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# ***JPRS Report***

# **East Europe**

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# East Europe

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**Filkus Reaffirms Hopes for Common Economy**

92CH0867A Prague HOSPODARSKE NOVINY  
in Slovak 10 Aug 92 p 9

[Interview with Rudolf Filkus, first deputy prime minister of CSFR, by Eduard Zitnansky; place and date not given: "The State Is Not the Only Center"]

[Text] *Rudolf Filkus rejects the view that the Federal Government is actually no more than an agency for the liquidation of our common state. "I do not accept the thesis that the government should act only as a sort of a maintenance worker...." In his interview with HOSPODARSKE NOVINY, the first deputy prime minister of the CSFR explained in detail mainly his own economic concepts.*

[Zitnansky] Does that mean that the government will intervene and influence processes in both national economies?

[Filkus] First, if you allow me, I shall digress a little, but at the same time perhaps I can explain one essential issue as well. In our discussions and efforts we should never allow ourselves to end with a loss of the advantages stemming from our existing economic space. A unified market, common currency, an integrated system of taxation—those are enormous advantages to build on.

[Zitnansky] According to what plan?

[Filkus] I think that the Federal Government should continue to take control of the creation of a healthy environment on the macro level but at the same time, it should not abrogate its authority when formulating a realistic economic policy.

[Zitnansky] However, many people have doubts precisely about the macro level....

[Filkus] We realize that we have already reached the stage of stabilization. Quite a few signals are trying to convince us that there are no longer problems with the achievement of balance. Thus, now we can advance from the strategy of balance to the strategy of growth and revitalization, to which also the government and its agencies must adjust their operations.

[Zitnansky] Nevertheless, those doubts are focused on something else.

[Filkus] You mean probably the competencies. Of course, that depends on agreements, but if we do not fail to consider the advantages of a larger market, it is obvious that we cannot avoid certain joint decisions: Time will tell what form will they take.

[Zitnansky] Do you think that we have the balance "in the bag"?

[Filkus] Naturally, we must continue our effort to stabilize our economy, but we shall not be concerned about

the problem of achieving its balance—at least, not as much as before, while concerns about strategy will get more attention.

[Zitnansky] In other words, at present it is enough to keep an eye on stability and balance.

[Filkus] One can use that expression. Naturally, stability cannot be ignored, but the intensity of the emphasis will be different.

[Zitnansky] What does that mean?

[Filkus] There will be no need for such an emphasis on restrictions in our currency and budgetary policies. The process of decontrol of prices and of the market will advance, the process of privatization will become more intensive and better organized, and our efforts to make our currency convertible will continue.

[Zitnansky] Then the concept of approaches to the planning of economic policies should also correspond with those plans, should it not?

[Filkus] Indeed it should. Here one must realize that the government operates within the limits given by the constitution—thus, from the point of view of the economic transformation, the government will not set forth any measures that would in any way predetermine the constitutional system. However, quite another situation may ensue from the decisions of our national councils. That would also change our approach; in other words, we would have to adapt and to react to it.

[Zitnansky] In your opinion, which are the most essential conditions for our revitalization?

[Filkus] Next to the privatization program, there are several additional factors. We can call one of them the development of market relations and the completion of the institutional and legal framework for their application. Among other things, for that it is imperative to complete the legislation that regulates the market.

[Zitnansky] Can the government exert influence on the formulation of laws, at least to coordinate it? We do have, for instance, a law on stock exchange, but we have no law on securities....

[Filkus] I think so. In addition to your example, we could mention several others. We want a competitive environment in banking but we have no defined capital market....

[Zitnansky] What other opportunities can the Federal Government exploit when creating a market environment?

[Filkus] There are several possibilities. We discussed, for instance, where to direct support for the private sector. It is obvious that the national governments are better equipped to assist small and medium-sized enterprises because they have greater competencies to do that, but the Federal Government, too, can help there.

Another important thing is to seize every advantage for the formulation of regional policies.

[Zitnansky] How do you intend to intervene in regions? Isn't that an exclusive domain of national governments?

[Filkus] I believe that the Federal Government should enter regional politics precisely with its ideas and plans for macroeconomic policies. That may provide, for example, certain new opportunities in the search for a solution to the conversion.

[Zitnansky] How so?

[Filkus] The objective here is that, for instance, the conversion must be viewed exactly from the perspective of regional politics, because it may be more a burden for a region than a problem for a sector. The Federal Government should and could identify precisely such correlations; it should propose a methodology and initiate solutions, for example, by indirectly mediating foreign contacts.

[Zitnansky] In that respect, would you consider also using funds from the state budget?

[Filkus] Starting next year, each of our republics will live from its own resources. However, they will share a certain part of their assets and we should allocate that same part for regional policies. I think that financial funds earmarked for the development of job opportunities should also be used in the same way....

[Zitnansky] Until now you spoke in terms of macroeconomics. Will the Federal Government also formulate its own economic policies?

[Filkus] We have outlined in particular what should be done about financial policies and within their framework, especially in budgetary, currency, price, and wage policies. We have not dealt with any specifics or detailed planning of individual steps and mechanisms. Rather, we zeroed in on principles. The most important among them, in my view, says that unfortunately, the state budget cannot serve as an instrument for economic revitalization.

[Zitnansky] You speak of such an axiom pretty much as of a triumph....

[Filkus] As a matter of fact, it was not so easy to arrive at that conclusion because there are precedents in the world where the economy had been successfully revitalized precisely by means of state budgets, or as the case may be, of their deficits....

[Zitnansky] But ultimately you did accept that conclusion anyway.

[Filkus] The force of counterarguments came to a focus in the allegation that such a policy would not be applicable in our situation. Our state budget may be used for revitalization in areas where market mechanisms are already functioning, where the continuity of the market

has not been interrupted, and above all, where it may be presumed that the deficit will be used for lucrative investments with rapid return. Even advanced economies would not consider possible uses of a deficit state budget as a systemic long-term solution. An acceptable term is three to five years.

[Zitnansky] Moreover, they have available assets to cover any such deficit, don't they?

[Filkus] Few people in our country make any connection between the views on a deficit in the state budget and the views of ways to cover it. In principle, that can be done in two ways—with the use of either internal or external resources. In the former instance, it means higher levies and taxes on profits. In the latter, the state must incur debts. However, in either case the deficit must be repaid.

[Zitnansky] Haven't you thought of issuance of state securities?

[Filkus] That is a feasible method, although I am afraid that at this juncture it would not be very effective. This year the Czechoslovak State Bank issued treasury vouchers in order to cover revenues of the Slovak state budget over a short period, but as it turned out, even banks in Slovakia have shown very little interest in those securities. That in a way is a warning.

