice of lecturers. The debate clubs discussed herein must not be confused with occasional lecture or debate series, or with suddenly convened, ad hoc programs which also deal with socio-political issues but are convened on the occasion of a certain specific event. On the other hand the subject organizations must also be distinguished from systematic programs conducted by scientific research institutes and organizations, because those programs have as their purpose professional debate before a professional audience.

The circles and clubs that function within universities are also referred to as spontaneous communities, secondary groups or autonomous clubs. These expressions too indicate that these groups are outside of the traditional, formal system to which we are accustomed to.

Specific descriptions of socio-political circles, clubs and specialized colleges can be found in specialized university publications and periodicals. (Footnote 1) ("Circle 405 Is Five Years Old, 1980-1985". Technical University of Budapest [BME], 1985 Bertalan Diczhazi ed. "How Old The Circles Are 2" a joint publication of the MKKE Social Science Club and of the BME Circle 405, 1986 Bertalan Diczhazi and B. Tamas Kiss ed's. Stumpf, Istvan: "Specia-

lized Colleges: A Possible Form ..." SZAZADVEG, 1985/1, a publication of the ELTE Specialized College of Law. Szekely, Andras Bertalan: "The Central-Eastern European Ideal", Public Education Institute, 1984.) The first volumette contains brief descriptions of clubs in Budapest--their establishment, place of operation, attendance record, profile, field of interest and political values represented. As far as we know, no comprehensive study has been made concerning these groups. We hardly have any knowledge about socio-political organizations that function (or have functioned) at universities, academies and cultural homes outside of Budapest. Without aiming for a comprehensive presentation, this is an attempt to summarize practical experiences that appear to be common to all such groups. The author has gained this knowledge as the founder and leader of a circle, and as one who endeavours to see cooperation between these clubs. This study pertains primarily to circles that function within universities.

#### Where Were They Formed?

(1) University colleges. Colleges that specialize in social sciences stand out. These are student communities having 40-70 members, with a high degree of self-governance and autonomy, and a democratic system of representation. Specialized colleges are characterized by rather intensive intellectual life which goes far beyond the scope of professional activities, as those are construed in the narrow sense of the term. They are independent institutionalized organizations which pursue their activities according to their organizational and operational rules and procedures. Beyond their professional activities (e.g. economics, law,) they organize lecture and debate series on subjects pertaining to a broader scope of social sciences (e.g. sociology, history,) as well as to current socio-political and economic issues. These presentations are open to the public. As a result the students of specialized colleges receive a "second" education provided pursuant to the groups' own plans and perceptions.

The first specialized college was formed in 1970, in the golden age of the "society of economists." Ever since that time the Laszlo Rajk Specialized College has assumed a leading role in university student movements. The College of Social Theories was established in 1980 within the Karl Marx University of Economics [MKKE] and since 1982 the Law Students Specialized College of Social Sciences at the Lorand Eotvos University of Arts and Sciences [ELTE] has had its own building. For a short period of time there was a specialized college at the Economics Department of the University of Pecs, but it dissolved itself in 1986. At present specialized colleges in the field of Management and Social Sciences are in the process of organizing at the Technical University and the University of Economics, respectively.

Circles and clubs within other colleges deal with current social and economic issues. These are run by "core groups" of 5-12 university students. Their weekly or bi-weekly public presentations are attended by an audience of 20-300 interested persons. Among others, within the BME's Martos College there is the Circle 405 (1980) and the Laszlo Nagy Literary Circle (1984,) within the BME's Munnich College we find the Social Reality--National Self-Recognition Circle (1980,) and the Periscope Club (1985) functions within the college of the Financial and Accounting Academy. Within the above colleges of the

technical university, collegiate autonomy supports and assists the autonomous student initiatives.

(2) University public education centers. Particularly during the 1970's, university clubs and public education centers played an outstanding role in the political and cultural life of universities. The "R"-club of the technical university, the MKKE's "Econo-Club" [Kozgaz Club], the ELTE's Philosopher Club and the University Stage played a central role.

In the second half of the seventies the leaders of the Kozgaz Club (Gyula Jobbagy, Laszlo Szentirmay and their associates) initiated Polvax (1976.) Polvax came into being in response to a multiple recognition of the fact that KISZ' political education was formal and therefore boring; the teaching of ideological subjects was obsolete; there was a tremendous need for information and that this need resulted from limitations and gaps in official public information dissemination and that only a select few had access to confidential information and publications. At the same time within the clubs one could conduct open debate concerning current socio-political issues and problems.

The leader of the technical university's "R" club took note of the large number of interested persons who attended lectures that developed a sense of national self-recognition and dealt with literary and artistic issues prevalent in Central and Eastern Europe. The Central-Eastern Europe Club (1979) was formed to satisfy this need. The Sociological Circle (1978) within the "R" club came into being at the request of the students of the sociological specialty college.

Clubs and circles emerged one after another during the eighties. Among others there is the Zoltan Fabry Circle (1983) whose members at the same time also constitute a basic KISZ unit. Under the aegis of ELTE's KISZ committee there functions the "'999 Circle" (1984.) The Circle of Young Sociologists (BTK) [abbreviation unknown] and the MKKE's Social Science Club came into being a year later. The clubs formed in the seventies were created mainly at the initiative of young educators.

(3) Cultural homes, headquarters of social organizations. Clubs were formed mainly by young members of the intelligentsia who work outside of the universities. They satisfy those interested in various societal issues. The since dissolved Loading Dock Club [Rakpart klub] (1982) was formed within the National Peace Council. As part of the Almassy Square Free Time Center the "Know Your Danube Region Club" (1984,) the Phoenix Club (1984) within the Downtown Youth Home, the Bethlen Club (1986) within the Gorkii Library Club were permitted to function only briefly. The Petofi Club of Szentendre (1980,) which, in the meantime has changed its organizational form to become an association, has been functioning for quite some time.

#### Societal Issues Discussed Within Circles and Clubs

A broad range of topics are being discussed as part of programs organized by clubs. A number of politicians, economists, sociologists, historians, political scientists, lawyers, writers and poets appeared as speakers or as

debating partners. The main topics may be grouped more or less into three categories.

(1) The critical analysis of our social and economic situation. Presentation of ideas and recommendations concerning the modernization, reform and further development of the socio-economic system. Within that:

- Critique of our economic system and possible reform conceptions;

- Presentation of the essential mechanism of the political system, the examination of problems related to political features, and the presentation of ideas aimed at increased democracy;

- Societal problems (poverty, alcoholism, suicide,) regional inequalities, decreasing population, residential dwelling problems, etc.;

- The historically determined "structure" of society and the problems of the societal model; traditions and heritage;

- The place and role of the intelligentsia in socialism; intellectual trends. The appearance of societal problems disguised as culture.

(2) Issues of national development and national existence in Central-Eastern Europe and in Hungary. National awareness, knowledge of history. Ethnic problems.

- The Central-Eastern European ideal. Confederation concepts, the positive legacy of the coexistence of nations in the Danube region;

- The situation of Hungarians beyond our borders. Ethnic issues in Central-Eastern Europe;

- Ethnic renaissance;

- Our national conscience, awareness of our historic heritage and past.

(3) Alternative society, post-modernistic values, environmental protection, peace.

Needless to say, several clubs organize programs touching upon all three of these areas, but in a majority of the clubs one can sense one or another socio-political orientation. This study does not cover the topics listed under (3) above, because they involve phenomena that have a number of conflicting characteristics.

When And Why Were They Organized?

A number of socio-political groups emerged, and their number multiplied at various universities during the late seventies, and particularly during the period between 1978 and 1982. The exception is the Rajk Specialized College of the University of Economics. It was created during the reform era of the sixties. The University of Economics was always characterized by lively and

active political student activity, and so it is no coincidence that during the Fall of 1976 Polvax began functioning at that university.

The question arises: what characterized Hungarian society in the late seventies, and in the early eighties? On the other hand, what was the situation at the universities? What was the relationship between students and the university, and between students and society, and the KISZ? What could be the reason for the increased political activity of students?

In our judgment it is worthwhile to separately analyze the social and economic condition of Hungary, and in this relation intellectual life in Hungary on the one hand, and the students' situation, their general feeling, their opportunities in public life and the factors that influenced their potential as social activists, on the other.

### The Socio-Economic Situation

The years following the 1972 halt of reform efforts and the 1973 global economic restructuring may be characterized by renewed centralization processes and by an increasing economic reliance on foreign credits. All this was accompanied by a peculiar self-justifying success propaganda ("we are unaffected by the global economic crisis".) The MSZMP CC's December 1978 resolution which emphasized the need to reestablish the foreign trade balance had a sobering effect on the euphoric mood of the earlier period. On the other hand, the above-mentioned CC resolution made a cautious promise regarding the continuation of reform policies. Clear problem definitions and the "warming up" of the reform process had a stimulating effect on the creative intelligentsia.

Within intellectual life too a kind of "liberalization" process saw its beginnings. Reform conceptions, suggestions, and recommendations were sought by the political leadership to aid the formulation of a more efficient, more productive economic system. On the other hand the political leadership tried to compensate for its loss of authority that stemmed from a stagnating and shrinking standard of living by improving the political atmosphere (a more free atmosphere, an increased role of the public, the promise of a more democratic system, etc.)

As a result of the self-generating character of intellectual and scientific life, the intellectual products that have accumulated found their way to the public. This took place as a result of the decreased resistance. A more intensive and more substantive intellectual life emerged in editorial offices, scientific associations and in the offices of mass communication media. The most courageous conception of course (e.g. the Liska conception) spread only among small groups of people. Some intellectual trends crystallized, and literary life too moved outside of its previous limits of intensive development (MOZGO VILAG evenings.) The relaxed atmosphere had a fermenting effect on the evolution of political science also. And it was during these years that a new wave of domestic opposition groups activated itself (samizdat literature, free universities, signature collection campaigns.)



The 1980-1981 events in Poland had a profound effect on the entire Hungarian society, but in particular on the intelligentsia, including students. A majority of Hungarian citizens were excited about, and anxiously watched newsreports from Poland--after all, the Polish events represented an "experiment" the outcome of which could have a potentially significant effect on all of Eastern Europe. The events of, and the experiences gained in Poland had a formating effect on Hungarian intellectual life also.

Beginning in the mid to late-seventies, the increasingly adverse information concerning the situation of Hungarians residing in neighboring countries had an increasing impact on the Hungarian public mind. As if these adversities had strengthened our sense of a need to once again discuss the problems and disturbances affecting our national consciousness. Interest involving issues of the Hungarian past has greatly increased. Being concerned about the fate of the Hungarian minority became a community affair.

We may also mention here the introduction of entrepreneurial forms in 1982. These actions evoked serious interest among technically oriented persons and economists.

By virtue of their character, the factors itemized above produced their effects jointly, in a manner related to each other.

#### The Situation And General Feeling of University Students

The 1974 resolution of the KISZ CC formalized and bureaucratized the activities of KISZ. Functions that were performed matter of factly before and subject only to annual reporting were qualified as "KISZ work". (Footnote 2) (Stumpf, Istvan: "Organizational Politics and the Socialization of Politics Within KISZ". IFJUSAGI SZEMLE, 1986/3.) With the passage of time, the "reporting system" required by the top slowly "faded out" among "self-educational communities" because the basic organizations continuously sabotaged the implementation of the resolution. Especially within large universities, organizational life had essentially ceased to exist during the early eighties--the various student groups wanted to realize their initiatives independently. During 1980 and 1981 part of the university students felt that it would not be unrealistic to establish a new organizational stratum for youth. One of the characteristic features at the turn of the decade was that students themselves tried to implement their own perceptions and recommendations, with the support of, or in defiance of KISZ. Activity centers having various profiles were created (professional, cultural, political, etc.) frequently outside of KISZ.

Beginning in 1979, in response to the stagnation and later a decrease in the standard of living, a feeling of insecure existentialism took hold among students. This insecurity pertained in part to the future (will there be a job after graduation, will it be possible to obtain an apartment, etc.) and in part was caused by the fact that a large number of students experienced an increasing workload. The loss of perspective, the individual existential insecurity turned the students' attention toward real social issues and problems. The related questions pertained to the manner in which the socio-economic system could be reformed and ways in which a perspective could be offered.

The statement by which our educational system can be characterized by the conveyance of knowledge and not by the development of capabilities, is well known. Education has become mediocre and impersonal, and does not provide a model for intellectual conduct that could be followed. There are only a few teachers who could stand as examples of their profession before students. The "negative consensus" that has evolved between educators and students is particularly problematic. Its essence is that students permit to pass by the systematic unpreparedness of their teachers for classes and practices. In return teachers lower the required standards. As a result of decreased real wages, teachers spend increasingly less time teaching, and prepare to pursue other income-producing careers. The teaching of Marxism in itself is a separate subject. It provides mostly closed, frequently obsolete knowledge. The "specific analysis of specific situations" is missing. Interested students seek answers to societal problems elsewhere.

#### Autonomy, Functioning

Only a small segment of university students participates in the actual work of circles and clubs. Only a relatively narrow stratum of university students is involved in the organization of presentations and debates, in the editing of club publications, in the management of daily club affairs and in the conduct of inter-university relations. We can agree with Istvan Stumpf (Footnote 3) ("The University Youth and the KISZ of the Eighties", lecture before the Circle 405, also: SPEKTRUM, 25 Nov 84) who established the following student groupings:

- the "homogeneous, gray mass" (a decisive majority of students);
- the professional elite; and
- those who express themselves through involvement in public affairs.

Within the latter category two groups must be distinguished. One is composed of representatives of autonomous student initiatives (with or without KISZ support,) and the other composed of students active in officially sanctioned movements. Quite obviously, here too the color spectrum is quite broad. There are circles which at the same time are basic units of KISZ (e.g. the Fabry Circle,) and other, more "hard core" clubs which are supported by the university's KISZ committee (e.g. the Econo-Social Science Club.) A significant part of circles and clubs, however, pursues its activities independently. In the framework of clubs outside of universities, independence is a natural phenomenon.

The functions organized by clubs are public--anyone can participate. Following (or perhaps during) presentations and debate the unrestrained exchange of ideas, news and information among participants, and supplemental debates concerning the subject have a special significance. Club leaderships must define programs according to actual interest expressed (a market demand,) after all, if there is no interest, there is no need, and the club may close its doors.

The number of participants in various presentations ranges from 20-500 individuals. Attendance is influenced by the following factors:

-- the extent of propaganda preceding the event. (Some clubs pursue a continuous propaganda effort, so called. For each event they prepare 100-500 letters, posters, etc. In many instances, e.g. regarding "politically sensitive" speakers or subjects the clubs limit the openness of the program, while in other instances they advertise at above average levels.)

-- the personality of the invited speaker--his "name". (The most frequently invited club speakers are: (economists) Rezso Nyers, Miklos Pulai, Laszlo Antal, Laszlo Lengyel, Tamas Bauer, Marton Tardos, Janos Kornai, Sandor Kopatsy, Tibor Liska, Istvan Siklaky, Pal Juhasz; (political scientists) Mihaly Bihari, Csaba Gombar, Bela Pokol, Istvan Stumpf, Janos Szell; (sociologists) Elemer Hankiss, Tamas Kolosi, Agnes Bokor, Zsolt Papp, Laszlo Keri, Andras Hegedus, Endre Nagy; (historians) Miklos Szabo, Peter Hanar, Emil Niederhauser, Jeno Szucs; (lawyers) Tamas Sarkozy, Laszlo Solyom; (writers, poets) Sandor Csoori, Gyula Fekete, the editors of the old MOZGO VILAG, Miklos Meszoly, Gaspar Nagy, Csaba Gy. Kiss, Akos Szilagyi; (politician) Imre Pozsgay.

-- the "hardness" of, and the level of interest in the topic;

-- the actual political significance of the topic;

-- the "membership core" of the club; and

-- the time-schedule and exam obligations of students.

#### Conflict-Laden Situation

Anyone familiar with the life of clubs and circles will know that the closure of clubs and circles, and the rendering of their functioning impossible is a common phenomenon. All this already signifies the conflict-laden situation of clubs. What is the essence of these conflicts? Although clubs function independently, they cannot be independent from the actual (official) political line and practice. The actual political responsibility for their functioning is bestowed upon the institutional political leadership, (perhaps state leadership.) Disregarding mechanical details, the fact is that there are as many customs as there are institutions. There are institutions in which the university's party committee or executive committee has the final word, in other places it is the rector who decides with respect to disputed issues. Outside of universities it is the head of the institution (cultural home, museum, social organization) who exercises political control. In practice this does not necessarily mean that there are negotiations between club leadership and institutional political leadership. In reality there are a number of configurations in which these relationships are maintained. In this vein, for instance, the collegiate socio-political circle may be in direct contact with the department's KISZ leadership, the department's party leadership, and the university's KISZ committee or the university's party committee. The institutional political leadership--but higher party authorities too--pay distinguished attention to the activities and the life of clubs

and circles. We may feel that considering the weight of these clubs, such distinguished attention is not justified.

Let us examine the matters that lend themselves as subjects of dispute between club management and institutional management in general.

Program plan, (choice of speakers, choice of topics.) With respect to a majority of the clubs, the programs are reconciled in advance, at the beginning of each semester or month. In cases involving current topics, such reconciliation is made on a case-by-case basis. Rather than calling this process "program reconciliation", the term "program bargaining" would be more appropriate. These processes are not unlike the processes in every other sub-system of society, in which some kind of centrum (responsible central authority) negotiates with an independent creature (enterprise, social organization, etc.)

In the late seventies the reasoning supportive of decisions went along ideological lines. In later years the approach became more pragmatic: "we hope that this will not cause any trouble". In this context the term "trouble" means that subsequently, higher party authorities would be strongly critical of the program in question. All this sets limits to the possible choice of invited speakers. For example, those who publish their works exclusively through the media of the second public opinion or only abroad, and declare themselves to be in the opposition, do not receive invitations as speakers. The exceptions are rare. In deciding who should be invited to speak, the person's "political worth" serves as the most important criterion. But irrespective of all this, several clubs have been closed down following a lecture presented by a speaker who had been accepted in advance.

The political mood of the function. Aside from the lecture content and the responses given by the lecturer, the mood that prevails following the remarks, questions and comments made by the audience (students) becomes an important viewpoint. Generally speaking, this problem does not arise with respect to university clubs (most of the time, university students raise questions only.) Such problems arise relative to clubs outside of the university setting. Clubs protect themselves against losing control over debate by injecting a limited amount of propaganda. Within various club functions there also evolved a consensus concerning the permissible level of social critique and reform ideas, the one who exceeds that level will be shouted down by the participants.

Disputes concerning the content of club publications. From time to time the various clubs prepare for the publication of certain lectures and concerning club activities themselves. The extent and form in which lectures may be reproduced in print is the subject of substantial debate. Compared to the level of publicity achieved by way of the spoken words, club leaders find the permissible limits of written publicity hard to bear.

Inter-university, horizontal relations between clubs and circles. Various forms of cooperation concerning the joint organization of functions (lectures, camps, meetings) and the joint publication of newspapers is surrounded by an unwarranted amount of suspicion. Up until the mid-eighties, such forms of

cooperation were left "hanging in the air", because not one official institution or organization was willing to accept the responsibility of supporting such cooperation. As of lately the supervision provided by the PPF National Council resolved the problems of legitimacy, nevertheless a number of problems remain unresolved.

Regarding the conflict-laden situation of clubs and circles we must emphasize by all means that in most instances the leaders of clubs and circles have abided by the unwritten rules of the prevailing practice. One cannot accuse the leaders of clubs and circles of having taken chances or of having pursued their activities irresponsibly. The few instances in which radical trends may be observed are mostly based on causes that can be found in the depths of the social constellation. Continued survival is the primary concern of clubs, but they view their continued survival not as victims of endless compromise. One must not forget that certain institutions have set low limits for publicity through the spoken word. In that context, some social science researchers who participate in political and governmental development work are declared to be in the opposition and their appearance in clubs is prevented.

Experience shows that the larger universities of Budapest (ELTE, MKKE and more recently the BME) have adopted acceptable levels of tolerance with respect to clubs and circles. But the same cannot be said about the institutions that supervise university clubs and circles. There are some who believe that the mere acceptance of a socio-political club by a cultural home manifests great "courage" on part of the cultural home. Only sporadic information is available with respect to clubs outside of Budapest, but generally speaking, their situation is difficult.

#### The Functions Of Clubs and Circles

Partially filling the gaps within the educational system. Considering the specialized scientific nature of university education, clubs and circles provide an unrestricted opportunity for the inter-disciplinary examination of real society. Although some of the clubs have chosen a specialty (e.g. Political Science Club, Sociological Circle,) the multi-disciplinary approach to specific issues is characteristic.

An important viewpoint that prevails in clubs and circles is that regarding a given topic they engage as lecturers the experts who have gained the most substantial experience. It is important that questions related to the lecture and other questions may be raised by those interested immediately following the presentation.

Information flow. Compared to the limited printed publicity that is permissible, these forums provide countless pieces of information concerning political events and concerning social as well as economic practice. In the course of functions organized by clubs and circles, the world of both politics and science assumes a bit of a "personal" character. This is a positive aspect, by all means. The political sphere could make better use of the clubs as media for information dissemination, as well as for purposes of laying a more diverse foundation for decisions.

For example, clubs could fulfill a significant role in publicizing various ideas, thoughts, alternatives and recommendations concerning reform. Clubs could provide forums for reporting and debating such matters simultaneously at the time such ideas are conceived.

Public affairs. Students and young members of the intelligentsia inclined to become active in politics, find an outlet for their endeavour in founding, organizing and managing a club. Program reconciliation, acting as moderators for debates, the planning of propaganda, the selection of persons to be invited, etc. requires a lot of work, providing experience for club leaders and members of the club leadership. Unfortunately in subsequent years there is little opportunity for former club leaders who have gained political experience to participate in actual political activities, even on a professional basis. Perhaps various interest groups, even those within the PPF could develop their apparatus with the help of working associates who came from the ranks of club leaders. (At the same time there are rumors by which certain club leaders and members of club leaderships groups intend to run for office in the next election.)

#### The Place Of Clubs and Circles in the Public Structure

The place of socio-political clubs and circles is between the two spheres of official public information and the private communication of persons interested in politics. Meanwhile the terms "semi-public opinion", "public opinion and a half" and "inclusion public opinion" are also popular. As to their essence, clubs and circles may be viewed as being in between the formal and the informal culture. Once again using a new term: the university circle is a "bridge" between political sub-cultures and the "official" political public opinion. The university circle provides a formal framework for the expression of political thought that was left outside of the consensus, thereby in a sense taking the first step to signal the societal "presence" of such thought to public opinion within the consensus, and to integrate these political sub-cultures into the consensus. (Footnote 4) (Miklos Szabo: "Response to Questions Concerning Circle 405--Circle 405 is five years old: 1980-1985", BME, Flora Martos College, 1985.)

