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JPRS-EEI-84-071

14 June 1984

# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

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14 June 1984

## EAST EUROPE REPORT

### ECONOMIC AND INDUSTRIAL AFFAIRS

#### CONTENTS

##### GERMAN DEMOCRATIC REPUBLIC

- Effects of Schwedt Initiative on Labor, Production Efficiency  
(D. Politz; WIRTSCHAFTSWISSENSCHAFT, No 4, Apr 84)..... 1

##### HUNGARY

- Bauer Writes on Further Reform, Property Relations  
(Tamas Bauer; MOZGO VILAG, Nov 82)..... 17
- Social Effects of Economic Processes Analyzed  
(FIGYELO, 11 Apr 84)..... 61
- Increasing Interest in Stocks, Bonds Noted  
(Katalin Bossanyi; NEPSZABADSAG, 16 May 84)..... 66
- Utilization of World Bank Loans Noted  
(HETI VILAGGAZDASAG, No 17, 28 Apr 84)..... 69
- Bank Official Discusses Confiscation of Development Funds  
(Gyozo Kazinczy Interview; MAGYAR HIRLAP, 22 May 84)..... 71
- Consequences of 1983 Drought Assessed  
(FIGYELO, 5 Apr 84)..... 74
- Briefs  
New Economic Police Force 78

##### POLAND

- Columnist Highlights IMF Report on Economy  
(Karol Szyndzielorz; ZYCIE WARSZAWY, 9 May 84)..... 79

ROMANIA

Decree on Improvement of Construction Activity Abroad (BULETINUL OFICIAL, No 34, 19 Apr 84).....	82
---	----

YUGOSLAVIA

Belgrade Survey Shows Little Contact Between Workers, Councils (RAD, 26 Apr 84).....	88
Croatian Economist Warns Against Bourgeois Influences (Jakov Sirotkovic; KOMUNIST, 11 May 84).....	89

EFFECTS OF SCHWEDT INITIATIVE ON LABOR, PRODUCTION EFFICIENCY

East Berlin WIRTSCHAFTSWISSENSCHAFT in German No 4 Vol 32, Apr 84 pp 523-536

[Article by D. Politz, first deputy general director and director for economics at the parent enterprise VEB Petrochemical Combine, Schwedt: "Experiences and Results of the Comprehensive Rationalization for the Purpose of Gaining Workers for New Tasks at the VEB Petrochemical Combine, Schwedt"]

[Text] In July 1958 the 5th SED Congress approved construction of a plant for processing Soviet crude oil in the GDR. This decision and the confirmation by the November 1958 chemistry conference of the Schwedt/Oder location of the oil refinery to be constructed was the starting point for the formation and development of GDR petrochemistry, which would have been impossible without the close, fraternal cooperation between the USSR and the GDR. One result of the development is the VEB Petrochemical Combine (VEB PCK), Schwedt, the formation of which on 1 January 1970 corresponded and gave new play to the high degree of socialization of the productive forces and the constantly growing demands for the increase of economic efficiency and the absolutely necessary increase in effectiveness.

In the VEB PCK, Schwedt, a modern large-scale GDR combine, 30,000 workers are producing roughly one third of the goods production of the chemical industry. The profile of the combine is determined by primary oil refining as well as to a growing degree by processes of the deeper refining of the valuable raw material crude oil. The combine consists of the following: the parent enterprise in Schwedt which exercises the combine-managing function; the VEB "Otto Grotewohl," Boehlen; the VEB Hydrogenation Plant, Zeitz; the VEB Oil Pipeline, Heinersdorf; and, since 1 January 1984, the VEB Wittol, Wittenberg.

Industrial goods production with about M 2 million per full-time employee unit in the parent enterprise is above-average high, almost twice as high as in the combine as a whole. This is the result on the one hand of high material costs and on the other hand it is also an expression of highly productive objectified labor in the form of some fully-automated installations and naturally also a result of human labor. But it also indicates the high economic responsibility of the individual worker in the combine.

Eighty percent of the crude oil available to the GDR is being processed in the VEB PCK, Schwedt. The parent enterprise processes crude oil only, Boehlen and

Zeitz also carbochemical raw materials, and thus has a great responsibility for safeguarding the supply of petroleum products in the GDR. Thus the parent enterprise produced the following shares of the GDR plan target in 1983: 62 percent of the carburetor fuel, 48 percent of the diesel fuel, 73 percent of the liquid gas, 27 percent of the bitumen, 15 percent of the nitrogen fertilizer.

For products such as n-paraffins, acrylonitrile, and highly pure terephthalic acid, the parent enterprise is sole or main producer.

A total of over 450 different products are being produced in the VEB PCK, Schwedt. New and further developments of products are especially encouraged. The more than 2,000 staff members employed in the research facilities of the combine have a large share in that. This potential is concentrated on the following main research directions:

- Oil refining, petrochemistry, including lubricants;
- Microbiology;
- Carbochemistry;
- Process control;
- Pipeline transport and storage of oil products.

Remarkable results of a consistent orientation of research on operational and economic development are, among other things, reduction of material costs in the combine by about M 400 million in 1982, development of the inventor activity (cf. Table 1), implementation of numerous automation projects, such as the microprocessor-supported automation of the three crude oil distilling plants or the microcomputer-supported combustion control in the power plant of the parent enterprise.

Table 1: Inventor Activity in the Form of Patent Application and the Benefit Therefrom

<u>Year</u>	<u>1975</u>	<u>1983</u>
Applications per 100 university and technical school cadres	7.7	13.5
Benefit (million M)	40.5	80.0

As part of the intensification of the reproduction process, new installations have been developed since 1978 which doubled the basic assets since then. These include: the cracking and aromatics complex, the feed yeast installations, the lime ammonium nitrate granulating plant, the hexane cutting plant, the reconstructed crude oil distillation plant III-- to mention just a few.

Disciplined application of effective forms of competition and tightly organized work for rationalization and intensification of the production and reproduction

processes were important conditions for the fulfillment of the combine's production plan in uninterrupted sequence since 1970.

The new basic asset resources objectively led to changed qualitative and quantitative demands on the social operating ability. To be able to put these new production complexes on stream exactly in time and reliably, a labor force of 2,400 consisting of the most varied occupational groups was required. Past recruitment efforts showed that no manpower reserves are available in the nearby kreises and in the combine plants.

From economic considerations it did not seem to be sensible to obtain manpower of this size from the entire republic. Such measures entail problems for the other areas as well as for the labor market area of the location of the new production facilities and cause additional expenses for society. From these factors the conclusion was drawn of the objective necessity for total release of manpower. Related to the GDR manpower situation, it is thus the objective economic laws, in a compelling manner the law of the economy of time, which must be met with ambitious rationalization goals and for the implementation of which the advantages of the socialist planned economy are to be used.

With the solution of the manpower problem in the VEB PCK, Schwedt, a feasible way was shown to the entire GDR economy, a way that has enabled many other enterprises to solve similar problems from their own resources, a path that has now become a component of economic planning. This path to rationalization in new dimensions has become known as "Schwedt initiative." The development of this initiative in the parent enterprise of the VEB PCK, Schwedt, is being discussed in detail in the following.

Close friendship and partnership relations have existed for many years between Frankfurt/Oder Bezirk and the Vitebsk region in the Belorussian SSR. One of the most important chemical enterprises in this Soviet territory is the "Polymir" production association in Novopolotsk. The Novopolotsk professional colleagues in recent years were faced with problems similar to those of the Schwedt chemical workers. New facilities were to be put on stream without having any additional manpower reserves available. Starting from this situation, the Soviet comrades developed a long-term rationalization strategy that became known in the GDR as "Novopolotsk method." Result: This large Soviet combine succeeded in releasing 20 percent of the manpower for other tasks. After assessment of this experience by the secretariat of the Frankfurt/Oder SED Bezirk management, the party leadership and the general director were given the assignment to seek similar paths toward rationalization.

Study of the rationalization work in Novopolotsk showed that people there had looked around to see how others are proceeding, what methods that can be generally applied have already been tested in practice and how these experiences could be used effectively under the specific conditions. It was important to investigate new findings, considerations, and experiences as to their applicability. The entire reproduction process was analyzed. The Soviet comrades considered how the existing work organization can be changed to achieve a more effective utilization of the working hours. In this process, the wealth of ideas of all workers was wanted.

Faced with the necessity to submit to their plant concrete proposals for the solution of the complicated manpower problem, the workers of eight labor union groups of the fertilizer factory of the parent enterprise of the VEB PCK, Schwedt, on 6 June 1978 turned to the public in NEUER TAG, the newspaper of the Frankfurt/Oder SED Bezirk management. Under the slogan "Fewer Produce More," they explained their position how in this important field of industry production and labor productivity can be increased in the years up to 1982 and at the same time manpower can be saved. Thus the Schwedt initiative for rationalization in new dimensions was born.

## Schwedt Initiative--a Long-term Rationalization Strategy

### 1. Objective

In the VEB PCK, Schwedt, it was first the parent plant that, in assessing the experiences of the Soviet comrades, took the path toward obtaining the manpower needed to operate the new facilities from its own manpower reservoir.

A total of 1,763 workers were obtained during 1978-1982 by concrete rationalization measures. That was about 20 percent of the enterprise labor force at that time.

At the same time, interdisciplinary WAO (scientific work organization) collectives dealt with the task of reducing by 20-25 percent the manpower need planned for the facilities to be newly built. In this manner it was supposed to be possible to do with 637 fewer workers than were included in the manning table. Together with the 1,763 workers to be released in existing enterprise areas, a rationalization objective totaling 2,400 workers resulted for 1978 to 1982. This goal was concretely broken down for the individual areas of the enterprise. Despite considerably growing production tasks, the plant table of organization was not increased from 1978 to 1982. It is understandable that such an assignment of tasks was not universally accepted with enthusiasm, that the question was asked: Are we strong enough to fulfill this mission without reducing fulfillment of the plan assignments and all other tasks?

Enterprise management, enterprise party organization, and enterprise labor union management intensively dealt with such and other questions of principle. Past results and experiences of rationalization were critically examined and discussed, for the constant expansion of the production capacities in past years also had demanded rationalization measures in the past, since there had always been narrow limits to the assignment of manpower. Thus, from 1971 to 1978 with an average labor force of 8,000, a total of 1,830 T/O positions were saved.

### 2. Political-ideological Work

According to the decision of the secretariat of the Frankfurt/Oder SED Bezirk management, a conceptional outline for starting rationalization of jobs in new dimensions was developed under the leadership of the enterprise party organization. Without broad participation of the workers, without active cooperation of each and everyone, the task of rationalizing jobs could not be achieved. To create this condition was the most important task of political-ideological work.



However, before we went to the collective, we developed a uniform point of view on the questions and jointly set the required steps in the enterprise management jointly with the central party management and the enterprise labor union management. After clarity on the approach had been achieved in the management, it was important to create corresponding clarity among all managers, party members, and functionaries. Varied forms of political mass work were used in this connection. Thus, for example, according to the ruling of the general director, Dr. Werner Frohn, in line with a plan coordinated with the central party management and the enterprise labor union management, over 600 conferences were held in all enterprise collectives on basic questions of rationalization from April to June 1978.

Understanding of the necessity for rationalization increasingly prevailed. With the aggressively conducted disputes in the work collectives, the basic tenor of the discussion shifted from "Why" to "How". A decisive experience of practice, which was confirmed in many ways was the following: To the degree that the managers placed themselves at the head of their collectives and themselves took a clear position, the attitude of the workers increasingly changed. The readiness actively to participate in the accomplishment of the rationalization tasks was clearly perceptible.

This process was considerably influenced by the successful work of the workers of the fertilizer plant. It became evident how a positive example influences the success of such a rationalization strategy and is of decisive importance. With the help of the scientific labor organization they succeeded in achieving a significantly higher production and performance level. They demonstrated the correct class position with statements such as the following: "We do not want to and we must not ask anyone to take on more tasks and duties than his specific knowledge, capabilities and strength permit; on the other hand, we consider it as completely normal to challenge all these capabilities, this knowledge, this strength. In doing so, honesty is a worker virtue that must be challenged in the process of socialist rationalization.."

In this field an honorary WAO collective with five working groups constituted itself derived from the Novopolotsk experiences. It was headed by an experienced comrade with many years of management practice who at the same time was highly respected by the workers. Special rationalization tasks were assigned to 85 percent of the employed of the area to be examined. After 9 months a complex WAO study was ready. The result of this study: In the examined installations, 38 jobs filled with 91 workers could be abolished step by step by 1982, which corresponded to 21 percent of the labor force. Since simultaneously production continued to increase, labor productivity in these installations on the average rose to 138.4 percent.

Supported by these positive and exemplary results, rationalization in new dimensions could be carried out step by step in all fields of the reproduction process by means of the WAO.

Which concrete paths have proved to be typical in the VEB PCK, Schwedt?

### 3. Creation of Expanded Operating Control Zones

The basic condition for making full use of this rationalization effect consists in viewing all jobs in an installation or in a technological sector in their interrelationship. Enlarging the operating control zones entails making some work collectives responsible for several parts of the installation, thus making possible better utilization of the manpower. However, this had considerable consequences for the participating workers. Thus more jobs than heretofore had to be mastered. This again necessitated extensive measures to increase qualifications. The number of jobs to be mastered by a production worker changed on the average from 3-5 to 5-6.5 jobs.

### 4. Creation of Bigger and More Effective Structural Units

The change and concentration of management and production areas connected with a general rationalization and partial restructuring of the work processes in management, control, and production resulted in a reduction of the expenditure of human labor.

Centralization of some activities, elimination of double work, exact specification of functional tasks, rights, and duties of each staff member according to the principle of expertise as well as in relation to the functional plans of own and cooperating structural units and simplification of work processes had great influence on the simplification of the work organization in the entire management, planning, settlement, and administration process. This process was supported by 41 analyses on management and administrative processes. As a result of this research, it was possible to gain 201 workers for other duties.

### 5. Rationalization in Maintenance

Reserves for rationalization, though difficult to uncover, are also present in maintenance in the chemical industry. Our experiences confirm that from this vital field of production cooperation two effects occurred with respect to the Schwedt initiative. First of all, quality and level of servicing and maintenance performances have a significant effect on the stability of the production process. Secondly, in this large area itself reserves for reducing the high expenditure of manpower and working hours can be uncovered especially there. The WAO collectives concentrated their investigations on the following key factors:

- Increasing the share of the preventive maintenance according to plan;
- Further improvement of the quality of repair work and assumption of long-term guarantee;
- Increased development of the enterprise's own production of rationalization devices;
- Further reduction of the time for major repairs to obtain additional production capacities by concentrated use of manpower and equipment from the entire combine;
- Linking every major repair with reconstruction work that serves rationalization;

--Further implementation of working according to scientifically-economically based norms;

--Better time utilization of the machine capacities and of the installation facilities by means of the development of shifts related to area and field of specialization.

--Creation of opportunities to use female workers.

All these measures are inseparably linked with improvements in the work organization. Thus the VEB PCK, Schwedt, parent plant was able to reduce management expenditures in the technology directorate by 9.9 percent.

In the chemical industry combines producing production resources, there are a series of conditions not occurring, or not occurring in such concentrated form, in other branches of industry. This includes the fact that start-of-run and end-of-run processes of a chemical plant always require many hours or several days, that furthermore an especially high concentration of installation personnel and above-average high expenditure of labor are required in this connection.

For this purpose, the Schwedt chemical workers developed regulations for a new regime for start- and end-of-run processes linked with the development of manpower norms for standard and expensive operations of the installations based on qualitatively changed cooperation between production and maintenance. Furthermore, solutions were developed which permit shifting some routine repair, routine maintenance, control, upkeep or lab work to the installation collectives. This technique became known by the term "working in a second occupation."

The types of work involved are listed in a binding catalogue. Similar to a plant standard, it contains all requirements for the services to be performed. Thus the managers in particular have an important work document at their disposal.

## 6. Rationalization in Other Auxiliary and Secondary Fields

It was possible to uncover considerable rationalization effects by including areas for which there had been certain taboos thus far as regards reduction of jobs. Some examples in this regard: in the plant transportation and transloading system, the loading of the various products obtained in the four production facilities was placed under uniform management. A planned long-term replacement investment was included in the rationalization. In warehousing, there were opportunities for rationalization by better work organization, a greater degree of the mechanization of transport, transloading, and storage processes and by greater use of EDP. It was investigated whether the prescribed cycle of the taking of inventories requiring high labor input can be extended from one year to two years.

Important ways to saving manpower in the technical control and laboratory field was the assumption of greater responsibility by managers and staff members, expanding the work assignments and/or the work areas as well as greater availability of laboratory assistants. Here are some of the detailed approaches of a character deserving of general application:

--Formation of a central shift, i.e., all required analytical control work of the entire area, was concentrated and performed with highly productive methods of analysis. Thus considerable reductions in the number of jobs in the laboratory field could be achieved;

--Revision of all analysis programs as to their appropriateness and their efficiency;

--Elimination of laboratory analyses in which intermediate products have already been analyzed by automatic process equipment and which were nevertheless subject to another examination in the plant laboratories;

--Manpower gain resulting from the performance of certain analyses and controls by the installation operators themselves.

In the process of rationalization the consistent orientation of planned investment measures toward the reduction of jobs and greater use of building their own rationalization devices was an important direction of work in project planning. Special reserves can be uncovered if cooperation with enterprises and institutions within and outside the combine are deepened.

Research and development occupies a key position in the implementation of socialist rationalization. Every replacement investment, every reconstruction pursues the goal to attain not only a greater production capacity with reduced material, energy, and auxiliary product use, higher quality and reduced costs but also to manage with fewer workers. But that is possible only by appropriate scientific efforts. In this connection, the research organization should be so arranged that scientific-technical tasks even more than heretofore are solved in a concentrated manner and by division of labor, respectively, all duplication is avoided and an even more trustful cooperation, especially between research and production, is achieved.

## 7. Rationalization of Management and Administrative Work

Analogously with the expansion of the operating areas in the production facilities, the task was posed to create generally bigger and more effective structural units to achieve a considerable reduction of management and administrative expenses, too. Based on thorough examinations it was possible to effect simplifications in the work organization of the entire management, planning, and accounting process. In this connection we have also vigorously fought for reduction of all downtimes, implementation of high work discipline and the increase in the level of qualifications of the workers of the management and administrative areas. Success was achieved in further centralizing some tasks, especially accounting and control. The responsibility of the managers and staff members themselves was increased.

In achieving the rationalization goals, the workers, in addition to the desired increase in labor productivity, have also subjected themselves to an educational process from which they emerged politically more mature and technically more qualified. An important step in this process was that the task contents of the Schwedt initiative were considered as a unity of objective necessity, direct link of social and personal benefit and as a solution in principle.

A total of 490 workers were gained from the management and administration areas. Thus the share of management and administrative personnel in the total number of employed was reduced from 28.5 percent in 1978 to 22.5 percent in 1982 and the ratio of production personnel to other employed persons improved from 47:53 to 52:48 (cf. Table 2).

Table 2: Development of Employment Structure in the VEB PCK, Schwedt, Parent Plant, From 1978 to 1985 (in percent)

<u>Year</u>	<u>Production Workers</u>	<u>Other Employed</u>	<u>Management and Administrative Personnel</u>
1978	46.8	24.7	28.5
1982	52.0	24.8	23.2
1983	53.0	26.7	20.3
1985	55.3	26.0	18.7

#### 8. Management and Organization of WAO Work

Rationalization in new dimensions required specific management instruments because of the manysidedness and complexity of the problems connected therewith. Management and planning of the entire process takes place under the responsibility of the general director. He employed special institutions to provide higher quality especially to the scientific work organization.

The council for scientific work organization--guidance instrument of the general director--developed the main directions of work for rationalization, settled fundamental questions, discussed special problems and prepared decision proposals for the general director. The council ensured management, planning, coordination, and control of the entire process of the implementation of the rationalization concept. Eight working groups of the council for scientific work organization and interdisciplinary WAO collectives worked on settling specific technical problems.

The central working groups dealt with the publicity work, with management and plant organization, with technical security, with raising the qualifications and with the use of the labor force, with working and living conditions, with conducting socialist competition, with problems of the moral and material stimulation and with the use of modern technical communications means.

Interdisciplinary WAO collectives work on minimizing the projected manpower demand for the new installations and on efficient utilization of EDP. Furthermore, the central WAO collectives of the directorate areas headed by technical directors and the numerous WAO collectives of the main departments and departments are to be mentioned which, as agencies of the WAO work, constitute a considerable potential.

All these working bodies operate on the basis of clearly formulated assignments in close coordination with the specialists of the most varied technical fields together with the workers in the areas to be examined in search of solutions to

safeguard the rationalization goals. As a permanent working instrument, a WAO staff was assigned to the council for scientific work organization; the members of the staff perform their function full time (1 manager, 3 staff members). The staff prepared the material for the council, underpinned the conceptual work and took care of coordination and control functions. The staff supported the WAO collectives in settling problems in connection with the application of the Schwedt initiative. The WAO staff prepared weekly manager information which reported on the status of the work and on current problems of the Schwedt initiative. This information was an important basis for the leadership activity and decision making of the general director, the enterprise party management and the enterprise labor union management.

#### 9. Rationalization, Stimulation, and Competition

Rationalization in new dimensions required adequate forms and methods of socialist competition. What was not primarily involved here was to develop new forms and methods but to link tested forms and methods with the rationalization tasks to be solved, that the rationalization is thus morally and materially stimulated. The elements of the socialist competition must be directed toward honest discovery of all recognizable reserves for reducing the number of jobs and workers.

Significant forms of conducting the competition in the PCK, Schwedt, were and are:

--Collective plans for intensification. Here it is characteristic that members of various professional groups belonging to different management areas involved in the production of a special product conducted the competition according to a common program;

--Contest for the honorary title "Operationally Exemplary Collective." It is awarded to departments and main departments which achieved an especially good result in the cost-benefit ratio during a plan year and made above-average contributions to the improvement of the operational level;

--Honorary title "Collective of Exemplary Efficiency of Labor."