[Zitnansky] Could it be that it signals a loss of confidence?

[Filkus] That is possible, but essentially it is first and foremost a fact that we lack a normally developed financial and capital market. By the same token, however, it is a signal which confirms that in general, the concept of budgetary deficits has not been accepted.

[Zitnansky] Speaking of the budget, does the most frequently posed question ask whether there will be any changes in the so-called budgetary regulations?

[Filkus] We have agreed that their system would not be changed before the end of this year. But next year, that is another story. Then the redistribution of funds from the federal budget will end, and each republic will live from its own resources.

[Zitnansky] Wouldn't it be wise to draft a federal budget at least for the period of transition? After all, even potential partition of the state will have to be financed.

[Filkus] It is not only a question of financing for the partition. Taxes on consumption and customs will, or should, go in a joint budget. Some joint budget should be set up and divided according to certain criteria. In other words, a joint budget—yes, but to be absolutely frank, at this moment I cannot see what will be its extent and how exactly it will function.

[Zitnansky] Obviously, that is linked with the conversion, defense, employment....

[Filkus] Indeed, such a budget should "manage" all that. But we would not want to encourage any illusions. In the end, everything will depend on our choice of a constitutional system. From that point of view, it may be important that our Federal Government wants to promptly complete the tax reform and to implement all legislative procedures necessary to create funds for social insurance and employment.

[Zitnansky] Do you anticipate any changes along the lines of currency policies?

[Filkus] No, there will be no radical changes. We'll continue to keep our currency stabilized and to bring its internal convertibility closer to external convertibility.

[Zitnansky] Could the Federal Government play an active role in that respect?

[Filkus] If we get down to the nitty-gritty, then the Federal Government should get involved most of all in issues of indebtedness because its stabilization still is a task of major importance. It must prevent the economic transformation from turning into a burden for our future generations. However, in the final analysis all ideas along those lines lead to the conclusion that the capital market must be developed on a large scale. Without it our economy will remain somewhat paralyzed.

[Zitnansky] It is hardly a secret that the government is considering some restrictions on the influx of dirty money into our economy. It is really necessary and feasible?

[Filkus] There are two quite opposite views on that. One says that it is preferable to let dirty money enter in the economy and do some good there. The other rejects it.

[Zitnansky] Do we in fact know what exactly is dirty money? How do you see it?

[Filkus] Black market, fraud, drugs—that's where such money comes from.

[Zitnansky] Drugs, all right—that is indisputable, but how can you draw a line between honesty and fraud in business? Are there any such laws and what is even more, are they implemented?

[Filkus] All that would require a long discussion, but for instance: It bothers me if someone obtains at a low price property allocated by the state for our citizens in the coupon privatization program. In simple terms, someone puts up dirty money and robs our citizens of their due share.

[Zitnansky] What do you mean? After all, there are laws that prevent allocations or sales of property earmarked for coupon privatization. Isn't it enough if the ministries of privatization oversee how those laws are observed?

[Filkus] Perhaps one of parliamentary commissions could supervise that process.

[Zitnansky] Commissions usually examine matters retroactively. Moreover, almost all considerations of this kind are politically motivated,

[Filkus] That may be true, and for that very reason we must seek a way to avert any such complication. After all, we know that dirty money is involved in certain investment privatization funds.

[Zitnansky] Do you mean offers to purchase coupon books and shares?

[Filkus] Yes, I do; it is precisely that method that makes it possible to acquire sizeable property at a low price.

[Zitnansky] Some of those bids may not be quite honest, but everything is based on consent. No one is coerced....

[Filkus] No one is coerced, nevertheless—economic thinking in our country is at a low level. Citizens are frequently disoriented. I know that you may protest—after all, neither the government nor anyone else can take everyone by the hand and judge whether every contract is honest. However, they should endeavor to set up a framework that would curb such dishonest schemes.

[Zitnansky] You know, fear of such regulations is logical. Wouldn't they throw out the baby with the bath water?

[Filkus] That depends on the program, preparation, and planning of such regulations. It is a fact that dirty money is circulating in our country and I see nothing wrong in efforts to prevent that to spread any further; rather, it is the other way around—I think that it is the duty of the government.

[Zitnansky] There are considerable differences in governmental programs, particularly in the programs of the Czech and of the Slovak Government. Do you think that at least they inherently intend to retain something in common, to share something?

[Filkus] I think that our market is not so large that we would have to split it. I don't think that it would be efficient. Nor do I think that the programmatic declarations of our national governments are clearly aimed toward that end. After all, they are linked together by the same solutions; both have pledged to go on with the reform.

[Zitnansky] Yet the views on its further progress differ....

[Filkus] That is a fact; that is evident particularly from the views on the methodology and schedule of the process of transformation. Of course, one can understand it. So far the same steps of the reform have produced different impacts especially in the social area. In view of the fact that the social impact has assumed different, far more adverse dimensions in Slovakia than in the Czech lands, the economic center will intervene far more in the further process in Slovakia, unlike in the Czech economy where it is conversely assumed that interventions by the state will be limited, naturally, to a rational degree.

When I speak of interventions from the economic center I do not mean the state alone. Clearly, financial institutions—state and guarantee banks—should address themselves to that process.

[Zitnansky] Including commercial banks?

[Filkus] No, that already is on another level.

[Zitnansky] Nevertheless, more far-reaching interventions by the economic center, especially by the state, would provoke fears that the reform in Slovakia might get slowed down.

[Filkus] If the economic center gets more intensively involved in Slovakia, that is interpreted as social market mechanism. That does not mean any slowdown. I proceed from the premise that even an economy that is in a bad shape must aim at the fastest possible transition to market. As I see it, in its essence the transformation is the same in both republics. In neither republic can the process of privatization be slowed down, both must resolutely advance to market economy.

It is quite another thing that there are attempts in Slovakia to soften its impact. It is therefore conceivable that certain differences will appear in specific arrangements and in the intensity with which certain factors will be enforced.

[Zitnansky] However, statements by certain Slovak politicians contain indications that a slowdown is possible....

[Filkus] We would have to analyze and explain them individually. Obviously, that would not make much sense because in the end we would find out that in most cases it is a matter of incorrect interpretation and in other instances, a poor choice of words or quotation out of context. In the final analysis it would be preferable at least in theory to ignore politics.

[Zitnansky] But what if someone alleges that the domestic capital will get preference....

[Filkus] Then it does not necessarily suggest intentions to limit the input of foreign capital. Such a person would be his own enemy. Slovakia at present has only about 13 percent of foreign capital invested in all of the CSFR. That is a pitiful amount and what is more, the structure of investments is just awful.