According to our knowledge of Eastern Europe, these clubs exist only in Poland and in Hungary, and represent only a tiny, thin slice of public opinion. Mate Szabo views cultural and political clubs as peculiar creatures of Eastern Europe. (Footnote 5) (Mate Szabo: "Social Movement, Political System, Modernization", Political Science Association, Yearbook, Budapest, 1986.) We can agree with Mate Szabo's statement: given more favorable conditions within the political system and political culture, the club movement would lead to the general organization of political movements. Miklos Szabo views the debates that take place in university clubs and circles as the continuation of the old, valuable traditions of the Hungarian intelligentsia's political culture. This form of politicking contributes (has contributed) a lot to bridge the distance--on occasion the abyss--between professionals and the "cognoscenti" on the one hand, and the high level, and committed lay public on the other. It also encourages the education of high level political public opinion, one that pays attention, and is capable of paying attention. Even though not openly, there exist in Hungary various intellectual and political

orientations. These represent a "latent pluralism", and it is the pulse of this latent pluralism that clubs endeavour to sense, so that the club membership can find its place, its group and orientation in this latent pluralism.

#### Cooperation Between, and the Movement of Clubs and Circles

In the late seventies there were hardly any common bonds between the then functioning clubs, circles and specialized colleges. In 1981-1982 a loose form of coordination evolved between the Rajk Specialized College, the Specialized College of Law and Social Sciences, the College of Social Theories (MKKE), the BME's Circle 405 (Martos College) and the Social Reality--National Self-Recognition Circle (Munnich College.)

Organized by the Rajk Specialized College, the first meeting of specialized colleges took place in Tesa in 1982. Representatives of several other colleges also participated in the meeting. The relationships that evolved at the meeting may be characterized as "getting acquainted", information exchange, and the study of the organization and functional life of specialized colleges.

The second meeting of specialized colleges took place in Debrecen, 1983, which went beyond obtaining basic familiarity and discussed the possibility of the spread of specialized colleges as well as the political role of specialized colleges in society. Representatives of a number of colleges in Eastern Hungary participated at this meeting. They were able to directly acquaint themselves with the functioning, the value and the programs of specialized colleges.

The third meeting at Balatonfured had the issue of college autonomy on its agenda. Within this subject the meeting produced a joint resolution concerning the independence of colleges, and this resolution was presented to the National Conference of Colleges. The issues attending the relationship between KISZ and the colleges on the one hand, and KISZ and the clubs on the other were intensively debated. Unfortunately, in the absence of a publisher who would have assumed responsibility, the related news release was not published.

Unquestionably, the greatest event in the history of the movement was the six day meeting held at Szarvas in 1985. Nearly 200 students debated the most important problems of Hungarian society (e.g. modernization, technological gap, poverty, environmental protection, the Central-Eastern European identity, small communities and autonomy.) The meeting at Szarvas catalyzed the movement. At the same time the negative political evaluation of the meeting once again indicated that the cooperation of independent student groups and specialized colleges is surrounded by "adverse prejudice" and "suspicion". The specialized colleges presently being formed at the Technical University and at the University of Economics are new examples of the fact that specialized colleges are important factors in filling the educational gap at the university level, and the specialized colleges have a significant role in enhancing progressive political thought. It would appear that the more recent specialized colleges too are evolving from clubs and circles.

Another form of cooperation among clubs and circles is the movement of clubs aimed at familiarizing society with Hungary and with socio-political (national reform) issues. This is a movement that can be found both within and outside of universities. At the 1985 meeting in Szentendre, representatives of the Petofi Club of Szentendre, the Loading Dock Club, the Fabry Circle, the Econo-Central Europe Club, the Phoenix Club, the Circle 405, the Laszlo Nagy Circle, the Friends of Folk Art Circle, etc. were present. Their primary topics pertained to possible forms of cooperation, mutual information exchange, maintenance of relations with Hungarian clubs in Northern Hungary, and the possible functions and roles clubs could perform. Clubs having a number of viewpoints and standards communicated and exchanged their ideals. In time the meetings were held on a regular basis, and the regular meetings enjoyed the support of the PPF National Council. The greatest event in the history of the club movement was the first meeting of clubs and circles concerned with national awareness and socio-politics held in 1986. During the four-day meeting 150 participants debated issues concerning Hungary's national fate. Topics included the possible reform of the economy and of the political system, societal deviations (suicide rate, demography,) regional inequalities, national affairs in Central-Eastern Europe, as well as problems attending the further development of, and cooperation between clubs.

It is unfortunate that certain undesirable phenomena (over-regulation, suspensions and prohibitions resulting from unwarranted fear, etc.) make further advances difficult.

12995

CSO: 2500/433



HUNGARY

POLITICAL

#### FEWER RESTRICTIONS ON VOLUNTARY ASSOCIATIONS URGED

Budapest ELET ES IRODALOM in Hungarian 22 May 87 p 7

[Interview with Professor of Law Laszlo Solyom, Lorand Eotvos University of Arts and Sciences, by Janos Szeky: "Cactus Or Environment; A Conversation About Associations"]

[Text] In these days we hear more and more about various associations. Either because they were just formed, or because they were not able organize. Why is there an increased interest today in organizing an association? Why the difficulties that are greater than necessary. Why is the collection of cacti a "safer" hobby than the preservation of cities? What do association bylaws contain? These are some of the questions we sought answers to from the foremost subject expert on associations in Hungary.

[Question] According to official tests, the main thorofare where I live is one of the most polluted areas of the country. For various reasons--for instance because I consider it a hopeless case--I do not seek out the residents in the area so that we initiate joint action for cleaner air. But if I were to do so, the first idea to come to mind would be the establishment of an association. Is this somekind of a reflex?

[Answer] Although the constitution guaranteed the right to associate, this concept is interpreted rather narrowly in practice. Everyone thinks that associations are the legal form for the exercise of the right to associate. This right, however, is not exhausted by virtue of organizing an association. The legality of movements and communities that have not assumed a legal character is subject to the same criteria as the activities of any private person or governmental organization. In other words, in and of itself the concept of a movement viewed as the form in which the right to associate is being exercised, is legitimate.

[Question] But if I am looking at an association, it frequently will not even occur to me that there are people behind it. At first I envision a bureaucracy.

[Answer] The rather colorful association life of earlier days, prior to 1948 has ceased to exist. In its place there came some large associations and organizations that were directed by the higher ups. A bunch of hobby associations, such as fishermen, hunters, dog-breeders and cactus growers survived. In the minds of state regulatory authorities the notion prevails that these hobbies, and nothing else are the outer limits of the exercise of the right to associate. Even today, whenever I argue with state regulatory experts, they say that associations are supposed to satisfy leisure-time activities.

[Question] Speaking of the right to associate, it would be interesting to review the legal background of associations.

[Answer] The right to associate is a constitutionally guaranteed civil right. An individual rounds out his autonomous personality by associating with others voluntarily, rather than in response to some command. In the legal setting all this looks as if individuals were autonomous in the context of civil law, and in every other respects were subjects of the state. Traditionally, civil law has dealt with property relationships because it was property that guaranteed autonomy. Since the significance of property in this respect has ceased to exist, the meaning of freedom shrunk and is now reflected within the sphere of consumption. And this is why the right to associate was limited to cover only those associations that serve consumption: the hobby associations. We have now reached the point that in practice too civil law transcends property relationships (even though the entrepreneurial sphere has also expanded in recent times.) The revival of the right to associate is part of this process.

[Question] So then, what is the bottom line? What prompts people to form associations today?

[Answer] The change that prompts citizens get involved in public affairs is a phenomenon of the past ten years. The spectacular signs of this change were the establishment of various urban beautification associations, a few associations that have their origins in movements aimed at the preservation of the natural habitat, and attempts by the entrepreneurial movement to have its own association to protect entrepreneurial interests. A wonderful example of this is the recent association of individuals with large families. Common bonds within an association may be a commonly held ideal--the specialized college students' national association would have been one of these--or a common interest, such as that of the small entrepreneurs. In these cases the legal flaw occurred when the associations also wanted to pursue business activities which were inconsistent with the concept of associations. A commonly held concern motivated the organizational attempts of environmental protection associations, and common forms of enjoyment are the basic catalysts of millions of hobby associations.

[Question] Needless to say, the private sphere is inseparable from public affairs, but nowhere do the two meet in as dramatic a way as they do regarding environmental issues. Under the broad concept of environmental protection even the most common economic processes, the ones individuals are least capable of influencing, affect the individual most profoundly. Put bluntly: they affect the individual's body functions and survival. Apparently this is why recently some economic and technological decisions evoked such great response (Dorog, Mosonmagyaróvár and the rest,) because these movements came about as a reaction to those decisions. But why are there so few environmental protection (or naturalist) associations?

[Answer] Sooner or later the fate of any movement is that it either fades away, or becomes institutionalized. At this point in time, environmental protection movements have reached the stage of becoming institutionalized. At the beginning all these movements in Hungary were based on conflicts and were highly charged with emotion. Being directly affected, the commonly felt menace is what brought these individuals together, and in the cases you mentioned, the people were confronted with final decisions. This period lasted for three or four years, and with that the "heroic era" of environmental protection movements came to an end. Meanwhile, however, the condition of the environment is rapidly deteriorating and the population is becoming increasingly aware of the danger. They are visibly preoccupied with Chernobyl, with the sudden deterioration of Budapest drinking water to third-rate, with air pollution which we talked about earlier, with acid rain, and so on. In my judgment this would be the time to form an association—one that does not have as its sole aim to criticize specific problems (even though it would perform these functions too,) but instead would provide a forum for experts from various professions who do not "speak the same language", or others from the same profession, but who are not being influenced by relationships of dependence. There would be a need for an organization that educates the public, provides access to the basic literature on the subject and thus enables self-education. In other words, the association I have in mind would not only exert negative criticism, but would act positively.

[Question] Let us revert to the individual cases. If I were interested only in reducing pollution in my street, from whom would I have to request a permit for the establishment of an association?

[Answer] If we read the laws narrowly, the answer would be: from no one. You would be exercising your constitutional right. This exercise, however, is tied to certain conditions, which amount to receiving a permit. Actually we could view this phenomenon as the severely restrictive regulatory counterpoint to libertarian rules of conduct contained in the Code of Civil Law.

[Question] Then let's put it this way: to whom do I have to report my intent to form an association?

[Answer] The question is not at all as self-evident as it sounds. Instead of having a supervisory authority which would ascertain that the organization was established consistent with applicable law, and would do so only after the association was established, the situation is that even the beginning of organizational activities must be reported to the future supervisory authori-

ty. The Ministry of Interior has the authority to ascertain that no one is engaged in organizing activities without the prior reporting of such activities. It is an unfortunate situation that if the future supervisory authority is concerned about an association in the process of being organized, it will simply state that it has no jurisdiction with respect to that fledgling association. At this point the organizers of the association turn to another supervisory authority, and the ballgame continues until those intent on organizing the association give up with their endeavour. Since 1983, however, there exists another way out: on the basis of authority granted on a case by case basis, a social organization may provide supervision for an association. Through this process a number of associations found safe harbor within the PPF--the latest one being the large family association. My colleague, Gabor Halmai, who teaches at the Karl Marx University of Economics has a simple suggestion that would resolve all problems. The registration and legal supervision of associations should be assigned to the courts.

[Question] And this "court of associations" would be suitable to determine --and I quote the law--that the purposes of the association are not in conflict with "the social and economic order of the Hungarian People's Republic"?

[Answer] In order to accomplish this there would have to be a law which places this type of decisions within the ambit of the courts. Present provisions do not provide for judicial review during the period that starts with the reporting requirement and ends with the actual establishment of an association. The supervisory authority can prohibit the organizational activity and there is no legal recourse to remedy the determination. An association can go to court if it already held an organizational meeting and the supervisory authority refuses to register the association following such an organizational meeting. The authority that receives a report announcing the commencement of organizational activities is obligated to seek out the specialized authorities that are relevant to the functions of the proposed association, and in particular the county police headquarters--in the case of a national association, the Ministry of Interior. The latter is required to certify that the purpose of the proposed organization will not conflict with the state, or with the economic and social system. The decisional authority is thus even further divided and the actual decision-makers are even less visible to the citizen. And besides, the citizen is even farther removed from the possibility of seeking judicial review. This is the reflection in law of the fact that forming an association is still being viewed as a political matter, instead of turning it into a routine regulatory matter, similar to the registration of small businesses.

[Question] Could we then generally state that it is not in the interest of local regulatory organs entrusted with the making of this kind of decision to see the establishment of associations? The reason being the strategic situation and the operational principles of those authorities.

[Answer] It is not always in the interest of the authorities to permit the establishment of associations. If, for instance there exists an official local viewpoint and also a popular opposing viewpoint, it will not be in the interest of the authorities to support its own critics, not to mention

providing support by granting legal standing to the critics. It is enough trouble already for the authorities to confront critics gathered in the form of movements that have no legal standing. Any regulator will view the establishment of public interest associations as a limitation the regulatory authority, and as the establishment of parallel channels of control. I know of one case in which the residents of a large village wanted to establish a cultural association. The chief objection to the draft bylaws was one of its provisions by which leading village officials holding state or social positions were excluded from holding office within the association. In other words: the organizers of the association wanted to prevent the possibility of the accumulation of functions. The authorities were also aggrieved by the fact that the bylaws required the association's files to be open for inspection by anyone--and the authorities argued: what will then happen to official secrets? In the end the association's organizers gave in on a few points because they wanted to start work as soon as possible.

[Question] What are the forms of control with respect to already established associations?

[Answer] The supervisory authority continues to exercise control over the legality of the functioning of the association, to see whether that functioning is consistent with the association's bylaws and with applicable law. The supervisory authority requires the association leadership to file reports, it will visit various functions organized by the association, it receives copies of resolutions passed at association meetings, it has the authority to set such resolutions aside and to dissolve the association. (To do that, of course, the supervisory authority once again must petition the police, and must seek out the opinion of the police.) For all these reasons it is incomprehensible why the authorities are reluctant to support the organizational endeavours of associations. Associations would create a clear-cut, civilized, controllable situation, in which the list of members are fixed on paper, and the leaders are responsible officials with whom the authorities could negotiate. In contrast: movements do not possess the quality of internal discipline required for high standard operations, their leadership mechanism is intangible. One cannot tell which part of the movement accepts responsibility for one or another decision. It is precisely for this reason that we need legal provisions that regulate both parties, so as to facilitate the establishment of associations. This would be in the interest of both the authorities and the citizens.

12995

CSO: 2500/438

## RESTRICTIONS ON FOUNDING INDEPENDENT ASSOCIATIONS CRITICIZED

Budapest MAGYAR NEMZET in Hungarian 22 Jun 87 p 3

[Article by Istvan Javorniczky: "Shall We Found Associations?"]

[Text] No great joy awaits someone who heeds the exhortation of headlines these days. Having lived through all the torture which awaits him since he indicated his intention to the authorities, he regrets a thousand times that he ever foolishly took it into his head to found an association. But no one should believe that the faces of those officials are shining with happiness who were given the right to pass judgment on those ideas which appear viable but are often pronounced stillborn. Everyone who becomes involved in this matter on the one side or the other is suffering from the present situation.

#### Crisis of Confidence

This unfortunate situation would in itself be too little for a truly important subject like this to receive as much publicity as has been recently given to it by our newspapers. The long-maturing willingness of those who make political decisions was also needed in order that--in the hope of a change in the near future--it should be worthwhile to devote conferences, discussions and articles to what the association law which has long been in demand should be like. In the background is the fact that the association is back in style again and not even immense obstacles and bureaucratic knots will deter people from passing some of their free time in this manner, from uniting for the realization of goals they regard as sensible. This mood has been heightened by the dwindling drawing power of organizations established and guided from above, but it is also a fact that large organizations are simply unsuitable to conduct certain activities. This good fashion has also "produced" people who saw that they could fry their own bacon at the little fires that flared up here and there, or, appropriating the title of expert, they sought to keep a tight hold on the positive developments. They would refer to political and other fears and misgivings, according to which it is necessary to guard against endangering the developed order of our society and its operational practice with the citizens' increasing demands for frameworks for more independent activity based on their own strength. For example, some appeared who presented themselves as distinguished "association researchers," and who did not want to support a really substantial breakthrough, regarding as sacrilegious all such regulatory proposals planned to reduce to the minimum

state intervention in the internal life of associations which were using the rights of association established in the constitution. From the beginning, the People's Front voted not only for a formal, but a genuine change. This was indicated by the creation of an association forum that put on its agenda several questions of detail, and by the decision of the Constitutional Committee that it would thoroughly discuss the problems of the planned legal regulation.

As Dr Istvan Kukorelli, lecturer and secretary of the committee, put it: The present situation is beyond criticism. The establishment of the various federations and associations was accompanied by tempests and brawls. For example, the naturalists impeded the organization of a Budapest urban protection group or a Dunapataj association. These conflicts increased the mistrust toward the state and aroused a lack of comprehension and pettiness in thousands of people. It was difficult for them to understand why they were being obstructed in their well-intentioned initiatives.

#### Entrust It to the Courts

Lawyers versed in the subject generally agree that legal regulation of the associations has become gradually stricter since the first legal decree in 1955. Today there are legal stipulations, superficial in appearance and representing obstructions, like the one that requires the reporting not only of the establishment of an association but the initiating of its organization. In the present situation this leads to absurdities, because those who express an opinion about the right of a given association to exist are the ones in whose area of activity the new organization seeks to operate, signifying in any event competition and the possibility of representing and realizing a different position. It cannot be expected of the most unbiased authority that it will willingly help a rival enter the arena, when it can easily prevent its coming into existence.

Both in the Constitutional Committee, and in other forums of the People's Front, the attitude developed that the association law should limit itself to the registration of the association as the condition of its founding. This, however, should be carried out by a court. Many are inclined to not have the registration done by specialized organs and potential rivals, with supervision only to be confined to control over legal operation, and to have this also as the task of the courts. It was also proposed that social organs, for example, the People's Front, should take on certain supervisory rights, but most of the experts thought it would be better to develop a correct state supervision, instead of "socializing" it.

In the final analysis, the thrust of these ideas is to raise to a legal level the principle that if an association's request meets the conditions prescribed in the law and does not conflict with the limits set therein, the initiators should have a subjective right to establish the association and their only remaining obligation should be registration. It is certain that a regulation in this spirit would have an exhilarating effect on the life of the associations that now has such a poor image. On another occasion Istvan Kukorelli quoted to his colleagues in the People's Front from a description made by

Ferenc Erdei of the pre-1945 Mako society which had 86 associations. Today the town has only three sport clubs and two fishermen's associations. The picture is not more heart-warming elsewhere. Most of the 217 national associations were established by the authorities, and their leaders are people who were commissioned from above. Most of the 6,500 local associations are sport and firemen societies, and it can rightfully be said that there are very few societies, associations, circles of friends, and clubs in our country.

#### A Law Advanced in Time?

The weakness of the present regulation is that it does not approach the problem from the viewpoint of the citizen. To alter this, it would be necessary to undo the knot whereby the intention to establish an association is handled as a political matter, although in most of the cases this does not even arise originally, and it receives such a character only in the course of suspicion and rejection. An yet variety, the abundance of forms and opportunities would improve the disposition of the citizenry, which in the present overcast times would benefit everyone.

The right of association is broader than the rights of the associations, and its use would be a way to establish associations. Most people do not insist on those advantages which the association form offers, they simply want to meet with relative regularity and in a more orderly way with similar people. These associations and circles of friends demand only one thing: a guarantee that no one will prevent them under any sort of pretext in this intention. And as these manifestations of association right are the most simple from the legal point of view, those that cause the most problems are the so-called social organizations. It is now difficult to distinguish between the social organizations that are expressly political and in fact play an important role, from those that are "specialized" in interest representation or in whose activities the political element is negligible.

In truth, all the forms that are pertinent here should be regulated, all the more so because as Antal Adam, professor at Pecs University, put it at a meeting of the Constitutional Committee: If those comprehensive economic and social changes come about which most members of society demand, then the political organizational mechanism will also have to be further developed. But for the time being we must be content with a step-by-step progress, and it would also be a result of consequence if we succeeded in advancing the deadline for framing the association law now set for 1980-1990. The People's Front firmly supports this. The final word, however, has not been spoken. Until then, because of the above-mentioned problems, there is a brooding question mark instead of a clear exclamation mark at the end of the title of this article: "Shall We Found Associations?"

6691/13046  
CSO: 2500/415



## INCREASED PLANS FOR DIRECT INDUSTRIAL RELATIONS WITH USSR

Prague SVET HOSPODARSTVI in Czech No 64, 1987 p 1

[Article by Kveta Cerovska: "In The Interest of Developing Direct Relations; Czechoslovak Economy and Technology Days in Leningrad"]

[Text] Plans call for increasing the volume of trade between Czechoslovakia and the Soviet Union by about 33 percent over the course of the 1986-1990 5-year plan, to about Kcs 820 billion. Along with the shift from simple trade in goods to industrial cooperation, this rapid increase in trade is one of the major characteristics of current Czechoslovak-Soviet economic and R&D cooperation.

The USSR is our most important partner in the area of specialized and cooperative production projects. Some 86 percent of such projects in the export area involve engineering products. Both sides are currently devoting considerable attention to expanding cooperation between associations and enterprises in the CSSR and USSR within the context of direct production and R&D relations, including the establishment of joint ventures and organizations. This is an outcome of independent processes in the evolution of the international socialist division of labor that will shift the focus of cooperation from intersectoral to intrasectoral and intra-divisional specialization and cooperation. The development of operational cooperation between enterprises, research institutes and worksites will facilitate the improved utilization of research and production facilities, reduce costs, reduce the consumption of raw materials and energy, improve technical sophistication, reliability and product quality and improve product competitiveness.

These new forms of cooperation were finalized in November 1986 when the CSSR and USSR governments signed agreements on direct production and R&D relationships between associations, enterprises and other organizations of the CSSR and USSR, and concerning the principles for the establishment and operations of joint ventures and international associations and organizations. This new stage in cooperation among the two countries was further confirmed during the official visit of Mikhail Gorbachov, general secretary of the CPSU Central Committee, to Czechoslovakia in April of this year.