In addition to these forms developed in the PCK, Schwedt, such tested methods as "initiative shifts" and "notes on the plan" were used in testing the proposals resulting from the WAO work.

This great flexibility in conducting the competition offered many opportunities for purposeful political mass work. Even though the political-ideological activity was important, the material incentive played an important role.

Starting from the premises that personal, collective, and social interests must coincide and that aspects of the distribution of national income must be taken into account, e.g. in view of consumption and the necessary availability of a bigger goods selection, the combine worked closely for the solution of this problem with the State Planning Commission, the State Secretariat for Labor and Wages, the Minister for the Chemical Industry and the Central Executive of the Chemical, Glass, and Ceramics Industrial Labor Union.

Analogously to the experiences gathered and tested in the USSR, the following fundamental rule was agreed to: In reducing the labor force, part of the amount planned and not used in the wage fund remains at the disposal of the plant to provide material stimulation for rationalization initiatives, while the remaining amounts are transferred to the state treasury. Depending upon the result of the rationalization, an increase in the wage or salary group or an increase in the incentive pay, an increase in the salary within the salary group or a wage bonus was possible. A ratio of 40:60 was sensibly determined and maintained between granting of wage and salary increasing measures and the payment of wage bonuses.

This methodology, successfully practiced, has been a component of the wage-policy concept--for years a tested performance instrument. These principles of stimulation were known to the workers; they considerably contributed to activating their cooperation.

#### 10. Specific Problems in Implementing Rationalization

The striving, creative and full of initiative, for implementation for the demanding scientific-technical and economic tasks in the process of socialist rationalization was linked to important changes in the working and living conditions. Experience proves that only if all social effects on the future resulting therefrom are recognized as much as possible and are positively shaped for the collective and every worker, full identification with the principle "Fewer Produce More" will be accepted. Significant prerequisites for the implementation of the rationalization goals were present with the achievement of such characteristics of socialist rationalization as the following:

--No worker who abolishes his own job through rationalization becomes surplus.

--Everyone will receive greater responsibility regardless of whether he changes his job or remains in his present field.

--Everyone is given the opportunity to improve himself materially and thus to continue raising his own standard of living.

Important questions in the social sphere for workers, work collectives, and managers which could have an encouraging as well as a hampering effect had to be taken into account. They included:

--The change in the requirements and conditions of work through the creation of expanded operational zones and areas of responsibility;

--Questions concerning the formation of new collectives connected with the change from the tested work collective to which some had belonged for many years to the formation of new collectives, especially of ready-to-start plant crews which are striving for maximum results of the work in the new plants from the first day of their employment;

--Rapid adjustment in the areas releasing workers to achieving higher performances than heretofore with only 80 percent of the labor force;

--Readiness to acquire a considerably higher level of qualification within a relatively short time;

--Changes in the work and shift rhythm and their effects on the workers and their families;

--Development of an effective provision of jobs for the workers under the conditions of expanded operational zones;

--Guaranteeing of a job configuration which makes possible at least the same share of women under the new conditions.

Added to these generally social problems there are a multitude of further questions to be noted, such as

--Guaranteeing employment of older and handicapped workers;

--Fringe benefits from management functions thus far exercised;

--Entitlement to traditional names for which the work collectives have struggled.

None of these problems was underestimated or disregarded. Only in this manner has it been possible to make all necessary changes without labor disputes and to further reduce the trend of fluctuation.

The raising of the proof of qualifications of the workers proved to be a central question of the implementation of all drafted measures. All measures of training and advanced training had to be directed toward high effectiveness of the rationalization process and toward the development of responsible, reliable, disciplined, dedicated and creatively active personalities. Following the work steps: recording the available qualification, determination of the required occupational and qualification structure, development of requirement complexes and determining of the applicable qualification measures, every state manager has to guarantee that the continuous growth of knowledge relating specifically to the job was ensured.

A total of over 80 percent of those employed in the parent plant participated in advanced training measures to acquire special knowledge, entitlements, and qualifications for advanced training related to duties and job and in training as skilled worker, foreman, and engineer.

It was not a simple matter either not to reduce the number of jobs for women but, if possible, to increase them. In close cooperation with technologists, technicians industrial physicians, and the competent managers, it was possible, with a job share for women of 43 percent, to create additional jobs for the employment of 189 women in the production field and for 83 women in the technology field.

To avoid social hardships, farsighted work had to be practiced. Especially great attention had to be devoted to the reemployment of released workers. The enterprise document "Control of the Reemployment of the Workers to Be Employed Following Implementation of Measures of Socialist Rationalization and Safeguarding of



Jobs for Other Groups of Persons" helped avoid personal conflicts and constituted a good tool for the managers in the further successful implementation of rationalization.

## 11. Other Results

On the occasion of the anniversary of the founding of the GDR, the collective of the parent enterprise of the VEB PCK, Schwedt, was able to account for early fulfillment by over one year of the goals for gaining 2,400 workers. Thus the parent enterprise of the VEB PCK, Schwedt, achieved its goal of obtaining workers for the new facilities, cracking and aromatics complex as well as for the feed protein facility, from the manpower potential of the plant itself. The installations are in operation or in trial operation and the products help safeguard a stable supply of the economy.

Without the Schwedt initiative "Fewer Produce More", not 8,647 but 10,484 workers would have been needed.

With the manpower savings of 2,400 during 1978-1982, the following results were achieved while doubling the basic assets:

- The value of one hour of production time doubled;
- The reject and refinishing costs dropped 70 percent;
- The share of "Q" quality goods production in 1982 compared to 1981 rose to 137.7 percent.

Table 3: Development of the Basic Assets Resources in Relation to Total Employment (Parent Enterprise of the PCK) (in Percent)

<u>Year</u>	<u>Basic Assets Resources</u>	<u>Total Employed</u>
1978	100	100
1982	226	103
1983	230	105
1985	331	107

### Schwedt Initiative in the Combine Plants

The Schwedt initiative is applicable in all areas of the economy in modified form. Therefore, parallel to the parent enterprise a beginning was made in the combine plants to formulate and implement the tasks for rationalization in new dimensions.

Taking advantage of the experiences of the parent enterprise concerning the increase of the effectiveness of their work, the workers, engineers, and scientists from the combine plants proved their political belief with high goals in the rationalization of jobs.

The VEB "Otto Grotewohl", Boehlen, the VEB Hydrogenation Plant, Zeitz, and the VEB Oil Pipeline Management, Schwedt-Heinersdorf, will be able to gain 5,318 workers by 1985--or 24 percent of their workers--for other duties. With this pledge, the PCK, Schwedt, makes a vital contribution to the achievement of the main task, especially for the continuation of the course of unity of economic and social policy. Toward the combine plants, too, attention has always been paid that the Schwedt initiative did not lead to an "imitation" or a "follow-the-leader movement." Taking into consideration their concrete plant conditions, they were to follow their own ways toward rationalization in new dimensions, faithful to the advice given by Lenin as a matter of principle for the organization of socialist competition: "Every pattern and every attempt to dictate a plan from above ... must be combatted. Neither the pattern nor the dictating of a plan from above has anything in common with democratic and socialist internationalism. The unity in the basic matter, in the most important, in the most essential is not disturbed but safeguarded by the diversity of the details, the special local features, the methods of approaching things."<sup>1</sup>

#### Continuation of the Process of Rationalization in the Parent Enterprise Until 1985

According to the objective economic necessity, to continue intensification of social production and socialist rationalization in a purposeful and consistent manner on a higher level, forward-looking ideas for the continuation of rationalization in new dimensions in the years up to 1985 were conceived with binding force since 1980 in the parent enterprise.

These ideas do not merely constitute continuation of past guidelines but are a new concept which takes into account the changed yardsticks and conditions as well as the newly to be developed sources of rationalization. In this connection it became evident that economizing of working hours and consequently of jobs and manpower is becoming increasingly complicated.

Increases in labor productivity in the future will require even more profound scientific analyses of the entire labor and production process. Accordingly, in the period from 1983 to 1985 another 820 workers (9.5 percent of the personnel), that is a total of 3,220 workers from 1978 to 1985, will be gained for other tasks (cf. Table 4).

Table 4

Setting Free of Manpower Under the First and Second Stage of the Schwedt Initiative in the Parent Enterprise (in Fulltime Employee Units)

<u>Year</u>	<u>Per Year</u>	<u>Cumulative</u>
1979	431	431
1980	670	1,101
1981	805	1,906
1982	494	2,400
1983	140	2,540
1984	307	2,847
1985	373	3,220

Thus during the period from 1978 to 1985, 7,538 workers, i.e. more than 25 percent of all 1978 employees will gained in the entire combine for other tasks.

Rationalization in the areas of management, administration, and production preparation is a special key factor in this connection. To reduce the share of management and administrative personnel to 18.6 percent, another 320 workers from management and administration are to be set free in the parent enterprise.

The tasks of the economic strategy of the eighties posed by the 10th SED Congress have led to the decision to form a council for intensification to evaluate the gained experiences of the Schwedt initiative. This council, which operates under the leadership of the first deputy general director, prepares economic decisions transcending the framework of manpower rationalizations. By means of the broad inclusion of the workers in the work of the council for intensification and its working bodies, the conditions are created to meet the fundamental requirements of the time.

Derived from the overall goal, to set free another 820 workers, the directorate areas received concrete rationalization goals broken down by rationalization sources (other investments, use of industrial robotics technology, office computers, application of microelectronics, and EDP as well as labor organizational measures) and personnel groups (production personnel, other personnel, management and administrative personnel).

The rationalization goals of the directorates range from 7.3 to 15 percent. They were determined and established in a differentiated manner. Criteria in this connection were plant requirements for manpower savings for new tasks and projects, territorial and economic aspects, opportunities for rationalization by means of science and technology as well as organization and the safeguarding of an adequate share of the labor productivity increase by manpower savings.

Overall it can be estimated that the attained level in reducing the number of jobs in the combine is characterized by a high degree of planfulness. We regard the Schwedt initiative not as an "emergency measure" but as an objective necessity of the economic development. In final analysis it leads to an increase in labor productivity, the most important source of the further economic growth of the GDR.

#### FOOTNOTE

1. V. I. Lenin, "How Is the Competition to Be Organized?", "Works," Dietz Verlag, Berlin 1955 to 1965, Vol 26, p 411 ff.

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## HUNGARY

### BAUER WRITES ON FURTHER REFORM, PROPERTY RELATIONS

Budapest MOZGO VILAG in Hungarian Nov 82 pp 17-42

[Article by Tamas Bauer: "The Second Economic Reform and Our Property Relations. Views on the Further Development of the New Economic Mechanism"]

[Text] On 1 January it will be exactly 15 years since the new economic mechanism was introduced in Hungary. The anniversary itself would already be reason enough to examine the experiences of the past one and a half decades. Still the main motive behind my decision to try to reassess--as many of my colleagues have--the experiences of our economic reform and the possibilities of its further development was not this, but rather the new situation which the Hungarian economy, and in general the national economies of Eastern Europe have come to face by the late 1970's and early 1980's.

The new situation requires a more thorough reassessment. This is why this article is different both in organization and in length from those that appeared on the fifth and later the tenth anniversary.

In the first part of the article I will attempt to clarify the general, ideological or, if you like, more precisely: politico-economic point of view from which I intend to approach the problems of planned management and property relations. I will try to make headway on some theoretical questions which at the time the reform was being prepared were more or less consciously avoided. While at the time this made the adoption of the reform easier, it has since become an obstacle in the way of consistent progress.

In the second--although still preparatory--part of the article I will examine the narrower world economic, more precisely Eastern European environment in which the problems of Hungarian national economic policy need to be reassessed.

It is only after this that we can discuss the usual topic of "anniversary" articles: in the third part I will review the experiences of the past one and a half decades. The question of how our devel-

opment should be continued will be addressed in parts four and five: in part four I will argue that there is a need for a second reform, while in part five I will discuss what I think such a reform should contain, and what I feel the main direction of the reforms which appear to be necessary should be. I am aware of the fact that this is the least convincing part of my paper which is due to the nature of the topic: providing a thorough elaboration regarding the details of a reform program is a task which should be handled by politicians rather than by researchers, and by negotiating institutions and committees rather than by theorizing private individuals.

### Politico-Economic Starting Points

The reason why we must trouble the reader with a clarification of what our politico-economic starting points are is because some of the theses contained in our established politico-economic instruction materials, which in reality are by no means self-evident, still continue to recur as axioms in official proposals and theoretical studies concerning our economic mechanism and to limit our selection of possible economic-management related solutions.

### Plans and Markets

There is a common "trick" to all of the politico-economic instruction materials from which we have all learned<sup>1</sup> that has been the basis of everything else. Although they do recognize a great many differences between the Marxian picture of socialism and the reality of the Eastern European countries (e.g. the continued existence of commodity relations, the survival of the state, national boundaries, etc.), they still continue to assume that the centralism and the market-regulation eliminating or severely limiting character of our decisively state-ownership based Eastern European planned economies represent a kind of direct-consumption oriented production which has evolved from the theoretical Marxian denial of the merits of private-property based commodity production, and, therefore, also that the centralist elements which have replaced market regulation with plan-based relationships are at the same time also the socialist, methodical elements of our system.<sup>2</sup> To put it in terms of Marxian historical philosophy: they assume that as long as they can restrict their market relations, the Eastern European planned economies can, in general, also limit alienation in their economic relations among those involved in economic life by limiting alienation among their commodity producers.

The experiences of Eastern European planned economies do not support the validity of such associations. As we examine the traditional, command-guided economic mechanism that had been in effect until 1968, and the mechanisms which are still in place in the other CEMA countries it becomes convincingly clear that the value-category based regulation of market production has been replaced not by a direct need-oriented form of production, but by another

type of interposition: a kind of plan-directed production regulation which manifests itself in plan bargaining. The feedback-guided regulatory mechanism of market economies is based on a system of interrelationships which includes demand, supply and prices, and it can lead to losses caused by surplus stockpiles and unused capacities. If planned economies were indeed production forms geared directly toward satisfying needs which would imply that needs can be taken directly into account, and that the course of economic development can be perfectly anticipated, then we would not need to have feedback-guided regulations, and by removing the marketing categories we could also eliminate the above mentioned losses. In domestic literature Gyorgy Bence, Janos Kis and Gyorgy Markus<sup>3</sup> have all made it clear that this hypothesis which Marx and Engels had put forward is based on a misconception of technical and economic development (i.e. on a mistaken extrapolation of certain tendencies).

A planned economy which operates under technical, economic and necessity conditions which essentially are no different from those that exist under capitalism (and whatever little difference there may be is disappearing as previously underdeveloped countries begin to advance), does not mean production geared directly toward satisfying needs. Nor does its plan-directed form usually mean an end to subsequent feedback-guided regulations; it simply means the replacement of the existing value forms with plan directives, the market with plan bargaining, and the spontaneity of the market with the spontaneity of plan bargaining. Instead of eliminating surplus stockpiles and unused capacities, the difficulties of making such an adjustment may even aggravate these forms by leading to shortages, to the stockpiling of materials aimed at averting those shortages and to difficult-to-measure involuntary replacements.

Also not valid is the hypothesis according to which the feedback-guided character of product-level regulation (which at the present level of development is unavoidable) is in conflict with the systemic order of national economic regulations. If what I have tried to prove in the 800 pages of my book, entitled "Planned Economy, Investments and Cycles"<sup>4</sup> is correct, the practice of direct, planned economic management is characterized by a feedback-guided regulation of basic national economic proportions and processes. And this is not because these economies are not planned well enough: the feedback-guided regulation of macroprocesses and the appearance of investment cycles also stem from the operational regularities of relationships broken down according to plan that have replaced market relations.

If, therefore, we reject the hypothesis that within the economic arrangement of the Eastern European countries state-controlled plan relations and not market elements represent systemic order in the Marxian sense, this does not mean that we also reject national economic planning and state-level economic regulations. We can continue to accept as valid the basic elements of the Marxian

criticisms of commodity production and market relations, and we need not be more concerned about state-level economic regulations than our Western colleagues.

There are, I should say, two respects in which we should be more concerned about it: we should be more alert in identifying our limitations. The plan-directed system had been in effect in our country for 20 years, it is still thriving in our environment, and its vestiges have to this day continued to permeate the Hungarian economic mechanism. In order for us to ever reach the point of state-controlled economic regulation, i.e. where the state can effectively regulate our economic processes, first we would have to eliminate plan bargaining! For the only way that the state could become an autonomous part of the economy is if as the summit of the comprehensive hierarchy it did not have to depend on the enterprises, and if, conversely, they did not have to depend on it as members of that hierarchy.

The other aspect is "ideological" in nature: in the public mind planning and the command-like relationship between the state apparatus and our enterprises automatically evoke a positive association of images. Its widespread acceptance and impact, however, is a fact which must be taken into account.

It is because of these two elements that we must be even more vigilant in Eastern Europe when determining the limits of interference by the state apparatus. With this in mind, however, we should also point out that the "ratio" between state-controlled economic regulation and non-market relations on the one hand, and market-controlled self-regulation and enterprise independence on the other, should be determined in a highly practical and pragmatic manner, by putting all prejudices aside.

### Work and Distribution

Also stemming from the "tricks" of politico-economic instruction materials are various misconceptions concerning our relations of distribution, and misgivings regarding the introduction of certain elements of the market mechanism (stocks, bonds). The trick used in our instruction books is this: with nationalization the means of production become the property of the workers, their work is no longer viewed as work done for a wage, and their earnings are not considered manpower costs but rather shares from the jointly produced new value. (In Romania they have abandoned the word wage --salariu--and have replaced it with the word remuneration--retributie.) As explained in the "Critique of the Gotha Program" the size of one's share is determined according to the amount of work performed--proclaim our instruction books.

However, if equating the Marxian picture of socialism with the reality of the Eastern European planned economies does not reflect



the fact with respect to the regulation of production, it is also incorrect when it comes to distribution. It would be deceptive to believe that in those areas where Marx was talking about the first stage of communism this equation is better justified than where he was indiscriminately discussing the transition from capitalism to collective production. Commenting on the alienation debate of the 1960's, Istvan Friss has also called attention to the fact that the "Critique of the Gotha Program" was not about a commodity-producing economy.<sup>5</sup> Even if due to a shortage of goods distribution is not done according to needs, production is directed directly according to needs. Also taking needs directly and systematically into account is the way the amount of social work and, therefore, the working time of certain individuals is distributed among our various areas of production; the work of the individual becomes directly a part of the collective effort, without any intervention. The share earned from the new value produced can be adjusted to the work actually performed since the work completed was socially necessary to begin with. Here it must be assumed that the jobs are directly comparable which is something that is closely connected with the above mentioned mistaken concepts of technical and economic development. In any case, earning a share of the new value has absolutely nothing to do with the allocation of manpower.

The Marxian concept of distribution according to work implies a kind of double isolation: isolation, on the one hand, from the vision of distribution according to need which we have been promised to attain later, but, on the other hand, also from the principle of income distribution as applied under capitalism. The difference here is not only that capitalist incomes, as defined in the narrower sense,--such as the income received by capitalist entrepreneurs and the dividend income earned by stock holders--are eliminated, but also that work incomes are determined not according to the manpower used to produce them, but according to the amount of labor performed by the workers. And these are two different principles.

As a result of the fact that since the nationalization every wage earner from the state sector has been included in the category of "workers and employees," capital incomes as defined in the narrower sense have disappeared. But does it really follow from this that the income ratios of those living on wages and salaries have developed according to the amount of work performed? This is by no means self-evident. If for no other reason, because the jobs in question--especially those of varying degrees of complexity--cannot be directly compared.

In reality the social differentiation between ownership over the means of production and ownership over manpower has not disappeared with nationalization. Anyone who looks at the labor relations and manpower management of the Eastern European countries with at least partially opened eyes must admit: there is real buying and selling

going on here, and manpower has just as much of a market as our means of production. Wages are not only shares earned by workers from the new value produced, but are also incentives for work, and important regulators of manpower allocation, contrary to the hypothesis of the Marxian concept of distribution according to work. This is evidenced by our branch and regional wage ratios the marked separation of which from any "equal pay for equal work" type principle, as both the Soviet and Hungarian practice show, occurred precisely during the "heroic" period of industrialization. The functioning of the manpower market, of course, has been limited by a variety of restrictions: the manpower requirements of enterprises, just as the freedom of employees to find new employment have been restricted by a maze of regulations. But are we not faced with a similar situation in the market of machines and materials? If machines and materials can have a price why should manpower be different, and why could we not say that one of the indications that "bourgeois principles" are involved in the regulation of distribution in the Eastern European planned economies is that the main principle on which they are based is not distribution according to work, but the market price of manpower. This would immediately explain not only why there are horizontal wage ratios among professions, but also why we have vertical earnings ratios among those who occupy various levels of the hierarchy, and would make it clear that these differences could only have come about by stretching the principle of distribution according to work to the point where in addition to the difficulty and complexity of the work its parameters could also include the responsibility (in plain language, the power) which accompanies work.

If, on the other hand, we accept the market price of labor as the principle whereby earnings are to be explained, which actually is a "bourgeois principle", and, furthermore, if we relate it to the value system of our given, hierarchially organized society in order to ensure that it gives equal consideration to qualifications and "responsibility" in the remuneration of managers and expert specialists, then this will put the problem of "unearned incomes" into an entirely new light. Once we accept that the ratios of unearned incomes develop according to "bourgeois principles"--for in the 20th century these are the principles which govern rational manpower management and the hierarchical organization of economies and societies--then, if the rational management of accumulated revenues so require, why should we not give a greater role to another, even more distinctly bourgeois principle, the principle of capital incomes, at least as an auxiliary source of income for enterprises and private individuals? It is true that this is a more distinctly bourgeois principle, without quotation marks, but if its role can be kept within limits then this will be yet another useful compromise in the wake of several others. I know that following the above train of thought this could also be used to create negative associations of images, and that here it is also better to be guided by practical considerations when devising mechanism-related solutions.