[Zitnansky] However, capital cannot be given orders. It goes where it can expect profit.

[Filkus] Naturally, that is true. In addition, there are some risks; of course, they are often exaggerated. If there is in fact something that objectively hampers the capital input, then it is because our side offers very few data from which the investors could get a picture for comparison of efficiency.

[Zitnansky] However, the unfavorable share of investments in Slovakia is sometimes interpreted as though the Czechs were to be blamed for it.

[Filkus] I absolutely reject any allegations of that kind. Even if everything were decided directly in Prague, which of course is not the case—especially when it concerns foreign capital, there still are many other factors involved which, to say the least, do not encourage inputs of capital. The center may exert influence on the channels for investments, but it only can influence them; it cannot assign them.

[Zitnansky] Certain declarations have sparked fears of overt efforts to aid state enterprises. In this case the charge of paternalism is more than obvious....

[Filkus] My view is unambiguous. In order to revitalize our economy, economic interventions from the center cannot be avoided. What I have in mind is no paternalism. I just don't want anyone anywhere to decide what should be produced by whom and when.... The center intervenes in the economy with indirect mechanisms. It can help with depreciation policies, guarantees, reimbursement for interest, or with compensations. After all, if I say on the one hand that privatization must be stepped up, I cannot want to control it at the same time.... That would be double-talk.

### Two Years of Privatization Reviewed by Jezek

92CH0769C Prague EKONOM in Czech  
No 26, 2 Jul 92 pp 30-32

[Interview with Tomas Jezek, former minister for administration and privatization of national property for the Czech Republic, by Libuse Bautzova; place and date not given: "Privatization After Two Years"]

[Text] *More than 11,000 privatization projects (of which approximately 6,000 have thus far been critically examined), a proportionate number of scandals, more holders of investment coupons than had been anticipated, 70 percent of the points have gone to investment privatization funds. Some 100,000 operating units have been restituted, some 20,000 have been sold at auction within the framework of small-scale privatization. Some \$5 billion in foreign investments. This is what things look like at halftime in the privatization efforts ongoing in the Czech Republic. The minister for the administration of national property and its privatization, Tomas Jezek, responded to our questions, which have to do with the course of privatization during the previous period as well as the outlook for the future.*

[Jezek] I believe that it is very important to note that privatization pursues four fundamental strategic goals which were set by our ministry. The first and most important is to draw the largest number of citizens into the process of executing ownership rights by distributing securities to them and making them into stockholders.

[Bautzova] Did developments surprise you in this regard?

[Jezek] Things went the way we wanted them to. Of course, there were certain modifications, but that is nothing special—every developmental process leads to differentiation and to “hurdling.” In the very beginning, there was a completely simple idea which was as simplistic as it could be, that we would give all people some “tickets”—coupons—and that this would accomplish the distribution of all of the property. The initial notions of coupon privatization were such that everything would be entrusted to computers and that it would actually not involve any overly complicated operations. Only, as it turned out, only half of the process could be turned over to computers and that was the demand side, registration, the preliminary rounds for the funds.... The supply side simply cannot be done by computers. Here, one must rely on manual work: Every project must be taken in hand, rethought, decided upon, evaluated. The notion that one can take some kind of balance sheets of the enterprises, “whip them through a computer,” and that stocks will come into being—all of this was an illusion, an illusion reflecting 1 February 1990, when we were taking a walk through approbation.... Unfortunately, this simplistic idea persisted for somewhat longer than I would have liked and was incorporated into the progress chart of coupon privatization. This means that 10 days were set aside for the supply side. This also led to the promise that coupon privatization would begin on 1 January 1991.

[Bautzova] The early considerations regarding privatization revolved around consideration of the coupon method as a priority method. It was only later that it was decided to apply additional methods on a basis of equality.

[Jezek] Yes. In addition to coupon privatization, three other goals appeared. Restitutions were the first to crop up. By the way, I consider it to be my greatest success when, on the 13th day of the existence of our ministry, we were able to come up with Law No. 403 on mitigating the consequences of some property injustices. This law broke through the uncertainty of the time and helped make the decision as to whether restitution should be attempted or not. The Ministry of Finance was of the opinion that this would overly complicate coupon privatization and that it would retard the entire privatization process, that it is so complicated that it is impossible.... In the end, it turned out that this law is actually five times more effective than small-scale privatization. And the process of restitution is socially completely accepted, it involves virtually no scandals and tensions, there is no talk of dirty money. If we have sold some 20,000 units in small-scale privatization, it is estimated that restitution involved 100,000 such units. Privatization through restitution is an extremely efficient and simple matter.

[Bautzova] To transform citizens into stockholders, to return property; these are two goals. What are the other two?

[Jezek] Approximately three weeks after the restitution idea, there came the idea of small-scale privatization, the idea of giving ordinary Czech people a chance, the idea of renewing the middle class. There was a strong wave of eager beginning entrepreneurs who wanted to get their hands on property right away; they actually opposed coupon privatization; they did not want to be stockholders, but wanted their own shop, etc.

[Bautzova] So that the immediate impulse for initiating small-scale privatization came from the voices of eager businessmen?

[Jezek] If I wanted to be completely accurate, I must say that this immediate impetus was the result of a sort of postelection fatigue in 1990. Many people were saying “It is already nine months after the revolution and nothing is happening....” It was necessary to think up something quickly. We came up with small-scale privatization, which was technically prepared during the fall, commissions were appointed, and on 26 January 1991 the first auction took place in Prague.

[Bautzova] And in the end a decision was made even regarding the entry of foreign capital into the process of privatization.

[Jezek] The decision to let foreign capital participate in the process of privatization came last. In the beginning, we thought that we would let foreign investors in after privatization. This was a rational consideration, except that once more it was based on the fact that coupon privatization would be progressing rapidly. We did not want foreign firms to be coming to agreement with our enterprises before they were privatized, so that we would not end up like they did in Poland where this occurred on an immense scale. But everything was again corrected by real life: Investors were already here and wanted to invest. It was not possible to keep on telling them to wait. Some method was being sought after to link everything together. And it was found: Foreign firms could participate in presenting privatization projects, both their own and also those worked out jointly with the Czechoslovak partner enterprise. Some difficulties occurred in this regard—like, for example, those involving the cement plants—particularly in regard to investors who arrived immediately after the revolution, at a time when no system yet existed, made agreements with a certain enterprise, the Ministry of Industry then held a selection proceeding, and a contract was signed. This situation was then complicated by the advent of privatization laws and regulations and our ministry was confronted with the problem as to whether these contracts that had already been concluded should be recognized or not—the Ministry of Industry actually had no right to promise anything to anyone. We therefore had to ask foreign interested parties to submit a privatization project, something which many firms did not like, claiming that doubt was being cast on their victory in the selection process. But everything was overcome and is functioning well today.