Currently 124 agreements covering direct relations have been signed between Czechoslovak and Soviet enterprises and organizations. The Czechoslovak-Soviet Trade Commission is actively assisting in the development of this cooperation. One specific manifestation of its activities are the Czechoslovak Economy and Technology Days, which have been held now for a number of years at industrial and commercial centers in the USSR. This year the Czechoslovak-Soviet Trade Commission [CSSOK], along with the Czechoslovak Trade and Industrial Commission [CSOPK] and the Leningrad Trade and Industrial Commission [OPK], has been organizing this affair for 10-18 July. Leningrad was the sight of Czechoslovak Days in 1976 and again now, on the 70th anniversary of the great October socialist revolution. In addition to 24 lectures by experts that will be given by representatives of Czechoslovak foreign trade organizations and production firms, and which comprise the major content of Czechoslovak Days, a number of other programs are scheduled. These include a round table discussion and press conference, a fashion show, a tasting session for Koospol foods, candies and nonalcoholic beverages, sectoral days for Pragoinvest, Sigma, and Tentrotex, etc. The expert lectures will concern equipment for nuclear power plants, new generation laboratory instruments for chromatography and electrochemistry, Tesla medical electronic instruments, machinery and equipment for biotechnology, for the production of dehydrated and powdered foods, new products for the Czechoslovak components stock, testers for electronic equipment, the new export policy of exporting footwear to the USSR and microelectronics applications in the footwear industry, modern equipment for palletized warehousing, the development of flexible manufacturing systems and operatorless machines in the CSSR, the current status and prospects for pneumatic weaving, the current designs and status of new equipment for the processing of lime, the economic principles of automated control systems in the production of construction materials, etc. The purpose of these lectures, which will be given mainly in factories, will be to point out further possibilities for direct relationships and the establishment of joint ventures in the areas of discussion. These questions will also be on the agenda for the official Czechoslovak delegation, under the leadership of the deputy premier of the CSSR Government and premier of the SSR Government, Petr Colotka.

The multifaceted relationships between Leningrad and Czechoslovak organizations are confirmed by the existence of 124 agreements concerning direct relationships between enterprises of both countries, 20 of which involve firms located right in Leningrad. A list of these enterprises and the object of the cooperative relationship follows:

- The Leningrad Institute for High Molecular Compounds and the Institute for Macromolecular Chemistry of the Czechoslovak Academy of Sciences [CSAV] have established a joint collective for the processing and utilization of membrane materials to perform tasks in the food, chemical and pharmacological industries;
- The All-Union Research Institute for Agricultural Microbiology, the CSAV Microbiology Institute and the Ceske Budejovice Soil Biology Institute will be conducting joint research on atmospheric nitrogen fixation in the rizosphere of nonleguminous plants;

- The Lenprodmas Industrial Association and the Skoda concern will be cooperating on the production of equipment for the tobacco industry (modernizing cigarette production lines with a capacity of 4-5,000 cigarettes per minute);
- The Leningrad Sputnik General Engineering Association and the Hlinsko Elektro-Praga national enterprise will establish and manage a joint facility for the production of household appliances;
- The All-Union Research and Development Institute for Health Care Laboratory Equipment and the Stara Tura Chirana national enterprise will work jointly to develop high efficiency microanalytic systems for biochemical laboratories;
- The Leningrad All-Union Abrasives Research Institute and the Benatky and Jizerou Joint Plants for the Production of Carborundum and Electrites, national enterprise, plants for engineering machinery will research and develop jointly new production technologies for electrocorundum materials;
- The Leningrad Precision Machinery Design Office and Sezimovo Usti Kovosvit concern enterprise will research and produce a number of digitally controlled lathe modules;
- The Leningrad Central R&D and Design Institute for Fuel System equipment for Mobile and Stationary Motors and Jihlava Motorpal will cooperate in the production of fuel pumps for diesel engines;
- Leningrad Elektrosila and the Electrotechnical Plant of Prague Ceskomoravska Kolben-Ganek [CKD] have signed an agreement for joint research on AC electric machines with capacities in excess of 1,000 kilowatts;
- Leningrad Elektrosila and Plzen Skoda, an agreement for research and production of cryoturbogenerators of various capacities;
- The All-Union Electrotechnical Research Institute and the Brno High Voltage Engineering Plants will cooperate on the development of fixed magnet thyatron motors;
- The Central Research and design Institute for Boilers and Turbines, Plzen Skoda and the Tlmace SES national enterprise will cooperate on the research and production of experimental models of special turbines;
- The All-Union Design and Technological Institute for Power Engineering, the Skoda concern and the Bohumin Gustav Kliment Ironworks, a cooperative agreement for modernizing production techniques for turbine blades;
- The All-Union Design and Technological Institute for Power Engineering, and Plzen Skoda have signed an agreement for the design engineering and R&D work related to steam turbines and cooperation in research on strength of materials and shielding components of VVER 1000 nuclear reactors;
- The Izorsky A.A. Zhdanov Plant and the Vitkovice concern, an agreement for modernizing the technology and equipment design for nuclear power engineering;
- The Leningrad Paper Industry, IRAPA, and the Prague Development and Efficiency Enhancing Institute for the Paper and Cellulose Industry, an agreement to develop a production technology for filter papers to purify liquid diesel products and air, as well as developing systems for the efficient use of water, for waste water purification during paper and cellulose production;

- The All-Union Research and Design Institute for the Aluminum Industry, the Brezany Panenske Metals Research Institute and the Ziar nad Hronom Slovak National Uprising Plant national enterprise, an agreement for modernizing bauxite processing technology;
- All-Union Research and Design Institute for Carbides, The Sumperk Pramet Powder Metallurgy Research Institute national enterprise have agreed to develop jointly special techniques for hardening the surfaces of sintered carbide tips.

The restructuring of foreign economic operations is in its initial stage. We must reach a situation in which direct relationships are truly the shortest way to mutual advantage. Such events as the Czechoslovak Economy and Technology Days certainly contribute to achieving this objective.

9276/9190

CSO: 2400/366

## PARTY COMMISSION DISCUSSES MEDICINE SUPPLY

AU081758 Bratislava PRAVDA in Slovak 1 Jul 87 pp 1, 2

[CTK report: "CPCZ's Central Control and Auditing Commission Holds Session; Emphasis on Thrift and Discipline"]

[Excerpts] Prague (CTK)--The CPCZ's Central Control and Auditing Commission, presided over by its chairman Jaroslav Hajn, held its seventh session in Prague yesterday [30 June]. The deliberations were attended by Karel Hoffman, member of the Presidium and secretary of the CPCZ Central Committee, by ministers of Health and the National Governments Jaroslav Prokopec and Eva Tokolyova, and other officials.

The commission discussed the results of a check on how Communists--ranking personnel and party organizations in the Ministries of Health of the Czech SR and the Slovak SR, and in subordinate organizations--have been fulfilling the resolutions of the 17th CPCZ Congress in the development of production, exports and imports, and in the overall handling of medicines, and demanded an improvement the standard of management and organizational work. It noted that our society has been devoting systematic attention to the care for the peoples' health and to the population's supply of medicines and medical material. This is attested to, among other things, by the growing expenditure for health care, which in the Czech SR alone is being increased--compared with 1980--by almost Kcs7 billion. A similar development exists also in the Slovak SR.

The CPCZ's Central Control and Auditing Commission has ascertained considerable shortcomings, especially in the contractual discipline between production and distribution organizations of the department [rezort], and in their onesided orientation toward the volume indicators of the plan, the consequence of which is that one has not fully succeeded in bringing the structure of production and distribution into harmony with the needs of medical services. Several medicines are in short supply, and they are not being produced in the necessary quantity, one of the reasons being that their production has an unfavorable influence on the enterprises' creation of profit. This is not in harmony with the mission of this branch. The check also revealed shortcomings in the distribution of medicines and in the work of pharmacies. The causes of this state of affairs lie in the lack of knowledge of the real needs for types of medicines, in irregular supplies, and in some places also in gross disorder in storing them.

The commission was also informed about the results of an operative [operativni] investigation of how the resolution of the CPCZ Presidium of 17 December 1986 is being implemented, a resolution which was adopted after the discussion of the report of the CSSR Committee of Peoples' Control on untruthful reporting of the fulfillment of planned tasks and indicators in economic organizations.

/9716

CSO: 2400/388

## PROBLEMS WITH FULL KHOZRASCHET UNDER RESTRUCTURING VIEWED

Prague HOSPODARSKE NOVINY in Czech No 23, 1987 pp 1, 5

[Article by Prof Eng Zdenek Haba, candidate for doctor of science, Economics Institute of the Czechoslovak Academy of Sciences: "Problems with Full Khozraschet"]

[Text] In its classical, textbook form, khozraschet is a technique of socialist management based on the relative economic independence of the enterprise, on the coverage of costs from enterprise revenues, on material incentives to and the responsibility of the enterprise for its own economic performance and on accounting for and monitoring this performance. In the practice of past years the above principles have been implemented only formally, and incompletely, a situation which led in the mid-1960s in the USSR to the creation of the term full khozraschet. Currently this term has become generalized and has come to reflect the overall conception of the restructuring of the economic mechanism. [Note: "full khozraschet" will be referred to as "full cost-accounting" in the remainder of this translation.]

## Not Enough to Just Agree

The process of formulating Principles of Economic Restructuring, the discussions surrounding the draft law concerning the state enterprise, and other economic documents is indicative of how hard it is for many workers fully to comprehend the importance of full cost-accounting, to, as it were, peel off their old planning skins and act on all the implications that full cost-accounting involves.

According to Principles of Economic Restructuring, full cost-accounting means that those enterprises that implement it:

--have under their administration a certain sum of material and monetary resources of the society and are obligated to manage them in a way so that their operations satisfy social needs, so that its revenues cover its expenses and leave a residual, i.e. net revenue to serve as the basis for further social as well as internal development;

--manage themselves independently under regulations that are applied uniformly to the entire national economy, formulate and fulfill their own

economic plans, which in turn are established on the basis of binding indicators and state plan standards, on the basis of customer requests and the current needs of technical, economic and social development;  
--manage themselves independently under regulations that are applied uniformly to the entire national economy, formulate and fulfill their own economic plans, which in turn are established on the basis of binding indicators and state plan standards, on the basis of customer requests and the current needs of technical, economic and social development;  
--bear economic accountability for their performance, i.e. they are required to transfer planned amounts to the state budget and to cover all other commitments, taking the funds if need be from wage funds, while on the contrary keeping any funds left over after the transfer payments and using them as they see fit;  
--must actively involve its work collectives in the formation of the economic and social policy of the enterprise and in its management.

These principles usually do not meet with any objections. Everyone acknowledges that they are correct and necessary. We need however, to pay not only lip service to them, but to adopt the full concept of full cost accounting. What is one, for instance, to think about the coexistence of full cost-accounting and the counterplan?

The counterplan, understood as a usual component of the planning process, is inextricably linked to a directive style plan breakdown. It is intended to mobilize those capacities at the enterprise level that the center cannot be aware of with a directive breakdown. If, though, an economic organization is to implement a plan itself, on its own authority, then undoubtedly everything that under the other conditions would have been put in its counterplan will be included in its own economic plan as well. It will have the fullest possible interest in how demanding the plan is, because it will determine how well it meets subcontract deliveries and normal sales targets. What good is a counterplan, then? Still we talk about it in the same breath as full cost-accounting.

Even in specifying the Principles of Restructuring, comprehensive analyses of management are written about in a way that would give the impression that such comprehensive analyses will be a major condition for the closing out of annual enterprise economic performance records by a supervisory agency, and therefore a major determinant of the related bonuses for the senior managers of the enterprise. However, in Principles it is stated unambiguously that the decisive criterion of enterprise performance must be net revenue (in a specified form) and that this indicator must be linked in a fundamental way to the economic incentives for the entire work collective. This implies however that closing the books at year end is all that is required to evaluate enterprise operations. A comprehensive management analysis of the enterprise is essential for internal requirements as a component of internal enterprise management, and sometimes as a tool for spot controls from above, or as a forerunner for the installation of a special operating mode in cases of long-term poor performance by an economic organization. As a regular component of central management, however, comprehensive analyses are excessive and nonsystemic.



The implementation of full cost-accounting has other results as well. We are accustomed, for instance, to equate bonuses and premiums with 100 percent or more plan fulfillment, which was a logical extension of indicator-based planning of the volume type. Under the logic of the restructuring, however, 100 percent plan fulfillment is entirely formal. The plan is flexible, the enterprise is able to and certainly will modify it. Tying bonuses in this environment to the magical 100 percent level is unnecessary, because the enterprise can change the limit. It is even against the spirit of the restructuring, which evaluates work collectives based on their final economic performance. An enterprise cannot pay 104 percent in bonus and premium based on 101 percent plan fulfillment (after calculating premium and bonuses), but only a 101 percent bonus for 101 percent fulfillment. Bonuses are paid for what is actually produced, not for what has been planned. The 100 percent plan fulfillment limit, which has on its conscience so many low quality products and so many untruthful declarations about the true status of our economy, loses its purpose when used in this way. Premiums and bonuses may be paid from money that the enterprise has saved by conserving standard wage resources, and in reality have some economic justification only in this case. Nevertheless even this elementary principle seems too revolutionary to stereotypical thinking.

#### An A Priori Negative Attitude

Examples of the fact that Principles of Economic Restructuring have been accepted only in a formal sense without any deeper understanding of the implications is easy to come by and not only from the area of full cost-accounting. This attitude hampers the further elaboration of these principles and causes unnecessary obstacles to their implementation. One may understand that certain management agencies may not like losing some of their authority. But if we want to give additional authority to enterprise then it must be taken away from someone else. This need not offend them because in addition to losing some of their authority they will also be rid of some of their previous responsibility. This responsibility will then rest on the work collective of the enterprise, which will in turn receive tasks and authority of more economic and national importance than it executed previously.

Even while emphasizing the fundamental importance of increasing the independence of the enterprise collective for the implementation of full cost-accounting, we should also not lose sight of the fact that this independence is not an end in itself. It must serve some purpose. What is basic is how the purpose of the enterprise is defined. If we increase the independence of the enterprise, and significantly decrease the number of centrally established indicators, etc., this in no way means that we are operating in the spirit of a restructuring. If we retain the current cost orientation of the enterprise, its focus on extensive development, then clearly increased economic independence for an enterprise will result in still stronger extensive tendencies, because the enterprise will have a material interest in them. A focus on cost savings requires a change in the basic criteria for enterprise evaluations, a shift from volume indicators to qualitative considerations, and above all a focus on the net revenue indicator (profit).

Here again we meet with superficial attitudes, with a priori negative attitudes motivated by improper analogies to capitalist profits, a failure to understand the economic content of net revenue, one appropriate to full cost-accounting. The question now is not whether net revenue can fulfill the function of a standard setting indicator for enterprise economic operations, but what definition of net revenue can fulfill this function. There are different opinions on this.

It is my opinion that the first condition for fulfilling this function is a concept of net revenue which defines it in its original form as the difference between the revenues and the expenses of an enterprise. This means that it is not added in a specified amount to the price of a product, i.e. that the price cannot be formed according to the composition principle (overhead costs plus an average profit). Even the composition of net revenue itself does not contribute to a true objectivization (if it is composed of elements that will later on need to be removed from the concept of profits). To the extent that the level of net revenue is predetermined it ceases to be a description of the final economic performance of an enterprise and actually says very little about the true production efficiency of a sector and still less in terms of intersectoral comparisons needed for structural decisionmaking.

A second condition is that net revenue also reflect the fulfillment of product line objectives. This can be accomplished directly only in the event that prices are formed freely, that enterprise production programs are developed freely, and that factors of production can be allocated freely. In other words, given the existence of a freely competitive market unfettered by either a binding plan or monopoly structures'. This environment is not realistic if we want to remain on the soil of socialism. Product line objective fulfillment can be expressed indirectly as net revenues adjusted for failure to meet certain targets. This is assumed by Principles of Restructuring: net enterprise revenues will be reduced by a penalty amount for the failure to meet contract obligations (which represent a concrete national order for specific amounts and types of goods) and by amounts for failure to fulfill state plan targets. These targets will be priority, and for this reason the reductions should not be thought of as a penalty. The result is net revenue (net profit--the payment of other obligations is assumed) which will be the basis of the economic incentives for the enterprise collective. Now there is a problem. Should enterprise incentives be tied to this level of net revenue, or to its residual level after transfer payments to the state budget, or in some cases after required contributions to enterprise funds, i.e. to so-called disposable net revenues? If the sole factor in wage formation is to be disposable net revenues, then a gap will again open up between the national interest in the overall size of the surplus product and the enterprise interest only in that part of the surplus product that remains for its independent utilization. The public contribution, represented by the transfer payments, will actually be viewed by an enterprise as its cost (something like rent). The predictive capability of net revenue regarding actual efficiency will be distorted by the level of predetermined transfer payments. For this reason it would appear to be more effective to link

the standard setting function of net revenue with net profit, not with disposable net revenue.

In the third place, net revenue may serve as a measure of efficiency only if there is a specific national standard set for it to which the actually achieved net revenues of every individual enterprise may be compared. The formation of standards for net revenues should therefore be a top priority for central agencies, the more so because inventory figures and capital asset reevaluations can aid in its objectivization. Unfortunately it does not seem that this is getting the attention it deserves. If it is not resolved at the requisite level, however, the standard setting function of net revenues will lose its effectiveness. It is not sufficient in this instance to define a standard of efficiency only as a relative indicator (the level of profitability compared to the replacement or acquisition value of the capital stock), or as the absolute amount of the contribution expected from the enterprise both by the consumers of its products and by the state budget.

#### Practice will Determine the Outcome

The problems surrounding net revenue and its relationship to economic incentives are numerous. Not all of them can be resolved by boardroom decisions. Practice will in the end determine which variant is optimal given current conditions. Experiments, whether in actual or simulated environments, must take more varied forms so as to obtain more information, and under no circumstances should be some kind of alibi for the possible future failure of this or that program. After all, we all know how limited the predictive capabilities of economic experiments are, now they depend on the behavior of the object of the experiment in its particular environment, and how much this determines the final report on experiment results.

At the present time we are facing critical decisions regarding the further restructuring of the economic mechanism, and its integration into a complex of implementation measures. It would be illusory to think that everyone participating in its formulation will agree and even if they did that the practical implementation would move along smoothly. Even in the USSR and other socialist countries where they began to gather experiences with the current type of economic reform five and more years ago restructuring is understood as an open process that is never definitive or closed. There is no resistance to the idea that in the future it will be necessary to change something, add something, or take something away. It is important, however, that the new quality of the economic mechanism be fully and correctly understood, incorporated in prepared measures and that there be no vacillation with their implementation. We need to learn how to think and manage in a new way, and we will learn to do this most rapidly by day to day operations, and actually managing under the new principles.

9276/9190

CSO: 2400/362

## COMPUTER SHORTAGE, DIFFICULTIES WITH EXPERIMENT DISCUSSED

AU281552 Bratislava PRAVDA in Slovak 25 Jun 87 pp 1, 2

[Report by Bratislava PRAVDA staff journalists Iveta Fryvaldska and Frantisek Zdobina on the debate of deputies at the fifth joint session of the two chambers of the CSSR Federal Assembly in Prague on 22-23 June: "Active Approaches to Tasks Will Decide"]

[Excerpts] Computerization and Education

Our educational sphere has the important task of training qualified experts not only for the computerization [elektronizacia] of the individual branches of the national economy, but, in particular, to prepare the contemporary young generation for the everyday use of electronics. Therefore, we were particularly interested in discovering in the committees for culture and education to what degrees the implementation of the demanding program for the computerization of schools and equipping them with most modern technology has succeeded--we quote from the speech by Ruzena Gdovinova, deputy of the Chamber of the People.

Almost 3 million people are being educated and are working within the framework of the sector of the CSSR Ministry of Education, which is several times more than in any other sector. When teaching, one has to choose methods and forms adapted to the present and employ different means in this respect.

Today's pupils and students will work and create for the greatest part of their productive lives under conditions, which today we can only imagine with difficulty. From this arises the necessity to begin their education in the sphere of computerization as soon as they enter primary school. This, however, puts exceptional demands as regards equipping schools with material and creates the necessity to retrain numerous pedagogical workers in a short span of time.

In 2 years, schools in the Slovak SR received 2,901 microcomputers, and schools in the Czech SR 5,900 microcomputers. The results of the surveys by deputies of the committees for culture and education reveal that this is a very inadequate number. Schools are struggling with a shortage of the necessary technology, which is also very expensive and prone to breaking down. The great advantage, and frequently the only possibility, to make

practical use of top-of-the-line electronics is the cooperation of secondary schools and secondary apprentice centers with enterprises and research institutes.

#### Two Sets of Rules For Enterprises Engaged in Experiment?

Vitezslava Kluzova, deputy of the Chamber of Nations, noted that it is beginning to be more obvious that the restructuring of the economic mechanism will not be an easy matter. It is being envisaged that some 14 economic production units and enterprises will begin experimenting in the nearest future, or are preparing for experimenting. These economic organizations are in no way linked. That does not mean that the new rules apply only within an organization which, however, "swims" in a sea of completely different rules.

Because the number of units engaged in the experiment will continue to grow, it is my opinion that it would be useful to weigh the possibility of constructing the entire experiment on the foundation of the interdependence of the experimenting organizations. This would make uniform rules valid within the expanding--one could say--type of combine.

As always, the success of the experiment within an organization will in the end be decided by the people. The experience so far shows that in the best of cases one has to wait up to 6 months for the new rules to permeate all levels of the intraenterprise management, to become installed in the consciousness of the people, and to begin being truly effective. When preparing organizations for the experiment, it is precisely in this respect that the biggest mistakes are being made. I discovered one of the poor examples in the Jablonec Glass Works in Desna. For all practical reasons, the experiment does not concern the workers there. At their worksites and within their range there have not been any changes as regards the organization of production and work, in the sphere of remuneration, management, record-keeping, and so forth. The enterprise has already begun rectifying this mistake, but it tellingly showed the inflexibility and formalism of the hitherto way of thinking there.

The food industry, which is currently getting ready to take part in the experiment, shows, in my opinion, a justified apprehension of the difficulties, which must be expected in the sphere of price policy.