I have tried to show logically that since our distribution relations are regulated by "bourgeois" principles anyway, we should not automatically refuse to introduce further bourgeois forms if otherwise they appear to be of benefit to us. The correctness of this logical reasoning naturally does not guarantee that these forms will also be socially accepted. However, social acceptance also cannot be taken for granted in the case of income differences disguised traditionally as "distribution according to work" which we have become so accustomed to already in Eastern Europe. As long as our socio-political structure is standing firmly on its feet there is no problem with having income differences according to bourgeois principles; as soon as it begins to waver, however--as it did in Poland in 1980-1981--income differences connected with status within the social hierarchy become questionable. As long as stability is maintained, however, and as long as society essentially accepts the social role played by the functionaries and specialists, there is a chance that just as it has accepted "fried-bread makers," it will also accept "investment partners" sought in classified ads, especially if the investment revenues of the enterprise have a marginal effect on the earnings of enterprise workers.

#### Foreign Economic Policy Starting Points

The title is a little misleading: rather than discussing our relations with the world economy in general, we intend only to examine the situation of the countries of the European CEMA bloc, so that our discussion can help to justify whatever position we may take regarding the role and assessment of our ties with the CEMA countries.

For years now I have been examining the periodic fluctuations which can be observed in the economic development of the European CEMA countries. In my book, entitled "Planned Economy, Investments, Cycles" I have attempted to show that the reduction in the rate of investment growth--and not always only of investment growth--in certain years should be considered cyclic slowdowns.

The long term slowdown which can be observed in the growth of national incomes is, in all probability, of a different nature. Since, as long as they are not misused, analogies can promote an understanding of ongoing processes, at this time let me present an analogy: in all likelihood we are witnessing the beginnings of a general crisis of the Eastern European planned economies. Exactly what I mean by this I will try to make clear by commenting on the table below.

Two relatively successful decades and two difficult half-decades--this is our first impression of the period between 1951 and 1980 if we look at the development of the average annual growth rate of our national incomes. While during the two successful decades economic growth in the CEMA countries was considerably faster than

Table 1. Growth of the National Income in the European CEMA Countries  
(average annual increases in percentages)

Period	1951-1960	1961-1965	1966-1975	1976-1980	1981-1985
Country			plan fact		plan
Bulgaria	10.9	6.6	8.2	7.7	6.2
Czechoslovakia	7.5	1.9	6.1	4.9	3.7
Poland	7.6	6.2	7.8	7.1	1.7
Hungary	5.8	4.1	6.6	5.3	3.4
GDR	10.1	3.4	5.4	5.1	4.1
Romania	10.4	9.2	9.4	10.5	7.0
Soviet Union	10.3	6.5	6.7	4.7	4.2
CEMA	9.6	6.0	6.9	-5.3(a)	4.1
Developed capitalist countries	3.6	5.5	3.4		3.7
					3.3(b)

Note: (a) Weighed average of seven countries (b) World Bank estimate, higher version

Source: CEMA Statistical Pocketbook, published plans, World Bank reports

in the developed capitalist countries, during the five-year periods of slowdown this difference was significantly narrowed.

Does the rapid growth experienced in the 1950's--except in Hungary--mean that during this period the plan-directed system had served economic development well? It would be tempting to draw such a conclusion, and there are many who think this way. We know, however, that the unfavorable effects of plan-directed systems which have been so sharply criticised since the mid-1950's have actually been felt since the first days of their implementation. A more likely explanation is that the wasteful character of this newly introduced system still had not run into growth restrictions during this period: the resulting losses were compensated for by the fact that there was still a possibility to achieve rapid increases in our stockpiling ratios, that these countries had inherited a relatively well established infrastructure which had enabled them to concentrate their investments on material production--while neglecting the infrastructure--that there had been an opportunity to rapidly expand non-agricultural production, and that there had been a rapid increase in the raw material and energy production of the bloc as a whole, including the Soviet Union. At the same time, the high growth rates attained in the 1950's and especially the rate of industrial growth which had considerably exceeded the national income cannot even be considered to have been unequivocally favorable: the tendency on the part of the system to use

its resources wastefully had made it necessary to press for extremely rapid increases in the production of capital equipment, which at the same time had also forced the average growth rate of production to go up, while the actual results of growth had only slowly increased.

When following Stalin's death there was an opportunity for the first time in every country to introduce economic policy changes--of different degrees--which led not to a change in their growth strategies, but only to a redistribution of the national income in order to alleviate accumulated political tensions. It was easy sometime between 1955 and 1958 to return to the earlier priorities, and in 1958-1959 to start a new wave of investments. In some countries the recession of the early 1960's already signaled that it would soon become impossible to continue to follow the directions of economic growth which they had set earlier. For by this time in the GDR, Czechoslovakia and Hungary this extensive growth had led to enormous material demands which in terms of their cycle averages became increasingly more difficult to meet from within the CEMA.

The developmental slowdown which between 1961 and 1965 had affected certain countries for 1, 2 or 3 years in two respects had also established the conditions of a new recovery. As a result of a reduction in investments and a decline in growth it became possible to reestablish the equilibrium of foreign trade turnover and to alleviate domestic supply tensions. At the same time, the lesson of economic difficulties not only forced the leading organs of these countries to prepare more carefully considered plans in the future, but also to bring back the reform ideas which had already been expressed in the mid-1950's only to be shelved (except in Czechoslovakia) in 1957, and to introduce economic reforms. Although it was only in Hungary and--temporarily--in Czechoslovakia that these reforms went beyond the limits of the plan-directed system, economic management also became more flexible in the other countries, there was a temporary emphasis everywhere on the importance of value categories, and enterprise independence also increased somewhat. In the second half of the 1960's, as a result of the effects of the newly introduced measures and the changed atmosphere, economic growth began to accelerate, and at the same time became more consistent not only in Hungary, but also in the Soviet Union, Czechoslovakia and elsewhere. The benefits of this could still be felt in 1971-1972. As a result of the 1970 workers' demonstration in Poland most countries tried to accelerate the growth of their living standard, or at least to use their new possibilities for improving commodity supplies.

The fact that between 1966 and 1975 there was a possibility to continue to achieve relatively rapid growth probably also had to do with the expansion of East-West economic relations and with a structural change which affected the entire bloc. At the turn of the 1960's it was essentially a coal-iron-steel type of indus-

trialization which ran into barriers, and these barriers were temporarily removed with the growing emphasis placed in industrial development on hydrocarbons as alternatives to coal and on chemical products in addition to iron and steel.

The period which began in 1965-1966 already carried within it the conditions of another crisis. The consolidating effect of the cut-backs that had been made between 1961 and 1963-1965 did not last longer than 3 years. Only in Hungary did the economic reform leave lasting traces. In Czechoslovakia and the GDR the reform was formally rejected while in the Soviet Union, Bulgaria and Romania it withered away as a result of "modifications." By the early 1970's it became popular--due largely to temporary successes--to take a confident, anti-market approach to solving the problems of the economic mechanism by encouraging the organization of mergers and the use of computer technology. (Poland was partially an exception to this: although there had been no reform here in the 1960's, in 1973 they began a promising reform experiment which was still strongly affected by the merger idea.) Concentration on hydrocarbons and chemical production turned out to be no better than having a coal-iron-steel orientation: even before the oil price explosion in the West, the Soviet Union made future increases in oil shipments to Czechoslovakia and the GDR contingent on the investment contributions which led to joint investments. When, therefore, starting in 1975 they decided to modify the CEMA price principle and shift to a policy of year-by-year adjustments to the world market prices, this was not caused by the oil price explosion on the capitalist world market, but was rather modeled after it (as evidenced by the open rising of prices).

The continuation of material and energy wasting growth tendencies both in the Soviet Union and in the small countries had created a situation where in order to meet demands the Soviet Union was forced to bring increasingly costlier exploration sites into production. The slackening growth of Soviet basic material production (see Table 2) has led to a decline in overall economic growth both in the Soviet Union and in the smaller countries. (In the case of Romania and Poland this decline also had special economic-policy related reasons which need not be discussed here.) While the Soviet Union earned huge exchange ratio profits, compared with 1970 Bulgaria, Czechoslovakia and Hungary have suffered losses amounting to 18 to 20 percent, followed undoubtedly by similarly great losses in the GDR and moderate losses in Romania which have been further aggravated by the shifting of imports from our transferable ruble to our dollar relations. Also contributing to this slowdown has been the crisis of collectivized or yet to be collectivized agriculture in the Soviet Union, Romania and Poland, and the considerable agricultural difficulties experienced in Bulgaria and Czechoslovakia.

It may seem that the second half of the 1970's was a replay of the developments of the early 1960's: a decade of relatively suc-

cessful development was followed by a decline in growth. There also seems to be some similarity in the way these governments have turned to economic reforms when faced with the conditions of slackening growth as a reaction to development tensions. In July 1979, the Soviet Union adopted several party and government resolutions that were aimed at improving economic management. In Bulgaria and Romania they have actually begun to discuss the possibility of a new economic mechanism (in Bulgaria by way of self-financing, and inter-bank [bank branch] competition, and in Romania by using a uniform foreign exchange multiplier.) Even Czechoslovakia has decided to introduce a "complex set of measures" aimed at improving economic management.

Table 2. The Production Growth of Certain Basic-Material Producing Industrial Branches of the Soviet Union  
(average annual increases in percentages)

Branch of Industry	Period	1941-1970	1971-1975	1976-1980
Fuel Industry		6.7	5.6	2.9
Metallurgy		7.7	2.3	2.3
Lumber Industry		5.4	4.7	1.6

Source: Compiled on the basis of various volumes of NARODNOYE KHOZYAISTVO SSSR

The analogy, however, is rather inappropriate. There was a great difference between the beginning of the 1960's and the end of the 1970's in two respects.

The slowdown which occurred during the beginning of the 1960's was enough both to reestablish the equilibrium of foreign trade and to alleviate domestic tensions. This time under conditions of even slower growth the accumulated debts of the small countries continued to increase until 1978-1979, while at the same time the tensions of domestic material and commodity supplies were becoming increasingly more serious. Only by adopting new and radical measures, by halting the growth of their living standard, by implementing drastic price measures and by placing restrictions of carrying degrees on investments have Bulgaria, Czechoslovakia and Hungary been able to put a stop to their growing indebtedness. In the Soviet Union they have also begun to toy with the idea of implementing a policy of price increases and investment cutbacks; however, here--just as in Romania--the main sign of crisis is not growing prices, but the considerable worsening of commodity shortages. It was the worsening of supply shortages, coupled with an attempt to implement a policy of consolidation modeled after the Bulgarian and Hungarian examples (i.e. by improving the country's foreign trade status while limiting domestic consumption and stockpiling) which brought the political crisis in Poland to a head in the summer of 1980. The fact of an economic slowdown, therefore,

has not been enough to reduce tensions and to ease existing difficulties; on the contrary: it has led to growing tensions for the entire bloc. It is in view of this fact that projected plans for 1981-1985 have been anticipating a continuing slowdown.

Nor is the second difference any less significant. It is by no accident that economic reform is not mentioned in any of the above mentioned resolutions concerning economic management. These resolutions are characterized by a unique dichotomy. On the one hand, they are an indication that the politicians understand: those tendencies which are no longer possible to continue stem from the economic mechanism and, therefore, must be changed. However--having learned from the experiences of the 1960's--they also have a good understanding of the restrictions which the requirement to keep their political systems intact has placed on the scope of any economic policy change. The ideological rigidity of the 1970's has also made it difficult in some countries to clearly understand the relationships facing them. This has led to the adoption of resolutions which when asked to comment Bulgarian, Czechoslovak and Soviet experts have all criticised independently from each other, yet in a surprisingly uniform manner for lacking concept and being eclectic. The Bulgarian "new mechanism" has been characterized by internal inconsistencies and a lack of careful consideration: it calls for a world market price base and strong gross revenue incentives while insisting on keeping the role of plan directives and central material management intact. In Czechoslovakia they want to shift from gross to net production values, yet they have just moved to put an end to the--formally still valid--relationship between foreign-trade and domestic prices, and the way they have proposed to restrict the remaining enterprise income regulations and enterprise independence they have inherited from the 1967 reform is by expanding the role of their mid-level organs of guidance. In the Soviet Union they also want to make net production values (more precisely, net production values determined according to the norm) the central category of planning and even of wage regulation, and expand economic accounting while increasing the role of natural plan indicators. Nowhere have any questions been raised regarding the restricted character of plan-directed systems. The progressive nature of the resolutions adopted in 1979-1980, therefore, is highly questionable, and they are far from being adequate to meet the requirements of our time and situation. They appear to be supplemental actions at best.

There is another respect in which these resolutions differ from the reforms of the 1960's. Most of the reform programs of the 1960's had been not only aimed at helping economic rationalization to assert itself, but had also been more or less parts of a social reform program of democratization. The politicians proposing the reforms had thought: the introduction of the reforms would not only help to prevent economic difficulties from becoming worse, but would also enable socialism to become more democratic,



more humane and more socialist. This time these kinds of considerations are virtually completely lacking.

Poland continues to be an exception: after August 1980 they worked out a comprehensive economic reform which has gone radically beyond the plan-directed system. Naturally, they have also used the reform expression, and in addition to such economic goals as functionality, improved efficiency, flexibility, etc., they have given at least equal consideration to democratic and humane social objectives which have appeared mainly in the socialization of planning and in self-management.

Getting back to the general Eastern European situation, it can be stated: recent tendencies of economic growth clearly show that the direction of wasteful expansions which, supported by a plan-directed system, has dominated the European CEMA countries cannot be continued under our new conditions.

This means the following. If economic growth declines to the extent it has become necessary in Czechoslovakia, Poland and Hungary in order to stop the deterioration of their equilibrium, or to the point where it has been forced to decline in the Soviet Union due to growth restrictions, it becomes impossible to simultaneously

--keep up with the West in armaments,

--make the kind of productive investments that are necessary to at least follow the West in technical development'

--expect the growth of our current standard of living to provide incentives for better performance, and to prevent social tensions from recurring on an increasing scale,

--carry out the infrastructural (housing-, health-, transportation- and education-related) investments that are necessary to alleviate pressing social tensions.

Allowing such slow growth to become permanent cannot become the basis of social stability in this day and age in Eastern Europe (especially if we do not include the Soviet Union). Yet this is the only alternative we have under a plan-directed system (directly controlled economy). At the same time, despite the presently existing social, political and ideological conditions, in the great majority of the bloc countries there is no sign that they might be planning to make some necessary changes in their mechanisms. It is in this sense that I am talking about a general crisis of the Eastern European planned economies. Therefore, in the 1980's the neighboring CEMA countries will be characterized by economic stagnation, more distinct shortage-management features and an increasingly inflexible form of economic management.

These processes will also determine the development of CEMA relations: on the one hand, the already noticable tendencies to turn inward and toward the West, i.e. the loosening of mutual ties, will continue, and on the other, the natural elements of the CEMA mechanism will become more pronounced, and there will be increased efforts to bring the sub-balances of transferable ruble trade into a natural state of equilibrium. Under no circumstances can we expect the modern forms of trade and non-trade relations to take hold in a transferable-ruble cleared system of turnover. Without them, however, there is no hope for a processing-industry oriented division of labor to develop within the sphere of transferable ruble trade.

It seems obvious that in the 1980's more careful consideration should be given to the development of those ties which connect Hungary to this crisis-prone region of the world economy. Only by doing this can Hungary be turned into an island of stability in Eastern Europe which many observers--undeservingly--already claim it has become.

#### Comments on Hungary's Experiences

##### Achievements of the New Mechanism

The analytical studies that have been written on the Hungarian mechanism and the conclusions drawn from them have all been characterized by a well-justified sense of dissatisfaction due to the inadequacy of the changes that have been made. The basis of comparison used in these studies is the pre-1968 "target model" design of a controlled market mechanism of which indeed little has been realized.

If, however, we take the operation of the plan-directed system as our basis of comparison then we must notice that 1968 meant a revolutionary change for Hungary.

Istvan Friss has correctly pointed out that the special distinguishing feature of Hungary's new mechanism is not the decentralization of authority or the increased role of value categories, but the fact that it has done away with its comprehensive system of mandatory planning indexes and detailed planning.<sup>6</sup> Although open and hidden orders have not disappeared from the practice of Hungarian economic management, in fact we cannot even rightly claim that they are only given in exceptional cases, they have ceased to form a comprehensive system. The other side of this point is that although our capital equipment trade and multi-channel turnover have by no means been freed of all restrictions and involuntary courses, central material management as a system has ceased to exist.

I am not prepared, and perhaps it is not even necessary to give a list here of every important consequence of this change. The most important one, however, is probably the following. Even though profitability has not become the only, or even the pre-dominant indicator of our enterprises' success, and even though in evaluating our enterprises (enterprise managements) we attach a great role to such natural and partial considerations as the fulfillment of supply obligations, improved material and energy savings, increases in non-ruble cleared exports, etc., our standard of evaluation is based unequivocally on what the enterprise has actually achieved and not on the extent to which it has fulfilled the compromise plan! In the other CEMA countries this has been impossible to achieve to this day. And this is a big difference: although we have plan juries, the energies of our entire economic management apparatus are not taken up by continual tug of wars over planning indexes, for these indexes, even if they receive de facto approval from above, do not have the same centralized role as they did under the traditional system. Consequently, the information relayed by these planning indexes can also be relied on as more or less real information, while as it is well known under the traditional system it contains completely distorted information. During the first years of the reform this even enabled us to dispense with our base-oriented approach, even if since then parts of it has been brought back by our wage-regulatory system.

In a newspaper report a Hungarian enterprise manager was asked: why is his enterprise producing, more precisely, why does it bother with making machines for itself, and why is it fixing up old equipment instead of buying new ones. This kind of enterprise autarchy is not unique to Hungary; it can be found in every CEMA country, and in the GDR and Romania it has been specifically encouraged by the central organs. If, however, an enterprise manager in any other CEMA country were asked why he is resorting to such solutions his answer would almost certainly be that he has no other way to obtain the necessary machine because no matter how much he asks they will not issue him one. His answer would certainly differ from his Hungarian colleague's: this way is cheaper than if we had to obtain them from imports.

I have cited this example to demonstrate that although import licencing, tariffs and export subsidies make it cumbersome for us to manage our foreign trade relations, and they undermine our ability to improve the efficiency of our foreign trade, Hungarian producer enterprises are incomparably better informed and more interested in improving the efficiency of foreign trade than their equivalents in the other CEMA countries who often do not even know where abroad to sell the goods they produce, let alone the price they should charge for them. And it is not only with respect to the foreign market that the difference is great: the elimination of central material management, the partial liberalization of the price system, etc., have provided greater opportunities for ratio-

nal economic deliberations and calculations in our domestic procurement and marketing policies--in general, our enterprises are allowed to have a procurement and marketing policy.

And what about the regulation of personal incomes and earnings? I believe that in this area the deviations from the traditional model are even greater than elsewhere, and the differences go deeper than the group of phenomena which is usually referred to as the new economic mechanism, and especially deeper than what we usually refer to as wage regulation. We must take into account the total problem area of how incomes are earned and spent.

Although in the traditional planned economies the role of the market is greater in the distribution of consumer goods than in investments or in material distribution, talking about the active role of money can only be done in a limited sense. In the developed market economies the following main driving forces are behind consumer income earning: obtaining better quality goods, buying a home (a better, much better home), the automobile cult, vacationing, vacation-home building. These are precisely the areas of consumption where--due to a unique interplay between shortage management and certain considerations presented in a social wrapping--the market has been the most strictly excluded from distribution in the Soviet Union and--to various degrees--also in several other CEMA countries. The distribution of better quality goods is done in part through restricted shops, and in part by way of corruption. In housing allocation the market is virtually completely ignored; in the Soviet Union and the GDR locally owned tenement dwellings have continued to be the predominant forms of housing to this day. Although one must pay money to get a car, and must pay quite a bit of it, distribution is still only partly regulated by price. Vacations are also predominantly union subsidized and allocated arrangements, and in most countries foreign tourism has been extremely severely limited by passport restrictions. In the Soviet Union and the GDR one cannot even buy vacation home lots; they can only be allocated for free or for a nominal prices.

In contrast with the above, the post-1957 Hungarian practice which has used a multi-channel system of housing allocation, car sales and relatively unrestricted foreign travel to tie down most of the population's purchasing power, thereby creating a land-, vacation-home and vacation market, and permanently establishing a differentiated and in Eastern European terms abundant commodity supply, has built a system which is qualitatively different. And it is not only for the spending of incomes that we have created qualitatively broader possibilities, but also for earning them. Without a doubt all of this is in serious conflict with the rigidity of the socialist sector's income regulation rules. Nevertheless, in the consumer sector of the Hungarian national economy money plays a qualitatively different role than in most of the surrounding CEMA countries (only in Poland has the situation developed simi-

larly to that in Hungary) which gives a much greater role in the functioning of the Hungarian economy and society to consumer (and by way of the second economy, to producer) individualism than what we would find in a traditional planned economy. These are the characteristics of the consumer sphere that have provided the ground in which the market elements of the new mechanism have become so firmly implanted since 1968.

### The Surviving Past

Where did Columbus land?--asked G.S. Lisichkin<sup>7</sup> as he was about to give a theoretical characterization of the Eastern European economic system to demonstrate: the classics' ideas have not been realized. This is very much like the way we stand with the new economic mechanism: we have left behind our plan-directed system, but have not sailed into the harbor of the regulated market. For since the reform the market has not become a regulator of production (not even in the short run): prices can only partially and occasionally establish a balance between supply and demand, supply does not (and cannot) react to demand signals, the availability of money does not always ensure access to products, etc.