[Bautzova] Of course, one also hears voices which claim that the interest on the part of foreign investors is far from being as great as it should be....

[Jezek] I believe that there is an adequate amount of interest. At every meeting of the Economic Council, some project or another is being approved. During the last six months, we have "brought" investments to the Czech Republic worth \$5 billion—be it into the Fund of National Property or directly to enterprises. Some investments have already been realized, others are contractually assured. I would say that the problem lies more on our side because the interest on the part of investors is greater than we are able to satisfy.

[Bautzova] In conjunction with foreign capital, there has been talk of the "family silver." Do you not have the feeling that the entire matter is being somewhat overestimated?

[Jezek] The term "family silver" was invented by me, but it plays no practical role at all. There is no listing of such enterprises. I simply wanted to say that there are some enterprises—but they can be counted on the fingers of one hand—which the state will fundamentally not be selling to foreign interests. For instance, the Plzen Brewery or the Budvar Brewery will be privatized by the coupon method. Of course, the stockholders can then do what they wish. I am almost sorry today that that kind of talk began. I simply wanted to react to assaults of that kind which claimed that we were selling off national property.

[Bautzova] The most varied affairs and scandals which we have recently witnessed are surely connected, among others, with the fact that several methods are being applied in the process of privatization. Just imagine that all enterprises destined for privatization would break up simply into two groups: The first group would include all those enterprises which are privatizable through public competition or auction and the second group would include all other enterprises not suitable for public competition and which would be privatized by the coupon method. Would not everything be much simpler?

[Jezek] Of course, that would be possible, but it would represent a totally different philosophical approach to privatization than the one we have chosen. In the end, I believe that this method that we have chosen was a good one. The state is selling, but it is not that sovereign seller who makes a list of enterprises and says this one, yes, and this one, no. We tried for a democratic approach, on which the entire concept of privatization is based: Anyone can submit a privatization project involving any kind of property....

[Bautzova] Which is precisely what makes everything immensely more complicated.

[Jezek] Which makes everything immensely more complicated, but we have a good feeling that everyone had an opportunity. Of course, it is then a problem to evaluate all the projects and to process them. Perhaps mistakes

will be made in this phase, but I do not believe that anyone else could do it better. If things were done the way you suggest, we would be dependent on some office which would make decisions as to which item would go to coupon privatization, which operation would be subject to competition.... No, that would be even worse.

[Bautzova] Perhaps the privatization commissions could make those decisions.

[Jezek] I would not entrust them with that. Auction sales in small-scale privatization, yes, but that is something else. In small-scale privatization, the sales actually involve only clean assets without liabilities. Large enterprises are not suitable for auctioning, it is not possible to "pinch off" anything from an enterprise; it is necessary to transfer both assets and also liabilities. And this can only be done after working out a project.

[Bautzova] When you spoke of small-scale privatization, you mentioned that the impetus for its development was, among others, pressure from small businessmen, pressure which was primarily probably brokered by the Association of Czechoslovak Businessmen.

[Jezek] Yes, I was doing that actually for them. Today, I know that they are neither angels nor saints, but the goal was correct. From the economic standpoint as well as from the standpoint of political stability, small-scale owners are the most important class. Businessmen should form the best, most stable core of every society.

[Bautzova] Let us return to the privatization projects. On the one hand, in other words, anyone can work out a privatization project which is—as you say—an element of democratism. On the other hand, the commission which pronounced judgment on the projects modified some and reworked others. How are these two facts compatible? Is it not, after all, again a case of too much authority in the hands of state officials?

[Jezek] I would say that they have very little such authority. If state property is being sold, the state must sell it. And the state must sell it through its officials because it has no one else. As far as judging the various projects is concerned, of course, there is a very fine line between what is a modification and what is already another project. If there was a prohibition against making incursions into a project, it would be full of nonsense; virtually not a single project is completely in order. If someone proposes that a dairy be privatized and that 60 percent of its property be transferred for free to the community and 40 percent to the Investment Bank, then I must have the opportunity of taking my pencil and crossing things out. If someone adds up securities and they total 110 percent, then I must absolutely get involved. Of course, I cannot strike out one proposed buyer in a project and write the name of another in his place—that would be a gross incursion. Moreover, it is necessary to stress that all incursions take place following agreement with the proposer. Essentially, what happens is that we come to an agreement and he makes changes with his own hand. We had some problems here with the

Ministry of Agriculture where they happened to think the state can make any kind of incursion. So that, for example, they received a project as founders in which some corporation with limited liability proposes to purchase their dairy and they said: No, this will go to public competition. At that instant, they are proposing something not contained in any project and it thus becomes an inadmissible incursion.

[Bautzova] What can be done in a case where no project contains a proposal for public competition and you are nevertheless convinced that this would be the best way?

[Jezek] We have only one opportunity to do that, but it must involve the Economic Council. We call this "bringing the matter to the zero point." This means that the government announces that all projects are unacceptable and orders the founding ministry to work out a new project. That project can then be worked out outside of the stipulated deadlines. There were a few such cases.

[Bautzova] If you had the same experiences as you have today some six months or a year ago, how would your approach applied in the process of privatization be different?

[Jezek] I would certainly insist on having a different progress chart. The one for the first wave was completely wrong. When we were then compelled to extend the deadline by two months, we also decided that those submitting projects could submit them to our ministry at the same time as they submit them to the founders. The projects were then in two locations in parallel and caused great confusion, there were misunderstandings and various accusations. For the second wave, we already opted for a simpler procedure. As of 16 April, the deadline for submitting projects is in effect. For another two months, until the middle of August, the founding ministries will take a position on all projects and only then will the projects come to us. This means that here we shall not begin approving projects until the moment we know with certainty that no additional projects can come. The second wave could begin at the beginning of next year.

[Bautzova] But we are as yet in the first wave and in the first round. Can it be anticipated that the majority of the holders of investment coupons will concentrate on certain enterprises which will seem advantageous from the investment standpoint? In many cases, there will be a surplus of demand. Investment points will be returned and the second or third round will be initiated. Are you prepared for the possibility that the circle of enterprises in which there has been interest will be constantly the same and that a relatively significant number of enterprises will have to be excluded from coupon privatization? Are alternative projects prepared as to how to privatize such enterprises?

[Jezek] I do not believe there will be many such enterprises. After all, we have the opportunity of increasing stock prices in individual rounds. If this were nevertheless to occur in some cases, their securities will be on sale for cash at the teller's window in the bank.