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CSO: 2400/388

## ZAK PRESENTS 1986 FINAL ACCOUNT

AU301025 Prague RUDE PRAVO in Czech 23 Jun 87 p 4

["Excerpts" from a report on the states final account for 1986, presented by Jaromir Zak, CSSR minister of finance, at the fifth joint session of both chambers of the CSSR Federal Assembly in Prague on 22 June: "Speeding Up the Pace of Intensification"]

[Text] The dynamism of national income last year came close to the projected growth rate, with its creation having increased 3.4 percent according to preliminary data, that is, by Kcs20.6 billion. Investments grew 1.1 percent, private consumption 2.2 percent, and public material consumption 5.3 percent.

Planned industrial production tasks were exceeded by more than Kcs5 billion. The planned volume of industrial production increased 3.2 percent; the planned construction volume was exceeded by Kcs0.9 billion, which was an increase totalling 2.6 percent; and gross agricultural output increased 0.5 percent, which was in line with the plan.

These results undeniably demonstrate that the Czechoslovak economy made further headway compared with 1985; the degree and the pace of this headway made it possible to ensure a further development of the material-technical base of our socialist state and to raise the population's living standards. Conditions were established to adopt major measures in the social sphere, aimed at improving old age pension and social assistance to families with children.

However, when assessing the results achieved in 1986 in a comprehensive and critically demanding manner, we cannot be satisfied with the fact that--despite the fulfillment and, in some areas, even overfulfillment of volume indicators--we failed to fully meet those indicators that characterize the qualitative aspects of the economy's development.

The social productivity of labor increased 2.7 percent, compared with a planned growth of 2.9 percent; the fuel- and energy-intensiveness of the national economy decreased only 2.3 percent, compared with a planned reduction of 3.2 percent; the production effectiveness of basic production assets decreased 2.4 percent; and the ratio of import and export prices in foreign trade with nonsocialist countries further deteriorated.

The new quality called for in the development of the Czechoslovak economy did not gain ground to the required extent. Extensive tendencies in economic development lingered on and intensification and efficiency growth were slow in coming about.

Problems in the efficiency of management and in the fulfillment of intensification tasks found distinct expression in the results attained with respect to the development of costs and profits. Total profits amounted to Kcs146.5 billion, an increase of 7.8 percent compared with 1985. The profit plan was fulfilled, but there were considerable deviations in the structure of its creation. Contrary to the provisions of the plan, the increase in the creation of profits was accounted for by output that was higher than planned; whereas cost-cutting tasks remained unfulfilled to the tune of Kcs2.8 billion, of which material costs accounted for 2.5 billion.

There is no doubt that scientific-technical progress constitute the crucial factor of economic intensification. That is why a steadily growing volume of material and financial resources is being allocated to development of the scientific-research base. Expenditure for the development of science and technology totaled Kcs19.9 billion last year, 5.9 percent more than in 1985. The workforce of the scientific-research base increased by 3,500 and reached 196,000 employees. They have almost Kcs32 billion worth of capital assets.

From the workforce in the scientific-research base and the implementors society rightly expects that the formidable resources we invest in this sphere will yield the appropriate effect, like, for example, in the case of the automated control system for mill trains developed by the CKD Prague enterprise. This system, which cost Kcs130 million to develop, generates annual savings of Kcs40 million in foreign currency and annual savings of Kcs132 million in costs. This example conclusively demonstrates that where there is a clear concept and where scientific-technical development is in the forefront of the attention of the entire economic management, they also have results that are comparable with those of top-ranking world producers.

From the viewpoint of efficiency of economic development, we also incur losses due to the poor quality and reliability of many products, which finds exceptionally acute expression in the sphere of foreign exchange. The quality of merchandise offered is today the decisive factor in its marketability in nonsocialist as well as socialist countries. The results of preventive checks on the quality of exported merchandise, which show a high proportion of engineering products with defects, are at odds with these requirements--in 1985 this proportion was 21 percent and in 1986 it even increased to 23 percent.

Deficiencies in the quality of merchandise also negatively affect the level of the domestic market and of our citizen's satisfaction. Although the volume of customers' claims for compensation decreased in absolute terms last year, the number of such claims increased for the products of some suppliers of textiles, garments, furniture, and, in particular, electrical engineering products. Because a number of enterprises fail to meet their basic quality control obligations, the well-known measures were adopted at the

close of last year to tighten external control over the quality of products and introduce stricter sanctions for substandard production.

Another crucial prerequisite for speeding up the process of intensification is the profitability of capital investment. Almost Kcs159 billion were spent on capital investment last year, that is roughly Kcs2 billion more than in 1985. Instead of the planned 71 capacities, only 60 capacities designated as mandatory projects were put on trial run last year. Only 61 percent of the projected production volume was achieved at projects that were put on trial run. The continuation of extensive tendencies is also borne out by the insufficient pace of scrapping obsolete machinery and equipment, by the growing number of unfinished projects, and some other chronic ailments that must be quickly overcome in the interest of restoring the entire economy to health.

We also failed to overcome extensive tendencies in the area of inventories, the development of which greatly deteriorated last year. All industrial sectors and the building sector failed to meet the state plan tasks. Planned inventories in industry and in the building sector were exceeded by a total of Kcs9.9 billion.

The total volume of inventories in economic organizations has reached almost Kcs550 billion. These are gigantic sums tying up a disproportionate volume of society's resources, resources that could be put to more effective use elsewhere and which also negatively affect the financial situation of a number of enterprises.

The overall evaluation of the qualitative aspects of economic development bears out the fact that, in spite of some undeniably positive results, in 1986 we did not succeed in bringing about a fundamental turn in tackling the key problem of the Czechoslovak economy, which is the inadequate pace of intensification. The low efficiency of production and the low level of maximalization processes--these are the causes of our difficulties in a number of areas and they assert themselves in the economy in what is often a downright contradictory manner.

These contradictions reflect long-standing problems of our economic development, which lie primarily in the inadequate quality of management. The consequence of this low level of management, coupled with the scarcely demanding economic environment established by the current system of management, is that the objective opportunities stemming from the merits of our social system, from our extensive economic potentials, are not put to full use.

That is why the program for restructuring the economic mechanism was put forward, why we wage with such persistence the struggle to enforce new approaches and change the thinking and conduct of each one of us. We rightly consider the restructuring of the economic mechanism to be one of the crucial prerequisites for speeding up the intensification process. However, it must not be regarded as a panacea that will automatically resolve all problems. We will achieve no turnabout without a politically mature approach, without intensive work, without utmost exactingness and responsibility, without every



employee's specific endeavor. The low effectiveness of the existing system of management must not be used to cover up serious shortcomings in the area of direct management, such as the inability or unwillingness to tackle problems, inconsistency in enforcing and respecting national interests, unsatisfactory labor and technological discipline, comfort-seeking, and lack of creativity in one's approach to ensuring everyday tasks. There is nothing to wait for here. Problems and shortcomings everywhere must be dealt with immediately, in line with the requirements of the present era, in line with the requirements of the economic and social policy of our party and state.

The results in the development of the national economy in 1986, the problems and deviations from planned targets, were also reflected in the state budget. Owing to the nonfulfillment of planned tasks in efficiency growth in the domestic economy and in foreign trade, the budget was administered throughout the year under conditions of permanent tension between revenues and expenditures.

The aggregate revenues of the state budgets of the Czechoslovak Federation, the Czech SR, and the Slovak SR amounted to Kcs301.7 billion and fell Kcs1.7 billion--that is, 0.6 percent--short of the plan. The state budgets' own expenditures amounted to Kcs235.2 billion and were Kcs1.5 billion lower than planned. An additional Kcs66.5 billion was made available to the national committees' budgets in the form of global appropriations and special-purpose subsidies.

The revenues of the state budget of the Czechoslovak Federation totaled Kcs201.5 billion, which was 0.6 percent more than planned. Of these revenues, Kcs61.7 billion were used to fund the outlays of federally administered agencies and organizations and Kcs139.8 billion as appropriations for the state budgets of the republics. The planned appropriations for the budgets of the republics were exceeded by Kcs7.4 billion, of which the Czech SR accounted for Kcs5.5 billion and the Slovak SR for Kcs1.9 billion, owing to changes in the plan and relatively bad results, especially in the sector administered by the Ministry of Industry of the Czech SR.

A more detailed look at the structure of the revenues and expenditures of the state budgets reveals considerable deviations from planned targets. Two key items of the budgets' revenues, in particular, remained unfulfilled--proceeds from the turnover tax and from remittances of economic organizations.

The fact that the state budgets are balanced needs to be assessed critically because a number of extraordinary measures had to be taken to achieve this. The budgets were balanced, but there were manifestations of imbalance in the financial situation of the enterprise sphere, disharmony between material and value processes, and disharmony between the creation and use of resources. The surplus in the balance of payments grew substantially smaller.

The results of the budget economy within the jurisdiction of national committees were more favorable. The proportion of their own revenues in their budgets was beefed up last year, which made it possible to allocate

the supplementary resources of the national committees' budgets to fund primarily the Z-project [community self-improvement program]. Economic organizations administered by national committees were able to spend more on repairs and maintenance from the newly established repair funds.

On aggregate, the revenues of the national committees' budgets amounted to Kcs133.5 billion and were 5.4 percent higher than planned.

Total expenditures of the national committees' budgets amounted to Kcs130.7 billion, of which two-thirds were accounted for by noninvestment outlays of budget-funded and subsidized [prispevkovy] organizations.

More than 50 percent of the expenditures of state budgets and the national committees' budgets went directly on ensuring social services and jobs for the population. The total volume of these expenditures increased by Kcs6.5 billion, to Kcs184.6 billion, which was Kcs1.4 billion more than planned.

Social security payments reached the sum of Kcs87.2 billion and were 2.8 percent higher than in 1985. Of this, Kcs54.6 billion were spent on pension schemes, Kcs14.8 billion on child allowances, and Kcs8 million on sickness benefits.

Noninvestment expenditures on education increased 4.2 percent compared with 1985, to Kcs27.9 billion. Planned noninvestment health care expenditures were exceeded by Kcs0.5 billion; they totaled Kcs27.9 billion, which was 8.8 percent more than in 1985. Noninvestment expenditures on culture totaled Kcs5.4 billion. More than two-thirds of these outlays are accounted for by contributions to the operation of theaters, houses of culture, and other cultural institutions. A total of Kcs26.7 billion was spent on housing construction and the housing economy.

Of the 1,990 centrally administered organizations, 63 percent met all the decisive indicators [of the plan] while 4 percent of organizations failed to meet 5 indicators or more. The economic performance of 24 percent of all organizations subjected to evaluation was rated as being above average, and the economic performance of 18 percent of organizations as being below average.

While we are rightly concerned over the below-average results of some organizations, the problem of loss-making organizations is even more grave. In 1986, 201 centrally administered economic organizations operated at a loss, with their aggregate loss totalling Kcs9.1 billion. Even though this loss was Kcs1.1 billion lower than in 1985 and 76 organizations managed to eliminate their losses, on the other hand there were 55 new organizations that slipped into that category.

Given the fact that we have declared war on mediocrity, it is natural that an even more energetic struggle must be waged against below-average and loss-making performers. Therefore, in connection with its discussion of the state final account, the CSSR Government charged the sectors concerned with carrying out, by the end of this August, an analysis of the causes of

the losses and the substandard level of economic performance in the pertinent organizations and with taking specific and effective measures to improve their economic results. At the same time, measures are being prepared to deal with the losses in the sphere of public catering and services by raising the efficiency of their operations.

Greater pressure on the economical use of entrusted resources hinges to a considerable degree on the effectiveness of fiscal control. In 1986 fiscal control agencies carried out a total of 41,138 inspections. The controls and audits carried out by federal and republican fiscal control agencies reveal that there is still a relatively larger number of organizations in which economic discipline is violated, economic results distorted, and entrusted resources wasted, and in which the level of protecting national property is insufficient.

As long as we only talk about order and do not uncompromisingly apply in everyday practice the principles of the "Letter of the CPCZ Central Committee Presidium on Deepening the Effectiveness of the Struggle Against Violations of the Principles of Socialist Legality, Ethics, and Discipline, Against Enrichment and Speculation," we shall hardly achieve this order.

Radical measures are appropriate here, including greater publicity for cases of gross violation of socialist discipline and ethics, especially when these are perpetrated by those who should serve as an example for others to follow. This is one of the essential prerequisites for the creation of a climate of genuine accountability for the execution of entrusted functions and for concern for social property.

The problems that became manifest in the fulfillment of the state plan and in the budget in 1986 also lingered on--in some respects with unabating intensity--in the first months of this year. This is true, above all, of the fulfillment of qualitative indicators. Owing to an unfavorable development in the costs of materials, wages, and finances in relation to the growth of output, planned tasks in reducing overall costs are not being fulfilled. We trail behind the planned proceeds of the turnover tax, and there are continued problems in the development of inventories in industry and in the building sector, and in the fulfillment of planned exports to nonsocialist countries.

To overcome these unfavorable tendencies, it is necessary to adopt specific and specifically targeted measures at all levels of management to eliminate shortfalls in the creation of resources, to increase pressure on the fulfillment of planned tasks, and not to permit any further lightening of the burden of the plan. Nothing must be deducted from the set tasks; speculations that the plan might be changed must not be permitted. The fulfillment of the directives of the 17th CPCZ Congress is a question of principle determining the further development of our society, the living standards of the population, and Czechoslovakia's international standing. Every senior official must guarantee to the state the fulfillment of tasks in the sector for which he is responsible.

/9716

CSO: 2400/388

## INVESTMENTS IN 1986, DETAILS DISCUSSED

Prague PLANOVANE HOSPODARSTVI in Czech No 4, 1987 pp 13-19

[Article by Eng Dezider Vasak, State Planning Commission]

[Text] The plan for capital investment, worked out in conjunction with the total concept of the 8th 5-Year Plan, assumed that an acceleration of the changes and solutions to problems would get under way particularly in the following areas:

- ensuring the realization of required structural changes in the economy;
- enforcing a greater share of modernization and reconstruction instead of new construction;
- making certain that programs include provisions for effective state goal-orient programs (SCP) and output of science and technology;
- increasing the effectiveness of all contemplated investment projects;
- enhance the evaluation process of the technical-economic level of proposed investment projects, including comparisons with world standards;
- solution to the existing excessive number of unfinished construction and gradually providing conditions for completing construction projects within the planned (limited) time terms of construction;
- speeding up the establishment of new capacities to full projected parameters;
- solution to the problem of underutilization of the existing production base, speeding up the renovation and increasing the liquidation of obsolete and inefficient capital assets;
- building a material technical base of services for continuing the social program with emphasis on the ecological program.

There have been improvements in some areas in implementing the program for capital construction in 1986 in comparison to 1985; thus far, however, the

required implementation of the basic objectives of the investment policy have not been achieved.

Table 1

Survey of Fulfillment of the Main Indicators of the Capital Investment Plan

<u>Volume of Investments</u>	<u>1985 Reality</u>	<u>1986 Plan</u>	<u>1986 Reality</u>	<u>Index 1986 1985</u>	<u>Percent Fulfillment of Plan</u>
Total in Kcs billion	168.0	167.8	169.2	100.7	100.9
--construction work	97.9	92.4	95.8	98.0	103.8
--machinery and equipment	70.1	75.4	73.4	104.7	97.4
Of the total:					
--volume in regulated construction (excl. agriculture)	68.5	72.7	68.8	100.4	94.6
--machinery and equipment not included in budget (excl. agriculture)	42.3	46.2	45.0	106.4	97.4
--comprehensive residential construction, private constr. and project "Z"	32.6	30.7	30.3	92.9	98.7
--investments in agriculture	24.6	18.2	25.1	101.9	137.9

In 1986, Kcs 169.2 billion was expended for planned modernization, reconstruction, and expansion of the material-technical base of the production and service spheres; of that, Kcs 95.8 billion was for construction work and Kcs 73.4 billion for machinery and equipment. The total planned volume of investments was exceeded by Kcs 1.4 billion (that is, 0.9 percent) in the case of construction work (+Kcs 3.4 billion, or 3.8 percent), whereas deliveries of machinery and equipment did not reach the planned level (-Kcs 2 billion, or 2.6 percent).

The planned volume of investments was exceeded exclusively in agriculture, to the extent of Kcs 6.9 billion; Kcs 4.9 billion of that occurred in construction work.

The task of the 8th 5-Year Plan is to ensure the reduction of the rate of investment in the gross national product from 27.1 percent in 1985 to 25.2 percent in 1990. Even though in 1986 the planned goal was not reached, the rate of investment declined moderately, to 26.4 percent, while the gross

national product grew by 3.4 percent compared to 1985 (the plan assumed 3.5 percent) and investments grew by 0.7 percent.

The failure to achieve the planned goal of reducing the rate of investment has been caused, as was mentioned, primarily by very excessive investments in agriculture. After making allowance for that, it should be said that the planned goals have not been exceeded in any category of investments. However, a negative assessment has to be made of the low rate of fulfilling the volume of work and deliveries in construction (exclusive of agriculture), where in 1986 there were shortfalls of almost Kcs 4 billion, particularly in the centralized and other construction projects. This concerns particularly the department of engineering including electrical engineering industry, traditional power industries, transportation, light industry, and specialized construction of the national committees.

As a consequence of these shortfalls, the schedules for construction projects are being extended, and the current excessive number of unfinished construction projects is increasing. The causes can be found on the part of investors (inadequate planning or preparation of building projects, displacement of imports) as well as suppliers (protracted resolution of the problems of hard to fill deliveries, low concentration on completion, etc.).

The problem in relation to the necessity to modernize a number of industrial sectors, is the relatively low fulfillment of deliveries of machinery and equipment not included in the construction budget (exclusive of agriculture). The central contingency fund of the state plan has not been used to provide means for investments if conditions have been met that apply to foreign currency credits, hard currency incentives in foreign trade, and procuring of single-use machinery for increasing the technological level of the production base by internal deliveries in selected industrial sectors. Difficult circumstances arose in this category of investments for the accumulation of the investment fund in industrial sectors which create their own financial resources on the basis of normatives, with the possibility of higher investments if there is a surplus in their internal resources. This is the basic step in linking investment to the economic performance of an enterprise while increasing the authority and responsibility of enterprises and economic production units for the effectiveness of investments.

In contrast to industry, in agriculture an accumulation of a large volume of free financial resources often takes place, and thus also considerable investments in excess of the planned volume. In 1985, their total volume was exceeded by Kcs 5 billion, and last year by as much as Kcs 6.9 billion, including the guideline limit of the so-called specialized agricultural investment, which was exceeded by Kcs 4 billion. Because of the more favorable conditions, it has been possible to enlarge also the internal construction units, which then help to increase the scope of investments on the supplier side.

In comprehensive residential construction the planned volume of investments fell short by Kcs 500 billion, in the case of associated stabilizing and

cooperative construction due mainly to inadequate site preparation. The 78,179 apartments completed in 1986 represent only 94 percent of the planned task. There is a shortfall of almost 5,000 apartments. Furthermore, there is a lag in providing public facilities. The tasks of modernizing and refurbishing the housing stock are not being accomplished. The plan for 1986 assumed that 3,550 apartments would be modernized, whereas the building supply organizations modernized only 2,974.

#### Changes in the Structure of Investments

The increase of machinery and equipment in the total volume of investments can be considered a positive development, even though the planned level was not reached. Conditions are thus being created for increasing the share of modernization and refurbishing as well.

Table 2

Share of Machinery and Equipment in the Total Volume of Investments (percent)

	1985 <u>Reality</u>	1986 <u>Plan</u>	1986 <u>Reality</u>	7th 5-Year Plan <u>Reality</u>	8th 5-Year Plan <u>Reality</u>
Total National Economy	41.8	45.0	43.4	38.6	48.0
Manufacturing Sphere	53.9	56.3	54.7	51.0	60.0
Industry	60.7	61.2	61.6	58.7	66.4
Metallurgy and Heavy Machinery	68.4	68.0	66.8	65.2	73.0
General Machinery	67.2	62.9	64.3	63.6	71.0
Electrical Engineering	72.7	73.3	74.6	69.6	78.0
Ministry of Industry, CSR and SSR	67.9	72.3	72.6	66.3	75.0

However, efforts still persists in certain industry sectors (for example, general machinery, metallurgy, and heavy machinery) to push through projects with a high share of construction work.

From the standpoint of the branch structure, in accord with the objectives of the 8th 5-Year Plan, structural changes are being successfully implemented especially in the following areas:

--restructuring the fuel and energy base to favor nuclear plants, and widening the pipeline system for transporting natural gas;

--developing the electrical engineering industry and innovative programs in the machinery industry, which are to be the main factor in the intensification of the national economy;

--refining crude oil to greater depth and developing small scale chemical industry;

--developing selected branches of light and food processing industry.

Table 3

Structure of Investments in Industry and for the National Economy as a Whole  
(in percent)

	1985 <u>Reality</u>	1986 <u>Plan</u>	1986 <u>Reality</u>
Structure of Investments for the National Economy:			
Industry as a whole	36.0	38.9	36.1
Building output	2.1	2.7	2.5
Agriculture	14.7	10.9	14.8
Transportation and communication	7.6	8.2	7.6
Forestry and water management	2.5	2.8	2.7
Manufacturing sphere as a whole	65.2	65.2	66.6
Comprehensive residential construction	12.8	12.1	11.7
National Committees incl. "Z"	12.6	12.9	12.6
Private construction	3.9	3.5	3.6
Services sphere	34.8	34.8	33.4
National economy as a whole	100.0	100.0	100.0
Structure of Investments in Industry:			
Fuel and power industry	34.0	35.0	33.0
Metallurgy and ores	6.7	6.1	6.7
Heavy machinery	7.7	7.3	6.5
General machinery	13.1	12.3	12.4
Electrical engineering	5.9	6.4	6.4
Chemical industry	6.7	8.2	8.7
Wood processing industry	3.9	3.7	4.3
Light industry	8.2	8.0	8.6
Food processing industry	9.0	8.6	9.1
Building materials	3.6	3.2	3.3
Health care products	1.0	1.3	1.1
Industry as a whole	100.0	100.0	100.0



The reduction of investments in the power and material intensive branches of metallurgy and building materials production is not proceeding according to the plan for the time being. Due to the fact that the amount of investments is being greatly exceeded in agriculture and increasing in the basic infrastructure, the total share of investments in the productive sphere is growing as well, while there is an undesirable decline of investments in the non-productive service sphere.

The 8th 5-Year Plan assumes that in the processing industry 50 percent of construction will be reconstruction and modernization, and in the category of machinery and equipment not included in the construction budget as much as 75 percent of investments.

The share of modernization and refurbishing is gradually increasing in comparison with the 7th 5-Year Plan, but it still is not at the required level, particularly in the construction category.