The market, therefore, does not regulate in a genuine, self-regulating manner. At the same time--at least as a general rule--plan control and allocation are also incapable of regulating. As far as the regulation of production and turnover is concerned, it has become a kind of consensus-based system under which the producer tries, without orders, as much as the user expects of him, or as much as its ruble-export quota allows or its projected dollar exports call for in order to avoid the disapproval of everyone whose disapproval it must avoid.

The role of consensus as a general operating rule has not been changed by the fact that the consensus occasionally has not materialized, that now and then the state apparatus has had to intervene, and that at times the parties themselves have had to turn to the state apparatus for help. It is precisely because it has only had to intervene in a few cases that has made the consensus the practice in most cases. Incidentally, this is the mechanism which Ivan Schweitzer has generalized in his "supply-responsibility based economic mechanism" category.<sup>8</sup>

In order to be able to simultaneously avoid having to use plan directives and central allocation on the one hand, and the market mechanism on the other, in the regulation of production and turnover, we need to have relatively simple and clear-cut relationships among those who are involved in economic life. Actually it was something like this that the original concepts of a communist economy had implied. And as a matter of fact it was also something like this that the reorganization of Hungarian industry around 1963 had aimed to accomplish! This is what the Soviet economists

have actually put their fingers on who claim that the reason Hungary can manage its socialist economy without plan directives is because from the upstairs rooms of the Planning Office there is a clear view of the entire Hungarian national economy. Indeed it was the mergers that occurred around 1963 and the trade mergers that followed their model which have made our post-1968 system of "neither (command-directed) plan, nor (self-regulating) market" functional within the manufacturing industry-construction industry --trade cycle.

This functionability, however, is only real in terms of its feasibility, but not in terms of its efficiency. Here--to use Janos Kornai's expression--a vegetative type of regulation is becoming the dominant form of regulation which is "fine" as long as there is no need to make structural changes or implement technical improvements. These things, however, we need or would need to do every day. This is why the "neither (command-directed) plan, nor (self-regulating) market" system which has been in effect since 1968 cannot be maintained for ever.

It is by no accident that in the area of investments it has never been allowed to become prevalent. What this system would have required in the area of investments is self-financing in accordance with enterprise profits and amortization, free of market differentiation--this, however, has not been allowed to assert itself or develop in Hungary. In the area of investment allocation it is indeed the old order which has returned in a new form: it has been based on the general "normative" pauperization and "selective" financial strengthening of our enterprises using credits and subsidies, and thus on the preservation of a hierarchical system of investment allocation.

The role of the "selective" financial system, the system of financial differentiations, of course, is not only felt in the regulation of investments. This, among other things, is also closely connected with the following. Once the enterprises are not subjected to market pressures, and at the same time the pressure caused by the tensions of planning indexes ("the application of progressive average norms") then something else becomes necessary. This is the purpose of the periodic tightening of our general financial regulations which by way of a regulator-bargaining process reminiscent of plan bargaining is relaxed everywhere, where this may appear to be necessary due to reasons approved by the state apparatus.

We hardly need to continue to describe the practice of the post-1968 Hungarian economic mechanism since there is a whole libraryful of literature which deals with that subject. It is sufficient if I point out that I know: aside from the fact that in general the above description could be applied to the entire post-1968 period, the situation developed differently in 1968-1969, in the

early 1970's or between 1975 and 1978, and still differently between 1978 and 1981 and again in 1982, and that there have been differences in the situation of certain branches, enterprise and activity types. There is only one question which I wish to discuss in greater detail: why, and on what base did the reform get stuck on this road of "neither (command-directed) plan, nor (self-regulating) market?"

There are some who believe that the reason is because this--and nothing more--was the goal. This is partly true and partly untrue. The concept of the reform had been a compromise between those who thought it was enough or wanted even less, and those who would have preferred even more, real market regulations. The documents of the reform clearly show both views.

There are also those who believe that there are external--foreign policy and foreign economic (CEMA)--limitations on further development. And this again is both true and untrue: CEMA's role in our economy, looking back at it in the perspective of one and a half decades, is no longer just something that is given, but is also the result of the foreign economic policy of the particular period.

The most convincing opinions appear to be those according to which the main explanatory factor should be sought around the conservative elements of domestic social power relations. Some--such as Erzsebet Szalai<sup>9</sup>--attribute a special role here to the big enterprises (more precisely, to the top echelon of the big enterprises), while others point to the branch ministries or the party and trade union apparatus.

I do not think that it would be justified for us to put a one-sided emphasis on the role of the branch ministries or the party apparatus. The plan-directed mechanism had created an economic management elite which was made up of former "professional revolutionaries," technicians, "plan bureaucrats," and both old and new "industrial captains" (including worker managers). It was as a whole and not by virtue of one or the other of its components that this elite became a promoter of "rational redistribution." It was this stratum as a whole that developed a unique kind of world-saving, economic and social reform (modernization) oriented awareness which gave the impression that they have made all economic decisions free of any social control either from political democracy or from the market mechanism. The system of detailed planning was a means to ensure formal control by this elite over everyone else involved in the economic process while for the apparatus it only means self-regulation.

Under the conditions of reform the manner in which economic power had been asserted earlier was threatened with a dual danger. The lesser of these dangers was that the elite might lose its complete (comprehensive and all-inclusive) control over the economy. The

reform was a compromise reached at a time when it had to be learned how to exercise this control using informal rather than the earlier established formal channels, and financial means instead of directives while concentrating on the more important developments of economic life and giving up control over the less significant. The other, greater risk was that one's own sphere of decision-making would fall under external control, under the control of the market.

Instead of the earlier plan discipline, under the new system the economic management elite used the concept of national interest, conscious structural transformation, the system of technical and economic criteria, the big industrial organizations, etc., and the approach of denouncing the self-regulating market as an obsolete illusion to formulate its own modernized ideology. These slogans have found foreign economic backing in the large-scale programs and local cooperations of the CEMA integration.

In the 1970's--despite all of its internal differences--the elite was able to take a joint stand against allowing manpower allocation, the development of income ratios and resources to slip from under its control. (See its protests against the introduction of a national professional wage scale, its campaign against producer-cooperative operated auxiliary plants, the 1971 solution of our investment "allocation problem," and its expropriation of the development funds of our foreign trade enterprises.) At the same time, it was able to proceed without restrictions to launch a whole line of campaigns which from the point of view of economic rationality were most questionable: costly investment programs aimed at supporting the CEMA-level autarchy (oil refining, computer technology, nuclear power plant and nuclear power plant equipment production), the merging of agricultural and industrial cooperatives, giving predominance to costly technologies in agriculture, housing construction, trade and services which were adjusted to bureaucratic guidance structures.

Although the favorable changes that were made in the mechanism in 1968 have enabled the economy to function more smoothly, and have, to some extent, reduced waste by more or less eliminating several sources of waste, it continues to be possible to make decisions that are not controlled by the market which can lead to voluntaristic economic management. This can be equally observed in our structural policies (see, for example, the textile-clothing and metallurgical reconstruction) and in our market research policy (see, for example, the acceleration resolution adopted at the end of 1976). Of course, it is not only these kinds of spectacular mistakes that can inflict losses on our national economy; damage can also be caused by leisureliness, unsatisfactory performance-orientation, a lack of economy-minded resource utilization, and inadequate adjustment to foreign and domestic demand which, due to the absence of market pressures, continue to exist among wide segments of our economic management, and make themselves felt in



the conflict-filled force field of orders, guiding principles and requests issued by the state apparatus without taking profitability and competitiveness-related considerations into account. Connected with these phenomena are the foreign and domestic tensions of the Hungarian national economy, the fact that despite the reform its growth performance and equilibrium position does not differ enough from the development of CEMA countries that have not undertaken a reform.

### Reform Renaissance

Earlier I talked about the fact that most of the European CEMA countries have also adopted changes in their systems of economic management as a reaction to the difficulties that have continued to accumulate since the mid-1970's. On the other hand, I have been quite sceptical in assessing these measures, referring to them as being essentially auxiliary measures.

In our country also, the government has used economic corrections (too) to combat the difficulties which in the second half of the 1970's also affected Hungary. The international press--not only the daily but also the technical press--has referred to the period since December 1978 as the renaissance of reform. Would it not be justified then to extend our concern regarding the decisions and measures adopted in 1979-1980 to Hungary as well?

The measures that have been taken since the end of 1978 can be divide into two main categories: on the one hand, there are the significant, and in a certain sense comprehensive modifications that have been made in our price and regulatory system, and on the other, there are the far-reaching partial measures that have been implemented in our organizational system. The latter have been extended to the central government, the big enterprise-trust organization as well as the enterprise and even the intraenterprise level (business operations by contract).

We must admit, these measures have been radical in every respect, for they have been able to deal with taboos which in 1968, at the height of the reform trend had still appeared untouchable. It is in this sense that the approval given to establishing a world-market based price system, a unified industrial ministry and various forms of private and semi-private businesses can be considered an achievement. The break-up of some trusts, the emancipation of factory units, the encouragement given to producer-cooperative connected auxiliary plant activities and the latest liberalization of manpower movement have also been important steps because they have meant a spectacular reversal of the restoration trend that began in the early 1970's, and ended in the middle of the decade.

Nonetheless, the measures that were introduced in 1979-1980 have been subject to widespread criticism. One of the trends of this

criticism points out that the measures taken have not been consistent enough, or that they have been merely partial measures implemented while leaving the other elements of the system unchanged, hence proper measures are doomed to failure. (One example of this is the Ministry of Industry which in an unchanged administrative and market--or more precisely, non-market--environment would be forced to continue the activities of its predecessors, even if its apparatus wanted to do something else.) Agreeing with these observations there is something else which I need to discuss.

With respect to the 1980 price reform, more precisely, the new processing industry price principle, many of us had asked even before it was introduced: what kind of world-market based price will this be without a close relationship with the world market, and what kind of cut-rate price can we have without competition--import competition? The new price system--if it operated according to its principle--would mean a practical step forward compared with the practice of previous years, for the earlier practice had stemmed from a one-sidedly production cost ratio-based system of price formation. Compared with the 1968 price principle, however, the new price principle has meant a step backward in that it has banished the value judgement of the market and the effects of internal supply and demand from among the factors of pricing. And to replace it, rather than allowing the effects of the foreign market to assert themselves it has used foreign market price developments which can be, and as experience shows are in fact manipulated a thousand times by way of transpositions under a dictated system of price calculation.

The new pricing regulations apply to all prices. Consequently, strictly speaking, genuinely free prices--which are agreed upon by the seller and the buyer at their own discretion on the basis of the relationship between supply and demand--have disappeared with the introduction of the 1980 price reform.

The 1980 price principle, therefore, has not only been a step forward but also a step backward, almost giving the impression that the "developers" of our economic management have lost faith in the real functioning of the real market.

The same is reflected in the organizational measures that have been taken to redefine the division of authority which exists among our government organs. What foreign and domestic observers have noticed is that the three industrial ministries have become one. Yet, something else has also happened. The material management and price authority jurisdiction of the former branch ministries of industry has been taken over by the Material and Price Office.

Just what exactly has happened here? According to the principle of the reform interenterprise commodity trade is generally unrestricted, the controllin ministry--not including CEMA obligations and defense-related shipments--has no say about it. Product mar-

keting and enterprise cooperation, however, have not worked without a hitch. After 1968, the consensus has not always been arrived at without intervention by the state apparatus. And since 1971-1972, when politics began to encourage government interference, the leadership has indeed created situations where its interference has become necessary.

What have the "developers" of our economic management done in response? Instead of moving to strengthen and activate our non-state administered system of relationships and to reduce intervention, it has taken the management of product marketing and turned it from a tolerated semi-legal activity performed by the ministries into the perfectly legal main activity of another agency.

The same purpose can be seen in the creation of the new Economic Committee [GB]. While the ATB [State Planning Commission] deals with long-term, conceptual economic decisions, the new GB handles timely, short-term market regulatory decisions. Matters, therefore, which according to the principles of the reform a government agency should not be dealing with at all. (It is enough to take one look at the agenda of GB sessions to see that it is dominated by specific material-provision, commodity-supply and foreign-trade related matters.)

The measures taken in 1979-1980, therefore, have meant a continuation of the "neither (command-directed) plan, nor (self-regulating) market" basic tendency which had been in effect since 1968. On the one hand, several measures have been taken that have led to the further weakening of the framework of our hierarchy of detailed plans which has survived to this day: a ministry of industry has been created, many trusts and enterprises have been dissolved while at the same time new organizations have been established which do not fit into the hierarchy. These are extremely important matters. On the one hand, however, these changes reflect a view according to which the state apparatus should be able to control economic processes to the same extent and as thoroughly as they did in the 1970's.

Some of the unmistakable symptoms of this include government approval for two new central development programs, the reorganization instead of dissolution of the Ministry of Labor to become the State Wage and Labor Board, etc.

Despite the fact, therefore, that on the basis of the accomplishments of its 1968 reform Hungary lives in a slightly different world than the other CEMA countries, the measures it took between 1979-1981 fit in the same picture that I have just presented about the decisions made by the other countries. While there they have been delaying to abandon their plan-directed system by introducing inconsistent partial measures, here they have been putting off

moving from the condition of "neither (command-directed) plan, nor (self-regulating) market to a mechanism that would combine modern state-controlled economic regulation with the active role of the self-regulating market.

Another common feature is that like the others these recent Hungarian measures are also not parts of a comprehensive reform concept which in addition to economic objectives would also present distinctly new social perspectives. They do not promise a better world in 5, 10 or 20 years--all they promise is that if the measures are successful there will still be a world in 20,10 but most certainly in 5 years.

However heartening it is to know that since 1978 our government policy has been in support once again of pursuing a course of reform, the policy which it followed between 1979 and 1981 has had a negative consequence which still has not been discussed. The fact that while in speeches and headlines we keep hearing radical reform slogans the "competitive price system" has deteriorated to being a system of detailed pricing, the Ministry of Industry has gradually begun to treat the enterprises as if they were branch ministries of the former type, etc., has created a general sense of cynicism right among the leading circles of our state administration and enterprises. Not necessarily at the top, among those who in their present positions are new to having to make actual regulatory changes, but among the army of people below who feel that they are hearing the same record over again with new performers and in a slightly different orchestration. One drastic recentralization may repress the idea of a reform, but our faith in reforms can still remain intact. A "renaissance" such as this, however, can easily discredit the reform and undermine the social credibility of our reform ideals.

## The Necessity of Reform

### Why is the Reform Necessary?

The reform is necessary in two respects. It is necessary, on the one hand, because despite their unquestionable success the changes that have occurred in the Hungarian economic mechanism so far have not been adequate. This is because they have failed to sufficiently change those economic development tendencies which have threatened to make growth impossible under our new foreign economic circumstances. Due to certain peculiarities specific to the Hungarian economy and society--which have been favorable in that they helped to speed up the reform in the 1960's, and also because they had made its implementation easier--this threat appears to be more acute for Hungary than for some other CEMA countries. The fact that for 2 or 3 years the stagnation of our "current" standard of living and the accumulation of social tensions resulting from a decline in consumer investments have not led to a social conflict

and the likelihood that they will not do so for another few years does not mean that this trend can be continued for ever. The one question which Hungarian planners have been asking themselves over and over again is how to divide our constantly arising losses among certain elements of stockpiling and consumption, and it appears that they have already forgotten: losses can also be avoided. This is why--among other reasons, of which the most important is the need to change the direction of our foreign economic policy and to strengthen the factor which is to some extent independent of the mechanism--we need to have another reform of our economic mechanism.

And what is the other compelling factor? In order to understand this we need to say a little more about the lessons of Poland. The direct, precipitating causes behind the July-August strikes were the announced price increases and a decline in the standard of living. It was an explosion caused by dissatisfaction which had been building for a long time in Poland due to a year-by-year worsening of shortages. However--as it soon became obvious--this was not only consumer dissatisfaction, but an overall dissatisfaction with the functioning of the economic system as a whole. During the everyday operation of their places of work workers, peasants and intellectuals had all experienced the countless irrationalities, poor functioning and the dysfunctional character of their economic system. When finally the country could no longer stop at meeting union demands, but wanted to begin a comprehensive transformation of its economic system it was this form of dissatisfaction which broke into the open. When the socialization of planning and self-management were put on the agenda, this meant a redefinition of the social objective to include putting an end to the alienation which had been the basic experience of the members of Polish society.

But was it only experienced by the Poles? In Hungary, of course, we have not had the kind of gross economic policy mistakes, serious lack of responsibility and rampant corruption as they did in the Poland of the 1970's, and here, I am convinced, the difference is one of quality. The comprehensive decade-long "alienation-type" of dissatisfaction regarding the overall functioning of the workplace and the economic system, however, also exists in Hungary. In Hungary also, there is a general sentiment and feeling that the workshop, the enterprise, the national economy is not managed as it should be: in general, "people" are not working well, they are not paid properly, the money earned cannot buy good-quality products, services, etc. The lack of satisfaction expected to be received from the work process, combined with a lack of contentment to be received from consumption and a sense of subordination and displacement in social and political life have all contributed to the general feeling which in press debates, such as the Kesudio or the "Are We This Rich?" debate has been referred to as merely the tip of the iceberg. The second economy represents an alter-

native not only because it provides better pay for work, but perhaps also because it ensures more authentic work organization and offers a feeling of greater satisfaction with one's job. Nor do ideas regarding the West--whether they be realistic or false--always present it only as a world of a richer life compared with our domestic experiences, but also as a world of well-managed economies where "things go as they should be going, and as they are normally expected to go."

In this general feeling, of course, there is something reminiscent of the same Eastern European inferiority complex which had already existed in Hungary during the time of Szechenyi and Kossuth, but basically speaking the differences that are being perceived have to do not with the points of the compass but with the differing systems.

Undoubtedly, the reform has led to some change in this general social feeling. This change has been perhaps greater than average among social groups (certain managers, experts and people involved in independent activities) whose working conditions have undergone radical changes owing to fewer irrational restrictions, and among those with a broader international vision who can perceive the difference which has evolved between the Hungarian situation and the other CEMA countries. The essence of the matter, however, has hardly been affected by the change. Moreover, the fact that as far as most of them are concerned the expectations that had been attached to the reform at the end of the 1960's have only been partially fulfilled, and that the internal conditions of the workplace have remained basically unchanged, have perhaps made the awareness and perception from the economic system even more acute, and have even raised the danger that this kind of dissatisfaction may turn against the reform.

This "alienation-type" of dissatisfaction by itself is not "dangerous," it does not threaten with social conflicts. As long as the manner in which power is exercised is socially accepted or at least tolerated, a bad general feeling may be a common concomitant of social life. Conflicts and the breakdown of stability are triggered only if it is coupled with a sudden build-up of "material" dissatisfaction--this is what happened in Poland in 1980. In case of a conflict, however, the sudden realization that there is and overall social dissatisfaction with the economic system and the organization of this sentiment into an ideology can turn a perhaps by itself still "managable" economic conflict--as the leaders of the PZPR at that time would have liked to believe at first--into one which may cause the entire system to lose its legitimacy.

Why then do we need the reform? On the one hand, in order to enable the country--in a narrow economic sense--to recover from the crisis which it has been facing for failing to disassociate itself distinctly enough from the traditional system of the Eastern European planned economies and due to the gross blunders of its erroneous

foreign (one-sidedly CEMA-oriented) and domestic economic policies. This is why--among other things--we need to make further, radical changes in our economic mechanism.

Another reason, however, why we need changes is in order to redefine the relationship between the members of society and the functioning of the economic system. Our aim should be to ensure that the members of our society can perform their economic roles as employees, decision-makers, consumers, etc., in their direct and more distant environment, and to reduce the system's disfunctional manifestations while increasing its successes. This is how changes can create a situation where we do not only delay economic difficulties from developing into a conflict, but also reduce the danger of these potential conflicts turning into a more serious social conflict.

Why does this change have to be a reform, another reform after one was already introduced in 1968, a second reform which does not question or disavow the previous one and which at the same time also does not simply continue, but go beyond it? This has some well-known reasons connected with the inner logic of mechanism changes because of which the changes introduced can only be successful as elements of a consistent package plan. It is this recognition which is reflected in the phrase "complex further development."

In order, however, for the above mentioned change in the public mood to be actually attainable, in addition to changing the experiences we have gathered about the functioning of the system--which we can only count on after several years anyway--what is also needed is for the government to announce radical changes, the discontinuation of the processes of the 1970's similarly to the way it was done in 1968. The open self-criticism that was heard in the prime minister's speech at the party congress should be extended and broadened. We need not to repudiate 1968 or even 1979, but we do have to admit that whatever has been done has been inadequate and in many ways also erroneous, and that in the future we must, and our government wants to do something radically different. In addition to stressing continuity, only a declaration of discontinuity--and not only with respect to the 1971-1978, but also to the 1979-1980 period--can make the determination to change credible. This is what the expressions new reform and second reform suggest--this is why we must refer to it as new reform or second reform.

It is true that it is easier to get the political leadership, the broad segments of the apparatus to accept reform programs as "complex further developments." This indeed is an important consideration--however, it is not the only one. Where the proponents of the 1968 reform made perhaps their only real mistake was in focusing their attention exclusively on getting this aspect of the reform accepted without worrying about getting society as a whole to go along with it. In order for these changes to be adopted by broad

segments of the Hungarian society they must come in the form of a reform, among other things in the sense that the government must declare the relative discontinuation of the previous system.

#### What Kind of Reform Do We Need?

It is not only in this respect, however, that the reform must be a reform in order to be socially accepted or even to find social support. For--I believe--it is not enough to get it accepted: the changes which appear to be necessary can expect at least as much opposition as did the 1968 changes, and we can count on having to face at least the same kinds of "childhood diseases" and at least the same difficulties of transition which between 1968 and 1971 could serve as a motive and point of reference behind recentralization tendencies. Our reform which aims to impose external--social, market--conditions on the assertion of economic power that for decades has gone without such control, and which in addition continues to be exercised in the allied countries in the earlier manner, has no chance of success if its character as an action initiated from above is not augmented with social support, and if--in a certain sense--it fails to become a social movement.