[Bautzova] We may certainly also anticipate such cases where an enterprise which is coupon privatized becomes the object of interest for the Office for Economic Competition, and upon that office's order will have to be, say, divided into several pieces. This will surely have an impact on today's holders of investment coupons who invested in a certain enterprise perhaps for the very reason that it was large and "virtually a monopoly."

[Jezek] Of course, everything that happens with an enterprise will have an influence upon holders of investment coupons because such a holder will be connected with the enterprise as a stockholder. He will, thus, also be impacted by anything that the antimonopoly office decides. However, I believe that this is more a matter of the very essence of the antimonopoly law than a matter of decisionmaking on the part of the antimonopoly office. In my opinion, that law is not a good one. If a monopoly is judged solely by its share in the market, then even a natural monopoly must be essentially punished—if I exaggerate a little—according to that law, Josef Suk would have to be punished for succeeding in gaining the largest market share of the lovers of violin music. That is absurd. But that is how this antimonopoly law of ours looks. It is probably based on the emotional aversion to anything large which has survived from out of the past. It is understandable that artificial administrative monopolies were nonsense, but size in and of itself should not be that of which we should be frightened. What is disastrous for the economy is such a monopoly which is sponsored by the state. Such protection from the state (like, for example, the prohibition to import automobiles) is harmful and should be opposed. But this must not be confused with a natural monopoly.

[Bautzova] Were you surprised by the number of holders of investment coupons who gave their investment points to privatization funds? Do you believe that this will have some unfavorable consequences?

[Jezek] I personally would wish that the numbers would be smaller; those 70 percent are truly a lot. I have a little fear because these funds represent a certain unknown. Perhaps nobody really knows who is who. The only protection against this unknown will be regulation of their activities in the beginning phase. This will require a truly hard approach and the market will have to be freed up gradually. We shall try to avoid a situation in which suddenly they would all begin selling securities, we shall try to avoid any precipitous decline in security prices, and a market crash. I compare these coupon securities of ours to test-tube babies. And just like a test-tube baby must pass through some kind of an incubator before it can enter the normal world, so even these securities will require special care. Understandably, a child cannot remain in the incubator until it is time to go to first grade, but it must be handled carefully until a certain stage occurs.

[Bautzova] Do you anticipate that the majority of today's holders of investment coupons, those subsequent stockholders, will try to sell their securities right away?

[Jezek] If there should be some kind of mass selling of securities immediately at the beginning, it would be terrible. Public opinion polls, however, do not so indicate. It will probably be a very small percentage of people who will want to sell their securities immediately and who will want to buy, say, a rug. But in every case it is necessary to monitor the situation so that this percentage would not grow into some kind of a critical mass which would result in a crash and would damage all other people. On the other hand, we must prevent some speculators from damaging the reputation of a newly born market.

[Bautzova] Are you able to estimate how long such "special care" should last?

[Jezek] All of privatization is actually an improvisation. No one can know what can happen because no one has experience in this regard. It is simply necessary to "have one's finger on the market" and to react with lightning speed. The stock exchange will begin functioning at the end of the year, but it will be taking on its function gradually. Much the same as elsewhere in the world, only a fraction of the securities will be traded on the stock exchange in Czechoslovakia. Then there will be trades outside of the exchange, too. Following coupon privatization, a computer system will be left over which is now used for registration and to exchange investment points for securities. It will be used to record all trades involving securities and through it it will be possible to guide these trades.

[Bautzova] Much like the course and method of privatization were substantially changed as a result of developments, today's purpose and structure of the Fund of National Property is somewhat different from the original notions.

[Jezek] The Fund of National Property is an institution which is designed to do everything possible to help in the transformation and, for that purpose, even takes on some of the enterprise problems so that new entities could survive. The most specific action of this type was the issuance of bonds worth 30 billion korunas [Kcs]

which were used—through the banking system—to eliminate enterprise debts. A similar action of this type is the financing of some residual state enterprises; the fund, together with the risk funds of banks, should "share" in bankruptcies. The fund also wants to help bring the privatization of the health service into the world by covering the difference for physicians between the market interest rate and the interest rate at which they will be purchasing equipment for their practices. In order for the fund to be able to do all of this, it requires some resources—and we cannot acquire these in any other way than by selling national property. The original notion that the Fund of National Property will only be some kind of a "conduit" was again overly simplified. Naturally, in some cases this is actually so. By the fact that the fund participates in the process of debt reduction, it had to retain the securities of some enterprises which it will then be selling in order to be able to buy back its own bonds. The fund will also hold a portion of the securities of dairies, breweries, malt factories, and other enterprises of the agricultural processing industry, up to a period of four years, in order to sell them to private farmers.

[Bautzova] When will the fund begin selling securities which it is holding temporarily?

[Jezek] That depends on the development in the market. Understandably, the moment which will be economically most advantageous. It is not likely to be this year, but we have no intention of holding them forever.

[Bautzova] If you had to express yourself in the most succinct manner regarding the progress of privatization as it has occurred thus far, would you say that you are satisfied with it—or almost satisfied?

[Jezek] I would probably say that I am satisfied. Recently, I have heard many flattering words, both from Eagleburger, U.S. deputy secretary of state, as well as from John Major.... Perhaps there is something there. Mr. Eagleburger even told me that we should be the model for all other East European countries, that we should teach Ukraine and Russia how to privatize because until there is privatization there there will not be peace.

**Katona Seen as Antall's Choice of Successor**  
*92CH0872E Budapest TALLOZO in Hungarian*  
*No 30, 31 Jul 92 p 1,403*

[Article by Zoltan Lovas: "Antall Cabinet II"—article reprinted from NAPI, 17 July 1992]

[Text] A few weeks ago, when "by the whims of fate" Tamas Katona was transferred from the Foreign Ministry to the Office of the Prime Minister, observers and news commentators said that the poor, good old liberal national democrat had been pushed aside, and that thus he had become another victim of populist pressure. Well, that was a grave error. And not the first error, insofar as personnel movements within the internal and upper echelons of the MDF [Hungarian Democratic Forum] and the government are concerned....

This writer felt at the time—a few weeks ago—that one should not rush to judgment as to what the function that respectably graying gentleman would perform as part of the prime minister's staff—a gentleman who carefully preserves the snow-white color of his cuffs. His real function has now been revealed. Henceforth Katona will not (only) play the role of a soft-spoken, enlightened conservative within the Antall cast in the framework of foreign affairs. Henceforth he will also serve as the spokesman for the head of government. No doubt, that hit the bull's eye! He is someone who is able to talk, someone who is (still) popular. A person who appears to be European. It would be a great shame if this person were forced to explain in his gentlemanly manner things that had nothing to do with being European, with being a gentleman, and with enlightened conservatism.