Table 4

Share of Modernization and Reconstruction (including renovation) in Total Investments in 1986 (in percent)

<u>Sector</u>	<u>Share in Construction</u>	<u>Share in Machinery and Equipment not Included in Budget</u>
Metallurgy and heavy engineering	29	66
General engineering	25	60
Electrotechnical industry	14	60
Industry in CSR and SSR of that:	36	70
chemical industry	18	63
wood processing industry	48	70
light industry	56	77
Food processing industry in CSR and SSR	22	70
Building materials in CSR and SSR	44	73
Health products industry in CSR and SSR	--	50

The data are drawn from the statistical review initiated in 1986, in which one can posit certain problems from the standpoint of their explicability, as well as the logical explanation of the terms modernization and reconstruction, which are currently being resolved. However, from the above summary one can draw the conclusion that the small share of projects which involve modernization and reconstruction appears in nearly all branches of the processing industry. The efforts to push through new, extensive capital construction still persist.

In 1986, the share of investments in the forward-looking kind of investments in the state goal oriented plans increased:

--within the framework of the State Goal Oriented Plan--02--conservation of fuel energy, investments in the amount of Kcs 2 billion were made;

--to ensure realizeable output within the framework of the tasks of the state plan for the development of science and technology, Kcs 2.8 billion was invested; a further Kcs 3 billion was invested in projects ensuring the implementation of other tasks to develop science and technology (within the framework of the economic plans).

--for the ecological program, a volume of investments in the amount of Kcs 17 billion was set aside in the 8th 5-Year Plan; in 1986, Kcs 2.8 billion was spent within the framework of this program: clean-up of water (Kcs 2.8 billion), air (Kcs 0.6 billion), and use, or disposal of, refuse (Kcs 0.6 billion). Apart from that, a number of other actions beside the so-called ecological program are also solving the problems of the environment (it is evaluated as a secondary effect of the investment action).

Proclamation No 37/83 established an indicator of completed deliveries, which represents the volume of completed integrated units capable of being put into operation. In 1986, their volume fell to Kcs 142.6 billion compared to Kcs 158.7 billion in 1985. The results achieved in this indicator thus far have not reached the main objective, that is, help to speed up the completion of construction projects and put capacities into operation.

#### Substantive Fulfillment of Mandated Construction Projects

In the 8th 5-Year Plan, the determining mandatory indicator for the above mentioned mandated construction projects is the meeting of schedules for the intermediate stages of construction (according to flow charts and approved buliding procedures) and the final scheduled time of putting capacities into operation and completing construction projects.

In 1986, the intermediate schedules have been met up to 95.8 percent, which is roughly the level of recent years. This relatively high fulfillment was helped by the low requirements of central agencies and their subordinate organizations in setting terms for the intermediate stages, determining for the optimal course of the construction. They try to set such terms which they expect to be easily met.

The volume of work and deliveries, which is the guideline indicator of the state plan, was fulfilled in 1986 up to 99.7 percent, with a relatively high fulfillment of construction projects for nuclear plants, metallurgy, heavy engineering, and subways. Low fulfillment occurred in light industry, transportation and electrotechnical industry, mainly due to inadequate planning of construction projects and lack of provision for ensuring deliveries of machinery from the domestic market or imports from abroad. There is a long-time shortage of boilers, chemical water treatment plants,

sewage treatment plants, machine tools, measuring and regulating instruments, control panels, etc. Problems take a long time to be resolved, and in the meantime construction projects cannot be completed within the time set by the state plan. Even the trade agreements do not perform their role in this area.

The poor performance in keeping within intermediate schedules is demonstrated by the worsening situation in placing capacities on trial runs and completing construction. Of the planned 71 capacities (in the framework of mandatory construction), 60 were put on trial runs in 1986 (that is, 84.5 percent).

A number of important capacities was put into operation, namely:

--in fuels, to increase coal mining output (for example, Lom Chabarovice 4th station, 1st stage, VCSA 5th station, 2nd stage, Lome Jiri III 3rd stage);

--important power plant construction (for example, nuclear power plant Dukovany--2 blocks, thermal plant Malesice III, heating plant Treboradice III, preparatory construction for nuclear power plant Mochovce);

--facilities for secondary processing of raw materials (for example, Kovosrot Tlumacov--line crusher Kovohute Pribram--processing of lead scrap, Kovosrot Brno--reconstruction of a tine stripping plant);

--increasing the production of single purpose machinery and equipment--Automobile Works, National Enterprise, Mlada Boloslav;

--facilities for export production (reconstruction of the plant Dvory--Porcelain Karlovy Var, carbonless paper Hostinne, malt plant Nymburk, chemicals Lachema Brno, etc.).

In 1986, 11 mandated capacities remained unfinished due to their conceptual unclarity (Moravian Electrical Appliances, Plant Michalovce, the repair base V. Bites--Federal Ministry of Metallurgy and Heavy Engineering), the lack of preparation for construction (reconstruction of the sugar refinery Trebisov, the casting plant Metaz Tynec, the construction complex of the Czechoslovak Academy of Sciences), and the nonfulfillment of deliveries to the Federal Ministry of Metallurgy and Heavy Engineering (Ziar nad Hronem--production Al2O3 Zetor Brno--thermal plant Lisen and certain service sector actions).

#### Developments in Unfinished Construction

As early as 1984 there was an unfavorable turn-around in the situation concerning unfinished construction. Similarly, in 1986 as well, the number and volume of stated construction projects exceeded the number and volume of those that were completed. Toward the end of 1986, there was in the national economy a total of 26,414 building projects under construction with a budgeted cost of Kcs 547 billion, including 18,024 building projects in regulated construction with budgeted cost of Kcs 363 billion, 4,557 building projects with a budgeted cost of Kcs 176 billion in comprehensive residential

construction, and 3,833 building projects with a budgeted cost of Kcs 8 billion in project "Z."

The goal of the 8th 5-Year Plan for reducing unfinished construction is to reduce the remainder of the budgeted costs, the number of constructions in progress, as well as the time terms for construction by about 20-25 percent, which would create the basic conditions for completing construction projects within the normative (limited) terms of construction. For the time being, however, this task has been postponed until the end of the 5-year plan. On the contrary, there is an extraordinary pressure on the part of the sectors to begin construction in the initial years of the 5-year plan, the justification being that the output and contributions of the construction projects should already become evident in the plans for production, export, etc., by its conclusion.

Table 5

Developments in Unfinished Construction in Regulated Construction (in Kcs billion)

	<u>1985 Reality</u>	<u>1986 Plan</u>	<u>1986 Reality</u>	<u>Difference</u>	<u>Index Reality 1986/1985</u>
Remainder of budgeted costs to January 1	164.1	169.6	170.0	+0.4	103.6
Volume of work and deliveries in construction	84.7	83.4	84.7	+1.3	100.0
Budgeted costs of started construction	89.4	75.7	84.6	+8.9	94.6
Balance of changes in budgeted costs	1.2	8.9		-1.1	650.0
Remainder of budgeted costs to December 31	170.0	170.8	177.7	+6.9	104.9
Number of construction projects	17,442	.	18,024		103.3
Total budgeted costs of unfinished construction	335.4	.	363.4		108.3

The reason for the higher number of construction projects started in 1986 has been due mainly to the fact that the plan was exceeded in agriculture (+Kcs 6 billion) and some important construction projects were started ahead of time.

The balance for increasing budgeted costs of construction reflects (in the plan and in the reality) the increased costs of the nuclear power plant Dukovany.

Because the plan for starting construction projects has been exceeded, and also because the planned volume of work and deliveries has not been fulfilled in branches other than agriculture, there was an increase of the remaining budgeted costs in 1986, as well as a further worsening of the situation in unfinished construction.

At the present time, because of the large number of unfinished construction, conditions have not been created to ensure deliveries for the completion of all construction projects within the normative (limited) terms of construction; in the case of the centralized and other construction projects, the planned schedules have been greatly exceeded. In order to achieve a balance in relation to the current capabilities of the supplier organizations (including imports), it will be necessary to reduce the remaining budgeted costs, the number of construction projects in progress, as well as the average terms of construction by 20-30 percent in contrast to the original terms of the 8th 5-Year Plan. Apart from the continuing pressure to begin construction, the unresolved problems of ensuring deliveries for capital construction also are having an unfavorable impact on the developments in unfinished construction. The restructuring of construction work as well as deliveries of technology to relate to the needs of capital construction is slow.

Because of the unfavorable developments concerning unfinished construction, it is proposed to eliminate the above mentioned causes, and do so by postponing starts of construction projects for which building plans are not ready, construction projects of low technological level and those for which deliveries have not been ensured, by Kcs 8 billion in 1987. To achieve a more fundamental change, however, it will be necessary in the following years as well, and particularly when drafting the plan for 1988, to evaluate the planned number of starts and reduce them even in the given year by some tens of billions of korunas contrary to the 8th 5-Year Plan.

In conclusion it can be stated that in 1986 there has been a partial improvement in some areas of the plan for capital construction, even though the intended goals have not been reached. A positive aspect, for example, is the shift in the structure of investments in favor of machinery in the deliveries of technology, adjustments in the structure of investment to fit the planned branch reconstruction of the national economy, new approaches to verification and evaluation of the technical-economic level of capital investments including comparison of investment plans with world standards, better linkage and provision for the output of research and development, and some goal-oriented programs.

Serious shortfalls in implementation, in ensuring deliveries for investment projects, and a worsening situation in unfinished construction, lead to extending the schedules for construction, not putting capacities into operation on time, not completing construction projects, not achieving projected parameters, and the like.

12605/9599

CSO: 2400/345

## BRIEFS

ORDER OF LABOR--In Prague today Vasil Bilak, member of the Presidium and secretary of the CPCZ Central Committee, presented the Order of Labor to Jaroslav Musilek, an official at the Ministry of Foreign Affairs. This high state distinction has been awarded to him on his 60th birthday at the proposal of the CPCZ Central Committee Presidium by the president of the republic in recognition of his many years of conscientious work for our party and socialist society. [Text] [Prague Domestic Service in Czech 1200 GMT 19 Jun 87 LD]

ZAVADIL IN EAST BOHEMIA--Miroslav Zavadil, member of the Secretariat of the CPCZ Central Committee and chairman of the Central Trade Union Council, arrived in the East Bohemian Region yesterday for a working visit. After meeting Frantisek Tesar, chief secretary of the Regional Party Committee, he paid a visit to the Tiba Works in Mostek in the Trutnov District. In a conversation with employees during which problems affecting the textile industry were frankly discussed Comrade Miroslav Zavadil singled out the endeavors and the results achieved by the plant. He also recalled that a number of enterprises and plants work for those which are lagging behind in the fulfillment of the state plan. After his return to Hradec Kralove, he met trade union officials of the East Bohemian Region. [Text] [Prague Domestic Service in Czech 0200 GMT 23 Jun 87 LD]

AGRICULTURE IN SASKATCHEWAN DISCUSSED--Ottawa June 21 (CTK)--Czechoslovak Deputy Premier and Minister of Agriculture and Food Miroslav Toman, currently on a working visit to Canada, was received today by Premier and Minister of Agriculture of the Province of Saskatchewan Grant Devine. He also held talks with other leading representatives and businessmen of the province on the possibilities of developing Czechoslovak-Canadian cooperation in agriculture. [Text] [Prague CTK in English 1743 GMT 21 Jun 87 LK]

ECONOMIC COUNSELLORS CONFER--A consultative meeting of economic counsellors of CSSR representative offices in the CEMA member states and in the SFRY and the PRC was held in Prague on 1 July. The meeting, which was presided over by CSSR Deputy Premier Rudolf Rohlicek, assessed "the fulfillment of the conclusions of the 17th CPCZ Congress and the CPCZ Central Committee's follow-up meetings in the sphere of international economic and scientific-technical cooperation," and the "fulfillment of tasks arising from the long-term cooperation programs for the period through the year 2000." The meeting

also discussed questions connected with the impact of the restructuring of the economic mechanism in the CSSR on the further development of the economic relations with the socialist countries. [Summary] [Prague RUDE PRAVO in Czech 2 Jul 87 p 2 AU]

SHIPPING SEMINAR--A 4-day seminar of the "Interlichter International Economic Shipping Enterprise" began in Harmonia pri Modre on 6 July. The seminar is being attended by delegations of the member shipping organizations from Bulgaria, Hungary, the USSR, and the CSSR, as well as by representatives of Interlichter, which has its headquarters in Budapest. The participants in the seminar will be discussing the loading and unloading of lighters and other shipping-related issues. [Summary] [Bratislava PRAVDA in Slovak 7 Jul 87 p 2 AU]

GALLIUM EXPORTS--The SNP enterprise of Ziar nad Hronom has exported more than 1,720 kg of pure gallium since the beginning of the year. [Summary] [Prague RUDE PRAVO in Czech 10 Jul 87 p 2 AU]

ANDREI TOURS VARIOUS ENTERPRISES--Stefan Andrei, candidate member of the Political Executive Committee and secretary of the Romanian Communist Party Central Committee, and Milos Jakes, Presidium member and secretary of the CPCZ Central Committee, today visited Poldy SONP Kladno enterprise. They acquainted themselves with the history and current functioning of the foundry in Kladno and toured an electric steel workshop and a billet mill in the new enterprise plant. After visiting Lidice, the two comrades visited the Prague Aritma enterprise. Comrade Stefan Andrei also visited the jewellery-production enterprise in Jablonec nad Nisou where he was particularly interested in the experiment of increasing the autonomy and responsibility of the enterprises. [Text] [Prague Domestic Service in Czech 1400 GMT 8 July 87 LD]

HOFFMAN VISITS SOUTH MORAVIAN REGION--During his working visit to the South Moravian Region, Karel Hoffman, Presidium member and secretary of the CPCZ Central Committee, acquainted himself with the proceedings of the Regional Party Committee in tackling tasks in the sphere of commerce, transportation, health care, communications, and the building industry. In his discussion today with the participants in the party and [word indistinct] economic aktiv of commercial organizations of the regions, he expressed interest in the causes of problems in the work at shops and the possibilities of removing them, in the preparation of the party workers for economic restructuring, in the effectiveness of the prepared amendment on rewarding sales assistants, and in improving the training of apprentices. He pointed out that some enterprises do not make sufficient use of supplying goods directly to the market. He praised the thoroughness of South Moravian shop inspections and said that similar control measures against the infiltration of poor-quality products into the market must take place in the rest of the regions, as well. At the end of his stay, Comrade Hoffman took part in the assembly celebrating the 35th anniversary of the foundation of the National Industrial Construction Enterprise in Gottwaldov. [Text] [Prague Domestic Service in Czech 1400 GMT 26 Jun 87 LD]



PITRA VISITS SOUTH BOHEMIA--Frantisek Pitra, candidate Presidium member and secretary of the CPCZ Central Committee, paid a working visit to South Bohem Bohemian Region. In the Benesov District he acquainted himself with the state of agricultural work and with the extent of damage caused by the recent hailstorm. In talks with the leading officials of the region and district, he praised the selflessness of the agricultural workers and other citizens, who worked hard to eliminate the consequences of the hail and to fulfill their tasks in agriculture. [Text] [Bratislava Domestic Service in Slovak 1930 GMT 18 Jun 87 LD]

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CSO: 2400/388

## NEGATIVE DEVELOPMENTS AFFECT PRIVATE SECTOR

## Many Family Stores Close

Budapest MAGYAR NEMZET in Hungarian 25 May 87 p 3

[Text] National Association of Small Merchants [KISOSZ] president Erno Szilkovacs reported that in 1986 the number of small merchants has increased by 4,000, and that by the end of the year there were more than 32,000 family stores in Hungary. The Association's Board of Directors held its meeting at the National Council of Producer Cooperatives [TOT] continuing education and recreation headquarters. Private stores occupy a combined total area of 700,000 square meters; half of that area is occupied by stores opened during the past five years. Private commerce continues in the form of family operations with a small number of employees. In addition to the owners only 13,000 family members are active.

Although the number of small merchants has increased substantially, a trend by which many small merchants go out of business and return their permits continues. A total of 4,500 small merchants went out of business in 1986. Twenty-five percent of these justified their action on grounds of lack of profits. According to Association records, merchants do not select appropriate business locations, nor do they establish proper hours of operation or choose appropriate lines of specialization. For this reason they often change their business profile and open stores elsewhere. The great degree of fluctuation suggests that every fourth small merchant reopens a business within a year after going out of business. According to Szilkovacs, there will be a continued shortage of entrepreneurs even though there would be a need for a stable core of merchants.

The 1986 sales volume of private merchants exceeded 49 billion forints, or more than 8 percent of the sales volume of all small businesses.

Minister of domestic commerce Zoltan Juhar stated that the domestic industrial and agricultural background provides sufficient supplies for consumers, but it also depends on merchants whether the consumer can buy what he wants, and where and when he buys what he wants. The most important function of commerce is to maintain the present level of domestic supplies, and to adjust itself to changing levels of demand. The task confronting small merchants is to establish a new merchandise base and to improve the supply situation in small settlements and in the suburbs. The minister pointed out the significance of pricing commensurate with the quality of goods, and the importance of disciplined accountability.

#### New Restrictions Introduced

Budapest MAGYAR NEMZET in Hungarian 15 Jun 87 p 3

[Text] Individual legal provisions pertaining to general income taxes and sales taxes paid by private persons were made more stringent by the Minister of Finance. The measure serves to strengthen the accounting discipline applied by small tradesmen and private merchants. Effective 1 July the heretofore legally permissible "controlling account" method, so called, will be discontinued. This method enabled small tradesmen and small merchants to purchase goods without being rendered an invoice, and to still account for the purchase as an expense. In such cases the buyers presented their own statement in lieu of the seller's invoice. From a tax viewpoint, effective 1 July, only those purchases may be used to offset income that are supported by a sales invoice.

Provisions pertaining to business entertainment expenses incurred by individual entrepreneurs will also change: the previously permissible level of 1 percent of the entrepreneur's income was reduced to 0.5 percent.

#### New Taxes Cause Anxiety

Budapest MAGYAR NEMZET in Hungarian 15 Jun 87 p 10

[Report on TV question and answer program]

[Text] Today we continue the presentation of the text of conversations that transpired on television news. This is the transcript of Saturday's mini-interview concerning taxes that may be anticipated by entrepreneurs.

[Question] They say that under the new taxation system it will not really pay for entrepreneurs and small enterprises to stay in business. Considering the fact that these small plants manufacture components without which the large enterprises cannot function, this will adversely affect the economy as a whole.

[Answer] It is out of question that the new tax system would levy additional taxes that discriminate against entrepreneurs and small enterprises. The opposite is true. We need to do away with the present form of regulations that differentiates according to organizational structure. We must introduce new regulations that apply uniformly and evenly to both the socialist sector and to all other organizational forms.

[Question] As we always do, let's take a look at an example. Assume a business association with an annual gross income of 15 million forints. Assume further that five employees of the business association pursue their work for the association as their primary employment. Under present conditions their net take home pay would be 155,080 forints each. What will be their take home pay under the new system?

[Answer] In the event that the entrepreneurial tax is set at a 10 percent rate, their situation will improve. If, on the other hand, the tax rate is established at 20 percent, their position will deteriorate somewhat.

[Question] But there is an important point we must consider. The above hypothesis is true only if these employees pursue their work for the business association as their primary employment. If their work constitutes secondary employment, they earn another income also, which must be taken into consideration.

[Answer] If they perform their work for the business association in the form of secondary employment, their earned income from the business association will be combined with the other income, and the enterprise income will fall into a higher tax bracket. Accordingly, the individual's tax position will substantially deteriorate, as compared to the initial example.

[Question] Has this been decided already?

[Answer] No, the tax rate has not been established yet.

[Question] When can we expect a decision?

[Answer] This will be harmonized with the people's economy plan. At the time the tax rate for enterprises is established, so will the tax rate for entrepreneurs.

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CSO: 2500/455

## ANTIMONOPOLY LAW PUBLISHED

Warsaw DZIENNIK USTAW in Polish No 3, 7 Feb 87 pp 17-20

[Law dated 28 January 1987, on counteracting monopolistic practices in the national economy]

[Text] With a view to safeguarding the national market and its participants from monopolistic practices by economic units, the following is resolved:

Chapter 1. General Regulations.

Article 1. The present law sets forth principles of counteracting monopolistic practices used by economic units and their associations and unions which produce results on the territory of the People's Republic of Poland.

Article 2. The present law does not infringe on the rights granted by the law on inventions, trademarks, decorative designs or the regulations of the Copyright Law, as well as the rights granted by international treaties.

Article 3.1. The present law does not apply to state enterprises reporting to the ministers of finance, national defense, justice, internal affairs and foreign affairs, or to enterprises reporting to the chairman of the National Bank of Poland.

2. By an executive order, the Council of Ministers may:

1) exempt the following from compliance with the present law:

a) economic units exercising authority in accordance with the monopoly status as set forth in the law on monopoly or the guidelines for rationing in the distribution of goods,

b) a particular field of economic activity in view of special interests of the national economy, provided a prior report has been made to appropriate commissions of the Sejm on the reasons for and the term of the exemption,

2) determine the extent to which the law is applied to the units referred to in point 1, item a).

Article 4.1. Counteracting the monopoly practices defined in the present law is the responsibility of the minister of finance, henceforth referred to as "the anti-monopoly organ."

2. The anti-monopoly organ is responsible for enforcing the regulations on counteracting monopolistic practices in the national economy, specifically:

- 1) making decisions and imposing financial penalties envisaged by the law,
- 2) forwarding to competent organs of the state and economic administration recommendations aimed at protecting the market and competition, especially on setting up, merging and closing down state enterprises, establishing exclusive brokerage and limiting the area of operations of economic units,
- 3) carrying out audits in order to determine whether and to what extent an economic unit resorts to monopolistic practices in its operations,
- 4) appealing to competent organs in the matter of adopting, amending or cancelling legal acts which influence the degree of monopolization in the economy,
- 5) submitting draft legal acts in the matters referred to in article 3, paragraph 2.

Article 5.1. The Council for Counteracting Monopolistic Practices, henceforth referred to as "the council," operates under the anti-monopoly organ.

2. The council consists of representatives from relevant organs of state administration, national cooperative and trade union organizations, consumer protection organizations and other relevant social, socio-professional and professional organizations, as well as representatives of the scientific community.

3. The council is the counselling and advisory organ of the anti-monopoly organ in the matters of:

- 1) making periodic evaluation of the degree of monopolization in the economy and making recommendations based on these evaluations,
- 2) determining the directions of the policy of demonopolization,
- 3) initiating and conducting proceedings in cases of particular social significance or those resulting in a break-up of economic units,
- 4) introducing and perfecting legal regulations restricting monopolistic practices and enhancing the extent and [variety of] the forms of competition in the economy.