Hence we must develop a reform program which aims not only to limit sources of loss in the economic sense, but which makes the changing of social attitudes toward the economic system--toward its accomplishments, but also towards its functioning--its main objective and program.

What can the reform program promise those from whom it wishes to receive support? With some simplification we can give two answers to this question.

The first possibility is based on the hope that the reform will lead to the creation of a more productive and competitive market economy by allowing our living standard to rise once again, and by creating a buyers' market. In this case the reform promises the following: better earnings (better work organization, better conditions for making money and better wages), more creative work for managers, intellectuals and independent entrepreneurs, and for consumers a near Western, or let us say "peace time" Yugoslav level of commodity supplies on which people can spend their earnings with relatively great satisfaction.

There is no doubt: if the reform can lead to the realization of these kinds of promises, then indeed we can also bring about a change in social attitudes toward the functioning of our economic system, even if the position occupied by the great majority of our workers in the production process remains unchanged. If the above mentioned promises--which, of course, in capitalist market economies are not considered to be achievements--could be accomplished without the acceleration of unemployment and inflation, then this would mean a tremendous social success for an Eastern European country.



A program such as this, however, can only have a mobilizing effect if it can promise to accomplish these results within a relatively short period of time, for it would aim to mobilize using the results ("output") of the functioning of our economic system. Fast results are also important because this program would be essentially a re-iteration of the same promises which had been attached to the 1968 reform, and which for the most part have remained unfulfilled. These are the kinds of promises, therefore, which optimistic economic reformers can use to mobilize our society.

The other possible version is based on making the new system more attractive by combining the above with a different kind of participation in the economic process. The elimination of the everyday irrationalities and obvious losses of our economic management would automatically promise such a change. This is what Tibor Liska's enterprise concept promises--for a narrow segment, the entrepreneurs. There is only one solution proposal known which can make the reform a program for a broad segment of workers: self-management. It is from this starting point that it would seem necessary to give a thorough thought to the self-management alternative.

#### The Content of the Reform

The essence of the necessary reform can be defined several ways. The most expedient way to interpret the rather loose 1968 definition which states that the goal of the reform is to create an economic mechanism which is built on the integral unity between the plan and the market, is as follows. Basically, central state planning and regulation should focus on macroprocesses (main national economic ratios, total revenues, foreign trade relation ratios and balance, price level, etc.), while microprocesses (which in general also include the development of certain branches of industry) should fall within the sphere of market regulation already. For this to be attained the presently needed reform faces a dual task. On the one hand: it must eliminate those remaining elements from the system of interrelationships and the sphere of enterprise-based businesses which make it possible and "attractive" to subject microprocesses to state control. On the other hand, steps must be taken to ensure that after bureaucratic control over decision making regarding these microprocesses has been reduced, it falls under market control. What is needed, therefore, is to free the makers of microlevel decisions from bureaucratic state administrative control while at the same time placing them under effective market control.

How can direct state administrative control be ended? Since plan directives were eliminated, state administrative control has been asserted by way of three main channels: prohibitions aimed at limiting competition, restrictive measures (definition of spheres of activity, regional boundaries, etc.), financial differentiation, selective credits and other preferences, and finally by way of supervisory activities (by appointing and rewarding managers, by setting up plan juries, etc.)

The things that need to be done here sound almost like platitudes: the above mentioned prohibitions, restrictions including the regulation of spheres of activity in general must be eliminated. We must strive to create a situation under which, aside from defense obligations and the consequences of interstate CEMA agreements, every enterprise and entrepreneur will produce, etc. whatever it considers expedient out of self-interest. Naturally, we must also eliminate all regional, etc. restrictions, especially as they pertain to the construction industry, trade, services and tourism.

It also sounds like a platitude to say that aside from a truly limited number of exceptional cases, financial differentiation must also be eliminated, the issuing of credits must be based on business principles by separating the financing of enterprises from the central bank and allowing the credit-issuing banks to compete. In these questions I can only speak in support of the recommendations made by others.

#### Alternative Proprietary Organizations--Enterprise Ownership

There are many of us who feel, furthermore, that it would be nice to put an end to all situations that make it possible for any state administrative organ to exercise control over certain enterprises. We should break with the practice that allows state economic management organs to be in a position of control (that may lead to direct consequences regarding the evaluation, rewarding and career of managers) in judging enterprise activities. Especially harmful is if these organs are organized according to a breakdown by branches, although it is also not good if it is a non-branch connected organ which performs similar functions.

The question has widely been asked whether instead of the branch ministries we should have someone else represent the state as the proprietor. In asking such a question it goes without saying, and presumably it is considered a good thing to keep socially owned, or more modestly put, non-capitalist property under state ownership. I am not aware of a single argument that would support this view.

If we accept what at the beginning of the article I referred to as a "politico-economic starting point," then we have no reason to distinguish the state and cooperative form of ownership as the "socialist sector" from other forms of ownership.

There is one respect in which I feel that this rigidity is well-founded. We can exclude from consideration the possibility of having domestic private capitalists exercising private ownership over our medium and big enterprises. I believe that after 30 years the elimination of private property has become an irreversible process which could only be changed by way of outside colonization. Nor do I believe that the resuscitation of the private capitalist form would be a socially attractive program in the above sense. And hav-

ing pointed this out I should also add that in the foreign and domestic policy sense it would also be absurd to suggest.

All other solutions, however, are up for discussion. As I see it, therefore, the question is: once we have excluded from consideration the possibility of allowing private ownership--which could only be capitalist private ownership--over our medium and big enterprises, under what kind of ownership should these enterprises be?

There is another popular approach which concerns me. In many people's eyes one of the main shortcomings in the way our economy functions is that in the development of our enterprises and branches selectivity still has not come into full display, and that with self-financing everyone's development is kept moderate (at least this is what the rules of the system allow). Lacking are the channels of interbranch and resource redistribution and the resource system of differentiated development. Following this train of thought what they also criticise, or I should say the very thing which they criticise regarding the present situation is that some of the proprietary functions are in the hands of the enterprises (enterprise managers) themselves, and therefore the proprietary function (that is to say, that function of the proprietor which gives him control over the enterprise's capital) is closely entwined with the operating function. In their view the precondition for a desirable structural transformation and effective capital allocation--in cases, therefore, where the capital is invested not where it was generated, but where it is the most effective--is to ensure that the function of having control over the capital is separated from enterprise management which is necessarily tied to the given profile. It is this separation which in the planned economies the budget is expected to ensure, and this is what must be changed in our reformed planned economy by finding a market form which takes the place of both the budget and private capital.

There is no question that transferring some of the proprietary functions to enterprise management does involve such problems. It is true that in the Czechoslovak, Polish and Hungarian mechanism-literature it has often been suggested that this problem could be eliminated by way of incentive-giving interest rates on deposits, and by making it possible to have temporary as well as dividend-paying final capital redistribution. Their argument has been that if the enterprise's own development possibilities appear less favorable than what can be attained at other enterprises, or among credit-recipient enterprises as a whole (this is what deposit interests are expected to indicate), then the enterprise will relinquish its capital. This, however, is obviously an illusion: the management of an enterprise invests within its sphere not only because it is profitable, but also because it is favorable for its own development. The above idea cannot rely either on the experiences of Western market economies (in this sense our producer

enterprises do not transfer capital), or on the experiences of domestic interenterprise resource redistribution: its motivation has always stemmed from a direct interest in the other side's investments (cooperation, infrastructure).

The problem, therefore, is real. I believe, however, that in recent literature it has been somewhat exaggerated. A well-functioning bank credit system, the freedom to change enterprise profiles and the introduction perhaps of certain financial forms (bonds) can make it considerably easier to carry out needed capital redistributions within the enterprise-market framework than has been possible so far. Secondly, although I do not deny the importance of capital redistributions I believe that the area where real changes are needed is in ensuring that the capital is more efficiently utilized in every enterprise and activity.

Hence, I do not consider it to be especially necessary to separate the exercising of proprietary functions from enterprise management (entrepreneurial sector) tasks. We must weigh the disadvantages that may offset the--undoubtedly real--advantages which stem from separation and capital circulation.

One respect from which this question can be examined is enterprise (enterprise management) profit incentive.

What is the driving force behind the enterprises' profit incentive? What makes profits and profitability really important for enterprise management? I believe that inasmuch as we can talk about the existence of a profit (or more generally speaking, income) incentive during the period since 1968, there are three driving forces behind it. First of all, even if only to a limited extent, enterprise profitability has earned a certain prestige, and profitability has become one of the considerations in ministerial, etc. evaluations of enterprise management. Secondly, notwithstanding all the changes in the incentive and wage regulatory system, and despite rampant preferences, profitability has become important--or as Gabor Revesz pointed out<sup>10</sup>--from the point of view of raising personal incomes. Thirdly--again with similar restrictions--the importance of profits has been underscored by the fact that they have given rise to development possibilities, and that they have been a source of loan payments. Many have shown that there is no correlation between an enterprise's investments and its profitability--in the case of some enterprises, however, there has been a certain degree of interdependence between the two.

The version that would separate the proprietary function from enterprise management would mean that the third element of enterprise management profit incentives would completely disappear, and its second element would probably also weaken. This would be compensated for by the fact that the first element would be transformed: becoming highly profitable would not be simply a question

of prestige for the enterprises, but one of survival and preserving its function, for it would be on the basis of this factor that the proprietary organ would retain or dismiss its enterprise managers.

If we really think about it, our existing controlling ministries could also operate this way. In order for the new proprietary institution to make profitability truly its virtually only criterion of judgement we need a reliable price and monetary system, for only on the basis of such a system can profitability properly reflect enterprise performance. One of the preconditions of having a workable price and monetary system is to have a workable market and competition. Once these are in place it will also mean that the controlling ministries will not be forced to insist on considerations that frustrate profit incentives....

There is, of course, a difference between the two versions, the envisioned capital proprietary organization and the controlling ministry, for the ministries themselves have their own natural goals while proprietary organizations which are free of branch restrictions perhaps may not have any. It is unquestionable, therefore, that having organs which are free of state control and branch restrictions would be preferable to today's ministries. It is questionable, however, whether dependence on them as proprietors of capital can compensate for the elimination of the "investment drive" as the only driving force behind profit incentives.

Besides profit incentives there is another relationship which appears to be important. Whatever new solution we end up adopting, after the new reform we can expect having to face various economic tensions which will be followed by direct intervention and recentralization efforts. The history of the new mechanism so far shows that from time to time these efforts may try to "break through" in other areas: at first it is mostly subsidies, then direct ministerial interventions and gradually institutionalized plan juries which represent the main front. We can expect that if the proprietary functions are taken away from the branch ministries, then once again it will be the "regulatory practice" of the functional organs which will become the main channel of intervention. It is important for the bearers of entrepreneurial functions and profit incentives to be organizations, units which are strong enough to ward off these kinds of tendencies. I doubt that proprietors and the entrepreneurial operating organizations that are separated from each other would be strong enough to do this. It would appear to be more favorable for these two functions to be combined in a single organization both in the case of medium and big enterprises.

I am thinking, therefore, of enterprise ownership--to which there is a hitch. The proprietor's capital management function and such arguably proprietary tasks as the determination of enterprise

profile and long-term development and marketing policies can be transferred to the enterprise management. The situation is different when it comes to the appointment, rewarding and dismissal of enterprise managers.

Perhaps the simplest of these functions is making appointments. Ad hoc organizations formed according to certain statutory regulations can also appoint managers to head an enterprise that has been left without a leader. (For example: while there are rules which specify the organs and institutions which can name members to the committee, the committee itself is not permanent.) If, not counting retirement and in the case of temporary appointments the expiration thereof, our top enterprise managers can only be dismissed in cases of enterprise bankruptcy, then the question of dismissals becomes a part of the financial reorganization and bankruptcy proceedings, and the decision regarding replacements of personnel can be made by the same body which decides on the fate of the enterprise. I would not preclude the possibility of such an arrangement. In connection with this it would also be conceivable to withhold bonuses from our enterprises' top management, to determine their basic wage at the time of their appointment allowing it subsequently to be raised according to normative rules, and also to tie their share in the profits to general regulations. To sum up this version: the top managers of the enterprise would be appointed by an ad hoc body (preferably by way of competition) for a specified but longer period. Every time a period ends a new body can be set up. This body would also specify the basic wage to be received; there would be profit sharing regulated by general rules, however, there would be no bonuses. This core of top managers would hold additional proprietary functions which, however, it would also share with wider segments of the collective management.

Another feasible solution would be to establish a committee that would provide specific guidance by evaluating the activities of both the enterprise and its leader, and would perhaps even reward its top management. This committee would be of a permanent nature, and would also be established on the basis of some kind of parity. Unlike the present practice, it would be representing neither the ministry nor even the state, but rather society, the collective in exercising that highly limited scope of proprietary functions which could be left in the hands of enterprise management.

And finally, the third possibility is naturally to give workers' collectives the right of self-management. In such a case the enterprise collective would elect its top managers who would also have to report to them, but the collective, i.e. its elected body, could be given an even broader scope of proprietary functions. (How the spheres of authority should be divided between the collective's assembly, its elected body and the management of the enterprise is not worth debating here.)

There have been many objections to the self-management solution. One group of these has been based on ideological counterarguments: those who consider state property a form of superior order, for example, would qualify self-management as an anarchist deviation. If we stop mystifying state ownership this argument will lose its meaning. Under an arrangement which officially also gives equal recognition to state and cooperative forms of ownership such an objection would be without foundation.

The situation is different when it comes to actual economic objections.<sup>11</sup> The "oldest" counterarguments are connected with the name of Ward who, taking into account the Yugoslav experiences and analyzing the general model of a self-managing enterprise, has no interest in expanding employment, and that its optimum production is also lower than that of a capitalist enterprise.<sup>12</sup> This analysis fails to take into account the possibility of bringing in foreign capital, and that in such cases at least the management of the enterprise will still strive for growth.

Self-management means gross income incentives, in other words, a very close relationship between earnings and enterprise revenues. This leads to excessive differentiation, and in the case of predominating "demonstrative effects" to wage inflation. This is a serious objection, however it is one which arises whenever earnings are tied to a strong emphasis on profit sharing, and which perhaps is also competible with self-management.

Another common argument against self-management is that it is more difficult (impossible) to merge, break up and close down enterprises. I do not believe that it makes it impossible to create new enterprises. New enterprises may be formed as a result of growing business work partnerships and small coops, and in the case of such organizations becoming transformed into a self-managing enterprise is easier than becoming a traditional state enterprise. In exceptional cases naturally the government can also set up new big enterprises in which the workers can subsequently also decide whether to undertake self-management or to become cooperatives (see later).

As far as closing down is concerned, the rules of financial reorganization and bankruptcy proceedings can also be applied to self-managing enterprises. What represents a real problem is reorganization (mergers and break-ups): it is more difficult in their case, but this problem is particular not to enterprises with self-management, but those which have any kind of enterprise property (i.e. to places where a significant portion of the capital-proprietory functions are within the realm of the enterprise). It becomes questionable whether it makes any sense to develop any enterprise strategies if the enterprise can be reorganized by a superior authority at any time. Especially since the enterprise's own management would not be in a position to make any decisions about merging with another enterprise or breaking up.

One of the most important arguments is that the workers cannot be prepared well enough to make, let alone form opinions about enterprise business decisions. This argument could be made about all factory democracies. Every experience we have had so far regarding the organization of workers' councils indicate, however, that these organs also give an important role to technicians and other white-collar workers who are capable of proposing clearly defined alternatives and of helping a wider spectrum of workers understand the existing possibilities. The greater danger is that these workers' councils may become overly bureaucratized.

This is closely connected with the counterargument which I consider to be the most important: real self-management probably cannot be ordered from above. Workers' councils can be introduced, but they cannot be allowed to operate as collective organs. Hence, despite all of its advantages it would not be justified to introduce self-management by decree: the use of statutory provisions would only be justified to make it possible for enterprise collectives (both at the smaller and larger enterprises) to decide whether or not to undertake self-management by weighing its positive and negative sides.

Once they succeed in strengthening the independence and inner democracy of our agricultural and industrial producer cooperatives, coops can also become examples of self-management. In view of the fact that in Hungary the cooperative form has received very favorable political reviews while at the same time self-management and the workers' councils have attracted negative associations, there may be a solution whereby the undertaking of self-management would occur by way of transforming state enterprises into cooperatives, virtually giving the membership "socialist custody" over the capital stock placed under their cooperative ownership.

Here I should add: in order for the cooperative form to mean real self-management the differentiation between members and employees must disappear.

To sum it all up: I am arguing in support of enterprise ownership, more precisely, of a self-managing type of enterprise ownership. At the same time, however, I have also called attention to several counterarguments. By also taking these into account I would like to stress: I agree that we need several forms of parallel operations. There is even a question whether it can be "scientifically" defined how broadly these various forms should be applied (at the branch-, plant-, etc., level). In deciding this we need to take into account traditions and the efforts of the individual collectives.

A Few Questions Concerning Market Organization



The entrepreneurial independence and responsibility of our enterprises are based on the assumption that there are market regulations in operation. In order for this to be the case our market organization and enterprise structure must in many respects be different from today's situation. We cannot expect to attain a more effective market organization simply by creating new organizations; we also need state decisions to continue--for now, unfortunately, in the form of a campaign--to change the structure of our existing enterprises in terms of size and profile. We need to examine whether there is justification for continuing to break up our big enterprises, and we must do so no longer so much in industry as in the various areas of the construction industry, trade and services. At the same time--I believe--within certain limits it would be profitable to allow production, marketing and service activities to continue within the enterprises, and it would be expedient for service and perhaps even trade to function as an agent (consignee) of the manufacturer (or importer).

Also worthy of mentioning is another aspect of the relationship between trade and industry. The regulatory system that was in effect between 1968 and 1970 had made our foreign trade enterprises very rich, and they were ready to invest a considerable part of their development funds in the industrial enterprises they were connected with. Subsequently, the development funds of our foreign trade enterprises were "reallocated" to the MNB [Hungarian National Bank] after which they tried to use regulatory changes to prevent this kind of "spontaneity" to occur. Yet, it would appear that this kind of capital outlay by a foreign trade enterprise would be a favorable form of capital reallocation. In the future, therefore, it would be justified not only not to hinder, but to expressly support these kinds of efforts. The points that have been made regarding our "politico-economic starting points" render any objection meaningless that reject the idea of interenterprise capital reallocation and dividend payments on the grounds that it should be distributed according to work.

The question, of course, is whether we will have a similar situation again once the monopoly position of our foreign trade enterprises comes to an end. Contrary to the present situation in which foreign trade licenses are granted on a case-by case basis, just the opposite should be made general principle: in our non-ruble relations anyone who has not been specifically banned from doing so should be able to sell anything abroad that has not been forbidden by law. This does not mean that we would no longer need specialized foreign trade enterprises or even self-account turnover. These forms also have a reason for existence, but the parties involved must recognize this themselves. I believe that the relationship between our industrial and trade enterprises will not be truly good and normal until they themselves decide to cooperate.

(On the mechanism of CEMA relations) I will change the subject for a moment to point out that the foreign trade which is being con-

ducted within the traditional mechanism of the CEMA naturally require unique solutions. The best way out would be to shift to convertible clearance also in our trade with the CEMA countries. This would be a good opportunity to give the forint limited external convertibility: once this is done we could recommend on a bilateral basis that a partial or complete shift be made to using the convertible forint as the as the currency of clearance. In certain markets, assuming that the make-up of our turnover remained unchanged, this would result in considerable losses for us, but then the whole idea behind this is that it would sooner or later bring about a change in the composition of the turnover! Commodities until now imported from the West would cost us less if we bought them from the CEMA countries which have been getting less for them than what we would be willing to pay....

Until this is realized it must be made clear: our CEMA turnover should be isolated from the domestic market not only in financial but also in organizational terms. Under the self-account system the task of conducting contingent trade could come under special foreign trade organizations that would "trade" with their foreign partners at CEMA prices, and at domestic prices with their domestic manufacturers and users. The contingent, of course, would only be binding for the foreign trade organization which would have the task of procuring the commodity base from the domestic producers at the most favorable possible terms as specified in the given interstate agreement, and of marketing the products received from the CEMA partners at the best possible price, not excluding even the possibility of importing or exporting the commodity to or from a third country in order to fulfill the interstate agreement. Financially, these enterprises would operate under the traditional price levelling system, and they would have an interest in establishing the best possible price level balance. Naturally, these organizations would be Hungary's sole representatives in the markets of the various CEMA countries which would be in accordance with the requirements that stem from the mechanisms of our partner countries.

#### Participants in the Money Market

Getting back to the previously interrupted train of thought: the capital-redistribution based relationship that has evolved between our foreign trade and industrial enterprises beyond their commercial ties is one possible way of attaining capital mobility. For the crucial question here appears to be not how to invent new channels, but how to attract owners of money who are willing to put up funds presumably on the basis of profitability considerations. The foreign trade enterprise may be such an owner of income.

Other possible owners of income would include institutions, social organizations and the population. As it is well known, these income owners generate significant savings most of which--although not

exclusively--are strictly temporary. These income owners, at the same time, are hardly ready to invest their savings in risky business ventures. (This is what some planners forget when they claim that allowing small businesses to operate can also have a direct effect on helping to ensure the reflux of popular savings into production.) In order to bridge over this inconsistency money market institutions in the West have developed a network of risk sharing whereby income owners distribute their savings among banks, insurance companies and construction firms, and it is basically these institutions which provide money in different ways to businesses that are directly involved in economy-oriented activities.<sup>13</sup>

In our case it would also appear that giving up these forms of capital reallocation and risk sharing would not be a good idea. Instead of setting up monopolistic banks we need to organize several business banks which would be separate from the central bank, and would also compete among each other. The monopoly position of the OTP [National Savings Bank] could also be ended, and as a first step in this direction the savings cooperatives could, after their release from under OTP control, build a national network that would be in competition with the OTP, and in addition bigger retail chains (such as Centrum and Skala) could also establish their own banks. We should also organize homebuilders' associations or permit the creation of work partnerships that would compete with the home-building and financing function of OTP.