It would not be worth giving it a thought, if henceforth Katona were to function only as some super-mouth. On the other hand, it is worth uttering a few words about the fact that interpreting Antall from the Hungarian into 1992 language is only the surface, a semblance, because a news report shed light yesterday on Katona's actual role. According to the report, henceforth Katona is going to call a joint, biweekly meeting of political state secretaries. And that would constitute a second, quasicabinet of course, an Antall Cabinet II. The second cabinet could become the source of various disturbances and misunderstanding, while at the same time it could also provide an excellent opportunity to perform a balancing act between various persons and groups. A balancing act in which Antall has, indeed, performed very well.

The head of a second, quasicabinet, i.e., Tamas Katona, could, sooner or later gain insight and acquire influence that would make him a quasi-deputy prime minister. That might be the real purpose behind Antall's move. Katona's case also serves as an indication that Antall wants to remain in his place as long as possible, and that aware of the MDF's international power conditions, he does not want to yield the chair of the head of government to the second line of men who follow him. He does not want to yield that chair to Lajos Fur, nor to Tamas Szabo, nor to Imre Konya.

It is not the function of this writer to distribute certificates of merit to politicians, because history will be the judge. Nevertheless, I am going to register my personal view: It would be beneficial to keep that certain second line at a distance from the formulation of substantive grand policymaking.

**German Foundation Sponsors Conference on Media**

*92CH0872B Budapest HETI VILAGGAZDASAG*  
*in Hungarian 1 Aug 92 p 18*

[Unattributed article: "International Debate Over the Media"]

[Text] There is no national approach to the freedom of the press, because only one kind of freedom of the press exists, Georg Paul Hefty, the FRANKFURTER ALLGEMEINE ZEITUNG's well-known political editor said at an international media conference held in Budapest under the sponsorship of the Hanns Seidel Foundation. The media law should be as brief as possible, the meeting with close ties to the CSU [Christian Social Union] was told; it should address only a few issues, such as regulation, the ways in which press organs can be established, or the conditions for frequency allocation. Albert Sharf, the intendant of Bavarian Radio—the equivalent of the president of Hungarian Radio—pointed out a Bavarian constitutional provision that restricts the number of representatives from parliament or the government as members of the supervisory committee of the radio to one-third of the total of 50 members. Without naming the country referred to, the Bavarian intendant mentioned the bad example set by an Eastern European prime minister who said that the state television has always been supervised by the government, and, quite naturally, it must continue now that the country is governed by a freely elected government. The Hungarian Government envisions a public service radio and television uninfluenced by the government, according to State Secretary Tamas Katona of the Prime Minister's Office.

**Justice Officials Interviewed About Reform**

*92CH0845A Budapest UJ MAGYARORSZAG*  
*in Hungarian 3 Aug 92 pp 1, 5*

[Interview with Attorney General Kalman Gyorgyi and Dr. Karoly Bard, deputy under secretary of the Ministry of Justice, by Anna Banovits; place and date not given: "Draft of Law on Public Prosecutor's Office in Preparation; Unambiguous System of Responsibilities"]

[Text] *In 1989, at the time of the roundtable negotiations by the opposition, the participants considered it self-evident to bring about changes, in accordance with European norms, not only in the legislative and executive branches of power, but also in the organization of prosecution. In Hungary, in the spirit of democratic transformation, it would be justified to break away from an*

*"autonomous prosecutor's office" along Soviet lines, which actually was, up until the change of regime, a tool of dictatorship.*

[Gyorgyi] When parliament elected me as attorney general in June 1990, I considered it one of my first tasks to prepare a reform of the Public Prosecutor's Office. The prime minister and I agreed to draw up the draft of the new law. We discussed the essential issues at a scholarly conference. A large-scale comparative legal study was prepared that analyzed the Western European models of public prosecution. We studied the historical traditions of the old Hungarian system of prosecution, of the Royal Hungarian Public Prosecutor's Office. Based on all of the above, in May 1992 we submitted a draft of the law, which had been completed in the meantime and included the reforms, on the constitutional position, scope of duties, and the major elements of the operation of the Public Prosecutor's Office. In order to implement the reform, it will be necessary to modify the Constitution, which will involve achieving a two-thirds vote in parliament and a political consensus in connection with the basic regulations concerning the Public Prosecutor's Office.

[Banovits] As attorney general, what changes did you implement on your own authority as compared to the previous period?

[Gyorgyi] The tasks of the Public Prosecutor's Office are stated by law. In no way can I make decisions on the conditions of its operation. I made changes in law enforcement work; a wide range of people in top positions were replaced, parallel to the election of court officials. A certain amount of organizational transformation took place, as well.

[Banovits] Still, in the opinion of many, no fundamental changes were made. The same persons are in leading positions—even if the openings were advertised this time—who were in the service of the political group in power before.

[Gyorgyi] Those who make such statements are not adequately informed. In my person parliament elected a new attorney general; the military chief Public Prosecutor's Office is under new leadership; and this year the president appointed my other two deputies, as well. I appoint the 19 chief public prosecutors of the counties and of Budapest after the positions are advertised. Fourteen counties have a new chief public prosecutor, and six chief public prosecutors have been confirmed in their positions.

[Banovits] What could be the fundamental obstacles to passing the draft of the law intended to transform the system of public prosecution?

[Gyorgyi] In my opinion the obstacles are not fundamental, because earlier influential experts of the opposition were also in support of the reform. The reform law did not find a place in the 1989 modification of the Constitution, and it was not dealt with later, either. In

my opinion, the government must have the possibility of influencing the practice of the administration of justice by the courts through the organization of public prosecutors. In the middle of 1990 there was a political consensus on the reform of public prosecution, which subsequently broke down. Under favorable political circumstances, the consensus could be formed again.

*We asked Dr. Karoly Bard, deputy under secretary of the Ministry of Justice, who is in charge of this matter, about the ministry's point of view.*

[Bard] Beyond the fact that we are under great pressure to pass legislation, the reform of public prosecution undoubtedly suffered a setback to a certain extent because of the issue of coordination between the parties in parliament. In May 1991 agreement seemed probable; the coalition parties supported our idea, and—perhaps with the exception of the Hungarian Socialist Party [MSZP]—the parties in the opposition, although they expressed reservations, did not completely reject the idea that a modern, European public prosecutor's office would operate subordinated to the government.

[Banovits] What is an essential difference between the current organization of public prosecution and the one desirable in the future?