Article 6. At the recommendation of the anti-monopoly organ, the chairman of the Council of Ministers outlines specific tasks, composition and mode of operations of the council.

Article 7. Whenever the present law makes reference to:

- 1) monopolistic practices--actions of the economic units in contravention of this law are meant, which infringe on the social interest, or the interests of economic units or consumers, as well as the adoption and execution of monopolistic provisions in contravention of this law,
- 2) monopolistic agreements--contracts signed between economic units or some of their provisions are meant,
- 3) economic units--legal and physical persons carrying out economic operations are meant,
- 4) prices--prices, trade margins, commissions and markups are meant,
- 5) products--movable property, as well as services rendered and construction work are meant,
- 6) the price law--the law dated 26 February 1982 on prices (DZIENNIK USTAW, 1985, No. 49, item 261 and 1986, No. 47, item 226) is meant.

## Chapter 2. Monopolistic Practices

Article 8. Actions of economic units which harm the social interest or the interests of other economic units or consumers and consisting of the following, are prohibited:

- 1) establishment for no valid reason of difficult conditions in contracts which bring unjustified benefits to the unit imposing such conditions or restrict its liability for non-performance,
- 2) making the conclusion of the contract contingent on the other party accepting or entering into another transaction not associated with the subject of the contract, which that party would not accept or enter into if given a choice;
- 3) imposition on an economic unit, a party to a contract, of the duty to purchase from, sell to or sign other contracts exclusively with a particular economic unit,
- 4) charging an excessively high price as defined in the price law.

Article 9. Actions by an economic unit consisting of restricting production, procurement or sales of goods, despite the existing supply allocation, idle production capacity and unmet demand, bringing about price increases for a particular product may be recognized by the anti-monopoly organ to infringe on the social interest, or the interests of other economic units, or consumers, and may be prohibited.

Article 10.1. Should the anti-monopoly organ find that actions by an economic unit infringe on the social interest, interests of other economic units or consumers as defined in article 8, points 1 through 3 and article 9, it will invalidate the contract or individual provisions thereof.

2. The provisions of the contract, other than those referred to in paragraph 1, remain valid except if execution of the contract without the invalidated provisions could result in obvious impairment of the interests of an economic unit which is a party to the contract.

3. The provision of paragraph 1 does not apply to contracts which have already been carried out.

4. Should the anti-monopoly organ establish, by a finding, that the excessively high price referred to in article 8, point 4 is being charged, it will take the measures set forth in article 8, paragraph 1 of the price law.

Article 11. It is prohibited for economic units which are suppliers (sellers) or consumers (purchasers) to conclude monopolistic agreements resulting in:

- 1) dividing the market by territory or by consumer groups,
- 2) setting or restricting the level of production or sales,
- 3) restricting access to, or eliminating from the market economic units which are not a party to the agreement.

Article 12. Should the anti-monopoly organ establish that economic units violate the provisions of article 11, it will make a finding invalidating the agreement.

Article 13. The anti-monopoly organ may find invalid a monopolistic agreement by economic units which causes prices to grow or to stay at an economically unjustified level.

Article 14.1. The anti-monopoly organ may forbid the execution of a monopolistic agreement made by economic units--suppliers (sellers) or consumers (purchasers)--which:

- 1) introduces assortment specialization of production or sales, or
- 2) provides for joint sales or purchasing

-if it ascertains monopolistic practices as referred to in article 7, point 1.

2. The anti-monopoly organ will forbid execution of the agreement referred to in paragraph 1 if it would result in a considerable deterioration of competition or conditions for it in a given market and would not yield economic benefits such as:



- 1) considerable reductions in the cost of production or sales, or
- 2) improved quality of products, or
- 3) increased production, or
- 4) improved innovative processes in the economic units which are parties to the agreement.

3. The anti-monopoly organ will forbid the implementation of a monopolistic agreement between economic units which are suppliers (sellers) or consumers (purchasers) which sets conditions for contracts signed with the third parties, if these conditions are unduly harsh for the third parties.

4. The anti-monopoly organ may also declare invalid the agreements in question in its finding, forbidding the implementation of monopolistic agreements referred to in paragraphs 1 and 3.

Article 15. Provisions of articles 11 through 14 apply accordingly to resolutions of the associations of state enterprises and resolutions and recommendations of other unions of economic units.

Article 16. The Council of Ministers may recognize actions other than those mentioned in the present law to be monopolistic practices and forbid their implementation by an executive order.

### Chapter 3. Mergers of Economic Units.

Article 17. A proposed merger of economic units should be reported to the anti-monopoly organ. The report on the intended merger is made by the organs having authority to initiate proceedings resulting in the merger.

Article 18.1. A merger of the units referred to in article 17 may go through if the anti-monopoly organ does not object to the intended merger within 2 months of the day of the report.

2. The anti-monopoly organ objects to the merger of economic units if it could cause a considerable reduction in competition, while not resulting in tangible economic benefits, in particular reductions in the cost of production or sales, improvements in the quality of products or an improvement in the innovative process of the economic units.

Article 19. By executive order, the Council of Ministers:

- 1) may determine the kinds of economic units exempt from the requirement to report intended mergers,
- 2) sets the conditions which the report should meet, the manner in which the intended merger is reported and how the objections made by the anti-monopoly organ are appealed.

#### Chapter 4. Penalties for Resorting to Monopolistic Practices.

Article 20.1. An economic unit which, despite a finding of the anti-monopoly organ establishing that a violation of the provisions of the present law has been committed:

- 1) resorts to practices referred to in articles 8 and 9 or
- 2) signs monopolistic agreements violating the law or adheres to agreements forbidden or invalidated on the basis of the law,

is obligated to contribute to the Fund for Market Development a monetary penalty in the amount set by the anti-monopoly organ. The penalty may not be less than 100,000 zlotys or more than 10 percent of after-tax profit generated at the time such practices were used, but not longer than 3 years. The penalty is paid from the profit to be distributed, the balance surplus or another form of differential between income and expenses.

2. A finding on imposing the penalty envisaged by paragraph 1 cannot be made if 1 year has passed since the end of the year in which monopolistic practices were discontinued.

Article 21.1. If a state enterprise resorts to the practices set forth in articles 8 and 9, despite having been penalized three times pursuant to article 20 within 3 years of the day the first finding on a penalty was made, the anti-monopoly organ may solicit the parent agency to have the enterprise broken up and set conditions for this.

2. If the parent agency does not issue an order on the break-up of the enterprise within 6 months of the day the request outlined in paragraph 1 is received, it is obligated to inform the anti-monopoly organ why the request has not been honored.

3. In the event the request referred to in paragraph 1 is not honored, the chairman of the Council of Ministers may, at the request of the anti-monopoly organ, obligate the parent agency to break up or liquidate the enterprise and set conditions for this.

4. The consent of the employee council is not required for breaking up a state enterprise on the basis of the request referred to in paragraph 1.

Article 22.1. If an economic unit which is a cooperative or a trade partnership resorts to practices described in articles 8 and 9, despite having been penalized three times pursuant to article 20 within 3 years of the day the first finding on a penalty was made, the anti-monopoly organ may make a finding adjudicating the break-up of this enterprise and set conditions for it.

2. In the event the decision referred to in paragraph 1 and imposing the obligation to break up the cooperative is not executed within 6 months from the day it is made, the anti-monopoly organ will forward a request to the board of the relevant central cooperative union to initiate liquidation of the

cooperative as provided for by article 114 of the law dated 19 September 1982--The Cooperative Law (DZIENNIK USTAW, No. 30, item 210 and 1983, No. 39, item 176). If the unit failing to comply with the decision is a trade partnership, it is subject to dissolution. In this case, the anti-monopoly organ will petition the court to have the partnership dissolved.

3. With regard to economic units not mentioned in paragraph 1 and article 21, paragraph 1, the anti-monopoly organ may, in cases enumerated in paragraph 1, make a finding imposing restrictions on economic operations so as to render these practices impossible and send a notice to the organ of state administration which issued the permit for such activities.

4. In the event the decision referred to in paragraph 3 is not complied with within 3 months of the day it is made, the organ of state administration which issued the permit for economic activities will rule to revoke the permit for such activities given to the economic unit.

Article 23. If an economic unit resorts to practices referred to in article 8, the voivodship court or the district arbitration commission may, at the request of the unit affected by the practices, impose on the unit resorting to these practices an obligation to sign a contract and establish its terms in line with the terms of contracts accepted in a given sector of distribution or invalidate a contract signed in violation of these conditions.

Article 24.1. A person discharging the responsibilities of the director of an economic unit who, despite a finding of the anti-monopoly organ establishing a violation of the provisions of this law:

1) resorts to practices referred to in articles 8 and 9,

2) signs or executes monopolistic agreements contravening the law,

- is subject to a fine in the amount set by the anti-monopoly organ, but not greater than his salary for 3 months. The provision of article 20, paragraph 2 applies accordingly.

2. The provision of paragraph 1 does not apply if the responsibilities of director of an economic unit are discharged by a person conducting economic activities on his own behalf.

Article 25. A person furnishing incorrect data on the activities of an economic unit on behalf of this unit is subject to the penalty of imprisonment of up to 3 months, restricted movement of up to 3 months, or a fine of up to 50,000 zlotys.

#### Chapter 5. Proceedings in Cases of Counteracting Monopolistic Practices.

Article 26.1. Proceedings in cases of counteracting monopolistic practices may be initiated officially or by request.

2. The following are entitled to request that proceedings be initiated:

- 1) voivodship people's councils with appropriate jurisdiction,
  - 2) economic units whose interests have been or may be harmed by a monopolistic practice, as well as associations and unions of such economic units,
  - 3) organs of state and social control and organs supervising the operation of economic units,
  - 4) social organizations with statutory obligation to protect consumers, if the interests of consumers have or may be harmed.
3. A request to initiate proceedings is submitted in writing together with an explanatory note.

Article 27.1. Regulations of the Code of Administrative Proceedings apply to proceedings on counteracting monopolistic practices, unless the regulations of the present law provide otherwise.

2. A decision of the anti-monopoly organ made pursuant to the present law may be appealed to the Supreme Administrative Court on the grounds of its failure to comply with the law, except for the cases referred to in article 18.

#### Chapter 6. Provisional and Final Regulations.

Article 28.1. Associations of state enterprises and cooperative unions existing on the day the law takes effect will review their charters and statutes and, in the event non-compliance with the present law is discovered, will make amendments, eliminating from the contents statements which violate provisions of the present law or authorize resolutions failing to comply with the provisions of the law. Associations of state enterprises and cooperative unions will introduce these changes into the record within 6 months of the day the law is published.

2. Provisions of the current charters and statutes remain in force until changes in the charters and statutes are registered. However, in case of contradictions between them and provisions of the present law the latter prevail.

Article 29. Article 5a is added to the law dated 29 December 1982 on the office of the minister of finance and on treasury administration and offices (DZIENNIK USTAW No. 45, item 289 and 1985, No. 12, item 50), which reads

"Article 5a. The minister of finance discharges the responsibilities set forth by the provisions of the law on counteracting monopolistic practices in the national economy."

Article 30. The law takes effect on 1 January 1988, with the exception of the provisions of article 28, which take effect on the day of publication.

For the Chairman of the Council of State: K. Barcikowski  
Secretary of the Council of State: Z. Surowiec

## ECONOMIC REFORM PLANS IN MILITARY DESCRIBED

Warsaw POLITYKA in Polish No 28, 11 Jul 87 p 5

[Article by Mieczyslaw Wasylko, deputy chief of staff of the Quartermaster General of the Polish Army: "Towards Reform, March!"; passages in slantlines printed in boldface]

[Text] /On top of training, indoctrination, exercises, combat etc., soldiers also take part in producing goods and rendering services. The extent of such production, which is considerable, depends on the organizational model adopted in the army.

The Armed Forces of the People's Republic of Poland have a vital stake in the arrangements of the economic reform, as they will create better conditions than before for improving productivity and achieving greter savings./

The military economy which is a subsystem of the national economy undergoes continuous evolution, and than not only in a period of economic reforms. Its overall concept and partial arrangements follow from the defense doctrine, the socio-political and economic situation in our country, and the need to implement modern systemic solutions.

For Our Own Needs...

In the current organizational model, the needs of the Armed Forces of the People's Republic of Poland are met by the national economy (in this regard, there is an acute problem of prices for goods and services furnished to the army), as well as by self-production. /In some areas, the shares of "self-supply" are high, e.g. in pork production--over 50 percent, infusion liquids--100 percent, repairs of communications equipment--100 percent, production of preserves for the winter season (dill spears and sauerkraut)--100 percent, fruit and vegetable preserves--80 percent./

The military economy operates in the following modes: /budgetary/, which embraces basic operations of the Armed Forces, /based on cost-efficiency calculations/, performed by state enterprises reporting to the minister of national defense; and /non-budgetary operations of military units/, including, among other things, the auxiliary shops which are in part self-financed.

State enterprises reporting to the Ministry of National Defense, budgetary units and auxiliary shops operate along the guidelines in effect throughout the national economy, but with certain modifications (e.g. the requirements for quality of production and services, skills of the cadres, discipline and availability of personnel are higher). Employee councils discharge their statutory responsibilities taking into account, however, the peculiarity of the Armed Forces of the PRP. /The law on enterprises applies to military enterprises reporting to the Ministry of National Defense. However, in typical military units the commanders, unlike, say, directors of enterprises, do not have the right to select their tasks, which are determined by superior echelons./

Military units operate within strictly determined organizational structures. The quantity, kind and quality of weapons and other equipment do not depend on the commanders, but follow from the premises of the defensive doctrine in effect and the potential of the eventual aggressor. Likewise, there are no predetermined work hours; as is known, the army is on duty. Management of the units is based on a uniform financial and economic system which makes frequent use of norms and quotas, schedules of equipment and other arrangements used in the budgetary economy.

In the period of economic reform, the army has been making savings of a dozen billion zlotys annually due to the systemic measures taken. This is the result of rational management. /Some elements of the Armed Forces of the PRP also perform production and service operations, with a turnover of about 35 billion zlotys a year./ This is an important factor in the improvement of the market situation, because purchases of certain goods and services by the army in the domestic market have been reduced.

It should also be mentioned that within the framework of training and production operations the Armed Forces, as has always been the case, aid the national economy, making a major contribution in carrying out investment projects, especially the ones which are behind schedule, augment the cadres of the national economy with highly skilled specialists; take part in grain and potato harvesting; contain natural disasters and prevent them.

/By way of an example, we may say that soldiers of the railway troops put in 1.2 million man-hours in 1986. The estimated cost of the work performed exceeds 7.4 billion zlotys. As part of tactical and communication exercises, 17 bridges worth 60.0 million zlotys were built./

/Due to better utilization of cargo capacity, 1,939 railway cars were saved in 1986, which resulted in savings of 19 million zlotys. Piece work at home provided clothing and underwear, mainly for children, in the amount of 5.6 million pieces worth 2 billion zlotys (jackets, pants, underwear etc). In remote (forest) garrisons, military retail trade supplies not only the army, but the local population too, especially rural. In 1986, merchandise sales exceeded 30 billion zlotys./

During service in the army, 80 percent of draftees acquire a profession, improve their skills or receive training in a profession. Practical training

gives to the economy many specialists with rare and sought-after professions such as drivers, operators of heavy equipment for earth moving and paving etc.

#### Eliminating the Shortcomings

It follows from the documents of the 3rd PZPR CC Plenum that the second stage of the economic reform, the guidelines for which are under discussion now, does not amount to extraordinary arrangements, despite the bold new proposals made. The object is for the systems introduced at the first stage to function properly and be streamlined as the need arises, for nonsensical and abnormal situations running counter to economic laws, logic and common sense to be eliminated. The object is also to eliminate the phenomena of social deviance.

The military economy also has certain shortcomings. Cases of violation of budgetary discipline, inadequate care of the social assets and fires do happen. This damages the property of the army. However, it should be noted that this is of completely marginal importance in military management due to efficient service actions and party, political and social work. After all, economic abuses in relation to the outlays for national defense are minimal and are under one per mill. In 1986, the rate of abuses per 1 million zlotys of outlays fell by several dozen percentage points. Taking the above into account, we should note that the situation in the Armed Forces of the PRP should be considered very good, given the incidence of such phenomena in the national economy. This is not to say that these phenomena can be ignored; quite the opposite, we have and will combat them resolutely.

#### More Autonomy

Certain parallels should be drawn between the second stage of the economic reform in the national economy and [the developments] in the military economy.

The basic goal of the second stage of the economic reform in our country is to secure major and broad-scale improvements in the efficiency of management, and in particular to improve the quality of products and services, reduce costs, increase wages in keeping with the required growth in productivity and material savings etc. Considering these tasks in the context of the army, we should state that the second stage of the reform in the army is to ensure achieving and maintaining the combat capability and readiness of the troops at the desired level and to result in further improvement of management compared to the current level.

Rational management should apply both to the budgetary outlays allocated to the army annually and to the entire defense and economic potential available to the Armed Forces of the PRP. The arrangements made provide for complete autonomy and independent actions by commanders (chiefs) at lower levels of command (management) who are at the same time responsible for the results achieved.

We are also continuing work on the indicators for evaluating economic operations by military units which would take into account the results achieved and the costs incurred. This is a very complicated issue, because the quality (level) of training of the troops is hard to measure. It can only

be fully tested on the eventual battlefield in combat with the enemy. In peacetime, the degree of combat capability and readiness of the troops is tested on maneuvers. Therefore, it is difficult to determine the optimal cost of such training.

Nonetheless, the point method developed at the first stage of the reform and proven in practice makes it possible to evaluate the results achieved in training, training and production work, and answers the question of whether the results achieved justify the costs incurred. New arrangements involving cost-efficiency calculations, information and data processing, norms and quotas, and especially budgetary norms, are needed in order to implement this method. We should not burden military units by overcomplicated cost calculations or excessive reporting, as in the case with enterprises. The point method will be comprehensively implemented in the army during the second stage of the economic reform.

### Planning and Control

Improvement of the organizational structures by certifying positions is yet another problem, same as in the economy at large. In the Armed Forces, this is a continuous process. Work of this nature proceeds in keeping with the adopted schedule. It is believed that such work streamlines the operation of the Armed Forces of the PRP by introducing exemplary arrangement meeting the needs of a modern army, organizational, technical and economic progress. This work will also be a factor in reducing the cost of maintaining the troops, because new systemic arrangements will be less costly compared to the current ones.

Also, we are preparing other changes. /The first change affects planning./ In the Armed Forces, central planning is of paramount importance. However, /it is necessary to increase autonomy at the lower levels of command (management)./ A system of planning which considerably increases the independence of unit commanders, e.g. with regard to the amount of information which should be included in the plan for performing assignments, was developed and implemented at the first stage of the economic reform and in keeping with its premises. Also, this system created conditions for a wider use of cost calculations and provided the basis for evaluating some activities of military units by the "cost-effect" calculations.

/The second change involves improvements in the financial and economic system./ The objective is to improve the efficiency of operations by units in the budgetary economy by further increasing the independence of commanders and creating an effective incentive arrangement which releases the available reserves. The latter are to be used for reinforcing further the defense capability of the country and improving the conditions of service and life of the military community.

/The third innovation involves in-house auditing./ We should say openly that very many problems would be behind us, especially waste, theft, low quality of production and services, alcoholism and so on if efficient in-house auditing existed in the national economy. Meanwhile, too little attention is paid to in-house auditing in the premises of the economic reform. Several problems



including, among other things, self-auditing, auditing performed as a part of service supervision by the management and social control need to be solved in this sphere. Even the most thorough and professional outside audit cannot supplant or replace in-house auditing.

I have restricted myself to discussing but a few problems. I have not exhausted all the issues. For example, I did not discuss the arrangements which will be implemented in the second stage of the reform as a result of research on the military economy and sectoral military economies. We are approaching the second stage of the economic reform in the army seriously. We cannot lose this stage of the reform.

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CSO: 2600/783

## ENGINEERS ASSOCIATION SHARPLY CRITICIZES REFORM PLANS

Lublin SZTANDAR LUDU in Polish 8 Jul 87 p 3

[Article by M. Hortynski: "The Secret Science of Reform?"]

[Text] The SIMP [Association of Polish Mechanical Engineers and Technicians], which is the most numerous scientific-technical association affiliated with the NOT [Main Technical Organization] in Lublin, has prepared a very businesslike evaluation of the guidelines for the second stage of the economic reform. We have selected from these extensive documents several views which, to our mind, are most significant.

## I.

Looking broadly at the draft concept of the second stage of the economic reform, the SIMP members point out that on many important points it includes statements inconsonant with those adopted by the 9th PZPR Congress, congresses of [other] political parties and "Directions for the Reform" passed by the Sejm. For example, arriving at the target model of the reformed economy after a transitional period of 2 to 3 years has been suggested, whereas the concept of the second stage extends this period into the early 1990s. Likewise, there has been talk of entirely eliminating central allocation within 2 years, whereas the guidelines provide for restricting it in the years 1988 and 1989, and continuing rationing of fuel, energy and raw materials in particularly short supply after 1990. The "Directions" provided for enterprises keeping amortization in its entirety, for making profits the basic indicator in evaluating economic operations and for domestic prices to be based on world price ratios. Meanwhile, it has been announced that the current system of distributing amortization will be kept indefinitely, changes in the success indicators of the units of socialized economy [will be] superficial, and world prices will be used only with regard to basic raw and other materials. Dissatisfaction has also been caused by the proposed continued operation of branch ministries, mandatory branch associations and many economic monopolies, exclusion of mines, steel mills and other large production facilities from the market economy, by far-reaching restrictions of the right of enterprises to set wages, and promulgation of new administrative bans and orders.

## II.

In the opinion of the SIMP members, the evaluation of the first stage of the reform in the guidelines is too optimistic, it does not conform to the real situation and contradicts the evaluation made by the Sejm. For example, the situation with "the new legal system" may attest to the implementation of the reform. As of yearend 1985, 532 legal acts on issues of the reform alone were in effect. Last year, 24 new documents were added, and a dozen were partially amended. Therefore, it is doubtful that anybody at all is aware of the actual format of the reform implemented on the basis of the regulations in effect. After all, social evaluation is made through the prism of incoherent, obscure and delayed regulations which turn the machinery of the reform into "a secret science."