#### The Democratization of State-Controlled Economic Management

Earlier I described the situation which we have inherited from the plan-controlled system as one in which the assertion of economic power is free of all social controls--both from the control of market regulations and from the control of political democracy. Why do we need to mention both?

In pondering over which way we should change our economic mechanism we should obviously be in favor of radically expanding the regulatory role of the market. Modern economies faced with a constantly broadening spectrum of needs and an increasingly more complex system of division of labor cannot function effectively without the extensive application of market controls. At the same time, market controls cannot be allowed to become exclusive. Not just simply because the Walras model of a pure market economy is built on unrealistic abstractions. Nor because this would mean having to abandon the principle and supposed superiority of purposefulness. But rather because of the following.

What does--formally speaking--the term market mean? Strictly defined it means that in economic life the members of society must interact as commodity owners, and only as commodity owners: they are sellers of manpower, entrepreneurs, consumers, creditors, etc. State and bureaucratic intervention is only one of the alternative

means whereby people involved in the economy can interact in a non-commodity owner capacity. Another old form of maintaining non-market relations is trade-union organization. Economies have justly included the trade unions among the monopolies which hinder competition, for they also represent a non-market form of relationship.

Those who are involved in economic life cannot be expected--even in the name of pure economic rationality--to give up the already known or newer forms of non-market based social organization and self-organization. Eastern Europe's state bureaucracies and England's trade unions, for example, have all been the sources of some not exactly favorable experiences, yet neither here nor there have they chosen to shift to exclusively market-controlled regulations. We can try to achieve two things: on the one hand, we need to define the approximately "optimum" ratio of market and non-market relationship forms, and on the other, increasing efforts should be made to ensure that our non-market relations are based not on organization from above, but on social self-organization.

I would like you to recall what I have said about the dual necessity of the reform. Without a doubt one of the contributing factors to "alienation"-type dissatisfaction with the way our economic system operates is that the population is extremely ill-informed regarding the motives and moves behind the economic decisions made at the various levels. Opening up the decision-making process more would help to alleviate this problem. At the same time, popular control, the open definition and discussion of decision alternatives would lessen the likelihood of erroneous decisions, and would also accelerate the correction process in the case of decisions which could not come under market control even if the expected reform is implemented.

First and foremost we need to make a breakthrough in the democratization of decision-making on the national economic level. Regardless how much the substance and character of our national economic plans have changed during the past one and a half decades, propaganda--including statements made by our leading politicians themselves--presents every decision as the only correct decision that could be made under the given circumstances, thus openly rejecting all criticisms directed against it. (A good example of this is Janos Hoos' reaction in TARSADALMI SZEMLE to an article by Rezso Nyers and Marton Tardos: "...this economic development concept does not offer an alternative".<sup>14</sup> In my opinion it is vitally necessary for economic policy questions to be frankly and publicly debated in our professional forums and in the press both before and after the decision has been made.

The economic policy debate must also be taken up by our forums of political authority. We should put an end to the grotesque situation which allows the National Assembly to approve an economic

policy unanimously only to turn around a few years later and pass a significantly different new concept, once again unanimously. This requires our representatives to become aware of, and also to understand the various decision options discussed in open debates, in the press, in professional and political forums (such as the People's Front).

One of the essential preconditions for this to be possible, of course, is to allow public access to data and plans. It would be appropriate, therefore, to rethink Tibor Liska's old recommendation that we should strengthen our TUK [expansion unknown] which for defense, domestic policy or foreign policy reasons cannot be allowed to be made open to the public. There are two principles which should be noted here. One is that the way to improve our international competitiveness is not by keeping information concerning our foreign trade secret, but by way of better management and more rapid technical development. The other principle is that once the assessment and perspectives of our economic relations with the CEMA countries are made the central issue of economic policy thinking, we cannot talk about democratic policies as long as our ties with the CEMA countries remain a taboo. Turnover-related prices, the conditions of agreements, etc., must all be made public.

I believe, furthermore, that we need not wait for a Polish-type crisis to occur before we disclose our balance of domestic payments to the domestic public.

#### City and Village Ownership

In addition to making central decisions on the national economic level more democratic, the democratization of state-controlled economic management also calls for placing regional and local management on new foundations, and for changing the relationship between central and regional units.

The dilemma of plan-directed production management and budget-appropriated resource allocations based on a hierarchic institutional system versus the use of market regulations for coordinating the activities of independent businesses is basically the dilemma of the production sphere, of a set of more narrowly defined economic activities. The centralizing instinct of the plan-directed system, however, has also been felt in the area of local management. In fact, since 1968 this is where it has made itself felt perhaps the most, and this is where the system of centralized funds and central returns has remained the most intact. This is closely connected with the justly questioned principle and practice of primary large-scale settlement development as with the organization of national networks even in those areas of the infrastructure where from a purely technical point of view it would not be self-evident.

Here the change must be aimed at giving financial and decision-making independence to the local councils, and at eliminating the existing practice of income centralization and subsidies. The authority of the local councils should extend only to those network developments which affect a large number of settlements; as for developments required within the individual settlements it would be more expedient for the settlements to use their own revenues directly rather than to request county support. The chief source of enterprise revenues, obviously, is taxes (both enterprise and popular). Cities and villages should be given a greater say in deciding what taxes they want to levy. In this decision the dilemma whether to develop the infrastructure or to give priority to the existing standard of living must be faced all the way down to the local level.

Settlements may create additional sources of investment by issuing communal bonds. Quite typically of our existing conditions, after our central organs had made the decision to issue communal bonds it was the OTP center and the Office of the Council in Budapest that determined which settlements could issue bonds. What a great victory for the principle of local self-management... The issuing of communal bonds must be the exclusive function of the local council.

In the final analysis, the changes which I have only briefly explored here would mean the locally managed state properties would come under village and city--and in exceptional cases, county--ownership.

With respect to the independent management function of the councils it is precisely this, not the definition of specific forms which appears to be the most important issue. It must be clearly seen, furthermore, what the significance of this seemingly peripheral question is in terms of our economic mechanism as a whole. It appears that it would be precisely the establishment of local: village and city self-government that could become a school of self-management in our society which could teach things that members of our society could subsequently also apply elsewhere, in their places of work. Self-management at the work place is a more difficult matter: the alternative of enterprise planning, the technical and especially market relationships are more difficult to understand. While self management and worker interests are closely interlinked in terms of the enterprise's financial performance, the only the latter can fulfill its function is in conjunction with a successful reform of the other elements of our economic mechanism as a whole, namely with the reform of our price and wage system.

The situation is different in the case of popular self-management. Our tasks, objectives and decision alternatives are clear to everyone. Since developments are aimed directly at satisfying local

collective needs, the functioning of the system does not depend on the proper operation of a complicated system of economic regulators (as in the case of enterprise interests). Hence the "only" precondition here for independence to take hold is political determination.

The self-management of settlements may be a good school for self-management in our smaller and larger communities, but it may also be a similarly good school for the central state apparatus to learn self-control: namely, for the central organs to become accustomed to accepting that locally, in local processes things do not always happen according to their own rationality. It would be this kind of self-control which a declaration of village and city ownership would help to "encourage."

Naturally, I am aware of the fact that the group of questions which I have been discussing in the last segment of this article, i.e., the issue of regional management and popular self-government is closely connected with our party organs' role of economic and regional control and with the way this role is performed, just as many of the other questions which I discussed earlier in the article are closely connected with it. Given the limits of the present article I cannot go into examining this connection.

#### FOOTNOTES

1. Certain recent Hungarian instructional materials--such as the textbook of the Specialized University Extension on Marxism-Leninism, or the most recent lecture notes of the University of Economics--make some important concessions here. These concessions, however, have not led to a reconsideration of the entire interpretation. Although the more recent instructional materials present a more realistic picture than before regarding the relationships of the existing planned economy, the lack of proper consistency in their arguments weakens their persuasive power.
2. The train of thought which will follow below has been discussed in greater detail in my lecture entitled, "On the Politico-Economic Interpretation of Eastern European Planned Economies" which appeared in a collection of essays edited by Ivan Major under the title "Economic Policy, Economic Organization (Institute of Economics of the MTA [Hungarian Academy of Sciences], 1982.)
3. Gyorgy Bence, Janos Kis and Gyorgy Markus, "How Is Critical Economics Possible?", Manuscript, 1970-1972.
4. Tamas Bauer, "Planned Economies, Investments, Goals," Economic and Legal Publishers, 1981.

5. Istvan Friss, "Socialism and Commodity Production," MAGYAR FILOZOFIAI SZEMLE, 1968, No4, p 756.
6. Istvan Friss, "Ten Years of Economic Reform," VALOSAG, 1978, No 7.
7. For an extensive review of the article which was published in the 1972, No 3 issue of the Leningrad publication ZVEZDA, see KOZGAZDASAGI SZEMLE, 1972, No 7-8.
8. Ivan Schweitzer, "Some Relationships Between Enterprise Organization and the Economic Mechanism," KOZGAZDASAGI SZEMLE, 1981, No 7-8.
9. Erzsebet Szalai, "The New Period of the Reform Process and the Big Enterprises," VALOSAG, 1982, No 5.
10. Gabor Revesz, "The Income Regulation and Management Problems of Collective Economic Interests," Economic and Legal Publishers, 1973.
11. In the following discussion I will rely on my consultations with Attila K. Sos.
12. Benjamin Ward, "The Firm in Illyria: Market Syndicalism," THE AMERICAN ECONOMIC REVIEW, 1958, No 4.
13. These are the kinds of recommendations that are contained in Gabor Hamvas' article entitled, "Popular Savings and Production Financing (GAZDASAG, 1981, No 2).
14. Janos Hoos, "Efficient Production and Economic Balance," TARSADALMI SZEMLE, 1979, No (?).

9379

CSO: 2500/316



# SOCIAL EFFECTS OF ECONOMIC PROCESSES ANALYZED

Budapest FIGYELO in Hungarian 11 Apr 84 p 10

[Report on the 9-10 April 1984 Conference on Intensive Economic Development and Statistics, sponsored by the Statistics Section of the Hungarian Economic Society]

[Text] On 9-10 April 1984, the Statistics Section of the Hungarian Economic Society sponsored a conference entitled Intensive Economic Development and Statistics. In a plenary session and then in three sections, the conferees discussed timely problems of economics, social policy, and statistical methods. The section on social statistics was devoted mainly to the relationship between social and economic processes in the 1980's, and to their interactions. In the following we are reviewing three of the lectures presented in this section.

As Barnabas Barta, deputy chairman of the Central Statistical Office, pointed out in his lecture, basically economic processes were behind the social development during the past four decades. In the 1960's and 1970's, the economy's structural change was the motive force behind the essentially structural social mobility, in the wake of which manpower migrated from agriculture to industry, and later to the service industries. Naturally, the processes of social re-stratification were partially the causes and partially the effects of the changes in education.

The dynamic economic development of the 1960's and 1970's likewise had significant social consequences. National income, and within it personal income, rose rapidly, causing profound changes in the structure of consumption and the way of life. These changes were intensified by other technical changes (for example, by the spreading ownership of television sets and motor vehicles) and by the shortening of the standard workweek.

## Structural Changes

To understand the present social processes, which unfolded essentially in the 1980's, it is necessary to review also the changes that have occurred in our economy since the end of the 1970's, under the influence of partially world-economic factors, and partially of domestic demographic and economic factors.

A turning point of our economic development was 1976, when the continuous growth of employment over more than three decades switched to a decline. Once the approximately full employment of women was reached, there remained in the 1970's no significant manpower reserves that could readily be tapped. At the same time, ever-smaller age groups were reaching work age, within them the proportion of students continuing their studies at the various levels rose, and thus also the number of youths joining the work force gradually declined. Because of the longer life span, the number and proportion of the elderly rose. And due to the general eligibility for pensions in Hungary, the number of retired persons increased further.

Thus the two-decade-old process of labor's migration from agriculture to other branches, at first mainly to industry and then to the service industries (branches of nonmaterial production), has slowed down and appears to be nearing its end. In the same way, the ratios of skilled, semiskilled and unskilled workers within blue-collar employment, and of blue-collar and white-collar workers within total employment, have approximately become stabilized in recent years.

Another direct effect of the new economic situation has been the slower growth or stagnation of incomes. In this respect it is noteworthy that while the real value of earned income, especially wages, essentially stagnated during the past eight years, the real value of social benefits (including cash social benefits) increased significantly, although at a slowing rate: the annual growth rate of the real value of social benefits was more than 5 percent in the late 1970's, but only 3 percent at the beginning of the 1980's. As a result, the ratio of social benefits within total income rose at the expense of stagnating real wages, and at present social benefits account for more than a third of total income.

Besides the economic background, the speaker noted, education is a factor that significantly influences the social processes and determines them to a certain extent and between certain orders of magnitude. Thus the pertinent investigations show that often education influences the way of life and the use of leisure time more strongly than social stratification or the financial situation does. Although the demographic waves cause in some areas of education stresses that spread further through their ripple effect, we may regard as a fundamental result the fact that 98 percent of the appropriate age groups are attending grade school, 82 percent are studying in some secondary educational institution, and 10 percent are enrolled in higher education. At the same time, mention must be made also of certain stresses and problems that have far-reaching social effects. The fact, for example, that even today 5 percent of the children do not finish grade school causes concern for both educational and social policy. For it can be established unambiguously that school is of basic importance not only in offering knowledge but from the viewpoint of socialization as well.

Influencing the social processes, the deputy chairman emphasized, is not merely a question of money, just as the degree of society's development, its sense of well-being, or the quality of life if you wish, cannot be equated with per capita national income. On the basis of an extensive system of social, economic, health-care, cultural and population index numbers, Professor Estes of the

University of Pennsylvania compared the degree of social development in 107 countries. The most striking feature of his international comparisons is that his ranks and ratios differ significantly from comparisons based solely on economic indicators (national income, net national product). For example, Hungary ranks 19th among the 107 countries, which is much higher than its rank based on national income. I do not claim that the method devised by Estes is unquestionably the best one or the only correct one, but in any event it illustrates also the common experience that factors not strictly economic likewise play an exceptionally important role in our everyday lives. An important task of the social statisticians is to aid in the adoption of the right social-policy decisions by exploring the system of interrelations and action mechanisms of the social processes and phenomena, and pointing out also the opportunities to improve society's sense of well-being at relatively small cost.

Gyorgy Vukovich, department chief of the Central Statistical Office, began his lecture by saying that the changes in the state of social statistics could be characterized by increased tasks and responsibility, and by definite development of methods and of the data base as well. The direction and intensity of the socioeconomic processes in Hungary significantly differ in the 1980's from the 1970's. The main cause of the differences is the recession: on the one hand, it has intensified processes noticed already earlier but partially masked by the living standard's general rise; and on the other, it has generated also new phenomena. Hence it follows that both politics and scientific public opinion are showing growing interest in the social processes.

#### Life-Style and Statistics

Although not always consciously, the population's life-style has long been the subject of social statistics' observations. Population surveys have always been directed toward exploring one or more elements of the life-style, and they have produced several important findings already in the 1960's and 1970's, regarding primarily cultural customs, and the social and stratum characteristics of the use of cultural media. Time budget analysis is an important area of social statistics, in view of its bearing on the life-style, quality of life, and economic factors as well. Such analyses have uncovered several facts that previously were unknown or only partially known, but in any event were undocumented. Thus first of all the fact that in Hungary the amount of time spent working at and outside one's regular place of employment was exceptionally high, much higher than in other countries at the same level of economic development, said Gyorgy Vukovich. Time budget analysis has revealed also exceptionally great differences between social strata in terms of fixed time and leisure time. These differences are much greater than in countries more developed than Hungary. Likewise not indifferent is the fact that the proportion of time spent on social contacts and cultural activities outside the home is small. All this jointly explains the slow rate of cultural transformation that is evident particularly in rural areas and provincial towns. We may attribute partially to time budget analyses also the realization, borne out by other research as well, that the type of locality is the most important characteristic that explains the differences in the living standards and life-styles of both the socially privileged and underprivileged.

Very detailed information is available on the housing situation, an exceptionally important element of the life-style. In the course of processing and analyzing the material of the social-statistical surveys and population censuses, we have been able to follow the changes in the housing situation, its stratum-specific characteristics, the prospects of obtaining housing, and the uneven social chances. Our investigations revealed, among other things, how much time, money and own labor homemaking required of the households belonging to different social strata. The chances of obtaining housing are influenced not only by the type of locality, the possibility of asserting one's interests, and the present housing situation, but also by such conditions--historical ones from the families' viewpoint--as the parents' financial and housing situation at the time of marriage. It appears that the complete elimination of the unevenness of these chances will still take some time.

Mihaly Zafir, deputy chief of a department within the Central Statistical Office, expounded in his lecture on the need to ensure the efficiency of employment in the coming years, parallel with full employment as one of society's basic achievements. It is common knowledge that the right to work has gained acceptance practically as the right to the given job, at relatively low labor productivity, with overemployment and redundancies in many areas. As a result, manpower shortages have become permanent elsewhere: in the service sector, in certain trades and areas, and often even at enterprises able to export. Moreover, simultaneous overmanning and manpower shortages are typical within the same enterprise or plant.

From all this there necessarily stem many problems that undermine efficiency: lax labor discipline, wage equalization, failure to uncover reserves, management's lack of authority, etc. A prerequisite for further progress is to trim the economic organizations of unnecessary workers, letting them find employment where they can be utilized the more efficiently.

#### Wages, Incomes

There must be wage differentiation both within and between enterprises. If the link between enterprise profitability and the possibility of increasing wages --or more accurately, earnings--remains weak, then it will hardly become possible for the more successful enterprises to attract the best workers, through higher remuneration.

Unfolding differentiation between enterprises will of course create problems whose constant intensification will not be desirable. Therefore differentiation cannot be unlimited. For the time being, however, the absence of differentiation is a much greater problem than the hazards that might arise later.

Regarding workers in more or less identical jobs within the same enterprise or plant, there is a substantiated view that a spread of earnings more differentiated than at present is actually unnecessary, and that the spread is similar to ours at the large plants of several Western countries. The problem is that the earnings differentials do not reflect adequately the differences in the quantity, quality and usefulness of the work performed. There should be substantial increases in the earnings of those who are in key positions from the viewpoint of influencing enterprise results. (Engineers, economists and marketing

experts in creative and innovative jobs, outstanding foremen and skilled workers.) All the available experience to date indicates that suitable differentiation cannot be achieved by indirect means: directives, regulations or persuasion.

It is the task of the current work in the process of reforming macroeconomic management to create an environment in which the economic organs will be forced to employ incentives and differentiation. What I would like to call attention to here is that we lack suitable experience regarding the specific modes of stimulation and differentiation, and their feasibility and effectiveness. I regard as an important research tasks the development and investigation of suitable methods, and the generalization of the experience with them, emphasized Mihaly Zafir.

Consistent assertion of the requirements of efficiency and profitability in the economy, and parallel with this the further advancement of our social-policy achievements are mutually dependent tasks, and one cannot be solved without the other. More efficient production must provide the prerequisites for us to maintain and reinforce our social achievements in employment, social insurance and family policy, and to develop them further in accordance with our proven practice. On the other hand, differentiation and efficient employment would not be possible without their social-policy prerequisites.

Another important research task is to explore the causes of disadvantageous situations, and the processes by which they arise and are reproduced, and also to study, and provide information about, the magnitude and trends of undesirable phenomena. It is now a generally recognized truth, said the speaker among other things, that even under such an extensive system of social insurance as ours there are and will be many individuals and families in need of assistance, due to illness, personal tragedies or other losses. But research into how, with whose cooperation, in what organizational forms and from what financial resources we can alleviate their problems is still in its initial stage.

1014

CSO: 2500/340

# INCREASING INTEREST IN STOCKS, BONDS NOTED

Budapest NEPSZABADSAG in Hungarian 16 May 84 p 10

[Article by Katalin Bossanyi: "Upswing in Securities Business"]

[Excerpt] Little Drops Make an Ocean

It appears that the most lively interest has been shown for bond issue and quotations in the cooperative sector. We are dealing here with the participation in investment of small but mobile savings. To increase the development sources of the afesztes [General Consumer and Marketing Cooperatives] and the agricultural producer cooperatives in the coordination of SZOVOSZ [National Federation of Cooperatives] and in the conduct of the savings cooperatives, 12 bonds were issued in 1983 for a total of 75 million forints in value. The most frequent solution is that the savings cooperatives of a given area will buy up the bonds issued by the afesztes. The first one was issued in June of last year, and the Repcelak AFESZ desired to borrow for this purpose 5 million forints from the Vas megye savings cooperatives. With the money, on the basis of a cooperative contract signed with an Austrian firm, they have already started to build a plant for the bottling of local medicinal water.

We need to speak specially of the bonds issued by the tsz's [agricultural producer cooperatives]. The Nagyred vineyard producer cooperative undertook the role of the initiator. Originally, it intended to issue target-oriented stock among the membership for the 10 million forint modernization of the wine-bottling plant. But on the advice of SZOVOSZ it decided on the bond form of issue because in this way anyone, even outside the membership, who saw good business in an investment that paid 9 percent interest and matured in 5 years could participate in the advance financing of the development. These bonds were very quickly bought up, which again shows that the dual incentive--namely, in addition to the interest payments the local vine-growers saw in this way the purchase and processing of their products as assured--strengthens the disposition for bond purchases.