[Bard] As I see it, the major difference is that finally there will be someone in charge of penal policy. The system of responsibilities will be much more concrete. The person in charge will be identifiable, and that person will have the responsibilities of a minister. In my opinion the government cannot function without having an organ in charge of penal policy. At the moment that is the task of the minister of the interior, which is unfortunate. Forming a policy of internal security, of public safety is the task of the Ministry of Interior, but penal policy should belong to the Ministry of Justice. One must be aware that the courts are completely independent—that is the other side of the coin. However, some measures should exist for influencing the practice of administering justice. Indeed, the organizational change evidently strengthens the government's position, so the accusation goes. In most of the Western democracies that is completely acceptable. The controls built into the draft of the law determine the right of the minister to issue orders and the guarantees for the possibility of individual public prosecutors to make decisions. One such control is, for instance, the so-called prohibition of negative orders, which means that the minister of justice cannot issue an order that would block investigation or bringing charges in a given case. It will become impossible to "hush up" any case.

Those who are now opposed to our ideas were indisputably aware earlier that the public prosecutor's office in a modern society belongs under the auspices of the government. We drew up a draft of a law on public prosecution, which is not limited to the next two and a half years, and is not connected to election cycles.

**State Secretary Barsi Outlines Expo Schedule**  
*92CH0861B Budapest HETI VILAGGAZDASAG  
in Hungarian 25 Jul 92 p 1*

[Article by A.T.: "Hungary Will Be the Decade's Success Story"]

[Text] *"Only a single factor can put limitations on us in organizing the World Expo, and that factor is time," said titular State Secretary Etelka Barsi Pataky, chief Expo commissioner, to representatives of the Hungarian business world on Tuesday at the Hotel Forum.*

"The key issue is that we must manage the time available until 1996, otherwise there will be no Expo. But we do know what we want," said Barsi at the beginning of her speech, "although we are still far from being able to see the Expo's ideology as a whole. Nevertheless, the Expo's marketing concept will be worked out by August, and it will show the world that Hungary will be the success story of the 1990's."

In her speech, which opened the debate, Barsi gave a detailed description of the tasks that have already been carried out by the program office. According to what she said, the Expo's theme, basic regulations, and site have been set. The technical studies on the Expo's areas and a detailed layout were completed by late May. "We will take over the management rights of the areas gradually and, after that has been done, we will finally be able to establish Expo Management, Inc., which will have the task of implementing the Expo," Barsi announced. She further said that the program office has begun making preparations for investors' competitive bidding.

"We will complete the World Expo's project this year, and will sell it next year," Barsi announced; she complained in her speech that "a nationally renowned daily newspaper the other day published an interview about the Expo that was not based on reality at all."

**New Security Services Chief Fuzessy Interviewed**  
*92CH0846A Budapest UJ MAGYARORSZAG  
in Hungarian 6 Aug 92 pp 1, 5*

[Interview with Tibor Fuzessy, minister without portfolio in charge of the security services, by "gm" on 5 August; place not given: "The Minister Appeared on the Scene; Legality and Self-Confidence"]

[Text] *Tibor Fuzessy is a Christian Democratic politician who was appointed minister without portfolio in charge of overseeing the security services a month ago. Yesterday he introduced himself to the press in that capacity for the first time.*

The "grace period" was necessary, he explained, so that he could adequately inform himself of his new and highly sensitive field where a spoken word has great significance. For that reason, for the time being the

minister forbade the leaders of the Office of National Security and the Office of Information to give interviews of any kind.

In the course of the press conference it was revealed that the minister had to face not only the sensitive nature of his new task, but also every disease attacking his office in the period following the change of regime. The symptoms are the usual ones: new leaders, a largely unchanged staff, and old rules and regulations. The frequent change in overseeing officials (formerly under secretaries) did not have a favorable effect on the staff of the office. There is uncertainty among the staff of the security services, on the one hand because of the transitional nature of the legal regulations, and on the other hand because of the perception of their status, because it is questionable whether in the new social system their activity will be necessary at all.

According to Tibor Fuzessy, certain leaders of the opposition did not exhibit any intention of helping to dispel such doubts; some even raised the subject of liquidation. The minister quoted examples in the West—where security service organizations have experienced a renaissance because of changed circumstances—and indicated that he has no doubt that the maintenance of similar organizations is necessary in Hungary, as well.

One of the fundamentals of good operation, the high level of professional training, is partially present. Many old staff members of the office have several degrees and know several foreign languages, not to speak of their loyalty and commitment, since elsewhere they could earn many times their present salaries with such qualifications. The minister jokingly explained that persistence with the hunting instinct: Those "addicted" to tracking and scenting cannot give up the profession.

Another prerequisite for good work is the replacement of the temporary rules and regulations mentioned earlier by legal regulations, which would provide legal security in every aspect. According to the minister, the draft of the law on national security, which is necessary for that, has long been prepared, but so far, for unknown reasons, it has not been submitted to the parliament. The law on the police, although logically taking precedence, also concerns the work of the security services in numerous areas and should be discussed together with the law on national security. However, because both of them require a two-thirds majority, it is questionable whether they will be passed any time soon.

The competence of the office is questionable in three areas; thus, the legal settlement of those areas is the minister's fundamental program.

First, the draft of the so-called 3/3 law, four (!) versions of which exist, must clarify what methods can be used to establish whether an individual has blank spots in his past. As far as the future is concerned, will the current politicians be obliged to declare their past before they take office, and if not, is the respective office obliged to sign their appointment, i.e., install them in their office

knowing that? A separate problem is that Fuzessy's office may know that an individual was, for instance, a 3/3 agent, but in vain, because according to current law, that fact cannot be revealed.

Second, it must be clarified which criminal acts belong in the category of organized crime. It will be necessary for Fuzessy's office to take part in the war against the drug trade, money laundering, and white-collar crime (see the banking scandal!).

Third, with the change of regime, the competence of Fuzessy's office in the area of the economy ceased. That is dangerous because foreign businessmen and the offers and promises brought by them become difficult to supervise. In reality, that area should be put back under the control of the security services.

About the protection of state secrets, the minister said that currently defense is functioning poorly. A serious reason for that is that the law on the immunity of members of parliament does not allow one to hold representatives responsible for disclosing classified information.

### **National Social Circle Rejects 'Cosmopolitanism'**

*92CH0860A Budapest UJ MAGYARORSZAG  
in Hungarian 9 Jul 92 p 4*

[Undated statement by the National Social Circle: "Faith and Certainty: The National Social Circle on the Validity of the National and Christian Spirit"]

[Text] After 48 years of the genocidal effects of the foreign military occupation that destroyed body and soul and undermined the system of values, Hungarians are now in need of faith and certainty. In our modern age, amid the sine qua non of increasing material affluence offered by technological development, philosophies and ideologies that negate mankind's great and eternal ideals and value system have become fashionable in our civilization, resulting in extreme social and political practices in the 20th century.