To this day, the basic foundations of the reform have not been introduced comprehensively. As a result, profit is not the basic success indicator of the enterprise; currency does not have an economic function; excessive fiscal policy does not provide for complete implementation of the principles of autonomy and self-financing, and undermines the incentive function of profit. Wages do not depend on the actual output of work. "Rules of the game" determining the relationship between the center and enterprises for several years in advance are still lacking. All of the above prevents the use of cost-efficiency analysis in the economy, efficient resource allocation and desirable structural changes in the economy.

## III.

The SIMP chapter takes a critical view of the guidelines on finances and the financial system of the state, including that of enterprises. It is at the very least strange that in this voluminous draft concept of the second stage there is no chapter devoted to these issues. After all, the financial system is supposed to be one of the most significant elements in a planned market economy.

The guidelines restrict themselves to putting forth several proposals on self-financing of enterprises. We should strive to make them truly self-sufficient in this sphere at the second stage. This should consist of:

- making financial policy for longer periods, 3 years at a minimum;
- adopting the principle that whatever is not [specifically] prohibited by law can be implemented;
- abandoning the practice of imposing temporary or selective legal restrictions, which hamper long-range planning;
- restructuring the tax system with a view to considerably simplifying tax calculations;
- establishing profit as the only success indicator for enterprise operations;

- eliminating the arrangements which have not proven themselves in the past (among others, the tax on above-the-norm payment of remunerations).

#### IV.

The guidelines offer no solution for the problem of securing future profits by current development and implementation of modern products and technologies. The desire to maximize short-term profits obstructs considerations of future development. Also, the suggestion to cease accumulating the fund for technical and economic progress and to finance such progress from profit before distribution is not correct. It does make a difference for enterprises where the money for further development will come from. Cancellation of the "mandatory" contribution to the fund for progress would rob many enterprises of a significant incentive to pursue it.

Proposals on economic incentives and technical progress are inadequate. The wages of inventors and innovators will have to improve substantially if the creative energy of the engineer cadre is to be released. For example, increasing wages by as much as threefold for a group of innovators which is, after all, small, would not be a negative influence on the market equilibrium. Similar suggestions are included in the resolution of the 21st Congress of Polish Engineers. With a view to stimulating the economy and technical progress, enterprises, factories, cooperatives, craftsmen and in general citizens who shoulder the burden of investing, starting up new production or building their own homes should be granted preferential tax rates or exemption from taxes. Regulations on technical progress in state enterprises should also apply to small-scale manufacturing.

Finally, several general remarks were made. It is deplorable that the guidelines for the second stage of the reform do not clearly outline the target model of our economy and how soon it could be reached. The issues of labor policy and the remuneration system were treated in passing and superficially.

In the opinion of the technical community, the Sejm should efficiently supervise the process of reform implementation. A special commission consisting of the most competent deputies and several experts from outside the Sejm should be nominated for this purpose. At the same time, the government, rather than a social commission, should be responsible for implementing the reform.

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CS0:2600/738

## NEW '500 LIST' OF TOP ENTERPRISES ANALYZED

## Reflection of Reform Efforts

Warsaw ZARZADZANIE in Polish No 6, Jun 87 pp 39-41

[Article by Stanislaw Albinowski: "Poor Efficiency, Unhealthy Profits"]

[Text] The List of 500 is not only a child of the reform but its image. This fourth annual List of 500 immediately provokes the question: how does the reform look in light of an analysis of the performance of the 500 largest enterprises which in 1986 accounted for two-thirds of the sales in value and four-fifths of the accumulation of all socialized processing industry?

Statistically, the period under study is very short; nevertheless, it allows us to formulate some conclusions drawn from the analysis of the phenomena. The major emphasis will be placed on output efficiency, the improvement of which is the basic criterium and the goal of the economic reform. Thus, we are also interested in the development of the enterprises and their influence on market and financial stability through their wages. The analysis of the changes between years will include all of the 500; the analysis of the patterns for 1986 will include the individual groups of 100. Thus we are using aggregate data, which presents a synthetic view. Problems of rank and branch are the subjects of other commentaries.

## Several Remarks About Method

The above question brings us onto the approach or rather close to reality. We must find it in the labyrinth of price deformities and conceptual doubt. To this end we must briefly outline a few fundamental methodological assumptions.

The primary ranking criterium on the List of 500 is sales, which includes a differentiated turnover tax, i.e., value that the enterprise did not produce. In some analyses of efficiency, however, we must have sales without the turnover tax. Such cases will be clearly noted.

The method of calculating profits is a more complicated methodological problem. According to the Central Office of Statistics's principles profits include subsidies and other subventions. For the enterprise these are real values, thus this method will be used in analyzing profits for various

samples. Profit is also a component of net output which makes up the national income created in industry. Output efficiency should be calculated as the relationship of net output (effects) to material investments. Since the List of 500 does not include this item, we must employ the substitute proportion of net production to production sold. This index is a different measure, but it also shows changes and differences in output efficiency. This implies the use of macroeconomic methods of calculating the national income in market prices, i.e., including the turnover tax (unlike the factor cost method, which, among other things, eliminates this tax). In this case we should, however, deduct the subsidies from the gross profit which constitutes a return transfer of a portion of the turnover tax drawn off by the budget and included in net output. Otherwise the value corresponding to the subsidy would be counted twice. In calculating the coefficient of efficiency given in the List of 500, net production will be reduced by the subsidy and this figure divided by the value sold plus the turnover tax.

The third methodological observation is associated with the introduction of the concept of "deficit-producing coefficient of output." Since officially this concept does not exist, this index should be considered a suggestion. In the given price system the measure of this coefficient is the quotient of the sum of subsidies divided by the value of net output. The payments to the enterprises consist of--in addition to subsidies--transfers to adjust for price differences and compensation payments for foreign trade. The idea is to transfer profits from the most profitable enterprises to those with the lowest profits or even with losses (usually in cases when the higher profitability does not depend on the enterprise). For the total net production this factor is neutral, but it has a crucial effect the deficit-producing coefficient. For without these subventions the enterprise receiving "financial aid"

--would either have to cease production since it would not even have the appropriate turnover resources (for example, at the Katowice Steelworks the transfers equal the wage funds),

--or their profits would be so reduced that given other unaltered conditions they would no longer be able to develop (for example, without the subsidies, the Gdansk Refinery and the Bielsko-Biala Compact Car Factory would show a net profit of about 35 percent of that given in the List of 500).

While previous Lists of 500 gave only the value of the subsidies, the current one gives the total subventions. An analysis over time here is not possible, and the index of the deficit-producing coefficient of output for the 500 and the particular groups of 100 can be calculated only for 1986.

The Fourth 'Hundred' is the Worst, The Third--Nearly the Best

Table 1 shows three quality characteristics of the economics of the 500 enterprises. They are indexes of output efficiency, productivity of fixed assets, and the degree of the deficit-producing coefficient of output.

For the 500, output efficiency was stagnant for 1983-86. Net output without subsidies hovered around 33 percent of the production sold. This is a low level; for comparison, the level for the FRG in 1982 was 45 percent. (1) Closer analysis of 1986 shows serious differences among the groups of 100

enterprises. The third group showed the best performance (38.2 percent); the fourth, the worst (23.5 percent). The first group which accounts for nearly 60 percent of the total production of the 500 falls just a little above the average. This shows that the benefits from the scale of production have not been discounted as appropriately higher economic efficiency.

Table 1. Quality Characteristics of the Economics of the 500 Enterprises

Year	Aggregate	Output Efficiency (a)	Deficit-Producing Coefficient of Output (b)	Productivity of Fixed Assets (c)
1983	500 average	32.2	--	--
1984	500 average	33.1	--	988
1985	500 average	32.4	--	1159
1986	500 average	32.8	12.8	1376
	1-100	33.9	12.8	1341
	101-200	28.1	13.9	1495
	201-300	38.2	7.4	1347
	301-400	23.5	23.2	1307
	401-500	32.8	9.3	1539

(a) Output Efficiency--percentage ratio of net output (without payments) to value of sales (including turnover tax).

(b) Deficit-Producing Coefficient of Output--percentage ratio of all enterprise subventions (including subsidies) to net output.

(c) Productivity of Fixed Assets--value of sales (without turnover tax in zloty per 1,000 zloty of fixed assets

The increase in the productivity of fixed assets in 1986 by nearly 40 percent in comparison with 1984 is only nominal and results primarily from price increases and the disproportionate weight of the growth of the value of these assets and the sales of production. In 1986 the 500 enterprises earned an average of barely 1,376 zloty of value of production (excluding the turnover tax) for every 1000 zloty of fixed assets. (2) This coefficient (-1.38) is more than three times lower than that in the FRG at the beginning of this decade. For the particular groups of 100 the deviations from the average are not great (the standard deviation is 6.7 percent, the greatest is -13.7 percent). Again the fourth 100 is the worst group, but now the second is the best. The almost equal level of the productivity of fixed assets and its low value show that the scale of production and its profile have minimal influence on the slight deviations that occur.

The deficit-producing coefficient of output for the 500 was 12.8 percent in 1986. This indicates that without the subsidies and the equalization transfers the net output of the 500 largest enterprises would be that much lower, obviously given the current price structure. Here, however, unlike the other two concepts, the disproportions between the individual groups of 100 are great. The third group is again the best; its deficit-producing coefficient of output is only 7.4 percent; the fourth is again the worst (23.2 percent). The first 100, the largest, falls exactly on the average value.

The fourth 100 enterprises require closer examination for this group shows the poorest performance on all of the analyzed factors. The problem is not minor, for this group accounts for 8 percent of production and nearly 11 percent of the employment of the 500.

#### Labor Productivity--An Asymmetrical Distribution

The value of net output (without turnover tax and subsidies) per employee measures labor productivity for the List of 500. Analysis of the trend of labor productivity in current prices says nothing, but the analysis of the distribution of these values for the groups of 100 in 1986 leads to significant conclusions (see Table 2). In a simple analysis, the standard deviation around the average is only 9.4 percent; the first 100 shows the greatest productivity; the fourth again the lowest. But the absolute level of labor productivity depends on technical equipment. (3) Inclusion of this factor changes the picture. The dispersion then doubles: the standard deviation goes to 19 percent, and more importantly the extreme positions are reversed. The first 100 falls to last place, productivity 12 percent below the average. The fifth 100, which was next to last in the simple analysis occupies first place, productivity 39 percent above the average. The second and third groups of 100, however, do not change their places. The asymmetry of both of these distributions can serve as the starting point for further analyses of productivity and should be included in wage policy for which labor productivity is a fundamental criterium. The problem, however, is how to calculate productivity.

Table 2. Labor Productivity in the 500 Enterprises in 1986

Aggregate	Absolute Labor Productivity (a)	Coefficient for Technical Equipment	Index of Labor Productivity:	
			Absolute	Relative (b)
1-500	930	1.0	100	100
1-100	994	1.215	107	88
101-200	920	0.875	99	113
201-300	936	0.793	101	127
301-400	746	0.843	80	95
401-500	838	0.65	90	139

(a) Absolute Labor Productivity--in 1,000 zloty of net output (without turnover tax and subsidies) per employee.

(b) Relative Index of Labor Productivity--the index of absolute productivity divided by the coefficient for technical equipment.

Tadeusz Baczko analyzes the relationship--or the lack of one--between labor productivity and wages. Attention will be drawn here to only one macroeconomic aspect of the wage problem apparent in the data of the List of 500. The question is whether the level and trend of wages are an inflationary factor in Poland? The indexes in Table 3 lead to an unequivocal answer of no! For the 500 the portion of wages in gross sales (including turnover tax) oscillates from 7 to 7.2 percent for 1984-86, and it is 2.5 times lower than in the FRG processing industries at the beginning of this decade. The index



of the increase in labor productivity falls below the level generally recognized as the rational norm. In absolute values (and only they authoritatively reflect the market situation) the portion of the increase in nominal wages in the increase in net output per employee (without turnover taxes) fell from 31 percent in 1985 to 24.4 percent in 1986. The relation of average wage to productivity (calculated according to the factor cost method, thus including subsidies) is declining and is one-third lower than in the FRG. If inflationary pressures do not appear there given such proportions, then why should they occur in Poland? The question must remain unanswered here, but the explanation of the shocking differences in the relations of wages should be sought primarily in the above-mentioned fact of a much lower productivity and in the relation of gross enterprise profits to wages. In our 500 in 1986 wages were 39 percent lower than gross profits, but in the 50 largest FRG concerns (in 1985), they were 24 percent higher!

Table 3. Relations of Average Wages and Wage Funds to the Production Performance of the 500 Enterprises in Poland in 1984-85 and in FRG Processing Industries (in percent)

Relation of:	Poland--"500"			FRG 1982
	1984	1985	1986	
Wage Funds to Sales/Turnover(a)	7.12	7.18	7.02	18.0
Average Annual Wage to Net Output (b) per Employee (c)	32.6	32.3	30.6	48.3

(a) In Poland sales including turnover tax; in the FRG, turnover including value added tax.

(b) In Poland, net output without turnover tax but including subsidies. In the FRG "Nettoproduktionswert," i.e. without the value added tax and with subsidies, but for comparison reduced by write-offs for amortization.

(c) This index expresses the portion of gross wages (before taxes) to the average new value created by one worker during the year.

#### Like Mushrooms After A Rain

The gross profits of our 500 are growing like mushrooms after the rain--more rapidly than sales and wage funds (see Table 4). The gross profits without subsidies and net profits are growing still faster. Given the stagnation of the level of production, the proportions of these increasing relations are a very disquieting signal. They indicate that the improvement in the enterprises' financial condition contradicts rational economics and is costing the consumer and the workers.

The ratio of gross profits to sales (without the turnover tax) is rising slightly for the 500, and firms worldwide could envy the rate of 13 percent. The proportion of subsidies to gross profits declined from 27.5 percent in 1984 to 21.5 percent in 1986, although some of the reduction is explained by the shift of price equalization payments and other payments from the branches and ministries. Though the average proportion of subsidies to gross profits is 21.5 percent, there are great differences between the particular groups of

100. Again the third 100 was the best in 1986 (9.6 percent); the fourth was the worst (47.1 percent). The relation of net to gross profits is rising, especially in 1986 in comparison to 1985. For the 500 the net profit that remains under the enterprise's control was 48.6 percent in 1986, although this rate was the lowest in the best 100, the third (44.4 percent), and highest in the worst 100, the fourth (50.5 percent). This indicates that the more productive enterprises are subject to a relatively higher tax burden, which is a powerful antimotivational factor and a symptom of income equalization. We do not need to show how inconsistent this is with the principles of the economic reform.

In 1986 the rate of the linear income tax for the 500 was 65 percent, but only 51.4 percent was actually paid. This was due to the reliefs from income tax (128 billion zloty). The structure of these reliefs is very disturbing. The reliefs associated with the intensification of the economic processes (for the rationalization of energy use and high quality production) totaled 8.4 billion zloty, i.e., barely 6.6 percent of the entire sum. Arbitrary reliefs and those for increased exports, whose profitability for the enterprise is artificially raised by the increasingly frequent devaluations of the zloty, predominate. Such extensive reliefs weaken the potential productivity stimulus.

Table 4. Percentage Growth from Previous Year in Current Prices for 500

Category	1984	1985	1986
Sales (including turnover tax)	20.8	20.6	23.7
Sales (excluding turnover tax)	22.1	22.2	24.8
Gross Profits	30.1	26.2	28.9
Gross Profits excluding Subsidies	38.9	28.0	37.7
Net Profits including Subsidies	49.3	20.0	40.3
Average Wage	--	19.2	20.4
Wage Fund	--	21.5	21.0

Note: Sales prices for socialized industry increased on the average by 14.5 percent in 1984 and 16.2 percent in 1985--see Central Office of Statistics ROCZNIK STATYSTYCZNY 1986, p. 224.

In 1986 the 500 achieved a net profit (including subsidies) of 447 billion zloty. Is this large or small? In comparison to turnover (5.6 percent) this is large. In comparison to the need for development? If we take the enterprises' complaints that they are constantly short of resources not only for modernization and expansion but to counteract decapitalization of their existing production assets (what happened to the portion of the amortization funds they control?), then we must conclude that the profits are doubly "ill:" their size derives largely from the pathology of our market (lack of competition, a producers' market, financial protection of the center), but also these profits are insufficient to achieve the established goals. Obviously many of the causes lie outside the enterprises; nevertheless, the anticipated development achievements, undoubtedly, can and must be achieved by improving the real efficiency of the economic processes, especially by increasing the productivity of the fixed assets, whose dimensions and

structure should be correlated with the material supply capabilities. These last two factors explain why our enterprises show so little ability to develop although they earn such high profits.

#### Footnotes

1. All of the data for the FRG were calculated from the "Statistisches Jahrbuch für die BRD 1984 and 1985." MONATSBERICHTE DER DEUTSCHEN BUNDESBANK 1986 No 11 pp 13-29 and H. Tammer "Profits and Profit Rates of the FRG Industries in 1985" in IPW-BERICHTE 12-86 (published by the Institute for International Politics and Economics of the GDR).

2. The value of fixed assets given is reduced; the next reduction is to be made in 1988.

3. This is not a simple, single-factor dependence; here, however, this simplified assumption was unavoidable.

#### Wage-Productivity Link Assessed

Warsaw ZARZADZANIE in Polish No 6, Jun 87 pp 41-43

[Article by Tadeusz Baczko: "Irregularities in the System of Motivation"]

[Text] Studies conducted in 1983-86 produced numerous examples of disproportions in the system of motivation.

In 1986 there were only 2 enterprises producing highly processed goods and none producing consumer goods among the ten enterprises with the highest wages (see Table 1).

Significant disproportions were found. The numerous examples of low-wage enterprises producing highly processed goods and of high-wage enterprises in the iron and steel industry that usually do not fit the productivity indexes are particularly disturbing.

The scale of these disproportions can be measured thanks to a correlational analysis of the relationship between wages and labor productivity conducted since 1983. The correlation coefficients from these analyses can be one of the essential measures of the total 4-year evolution of the system of motivation within the economic reform for 1982-86.

This year as last year we performed the successive set of correlations studies for the 500 enterprises. The correlation coefficients between wages and labor productivity measures in net production sold, without payments and subsidies was +0.312.

This shows the existence of a weak relation between wages and productivity. This coefficient has not increased since last year. This is not an optimistic result given the 4 years of effort by the administration to ensure a motivational drive. It is an evaluation of the regulatory system that

consists of central interference in the enterprises' wage policy. This system has not succeeded in decreasing the rate of inflation or in assuring the appropriate motivational relation.

A crushing defeat has been suffered in both respects. It appears that it is high time to abandon the push along this path. As the unsuccessful Polish reform efforts of the 1970's and the unexciting Hungarian experiences have shown, while this path does not lead to nowhere, it does not lead to the dynamic, developing, expanding economy that society expects. The results of the studies of the correlation of wages and productivity, including payments and subsidies, also support this conclusion. These studies suggest a fairly significant increase in the correlation from year to year. In 1985 it was 13.6 percent. The present increase of 25.2 percent in the correlation coefficient is nearly twice that of 1985. This, however, is not a result of improvement in the effectiveness of the system of motivation. Two processes are probably at work here. The first is associated with the evolution of the policy of payments and subsidies (see M. Dabrowski's commentary), and second with the adaptation of the enterprises to the principles regulating the wage fund for the last several years.

The above issues require further study which will, I hope, contribute to solving the puzzle: what has caused the sudden increase in the correlation, including subventions and subsidies, given the low level and the absence of improvement in the relation between wages and productivity.

The results of these studies are subject to criticism due to the frequent use of the argument of branch peculiarities. It is frequently noted that the strong point of central interference in the wage policy of an enterprise lies in the ability to take branch peculiarities into account. However, the experiences of 1982-86 show that this leads to the enterprises negotiating with the central bodies and to arbitrary decisions.

This argument makes studies of the degree of relatedness of wages and productivity in selected branches interesting and important.

Supporters of tying motivational wages to net sales frequently point to the anti-inflationary effect, especially in cases of the assignment of branchwide coefficients of elasticity (corrections). The results indicate a broad variation in the correlation factors between branches, which range from +0.7 to -0.78. This reflects the large variation by branch of the relationship of wages to economic performance. If we adopt a correlation greater than 0.5 as indicating the existence of a significant motivational coupling, then of the 17 branches (excluding the monopoly Polmos) that account for more than 70 percent of the sales of the branches of the processing industries, then the following industries achieved such high coefficients: electronics, rubber, and cement. Three industries (beer, tobacco, and food concentrates) have negative correlation coefficients.

The study whose results require further verification show that there are branches of industry with high, even very high, correlation coefficients.

The branches with high correlation coefficients should be the object of particular interest (they have excellent production performances given relatively small investments) and so should the branches of industry where these coefficients are negative or relatively low. For example, the correlation coefficient for the iron and steel industry in 1986 was +0.261, which is nearly half the analogous coefficient for the cotton industry (+0.498).

The irregularities in the system of motivation in the iron and steel industry are illustrated by the comparisons of wages in enterprises in the industry (see Table 2). It also indicates the varied wage levels of the enterprises.

The cotton industry, it is worth noting, has a much better relation of wages to efficiency indicators. The much flatter level of wages in the cotton industry in comparison with the iron and steel industry is also worth noting.

	Industry	
	Cotton	Iron and Steel
Maximum Wage	25,308 zloty	37,061 zloty
Minimum Wage	20,450 zloty	24,639 zloty
Difference	4,858 zloty	12,422 zloty

It is also worth examining the enterprises with the highest rate of wage growth (see Table 3). The high indexes of wage growth and the absence of any connection with the rate of sales growth, accumulation, financial performance, and labor productivity (without subsidies) is disturbing. Only for four enterprises is there any association of the rate of productivity growth with that of wages.

On subsequent lists one could see enterprises in which the indicated irregularities appear to a lesser degree. The example of Mera-Elzab, which not only achieved a significant growth in turnover but also produced a model performance in motivational correlation, is interesting. This enterprise in 1983-86 moved from number 498 to 204. It also entered the first 10 in profitability and all the way to the fifth position at that. Mera-Elzab produces monitors, terminals and microcomputers, all symbols of today. It is an important exporter, chiefly to the first payments zone, and its exports rose from 66.5 to 74.5 percent. This enterprise's products, however, are having trouble withstanding competition on the developing domestic minicomputer market. Here we have proof that individual efforts by enterprises are insufficient. The final products cannot be good in a modern industry without good materials, subcomponents, or precision mechanical parts. Thus production expansion in other branches of industry are also required.

Without shifting capital to its most effective uses, we cannot expect significant advancement in improvement of the range of products for sale.