But it was first experiences with the issue and quotation of cooperative bonds that called attention to the fact that there are still many open questions about this new form of capital circulation. For example, it occurred that in certain areas the management tried to persuade the savings

cooperative to loan capital exclusively for local goals, and not to buy, let us say, the bonds that would promote investments of the afesz in the neighboring megye. Although the intentions were understandable, we must not embark on this course. One of the rational considerations for bond quotation is to have money put where the best interest is paid. The limitation of capital circulation by area on sub-branch would exclude such national competition for interest.

#### Why a Lack of Interest?

This problem also points to the more comprehensive tensions and the unclarified matters related to investment possibilities. It is evident that those bonds were the first to be bought up which were issued by organizations that represented for the buyers, from the viewpoint of their size and activity, a great deal of stability, or a kind of state guarantee by virtue of the supporting bank organizations. For liquidity or confidence reasons only a single preplanned security issue has been a failure thus far: the concrete-tile bond issue of the Brick and Tile Trust. Fortunately, there will be no demand for this security, as became evident during the preparatory work.

On the other hand, the inclination to issue or quote bonds is much weaker in industry, chiefly among the large enterprises. Those concerned found the causes in the contradictions of the economic environment. For example, in the fact that the free development funds are extremely small and it is still much better to put money into machinery, manpower or material rather than join in any form of capital circulation. Looking at it from the enterprise point of view, the financial stability of management is lacking because of frequent changes in regulations and the incalculable extent of withdrawals. The lack of confidence in the new forms of capital circulation is also increased because the thinking of the highest authorities and the guiding organs may be mingled in some cases with business points of view. For example, in trying to bring order to the situation of low-profitability enterprises, they may make bond quotations mandatory in an attempt to give incentive to the organization concerned not to expand its own unprofitable activity but promote the implementation of economic investments in other areas of the national economy. The goal is a clear one and its realization is economically desirable, but the mode of solution is debatable. We ought to speed up capital regrouping among economic organizations not by way of punishment but as a direct economic interest.

Despite the above-mentioned problems, the economic organizations have recognized today the new business possibilities latent in bond issuance and quotations, and would gladly make sacrifices in the hope of greater profit tomorrow. They show this primarily by increasing the interest conditions which are favorable from the point of view of the buyers of the bond issues. But if bonds are issued in conjunction with banking institutions, the banks limit the upper interest level. Therefore, a perceptible effort is being made to have the economic organizations themselves issue the bonds, and to ask the banks only for carrying out

the tasks of collaboration and processing. The process is a two-edged blade. Its positive effect is that in this way competition can develop and capital circulation among enterprises may accelerate. But because of economic and investment uncertainties, it also carries the latent danger of a kind of interest inflation. Moreover, since according to the basic decree the economic organizations are not required to report their intention to issue bonds, the guiding organs in time will not be able to follow the direction and extent of money movements as the various kinds of securities multiply. The development of a securities market is also hindered at present by orientation and information shortcomings. For example, how can one learn how many bonds are in circulation at present, whether it is possible to buy any of them, and where they can be purchased? We could go on adding to the list of questions. But the answer would be the same: exclusively from newspapers. Because from time to time the report the new undertakings for current news value. But as bond issues multiply, we cannot continue to follow this course. Since the strengthening of the role of the state controlled and regulated market is one of our economic political goals, we should give thought in ample time as to what institutionalized frameworks are needed to follow and control inter-enterprise capital circulation. In any event, it would be necessary to have a new kind of service to supplement bank activities. All the more so because fortunately the decree for regulating bond issuance and trade did not invest individual banks with this right. Thus there is no question of the development of new monopolies. It is more a question of whether some kind of competition in this activity could develop among the banks or the various innovation funds authorized with financing or money handling rights, deposit associations and joint undertakings.

#### New Bank Services

In the exercise of bank services requiring such characteristic professional services, the AFB (State Development Bank) is in the forefront. In addition to joint issues, it also undertakes trade tasks in the case of a given new bond. For example, it assumes the preparatory problems--bond planning, production and storage--from the organization which issues the security. It helps in advertising, and accepts by way of commission the task of protecting bonds already sold. In addition, as needed, it brings the partners together and creates the organized ways and means for trading the bonds. It has already happened that an enterprise which found itself in suddenly straightened circumstances wanted to sell a bond, but it regarded the bank as a more rational and reliable channel than a newspaper advertisement. The AFB, in fact, can also buy bonds on the market at its own risk. All these things are being done by the AFB in an experimental way, and with professional zeal rather than from business considerations since the one and one-half percent handling fee does not promise enduring interest in the work. Thus with the upswing in the securities business, this question also--among many others--awaits clarification.



## HUNGARY

### UTILIZATION OF WORLD BANK LOANS NOTED

Budapest HETI VILAGGAZDASAG in Hungarian No 17, 28 Apr 84 p 11

[Article, no author given: "The Hungarian Connection"]

[Text] In early April this year Hungary received two new World Bank loans: according to the terms of one of the loan agreements the Hungarian National Bank [MNB] is receiving a \$110 million loan for financing industrial export development and structure modification investments, while the National Petroleum and Gas Industry Trust [OKGT] receives a \$90 million loan to spend on improving the domestic hydrocarbon exploration, deep drilling, and petroleum and natural gas production. These were preceded last July by two other World Bank loans. The money institution opened a \$109 million credit account for Hungary for the implementation of the energy rationalization program, and one for \$130.4 million to finance the intensive grain production and storage program. These were joined in September by two so-called joint financing loans for the total sum of \$270 million which the World Bank and a number of private Western banks together extended to the MNB. The purpose of joint financing was that while the World Bank loan covers the import costs of the developments in question, the capital of a broad circle of private Western banks would also be involved in providing credit for a portion of the domestic expenditures.

Hungary has been a member of the World Bank since 7 July 1982. In terms of the bank's basic principles the member countries themselves are its owners. At the time of joining the size of the base capital to be pledged by it [Hungary] was set at \$246 million; one percent of this, or \$2.46 million had to be deposited in dollars, and 9 percent had to be deposited in a forint account maintained at the Hungarian National Bank. In accordance with the general practice the Hungarian government merely accepted a payment obligation for the remaining 90 percent. The country is entitled to receive loans because according to statistics prepared with the World Bank's calculation methods the per capita gross national product (GNP) in Hungary was about \$2,100 at 1980 prices.

Where there are no obstacles to this, the World Bank requires the party receiving the loan to announce open international bidding for the goods to be purchased, so that by this the feasible suppliers of the member countries would theoretically be given equal chance. Competitive bidding for the first time

was announced in Hungary last year among bidders of agricultural machinery needed for the intensive grain production program, then the result was announced: contracts for the total value of \$57 million were entered into at this time with the winning firms. Within the energy rationalization program so far envelopes containing bids were opened in 15 topics. One of the most significant among these was the one announced last year for coal washers, classifiers and briquet production equipment to be established next to the various coal mines, for a total of \$7-8 million. The bids for technical preparation of the so-called viscosity breakdown investment of the Danubian Petroleum Industry Enterprise were also released last year. The most significant one of this year's competitive bids is the one which wants to replace the oil fired furnace at the Almasfuzito Alumina Plant with a coal fired one. Bids were accepted for this and for purchase of the turbine as a part of this, in the total value of \$10-12 million.

Most recently the envelopes were opened in mid-April containing bids which arrived for grain storage metal silos and for conveyor systems for them, again as part of the grain program. The AGROTEK [Agricultural Technology Enterprise] announced the invitation for bids in February: at that time 103 enterprises--14 Hungarian ones among them--purchased for \$250, or 10,000 forints, the two-volume documentation which is indispensable for the calculations. Bids were received from a total of 19 foreign and 6 Hungarian firms, including American, Canadian, Japanese, West German, French, Swedish, Danish, Finnish, Spanish, Italian, Austrian and Yugoslavian enterprises, while the domestic ones were the MEZOGEP [Agricultural Machinery Supply Enterprise] of Kecskemet, the KOMPLEX [Export-Import Enterprise for Factory Equipment], the ELGEP-Intercooperation duo [respectively: Food Industry Machine Factory and Assembly Enterprise, and Company for the Development of Trade], the Borsodnadasd Sheet Factory, the Metritechnik and the EPBER [Building Equipment Enterprise].

Evaluation of the bids will probably be completed by the middle of May. The Agrotek will invite the experts of AGROBER [Agricultural Equipment Supply Enterprise] to also participate in this. After approval by the World Bank the Agrotek can enter into the supply contracts with the winning firms. The suppliers will have to deliver the completed facilities by the end of 1985, through which beginning with 1986 grain storage facilities with 176,000 ton capacity will be available which can also be used for export purposes.

At the present time Hungarian experts are working on four additional development programs in which the World Bank may join with its loans.

8584

CSO: 2500/337

## HUNGARY

### BANK OFFICIAL DISCUSSES CONFISCATION OF DEVELOPMENT FUNDS

Budapest MAGYAR HIRLAP in Hungarian 22 May 84 [no page given]

[Interview with Dr Gyozo Kazinczy, head of the Hungarian National Bank's development department]

[Text] Economics is a strange thing. Sometimes it behaves like a disobedient horse, refusing to obey the rein, wanting to pull in the opposite direction. With a stronger tug it temporarily gets on the right path, only to go off in the other direction again. This is the situation in our country regarding the regulation of investment purchasing power. For decades the professional articles and official directives have been accumulating, but we have still not succeeded in restraining the overheated construction-purchasing urge of investment in the cycles of the five-year plans.

The government carried out tough policies last year. The situation appeared to have improved due to those actions; however, firms are unsure about the future and try to spend all of their money. The solution to this check-mate problem will be hard to find. Before new arrangements are made we have to reevaluate the feasible methods of control, taking justified and unjustified fears into account. We talked to Dr Gyozo Kazinczy, head of the HNB's development department, about these problems.

Question: Last year enterprises took 13 percent, now 22 percent of their development fund as a one time deduction, and paid it to the state budget.

Answer: The current arrangements are based upon the very influential economic decisions of the past. As is well-known, one of the key issues of the 1973 move to a growth path was the restraint of investment. The moderation applied to state-financed investments as well as investments in the enterprise sector. At the same time, the enterprises earned more and more income with each passing year, and the level of amortization rose. But during this time the burden of taxes and development funds did not rise. In this situation, the surplus money had to be siphoned off anyway.

Question: But why with central interference? This contradicts the publicized basic principles of the guidance system, that is, indirect control.

Answer: In theory we can choose many answers, but in practice there are but two solutions. One is an increase in income taxes. But changes were expected in this area due to the further development of the guidance mechanism, a fact that argues against this idea. A tax increase would cause more transitional problems. The remaining solution is centralized withdrawal of funds. It was undisputably exceptionally high, but if we think about it, this much money could not have been withdrawn through the conventional methods of purchasing power control. Secondly, in support of the centralized withdrawals, it is very difficult to examine the developmental plans of each enterprise individually, and then decide upon their investments. In my opinion, such a solution would have insulted the independence of enterprises more than the centralized deductions.

Question: The usefulness of the measures to the economy is obvious. But the large-scale deductions are causing a serious concern in the lives of the firms. Many cannot afford their planned investments from their tapped investment funds.

Answer: Due to the arrangements, the enterprises had to reexamine their development plans to date, and they were forced to delay many investments. This pressure, however, routes managers in the right direction. In the Hungarian economy there is a lot of fixed capital, but it is not being used in the proper manner. In a tight situation enterprises finally begin to economize with their existing machinery, and achieve their goals with a better utilization of their capacity. I hope that more and more firms will work out an appropriate wage policy.

Question: They are struggling in vain with the mentioned methods if they cannot pay off their previous credits this year. They will have no choice but to request the rescheduling of their credits.

Answer: The prolongation of loans plays an undoubtedly important role in settling the business of firms in bad financial condition. This, however, is only a solution if the financial problem of the firm is transitional, and in the following years they pay back their credits regularly. This constrains the opportunity for the bank to extend credit. It is by that amount less that the bank can loan money to the others. Due to just this, we examine requests very circumspectly. In the majority of the cases, the enterprises get in trouble not due to centralized arrangements, but due to errors resulting from the realization of investments.

Question: If an enterprise does not pay, the bank can auction off its machinery and equipment. However, this has not happened yet....

Answer: Really, based upon the loan contract, we could extract our money in that way. If we auction off an enterprise's wealth, then in certain cases this does more damage than good. Just think if we took all of your money, and some of your machinery as repayment of your loan. Then you cannot buy raw materials, production drops and the income of workers falls. Finally they leave the firm and it goes bankrupt in the end. There could be and are such situations when we have to accept these consequences. This is because the damage done by bankruptcy is still smaller than the damage done by keeping the firm running. But the decision has to be very well thought out.

Question: From your comments it seems as though banks were humanitarian institutions. Yet, even you have pressured your debtors by executing the unpopular measures which some people blame exclusively on the bank. If an investment brings in more than expected, or if the firm's financial situation happens to improve, the financial institution calls for the repayment of the debt ahead of schedule.

Answer: At the time the contract is signed, we reserve the right to accelerate the repayment of the loan, so we have not broken the rules. When we sign a loan contract, we determine and examine with the firm its future financial possibilities, and then determine the length of the repayment period. If its financial situation turns out to be significantly better than this, then again working with the firm, we decide upon the extraordinary repayment of the loan. But it is also possible that we agree with the firm that it will use its surplus resources to reinvest in new equipment, so for this we provide them with less credit. The other side of the issue is that the bank's extension of credit, as I mentioned, is influenced by the development of the repayments. When we ask for our money back ahead of schedule, on the other hand, more money is available for the extension of new credits. By the way, the enterprises pay an annual interest rate of 13-14 percent on their obligations, so faster repayment of principal is not a disadvantage to them either.

Question: Is it expected in the near future that newer centralized arrangements will tap into the development funds?

Answer: The maintenance of a planned level of purchasing power is a continuing mission. But I think you are referring to the methods primarily. In the process of the further development of the guidance system, we seek those elements, which would make centralized arrangements more predictable.

CSO: 2500/374

## CONSEQUENCES OF 1983 DROUGHT ASSESSED

Budapest FIGYELO in Hungarian 5 Apr 84 p 13

[Text] The final accounts of 1983 have been closed in the large agricultural enterprises. During mid-summer, there was much anxiety about replacing the products and incomes lost because of the prolonged drought. In August, heavy losses in plant production were forecast which have, luckily, only in part come through.

### 1.3 Billion Forint Losses

Grain production was 8 percent below that of the peak year of 1981. The average and total yields of industrial plants, such as sugar beets, was also decreased. Vegetable and fruit production was also lower than estimated in the plan. At the same time, in animal raising, the swine raising branch increased its output by about 7 percent and the cattle branch also produced at last year's level.

The 1983 profit of the large agricultural enterprises was 23 billion forints, 6 percent below projections and about 14 percent below the 1982 level. Within this figure, the profit of agricultural cooperatives fell to a greater extent while that of the state enterprises was only about 4 percent below the 1982 profits. The growth in agricultural activities aimed at serving industry, which exceeded 10 percent also in the past year, similarly played a role in the relatively favorable profit level under the circumstances, and it contributed to an increasing measure to the growth in net profits.

Thus the global balance is better than it was calculated in August but, unfortunately, the lack of financial resources is also considerably greater than in previous years. In the balance, the losses of the large agricultural cooperatives amount to 1.3 billion forints; in addition, the shortage in funds--mostly developmental funds--amounts to nearly 1 billion forints. Sixty percent of these shortages are particularly concentrated in the enterprises of the lowland Megyes hit by the drought, that is, in Csongrad, Szolnok, Bekes and in some parts of Bacs-Kiskun. Forty percent of the enterprises short on funds had great difficulties in earlier years; in general they are located in areas having unfavorable farming conditions, lesser professional preparation, and also struggling with individual problems such as the Bihar region of Szabolcs, Borsod and Hajdu Megyes where the production and financial problems were merely made more severe by the lack of precipitation.

### The Budgetary Support Fund Also Got Involved

The settlement of the losses of these enterprises by ordinance was done in late March and early April of 1984, and the losses caused by the drought are being largely replaced from budgetary support. In the mostly unfavorably endowed regions of Szabolcs Megye, the production structure developed earlier is the basic cause of the financial problems; these include the disproportionately large number of apple orchards or rather the difficulties of marketing apple and the lack of infrastructure. More than one-third of the Megye's cooperatives closed with financial deficits and the total financial deficit approaches the amount of profits. These data indicate that, in Szabolcs-Szatmar Megye, well-tuned central and enterprisal measures are needed to bring about lasting changes in the economic situation.

The drought affected those megyes most where settlement of losses was rare in the previous year and a scarcity of funds arose in those enterprises which, in general, had rather large fodder supplies and financial reserves. Thus, at most half of the financial deficits appearing in the balance have to be covered by the state budget. Even several large enterprises--managed at high production and income levels previously--failed to receive direct state support; these used up their reserves to replace the losses caused by drought. Of course, here also, the consequences must be reckoned with because by using up their reserves, the financial situation of the enterprises is expected to become less secure in the coming years.

According to the now final data, in 1983 there were 51 large agricultural enterprises where the production value of plant production decreased by more than 20 percent compared with the previous 3 year's averages and they could not make up their monetary deficits from their own reserves. In these enterprises, a so-called simplified procedure was used to make up cash deficits which meant that, after drawing on the reserve funds, they were given an allowance of nearly 400 million forints for replacing losses associated with the drought, and the usual investigations and individual sanctions were waived. These agricultural cooperatives, because of the very extensive decrease in the developmental fund of precisely the profitable branch which was also accompanied, in many places, by a scarcity of developmental funds at the expense of frozen financial assets, were given coverage through credits from the Mutual Support Fund of the cooperatives.

An uninterrupted money management and the adequate financing of the 1984 production were aided by financial measures involving lowering or waiving the land tax of the enterprises afflicted by drought and the use of reserve funds to finance the interests on short-term loans.

### Land Tax Discounts

The discounts on land taxes, because of the drought, exceeded 200 million forints. It must be considered that some of the damages and cost increases occurring in these regions will also have their effect felt in the 1984 management of these enterprises in part because of higher feed expenditures and in part because of the lost resources and decreased financial reserves. According to calculations by the Ministry of Finance, in the three megyes

strongly hit by drought (Csongrad, Bekes and Szabolcs), compared with previous years, the increase in reserve value (production costs in the narrow sense) contain an excess of 3-400 forints which, in reality, are not backed by a crop or product. In plain words, the listed, nominal value of largely silo corn is higher by this much. It is nominal only because the value increase is not backed by the inner content.

These problems are mitigated by the measure which enables the enterprises to write off the high production cost feeds in storage so that they will not burden the revolving fund.

The differentiation of the 1983 farming results is demonstrated by the fact that, while in the drought stricken megyes of the Plain mentioned, profits decreased by as much as 30-50 percent--for instance, the agricultural cooperatives of Csongrad Megye realized only 585 million forints in profit compared with the 1 billion forints in 1982--there was a significant increase in profits up to 10-20 percent in Baranya, Tolna and Nograd Megyes, and the high profit levels of the previous year could be essentially maintained by the enterprises in Heves, Hajdu-Bihar and Győr-Sopron Megyes.

This year's financial results will have an effect primarily on the 1985 farm production and, within it, especially on investment activity. Nevertheless, neither can a survey of the extent of last year's investments be immaterial from the viewpoint of production development.

#### Lower Than Necessary

With the increased proportion of their own resources, the 1983 investments by the large agricultural enterprises have exceeded the projections and thereby new production capacities were created. Within the investments, there was a slight decrease in the proportion of machine investments. The developmental fund built from the 1983 yields is about 20 percent lower than in the year before; at the same time, the enterprises used up 7-800 million forints more from the reserve and security funds. Of this, the amounts put into the new type of voluntary reserve fund can also be used for developmental goals.

Taking into account also the new amortization, it can be considered probable that agricultural investments envisaged in the 1984 national economic plan can be realized in a nominal value but, with the increasing investment, supply and machine prices, this represents in practice a smaller increase in fixed assets than in previous years. It must be considered that the 1984 investment possibilities are not sufficient for a more significant technical and technological renewal or technical advancement. Maintenance and improvement of the level of mechanization, and modernization and equipment of the existing capacities--above all the accommodations for animals--more widespread use of material and energy saving technologies and, in tune with it, cost savings are being stressed.

In the large agricultural enterprises, earnings have been close to the planned level on the average. Earnings are 3.5-4 percent above last year's level. There was a conspicuous decrease in the end-of-year bonus shares and, in some of the enterprises stricken by the drought, there was a saving in wages which



can be used in 1984. The number of workers decreased by about 0.7 percent in state farming enterprises and there was a minimal increase by 0.1 percent of them in the agricultural cooperatives but the number of workers employed in basic activities decreased by 2 percent in the large enterprises.

It is particularly important that the 1983 financial results jointly with the measures taken should provide conditions which can serve as the basis for the 1984 agricultural production and they should contribute, both from the material and technical aspect, to the realization of the tasks faced by agriculture--the production of 15 million tons of grain among them.

2473

CSO: 2500/343

## HUNGARY

### BRIEFS

NEW ECONOMIC POLICE FORCE--The organization of economic surveillance has begun at Budapest Police Headquarters. The Interior Ministry set up the economic surveillance unit in order to more effectively discover the following economic crimes: price hikes, profiteering, corruption, consumer fraud, and speculation. Here in Hungary the number of known cases of corruption almost doubled since 1980. In 1980, 506, and last year 970 such crimes induced the start of legal proceedings. In that period, the number of profiteering cases known to the authorities increased from 515 to 955. Between 1945 and 1955 there already was an economic police unit within the structure of the police force. After the war they first of all operated against smuggling, then in the fifties against black marketeers in the vital subsistence sector. The new economic police are primarily meant for the capital, but if need be, they will expand to the outlying regions. [Text] [Budapest NETI VILAGGAZDASAG in Hungarian 26 May 84 p 8]

CSO: 2500/375

COLUMNIST HIGHLIGHTS IMF REPORT ON ECONOMY

Warsaw ZYCIE WARSZAWY in Polish 9 May 84 p 5

[Article by Karol Szyndzielorz]

[Text] One large Wall Street firm has devised an excellent way of advertizing its competence. A film shows the firm's employees in a lift, in an airport lounge or dining with customers. When they speak, silence falls around. Everyone--lift attendants, waiters, stewards, fellow passengers and those who happen to be near--prick up their ears in the hope of hearing something about a good way of investing their money or expected changes in stock exchange quotations. The firm, indeed one of the largest and most in the know, says modestly: When we speak, others listen.