Table 1. Enterprises According to Wage Levels

10 Leading Enterprises	Sales Position	Wages in Zloty	Item				
			A	FP	P	LPr	Pr
Komb. G-H Miedzi, Lubin	5	42,571	5	1	81	61	444
Batory Steelworks, Chrozow	37	37,061	113	86	348	143	317
BUMAR-Labedy, Gliwice	13	37,008	7	3	40	13	167
Coal Repair Works, Zabrze	437	35,915	362	384	256	129	428
Warsaw Steelworks	21	35,701	54	31	283	86	338
Florian Steelworks, Swietochlowice	44	35,649	158	119	383	127	206
Northern Shipyards, Gdansk	101	34,690	105	69	115	124	204
Metallurgy Works, Trzebinia	33	34,444	231	179	439	9	8
Lenin Steelworks, Krakow	3	34,271	20	13	427	146	403
Repair Shipyards, Gdansk	139	34,196	89	57	57	101	433

Five Enterprises at the End of the Classification

Bielpo Labor Cooperative, Bialystok	439	19,299	409	469	375	284	1
Stomil, Grudziadz	208	19,285	203	368	348	357	147
Bacutil, Szczecin	411	18,942	463	436	405	437	153
PRKOP, Czestochowa	459	18,658	303	284	113	229	24
POLKAT, Warsaw	417	16,798	174	135	14	164	25

A = Accumulation  
 FP = Financial Performance  
 P = Profitability  
 LPr = Labor Productivity  
 Pr = Productivity

Table 2. Iron and Steel Industry Enterprises by Wage Levels

	Sales Position	Wages in Zloty	A	FP	Item P LPr Pr		
Batory Steelworks, Chorzow	37	37,061	113	86	348	143	317
Warsaw Steelworks	21	35,701	54	31	283	86	338
Florian Steelworks, Swietochlowice	44	35,646	158	119	383	127	206
Katowice Steelworks, Dabrowa Gorn.	4	33,841	494	9	406	249	445
Kosciuszko Steelworks, Chorzow	41	33,381	210	146	410	170	325
Laziska Steelworks	168	33,288	267	230	311	66	230
Lenin Steelworks, Krakow	3	33,236	20	13	427	146	403
Zawiercie Steelworks, Zawiercie	45	33,221	232	186	428	202	413
Labedy Steelworks, Katowice	40	33,208	90	62	308	14	117
Baildon Steelworks, Katowice	43	32,817	31	21	87	80	324
Ferrum Steelworks, Katowice	128	32,635	130	90	122	13	240
Bobrek Steelworks, Bytom	68	31,603	489	198	426	409	235
First May Steelworks, Gliwice	229	31,585	339	289	295	151	119
Buczka Steelworks, Sosnowiec	164	31,481	128	95	71	60	321
Cedeler Steelworks, Sosnowiec	51	30,594	86	63	259	15	149
Unity Steelworks, Siemianowice Slaskie	116	30,515	308	330	413	252	210
Peace Steelworks, Ruda Slaskie	60	30,477	485	472	461	394	278
Bierut Steelworks, Czestochowa	14	30,161	248	59	432	221	376
Swierczewski Steelworks, Zawadzkie	101	29,408	75	43	67	73	219
Nowotko Steelworks, Ostrowiec Sw.	18	28,412	342	72	411	318	434
Szczecin Steelworks	205	27,400	442	486	452	384	224
KZN, Bydgoszcz	499	24,639	431	458	471	172	116

A=Accumulation FP=Financial Performance P=Profitability  
LPr=Labor Productivity Pr=Productivity

Table 3. Enterprises by Rate of Wage Growth

	Sales Position	Wage Growth	S	Item A FP Pr		
Food Concentrate Plants, Winiary	170	152.5	80	2	30	61
House of the Polish Word, Warsaw	368	148.5	49	56	114	71
Tannery Plant, Wlodawa	472	147.4	37	16	12	15
Iskra, Kielce	161	146.9	6	20	37	25
Techma-Zugil, Wielun	370	145.1	124	155	236	252
Ozarow Cement Plant, Ozarow	387	144.9	5	358	435	13
ZPJ Miranda, Turek	341	144.6	217	114	24	55
UNITRA-RADWAR, Warsaw	189	141.6	8	173	234	32
Automatic Lathe Plant, Wroclaw	490	135.7	171	252	327	215
Rug Plant, Kowary	180	135.4	291	326	242	123

S=Sales A=Accumulation FP=Financial Performance Pr=Productivity

## Increase in Exports Viewed

Warsaw ZARZADZANIE in Polish No 6, Jun 87 pp 43

[Article by Dariusz Ledworowski: "A Greater Proportion of Exports"]

[Text] Last year for the whole economy the increase of exports of industrial products was higher than the increase in total production sold by industry. As a result the proportion of exports in domestic industrial production increased. This trend was apparent also for the producers on the List of 500. The average proportion of income from exports (calculated in prices realized) from the entire value sold by these enterprises increased from 15.72 percent to 16.53 percent. Behind this apparently small increase in the proportion of exports, however, stands a more than 6 percent increase in export volume of industrial products, which is higher than the increase in industrial production and national income. Exports to the socialist countries (including China and Yugoslavia) were critical to this increase, whose rate was more than double the pace of shipments to the capitalist countries. This trend caused a decline in the negative balance of trade with the socialist countries, but it did not halt the increasing debt to the West. The List of 500, however, does not provide us with an opportunity to analyze these phenomena, because it does not provide information on the directions and growth rates of export sales by enterprises.

In the commentary on the list for last year, we drew attention to the slight role exports played in the operations of the leaders of Polish industry and on the high concentration of these exports due to the concentration of industrial production as a whole ("Small, Concentrated Exports," ZARZADZANIE 1986, No 6). It is worth noticing what changes have taken place among the 500 producer and in the ranges in which the number of enterprises increased and decreased.

Proportion of exports to Sales in percent	Number of Enterprises	
	1985	1986
0 (1)	65	59
0-5	136	123
5-15	141	148
15-25	62	67
25-50	61	63
50-70	24	21
70 or above	11	19

Not all producers increased their proportion of exports. About 180 enterprises noted a decline, usually a slight one. We emphasize, however, that this does not indicate in every case a decrease in exports. Changes in the index of proportion only indicate whether the rate of increase (decline) of income from sales on foreign markets surpassed or fell short of the rate of increase (decline) of the enterprise's total sales.

Bumar-Labedy, Sulphur-Tarnobrzeg, Jelcz, Cegielski, Hortex-Gora Kalwaria, and the shipyards (Northern, Paris Commune, and Gdansk Repair) had the greatest increases in the proportion of exports to production sold among the export



giants. Trzebinia, Zastal, Bumar-Warynski, Telkom-Telecommunications Devices Manufacturing Plant were among the export leaders that noted a decline in the proportion of exports. In addition to Bumar-Labedy, the Paris Commune Shipyard, and Sulphur-Tarnobrzeg, the Polish Aviation Plant-Wola, Mera-Elzab, Polfa-Stargard, Polfa-Grodzisk, and four fat-industry plants (2) joined the elite enterprises exporting more than 70 percent. These changes shuffled the list of the largest exporters ("List of Exporters" ZARZADZANIE 1987 No 1) and require a separate presentation.

Has the rising trend of export growth and its distribution among 500 producers noted in 1986 continued, indicating an enduring export-oriented development of the Polish economy? If we examine the indexes reflecting the use of fixed assets by the leading exporters and if we also know supplies are worsening, it is difficult to be optimistic.

Analysis of the number of concessions given to conduct foreign trade among the 500 producer-exporters leads to interesting reflections. Barely 18 producers have such concessions! Yet about 100 enterprises meet the formal criteria for applying for one (among other things, a proportion of exports of 25 percent or more). The lion's share of the exports by 500 enterprises goes through foreign trade enterprises, in which many producers became partners when the trade enterprises were transformed into partnerships.

#### Footnotes

1. Among the enterprises that do not export are included meat-industry and dairy-industry enterprises that transact their exports through a wholesale enterprise.

2. Enterprises of the fat industry (Kruszwica, Gdansk, Brzeg, Bodaczow) owe their unusual advance both to the record harvests of rape and to peculiarities in the accounting process. Lacking sufficient processing capacity to handle the oil from the harvested rape, they exported it and included the income from it as export income, but they did not include the sum as part of their production sold.

#### Enterprise Financial Systems

Warsaw ZARZADZANIE in Polish No 6, Jun 87 p 44

[Article by Marek Dabrowski: "Changes for the Better?"]

[Text] In the commentary on the List of 500 for 1985 last year, I pointed to the further, highly unpropitious growth of the redistributive role of the state budget among enterprises. Analysis of the one for 1986 seems to indicate a faint reversal in these unfavorable trends, at least in places.

The total burden on enterprises (taxes on turnover, income, excessive-wages, wages, and real property) were only 109.5 percent of accumulation in 1986 compared to 112 percent a year earlier. If the total burden is compared to accumulation and all payments received by the enterprises from the budget, then the index is 88.8 percent (in 1985, 93 percent).

The structure of the burden improved somewhat; the turnover and income taxes increased (from 57.9 to 58.1 and 27.2 to 27.9 percent, respectively). The proportion of the turnover tax to accumulation is falling systematically. In 1984 it was 67.3 percent; in 1985, 65.0 percent; and in 1986, 63.9 percent. On the basis of the data, it is hard to determine whether this is the result of a planned reduction of the turnover tax rate or subsequent individualized corrections (for enterprises in financial trouble), or a statistical effect of changes in the structure of production (perhaps also in the composition of the List of 500).

The proportion of income tax to accumulation, however, has been rising steadily. In 1984 it was 26.6 percent; in 1985, 30.5 percent; in 1986, 30.6 percent. The proportion of the total of the two taxes (turnover and income) to accumulation has varied. In 1984, it was 93.9 percent; in 1985, 95.5 percent; and in 1986 it fell to 94.2 percent.

The proportion of the income tax to profits fell sharply from 55.4 percent in 1985 to 51.4 percent in 1986 (in 1984, 53.0 percent). Comparison of the changes in the proportion of income tax to accumulation and to financial performance points out that the latter proportion is growing more rapidly than that to accumulation. Examining the indexes of growth rates (I do so unwillingly for the subjects of the successive Lists of 500 are not comparable), it turns out that the financial performance in 1986 grew in comparison to 1985 by 128.9 percent, while accumulation grew only 119.2 percent. The difference in these rates explains the slower growth of the turnover tax (116.7 percent) and the significantly faster growth of total payments to enterprises (134.4 percent).

The proportion of the total payments to financial performance rose from 37.4 percent in 1985 (when 291 enterprises received them) to 39.1 percent in 1986 (308 enterprises). This is a troublesome phenomenon. The proportion of object subsidies to financial performance fell from 26.5 percent to 21.5 percent. In 1986, 118 enterprises received these subsidies compared to 131 in 1985. Object subsidies disappeared among others in the sugar, the artificial materials, and the chemical fibers industries. If the object subsidies actually reached the consumer (and did not drown in a sea of wastefulness) one could broach the thesis that the restoration of stability is occurring chiefly at the cost of the public. This problem is complex, however, and deserves a separate discussion.

The decline of the proportion of the income tax to financial performance, given a constant tax rate (65 percent) indicates that the significance of tax relief is growing. The newest list provides for the first time data on income tax relief (thus there are no comparisons with previous years). In 1986 they were 21.3 percent of the gross income tax (i.e., the sum of taxes and reliefs) and 13.9 percent of the financial performance. As for their structure, relief for export sales predominates (54.1 percent of the total). Relief for fuel and energy saving and for products with quality awards plays a relatively slight role in the total (2.7 and 3.9 percent respectively). The remaining 39.3 percent comes from other sources, including individual and arbitrary reliefs. Only 28 enterprises of the List of 500 received no relief, of this one in the first 100, three each in the second and third 100's, 11 in the

fourth 100, and 10 in the fifth 100. In sum, a fractured picture. There are some symptoms of improvement --a slight reduction of the overall tax level, but excluding the deduction for the fund to service the foreign debt introduced in 1986. There are, however, some disturbing ones, too--rapidly increasing subsidies (other than object ones), an overly broad range of relief. Calls for the general transformation of the enterprises' financial system are still needed.

#### New Mergers Noted

Warsaw ZARZADZANIE in Polish No 6, Jun 87 pp 44-45

[Article by Ewa Balcerowicz: "Concentration Increases"]

[Text] This is the conclusion one must draw from an analysis of the List of 500 of the largest processing industry enterprises. Among the causes of concentration in Polish processing industry the fusion of enterprises deserves particular attention. We wrote about the combining of large enterprises last year in connection with the creation of the so-called Production Community Megat and the Mining Company Polmag in 1985. There were fusions of enterprises on the List of 500 again last year. We begin with the largest one. The Automobile Factory in Warsaw absorbed the Delivery Truck Factory in Nysa (number 210 on the list of 500 for 1985) and moved to number 6 in 1986 from number 7 in 1985. The value of production at the Automobile Factory moved from number 12 to 8 on the list (the fixed assets of Nysa in 1985 were 2.064 billion zloty). Last year, the Production Community Megat moved from number 9 to 7. The growth in the assets of the Community at that time by 11.2 billion zloty and its workforce by nearly 5,200 people can be explained largely by Megat's absorption of the Chemical Equipment and Industrial Instrument Plants Chemar in Kielce (number 284 on the List of 500 in 1985), which employed 3,600 people and had fixed assets of 8.9 billion zloty.

The Jelcz Automobile Factory took over the previously independent Polmo Automobile Mechanisms Plant in Szczecin (number 403 on the List of 500 in 1985) in the middle of 1986. By absorbing the financially troubled Szczecin enterprise (under a commissioner's control), the Jelcz plant enlarged its assets by 4.6 billion zloty and its workforce by nearly 2,000 people; it also moved from number 31 to number 23 on the List of 500.

The Mielec Transportation Equipment Plant of the Polish Aviation Plants' jump from number 34 in 1985 to 25 in 1986 (an increase in productive assets of nearly 5 billion zloty and in its workforce of nearly 900 people) can be explained by its absorption of parts of the Polsrebro Industrial Complex in Warsaw. As a result Polsrebro fell from number 155 in 1985 to number 175 on the List of 500 in 1986.

Finally, it is worth mentioning a fusion that although small is crucial because of its significance for supply of the domestic market. The large machinery enterprise Bumar-Labedy in Gliwice (number 13 in 1986) took over a small enterprise (200 employees) during the middle of last year that had previously produced consumer articles (chiefly boilers). The Katowice Domgos was in serious financial trouble; it was on the brink of bankruptcy, and it asked to be absorbed by Bumar.

Last year there was also of the reverse phenomenon which is heartening. The Agriculture Machinery Factory in Lublin reduced its assets. Two of its provincial plants became independent; the larger of them goes by the name the Agriculture Machinery Factory in Chelm. As a result the Agromet factory in Lublin fell from number 168 on the List of 500 in 1985 to number 221 in 1986. The workforce declined by more than 700 persons.

In the commentary to the List of 500 for 1985 there was insufficient space to note a small fusion of enterprises (especially in comparison to Megat and Polmag). It is worth returning to it here, however, because as the analysis of the list for last year shows this fusion produced the expected results. In 1985 the Household Chemical Plant in Nowy Dwor Mazowiecki Pollena absorbed the Pollena plant in Stargard Szczecinski (not on the List of 500), and as a result the combined enterprise moved from number 300 in 1984 to number 221 in 1985. The fusion was caused by the spector of bankruptcy threatening the Stargard plant that employed nearly 300 people. The profitable Pollena in Nowy Dwor invested in new machinery and fundamentally altered the production profile in the Stargard plant (powder detergents and dishwashing liquids instead of the traditional soap and soap flakes). Last year the enlarged enterprise from Nowy Dwor increased its sales by 45.7 percent and thereby entered the second 100 group of the largest enterprises in the processing industries (number 185). But the question remains: was it necessary to fuse with a distant enterprise in the same branch in order to make the small investment and change the production profile. Questions about the rationality of fusion are more justified in the case of the large enterprises mentioned above.

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## BRIGADE SYSTEM RELATIONSHIP TO SELF-MANAGEMENT VIEWED

Warsaw ZYCIE GOSPODARCZE in Polish No 28, 12 Jul 87 p 3

[Article by S. L.: "Will the Brigade System Force Self-Government Out?"; passages in slantlines printed in boldface]

[Text] /I was not the one who thought up the question asked in the title. Recently, it has been raised often in various discussions. Apprehensions that the creation of task brigades is designed to upstage the self-government organs was also voiced at the previous meeting of the Program Council of the Center for Self-Government Studies of the Council of State. This is why "Partnership Groups and the Self-Government of Enterprise Workforces" became the topic of the next meeting of the members of the council./

Where does the current wave of fears concerning the future of self-government come from? Various statements by some economic officials are part of the reason. The suspicion that such intentions are more far-reaching was also aroused by the somewhat unfortunate wording in the section of "The Guidelines [for the second stage of the economic reform]" devoted to self-government. Certainly, some would be inclined to argue that such suspicions regarding "The Guidelines" are unfounded and that they result from an oversensitivity of sorts. However, it should be acknowledged that self-government officials have every reason to be oversensitive due to their experience in previous periods, as well as the most recent one. This was stressed at the above-mentioned council meeting.

It was stated in the discussion that self-government of enterprises, as established by the 1981 law, should in no case be set against brigade self-government. The latter may become a supplement to the former. After all, both derive from the same concept of democratizing relations, primarily in the economic sphere, endowing employees with legal rights and promoting their creativity. At the same time, a discussion of which form is better or more complete makes no sense. Their conceptual similarities in no way influence the fact that these are absolutely different forms.

The essential feature of the system of workforce self-government is its comprehensive character. All workforces of state enterprises have an inalienable right to self-government (conclusions still have not been drawn from the fact that it happens otherwise); every member of the workforce also

enjoys this right. The group system will never be able to meet the condition of comprehensive participation.

Partnership groups in our country are at the embryonic stage of development. Their number is hard to determine. After all, when you look closely at what is actually happening in some enterprises praised for setting up such groups, it often turns out that nothing but a brigade operating in just a somewhat modified team piece-work system is found under the guise of an autonomous group. A mess of sorts in the matter is reflected in the terminology. Thus, some talk about partnership groups and autonomous teams, while others--about the brigade, agency system etc.

This is not a reproach--a variety of organizational forms may be an advantage. However, there is a difference between a partnership group and a brigade doing team piece-work. The former should be characterized by humanizing work to a considerable degree due to, among other things, democratization of relations inside the group and elements of self-government. This very aspect dominated when such groups were created in the West. As was indicated at the meeting of the council, in our practice these values have been generally overlooked. Striving to increase productivity was paramount, and wages were made the incentive in [promoting] this form of labor organization. As Prof. Stanislaw Rudolf, our leading theoretician of partnership groups, who also knows the actual practice well, stated, members of many groups feel like employees of private companies rather than those who work for themselves: they work intensively, often long hours, because they get well paid for their work.

/I am an avid supporter of developing group forms of labor management, continued Prof. S. Rudolf, but on the following conditions: the system is expanded in keeping with the concept of voluntary participation and applied only in cases where [favorable] conditions exist. Concepts of "groupism," of setting up groups from top to bottom are senseless, because groups cannot be a comprehensive solution./

Also, and perhaps most of all, self-government in its statutory format cannot be compared to brigade self-government. Even in an exemplary partnership group, the elements of self-government are reduced to decisions on the methods of work, on how to perform most efficiently the partial task entrusted to the group, on electing a leader, composition of the group, work time, distributing tasks and remuneration. However, it is not the brigade, but rather the enterprise, that is and will remain the basic unit in the economic system. Matters vital to the efficiency of management, and thus the most important for the future of the workforce, are resolved at this level. Increasing the efficiency of operations at this level should include self-government participation by the entire workforce in selecting a strategy, planning and so on.

Various arguments were made at the meeting of the council, including the following. Wages of employees should be tied not only to the results of individual or team work, but also to the efficiency of the entire enterprise. Therefore, the employees should have a say at this level as well. However, it appears that there will be no need to repeat all the arguments in favor of the law on workforce self-government 6 years after it was passed. Enterprise and

brigade self-government are not competitors; one will not supplant the other, just as even the splendidly developed system of local self-government would not be able to supplant the parliamentary system.

It is believed that employee councils thus far have certain reservations about the group system. In part, this could be the result of the atmosphere of competition; however, other factors were also responsible to a large degree.

The rate of payment for the increment in productivity in the newly formed brigades was usually high. In some cases, the brigades began to dip into the funds for wage increments for the entire workforce. The 12-percent cutoff [for tax-exempt growth of the wage bill] exacerbated this problem. Meanwhile, the self-government organs are supposed to maintain adequate proportions of wages throughout the enterprise. Representatives of enterprises, who observed at the council meeting that the new guidelines for taxation (PPWW [above-the-plan growth of remunerations]) hamper proliferation of the brigade system, even called for excluding the increment of the wage bill for brigades from the base of taxation. This, however, does not appear very realistic.

Having exhausted obvious opportunities for increasing productivity, the group begins to identify the obstacles presented by other structures in the enterprise. Overcoming these obstacles may run into resistance. It was indicated that the self-government organs, which at the same time are enterprise organs, should be a natural ally. As the development of the brigade system progresses, conflicts with management may become more frequent, e.g. over the interpretation of task agreements. Also, conflicts between brigades may develop. Hence, it has been suggested that the self-government organs become an arbiter in these cases. Some even suggest that employee councils should sign task agreements as the third party. However, it seems that this would be a controversial arrangement. All the pros and cons should be considered before it is introduced anywhere.

The ways of binding together the operations of self-government organs and of brigades were considered in the analysis of their mutual relations. Various suggestions are being made, i.e. for the representatives of groups to set up commissions and advisory panels cooperating with the [employee] councils. However, one can hardly agree with those who call for the groups to be able to elect their representatives to employee councils or to the convention of delegates. This would run counter to the principle of proportionate representation.

Participation by group representatives in self-government organs should not present a problem. If the groups include a meaningful segment of the workforce, their representatives will obviously get elected to these organs. When complaints are heard at times that the groups are not represented there, it should be recalled that brigades, at least at the first stage, are geared exclusively to work for themselves and are reluctant to accept in their enterprise the workers who want to contribute to society. We would agree with those voicing the view that the forms of linkage between brigades and self-government organs should vary. They should be worked out by the interested [parties], whereas all attempts at outside interference in the matter will not only fail to help, but will be downright harmful.

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