The International Monetary Fund has no such ambitions. I have never seen IMF advertisements, its directors are not filmed and no legends about its capacities are in circulation. In Washington, one can get the impression that the IMF's presence is felt most when no one is demanding urgent answers to difficult questions. So the IMF's Annual Report on the state of the economy attracts universal interest. Last year's report had 242 pages densely packed with print, the one published this year is somewhat shorter--222 pages. It reached Warsaw one day before the official publication date (8 May, 6 o'clock Washington time). The report is not the work of one author, which is understandable considering the immense volume of information on IMF member states' economies which it contains. A month ago, IMF directors conducted two discussions on the report, so it may be assumed that they share the opinions presented in it.

In its general section, the report says: "Although it is still plagued by many problems, the world economy made a definite recovery in 1983. Production growth, which was in general decline from 1979, came to a nearly total stand-still in 1982. Last year, there was growth of 2 percent. Inflation of consumer goods' prices in industrial countries, which amounted to nearly 12 percent in 1980, fell below 5 percent for the first time in 10 years. Also the balances of payments of the developing countries which do not have oil and were severely affected by oil price rises, very dear money and the world recession have returned to a more normal state."

The fund makes no secret of the fact that the world economy still faces many problems. According to the IMF, sufficient economic growth is taking place in

only a few countries, whereas the others are extricating themselves slowly from recession. The level of unemployment is extremely high (in comparison with earlier periods) and is still rising in some countries. Budgetary deficits persist, which obviously gives rise to concern and keeps interest rates on loans at a high level. Problems with debt servicing and balance of payments are widespread, especially in the developing countries. The fund does not expect them to disappear soon. However, it is of the opinion that the progress achieved in 1983 will make it easier to find proper solutions.

Five chapters of the report deal with general trends in the world economy, and with the overcoming of recession in the industrial countries, prospects for growth and changes in the developing countries, the world debt situation problems with balances of payments, and currency exchange rates and the effects of policies upon them.

Tables enclosed with the report show that Poland's problems are not exceptional. Due to unbalanced payments, the developing countries which do not have oil had to make serious cuts in purchases abroad. While in 1981 they spent \$109 billion on imports, in 1982 the relevant expenditure fell to \$82 billion and last year, to a mere \$56 billion. The situation of oil exporters has changed, too. While in 1980 they had a surplus of \$111 billion, in 1982 they ran a current deficit of \$12 billion, and in 1983, of \$16 billion. This deficit, which may be considered astonishing, will be reduced to \$8 billion in 1984 and is likely to remain at the same level in 1985.

The avalanche in the growth of debt is understandably a source of concern. The debt of the developing countries which do not have oil grew five-fold from 1973 until 1983. It reached \$669 billion last year and should rise to \$711 billion in 1984. The fund hopes that it will be possible to reduce this debt in the second half of the 1980's. However, this is contingent on improving the situation in world trade (better terms of trade for the developing countries) and the success of efforts made in creditor countries to restore a balance between budgetary revenues and expenditures and in carrying out structural changes in their economies.

The report also analyses the economies of the countries which are not yet IMF members. Of the socialist countries, Hungary and Romania are IMF members. In November 1981, Poland expressed its readiness to join the fund again, which it left 30 years ago. The report indicates the causes of the declining growth rates in the CMEA member states, pointing to problems in agriculture and the influence of worse business conditions in the world on plans and production. The report recalls that a substantial part of projects in the 1970's were financed from international monetary credits. The servicing of these debts takes up an increasing part of the hard-currency export revenues of the debtor countries. The IMF estimates the hard currency debt of six socialist countries (Bulgaria, Czechoslovakia, East Germany, Hungary, Poland and Romania) at \$60 billion. This is 10 times as much as their total debt in 1970 and twice as much as their total revenues from exports to the convertible currency zone. Short-term credits constitute about a quarter of these countries' total foreign debt, which has naturally aggravated the consequences of world recession and dearer money.

"As payments problems appeared in Poland," the authors of the report write, "pressure emerged on other countries of this region, starting with Romania, and in early 1982 all sources of new financial credits for Eastern European countries dried up. Some countries were also affected by foreign depositors withdrawing substantial sums." The Soviet Union was not beset by such problems, as it maintained a surplus in its hard-currency balance of payments. Soviet production was not hampered by external factors and there were no cuts on investments. The Soviet Union drew credits on a very modest scale.

Bad conditions on world markets and deteriorating terms of trade forced the above mentioned six countries to try and reduce their balance of payments deficits by cutting down on imports, especially from convertible currency markets. According to the IMF, there are major differences between individual countries' trade policies. Cuts in imports have been smallest in Bulgaria and Hungary, as their export performance was good, whereas they were most drastic in Poland and Romania (25 percent and over 30 percent, respectively). On the other hand, socialist countries' imports from other socialist countries rose from 60 percent to 65 percent of their total imports.

As the IMF was set up soon after the end of World War II to look after the balance of international payments, it is worth quoting the IMF report's conclusions from information submitted by UN agencies and the governments of Hungary, Poland and Romania: "The main feature of the economic situation in those East European countries which have run into considerable debt is a restriction of imports and consequently also of domestic expenditures in view of the need to service debts and therefore to increase exports." It is expected that these countries' exports growth will total 5 percent this year, which is the same as in 1983. The report pointed to the rapid speeding up of Polish exports and the still open problem of rescheduling credits from state banks or those guaranteed by governments.

The IMF is not a charitable institution or a fund for loans and aid. IMF economists measure the pulse of the world economy to eliminate surprises. And when they speak, the world listens.

CSO: 2600/992

ROMANIA

DECREE ON IMPROVEMENT OF CONSTRUCTION ACTIVITY ABROAD

Bucharest BULETINUL OFICIAL in Romanian No 34, Part I, 19 Apr 84 pp 1-3

[Decree of the Council of State on Improvement of the Organization of Units With Activity of Construction-Assembly Abroad, for Taking Over the Execution of Contracting Projects]

[Text] The Council of State of the Socialist Republic of Romania hereby decrees:

Chapter I. General Provisions

Article 1. On the date of 1 June 1984, all units with activity of construction-assembly abroad shall be restructured, for execution of work under the overall contract system, by their transfer to contracting.

The basic unit in the activity of construction-assembly abroad is the complex contracting brigade. In case of strictly specialized work specialized brigades may also be organized.

Contracting units shall be set up for coordination of several brigades that execute projects in a particular territorial zone or for completion of some projects with a greater volume of work and special technical complexity.

The function of general contractor shall be fulfilled by the foreign trade unit which, according to its object of activity specified by law, contracts for and completes construction-assembly projects abroad.

Article 2. The complex brigade or the specialized brigade shall be organized for the full execution of one or several projects or parts of projects, according to the volume and degree of complexity of the work contracted for, shall be made up of differently specialized workers, foremen, technicians, engineers, assistant engineers and other personnel, according to the manpower contracted for under the overall contract system, and shall be headed by the

contractor -- brigade leader. In forming the brigade it shall be planned to include polyqualified workers, with related skills, capable of completing as many as possible categories of operations.

The brigade is responsible for full execution of projects, on work contracted, for schedule, for their quality, for the sensible utilization of the work force, for full use of the work time, for compliance with consumption rates in terms of materials and energy, for maintenance and repairs of the equipment received, throughout the set utilization period, and for completion of construction site organization projects under strictly cost-effective conditions.

As for completion of minor and dispersed operations, where organization of brigades is not justified, these shall be taken over on contract, under the overall contract system, by teams headed by foremen, technicians, assistant engineers or engineers, as the case may be.

Article 3. Contracting abroad shall be organized in light of the volume of work and the complexity of the projects involved, within the limits of manpower levels specified under the law, as a unit without legal entity, subordinate to the domestic foreign trade unit with activity of construction-assembly abroad.

The contracting shall be established for limited periods for completion in the same geographical zone of one or several contracts by the Department for Construction Abroad or, as the case may be, by the ministry that coordinates the domestic foreign trade unit with duties regarding the execution of construction-assembly work abroad, with the agreement of the Department for Construction Abroad.

Article 4. The contracting unit abroad and the domestic foreign trade unit with activity of construction-assembly abroad are responsible for promotion of export of Romanian designs, materials, facilities and other products, for tailoring of designs to the site, working out the detail drawings or smaller complexity designs, design of specific construction techniques, ensuring of technical-material supply, preparation and production of semifabricated items, and for the management of the equipment and the fixed assets that are used by all the subordinate brigades.

Moreover, the units specified in the previous paragraph are required to take measures for integration of use of materials and energy into the rates set, control of the quality of projects completed, attainment of the technical-economic indicators set under the plan, contracting for and clearing of projects, continuous increase in labor productivity.

In the event that establishment of a contracting unit abroad is not justified, its assignments shall be completed by the brigade.

The personnel of the contracting unit and brigades shall, as a rule, be recruited from the same domestic construction unit.

Article 5. The complex brigade, the specialized brigade, the contracting unit and the domestic foreign trade unit with activity of construction-assembly abroad shall be organized and operate upon the principle of worker self-administration and economic-financial and foreign currency self-management, based on income and expenditure budgets.

The units specified in the previous paragraph shall finance their activity from foreign currency payments specified in foreign contracts, substantiated on the basis of the estimates for the various projects, ensuring the obtaining of the planned foreign currency intake.

## Chapter II. Organization of Units

Article 6. The complex or specialized brigades, the construction-assembly units, including the drilling field type, shall be organized by the foreign trade units with activity of construction-assembly abroad, specified under the law, based on the organizational charts provided in appendixes No 1 a\*)-b\*) and No 2 a\*)-b\*).

Article 7. Approved are the organizational charts of the following units with activity of construction-assembly abroad:

- a) Bucharest "Rompetrol," an enterprise for economic cooperation with foreign countries in the area of petroleum and gas, in compliance with Appendix No 3\*);
- b) Bucharest "Romelectro," in compliance with Appendix No 4\*);
- c) Bucharest "Contransimex," in compliance with Appendix No 5\*);
- d) Bucharest "Geomin," an enterprise for economic cooperation with foreign countries in the area of mining industry and geology, in compliance with Appendix No 6\*).

The object of activity of the units specified in the previous paragraph is the one established under the law. According to this object, the units involved shall take over the assets and liabilities, plan indicators, posts and contracts in the process of execution from the units that are now completing the corresponding operations, on the basis of a protocol approved by the economic ministries that coordinate them.

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\*) The appendixes shall be forwarded to the parties concerned.



The provisions of structural norms approved for foreign trade enterprises shall be applied to the units specified under (a)-(d).

The grades of organization of units under (b) and (c) are specified in appendix No 7\*).

Article 8. The foreign trade units with activity of construction-assembly abroad under the subordination of economic ministries shall conduct their activity also under the subordination of the Department for Construction Abroad for fulfillment of the duties incumbent upon them in the area of projects of construction-assembly abroad and are required to ensure implementation of the measures outlined by the department, in conformance with the powers given to it.

The appointment, transfer from post, penalizing and cancellation of the labor agreement of leaders of foreign trade units with activity of construction-assembly abroad under the subordination of economic ministries, and of these units' contracting units abroad shall be based on the accord of the Department for Construction Abroad.

Article 9. The maximum number of administrative and specialized foreign trade personnel in the total personnel in the units with activity of construction-assembly abroad shall be determined annually, concomitantly with the approval of the uniform national plan for socioeconomic development.

In 1984 the maximum number of this personnel for contracts in progress is specified in Appendix No 8\*).

Article 10. The general contractor, the contracting unit and the brigade have the duties and responsibilities specified under the law for similar units at home and also those specified for the activity of foreign trade and completion of construction-assembly and other projects abroad.

Article 11. The remuneration of the workers in foreign trade units with activity of construction-assembly abroad shall be specified on the basis of levels, under the law.

The maximum levels for the year 1984 are those stated in Appendix No 9\*).

Article 12. The Romanian "Arcom" construction-assembly contracting unit and the Romanian "Arcif" contracting unit for land improvement construction abroad, under the Department for Construction Abroad, shall take over, each according to their object of activity, the construction-assembly projects abroad and their related activities, specified in Appendix No 10\*).

\*The appendixes shall be forwarded to the parties concerned.

The projects shall be taken over from the Bucharest "Mecanoexport-Import" enterprises, under the Industrial Central for Technological Equipment and Rolling Stock, Bucharest "Uzinexport-Import," under the Industrial Central for Power and Metallurgical Equipment and Lifting Machines, and "Industrial Export-Import," under the Ministry of the Machine Building Industry, and from the Bucharest "Electronum" enterprise, under the Industrial Central for Electronics and Computer Technology, subordinate to the Ministry of Machine Tool Industry, Electrical Engineering and Electronics.

The transfer of the activities, fixed assets, inventory items, number of workers, plan indicators, levels, allocations and contracts from the Ministry of the Machine Building Industry and the Ministry of Machine Tool Industry, Electrical Engineering and Electronics to the Department for Construction Abroad shall be specified under a protocol, within 30 days after the date of this decree.

The transfer shall proceed on the basis of balance-sheet and fact inventories.

Until the conclusion of protocols, the Ministry of the Machine Building Industry and the Ministry of Machine Tool Industry, Electrical Engineering and Electronics are required to further ensure all the facilities, personnel and conditions needed for the unfolding of the activity.

Article 13. The State Planning Committee, the Ministry of Finance, the Ministry of Foreign Trade and International Economic Cooperation and the Ministry of Technical-Material Supply and Control of the Management of Fixed Assets, based on proposals of the Department of Construction Abroad, the Ministry of the Machine Building Industry and the Ministry of Machine Tool Industry, Electrical Engineering and Electronics, shall submit for approval the plan changes that result from the transfer of activities under this decree.

### Chapter III. Final Provisions

Article 14. The personnel transferred for job-related reasons or transferred to positions with lower-pay levels, and the personnel relieved from jobs as a result of application of the provisions of this decree, qualify for the entitlements stated in Article 21 of Decree No 162/1973.

Article 15. The provisions of Decree No 367/1980 on measures for sensible utilization of personnel in socialist units, whose application was extended by Decree No 467/1983, shall not be applied in the year 1984 to the posts to which the personnel are transferred, as a result of the application of this decree.

Article 16. A part of the personnel in the contracting units or brigades abroad may be kept at home for completion of some activities assigned to them and which can be conducted at home.

During the period in which the personnel working in the contracting unit abroad conduct their activity at home, in connection with the progress of contracts assigned to the contracting unit, their remuneration shall be in lei according to the corresponding jobs in similar construction-assembly units organized at home.

The development of the activity of this personnel may proceed only under the conditions specified by the Department for Construction Abroad and with its approval.

Article 17. The provisions of this decree shall also be applied to the units that contract for and execute drilling, mining, geological and other such projects and related activities, completed abroad.

Article 18. Appendixes No 1-10 are integral parts of this decree.

Article 19. The provisions of Appendix No XIV, relating to foreign trade activity in the area of construction-assembly projects abroad, to Decree No 475/1983 shall be amended correspondingly, and Appendix No 6 to Decree No 234/1981 on the establishment, organization and operation of the Department for Construction Abroad, and the establishment of measures pertaining to the activity of construction abroad and any other provisions that are contradictory to this decree are repealed.

Nicolae Ceausescu  
President of the Socialist Republic of Romania

Bucharest, 17 April 1984.  
No 137.

11710  
CSO: 2700/198

BELGRADE SURVEY SHOWS LITTLE CONTACT BETWEEN WORKERS, COUNCILS

Belgrade RAD in Serbo-Croatian 26 Apr 84 p 15

[Excerpt] Research studies, as well as statistics, should not be believed without reservations. But the warning given by the Belgrade Center for Workers Self-Management on worker participation in decision-making is disquieting.

The subject of this study was "Realizing Self-Management in Organizations of Associated Labor." The answers given by workers [numbers surveyed not given] are worrying. Two-thirds of those surveyed from direct production who were members of self-management bodies believe that workers have no influence at all on issuing key decisions, for instance, on investments.

It was surprising that 60.5 percent of those surveyed think that workers have no influence at all on the distribution of resources for personal incomes; or that 84.1 percent said that they do not participate at all or only do so formally in decision-making on the distribution of funds for salaries. Also, a huge majority of those surveyed believe that directors have the decisive word on dismissing workers.

According to the results of this study, directors also have a decisive influence on the delegates in workers councils. The delegates themselves also acknowledge this; 70 percent of them confirmed that managers have greater influence than the workers have on decisions made by the workers council. How is this possible? Perhaps the answer to this question should be sought in the fact that three-fifths (61.3 percent) of those surveyed have no contact with the delegates in the workers councils and not quite one-quarter said they were given reports on discussions in the workers councils, while a small number (2.8 percent) said that delegates consulted them. These results were even more unfavorable among direct producers; 69.1 percent of them said they had no contact at all with workers council delegates.

It is also not surprising that managers believe that 90 percent of the decisions of the workers councils are carried out while workers think that about 50 percent of the decisions of the councils are being carried out.

According to the results of this survey, workers have no idea about what the delegates in workers councils are deciding in their name.

CROATIAN ECONOMIST WARNS AGAINST BOURGEOIS INFLUENCES

Belgrade KOMUNIST in Serbo-Croatian 11 May 84 pp 10-11

[Article by Dr Jakov Sirotkovic]

[Excerpts] The conditions under which the Program of Economic Stabilization is being achieved are more complicated and much more difficult than the estimates and assumptions made in the program itself. This assessment is based on the following points: 1) the quantitative analysis of overall economic trends, of the causes of difficulties, and of the tendencies and possible solutions was very simplified and incomplete especially in the initial documents of the program, so it could not offer a satisfactory basis for concrete policy actions; 2) two essential areas in the system and economic policy (the problem of prices and expansion of reproduction) which have been most poorly handled and where the problems have become most complicated, were not completely dealt with in the program or were almost totally neglected. This pertains especially to the financing of expanded reproduction in all its basic aspects; 3) in 1983, instead of the inflation moderating, the economic position of the economy improving, and the fall in the standard of living being checked, the situation tended essentially to worsen and tendencies opposed to the basic goals of the stabilization program occurred. As is known, the anti-inflation program called for different actions in economic policy yet also for realistic movements in the relation of prices and interest [on credits]; 4) the beginning made in achieving the Program of Economic Stabilization in 1984 was to a large degree very late and measures were announced which at present have bypassed the basic generator of the crisis phenomena in our society, namely, banking capital, so it is seen that there is still no readiness or decision to begin achieving the essential premises of economic stabilization, namely, transformation of bank capital into associated labor funds.

Our monetary-credit policy has for a long number of years been obsessed with monetaristic conceptions but only recently has it succeeded in introducing interest [on credits] into economic life; and this it did in the worst possible way and under the worst possible conditions. Perhaps it can be assumed that behind this action which is still in progress lies the Keynesian theory of interest rates as the means for establishing a general balance and as a link between the so-called real and monetary economy and for the sake of reducing

the size of investments into the framework of "savings" (we could say "gross [capital] accumulation"). However, one must bear in mind in this respect that the premise for the effectiveness of such a policy is low employment, and that it is a question of social conditions in which profit, market capital, and the labor market are the basic characteristics of production relations.

We were on the right road toward...eliminating the market of capital, and (linked with this) also the labor market, and thus reducing the market to a commodity market. The objective processes of change in the production relations in our society have been moving in this direction and in this sense the programmatic and constitutional bases have been established which have made possible conscious action toward self-management associating and the control of income by associated labor. This was connected, above all, with the transforming of funds for expanded reproduction into funds of associated labor which made it possible to base the financing of expanded production on the self-management concept and integration, with the help and supplemental role of banks and credits where, of course, interest [on credits] has its place.

After the good initial results in realizing the 1974 Constitution and program tasks of the 10th LCY Congress, changes took place in the opposite direction. Associated labor could not resist anti-self-management tendencies, so the material position of the economy essentially worsened. The biggest changes occurred in the disposal of funds for expanded reproduction. The economy became almost completely dependent on banks and credits with a dominant role played by interest which amounted to more than 50 percent of the available funds of work organizations' capital accumulation.

The banking system and monetary authority have been acting in an exceptionally irrational way in such a situation, which has had an effect on generating inflation, the growth of indebtedness in the country and abroad, on illiquidity, and thus on slowing production, and on economic stagnation.

In such a situation bourgeois and etatist conceptions have penetrated into our theory and practice. The concepts of bourgeois economics are being widely propagandized--concepts such as profit as the basic motive force, interest [on credits] as the regulator of expanded reproduction and the labor market as the economically rational criterium of consumption, as well as the need to strengthen administrative-centralist control, and reduction of self-management to participation. The social dangers in the strengthening of capital relations and in the penetration of foreign capital interests are minimized.

The actions of economic policy which improve...the economic position of the economy (conversion of credits, re-programming of debts, reducing tax rates) should certainly be supported. But they do not touch the position of banking capital and the functioning of the monetary-credit mechanism, from which area it is unrealistic to expect an initiative toward more radical action.

Full political support should be given to proposals which show the possibility of and point to the urgency for transforming banking capital into funds of associated labor by reducing the dependence of the economy [i.e., enterprises] on [outside] decisions regarding capital accumulation; [enterprises] should be dependent on such decisions for one-quarter of their funds instead of three-quarters which is now the case. Without such action it is difficult to assume that the conditions for normal functioning of the economy and the return of self-management as the basic relationship can be achieved.

CSO: 2800/331

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