One of those is fascism, which values only one's own community, which wants to build only from the roots of the given people, and which wants to make one's own nation the ruler of all others. The other is communism, which wants to deprive people of their roots and customs, and which wants to rule over a world devoid of nations by creating artificial communities from above. Cosmopolitanism, which proclaims only the individual's rights and which considers the community an unnecessary evil that hinders human progress, is becoming increasingly dangerous.

A common characteristic of all three is that—to different extents—they reject the ideologies and ideals that have developed throughout history, they destroy faith, morality, the family and the nation, substituting a 1,000-year-old value system that governs our lives with their own monomanias. And all three are dictatorial. The

former two use the power of weapons and build police states; the third promises increasing affluence and the satisfaction of selfish individual desires, proclaiming its justification and usefulness in all areas of intellectual life, and transmitting all that to millions through the immense power of communication and programming technologies.

### **For a Healthy National Progress**

Hungarians have had their share of suffering through both fascism and communism, both inside and outside our borders and now, after having regained the country's independence after almost half a century, what we see is militant extremists being replaced, not by European civilization's 2,000-year-old value system, faith, and morality, but by cosmopolitanism, a third extremism. But the fall of the former two does not mean that the destructive ideology and practice of individual selfishness is salvation, but rather that, in the economically more-developed regions of our civilization, the organized anarchy of an atomized and deidealized existence is still possible.

Our history is proof that Hungarian mentality and spirituality have always been far from extremism. Destructive ideologies and practices have always been forced on us by foreign powers. And the current cosmopolitanism, which is gaining strength, is also a coercion. It is being forced by those Marxists—or related nihilists—who were educated and occupied key positions in the managing-influencing organizations and institutions of intellectual public life during the past 45 years. And by those who are now taking advantage of the fact that the millions were able to hear only bad things about the historic, national, and Christian spirit and policy during the past decades and, as a result, lost their faith and lost their trust in the traditional value system.

It is the conviction of the National Social Circle that healthy national progress can be brought up to full strength only by an intellectual life and social-political practice that is free of extremism.

### **In the Interest of Universal Progress**

We proclaim what Istvan Szechenyi proclaimed, namely, that the nation, as a historic-social formation, is the basis for human existence, the connecting link between the individual and all the rest. The great ideals that uplift humanity are realized, not independently from place and time, but in given places and under given circumstances, and within national frameworks. For this reason, those who are active in making their nation strong and flourishing, are working in the interest of universal progress.

National existence and national interest should not lead to isolation, narrow-mindedness, or chauvinism when the given community accepts mankind's general ideals and value system. During the course of history, that was always sublimated and transmitted by the great world religions. In Europe, it was Christianity for the last 2,000 years. That is what we Hungarians too, adopted 1,000

years ago. It is what provided the values with which to govern our lives, and it is what provided the framework for our endeavor to develop our national existence. And that is still valid, it is the point of orientation in the entire cultural circle of Christianity, regardless of whether or not one is religious or belongs to a church in our modern age.

What is the value system?

The meaning of life is life itself, and is proven by all forms of life around us; but man became man by lifting his horizon and by recognizing the force that governs the universe. Believers call it God, and atheists call it the law of nature. Man tries to abide by that supreme will through constant self-improvement. Whatever can be achieved through life-protecting deeds: the family, children, a willingness to sacrifice, decency, honesty. For the Christian world, the moral norms of that are laid down in the Ten Commandments, no single significant element of which is different from the provisions of the other great world religions.

#### The Foundation of Our Rise

That is, then, the ideal, the value system, which is better than what any modern philosophy or ideology can offer—we do have the frightening counter-examples before us!

Thus, the exercise of a national spirit of historical foundation and of Christian morality is not a separate program or an extra task, but rather the foundation for our present rising.

Man is a moral being. Religious conviction can be looked upon in our age as a private matter, but life-protecting morality and the traditional value system cannot be! Because they are forces that lift the individual and mold society.

And, in particular, the growing generations cannot be barred from learning about them.

Every person is a special, complete, and unduplicable individual, but also a social being at the same time. He can develop his aptitudes and he can unfold his self-identity only in a strong and self-respecting community. Members of a weak and defeated nation are vulnerable to exploitation, have limited opportunities and rights, and are persecuted, beaten, and destroyed. There is painful evidence of that in Hungary's 20th-century history, from Trianon to the present moment. Only those who are familiar with their individual rights and communal obligations, who live a moral life, who love their family and their country, and who are willing to sacrifice, can be valuable members of their nation—and of universal mankind.

For this reason, the National Social Circle proclaims that, at the end of the 20th century, amid terrible sufferings and forced cynicism and nihilism, the Hungarian soul is in

need of faith and certainty so that we can begin the next millennium with the hope of rising.

#### Second Phase of 'Decentralized Privatization'

92CH0861D Budapest HETI VILAGGAZDASAG  
in Hungarian 18 Jul 92 pp 79-80

[Article by Gyorgyi Kocsis: "Decentralized Privatization; Rhythmic Marking of Time"]

[Text] *The launching of the so-called second phase of decentralized privatization, which will include mid-size companies as well, has been delayed since the beginning of the year. However, that has only reduced the fever of forming associations without slowing down the turnover of ownership itself, since the absence of adequate demand produced quite modest results—even during the "first phase" that has been going on for nine months.*

"If I had gone to the State Property Agency [AVU] a year-and-a-half ago with the request to privatize me in the form of a lease, they would have thrown me out," noted a privatization counselor bitterly the other day. But all is not lost that is delayed: in recent weeks, several AVU officials were enthusiastic about the leasing structure soon to be introduced as a solution that will hopefully bring a drastic change in the demand for privatization.

However, this turn only proves to the well-meaning observer that the State Property Agency (AVU)—and its political environment—is indeed able to learn. True, the learning comes somewhat slowly. After the elections, the government was to place privatization immediately under centralized state control, but it took more than a year for it to realize that no state agency is able to deal simultaneously with the selling of 2,000 national enterprises. That great recognition led to the introduction of decentralized privatization last summer; the cautious AVU used 84 special counseling firms to change 437 small enterprises into stock companies and then sell them on consignment. It took another year to become clear that the fact that there were now many sellers, instead of just one, did not help in the absence of buyers and that measures for increasing demand were needed. Unfortunately, while the AVU's knowledge is increasing, masses of Hungarian enterprises are rushing toward bankruptcy.

For the turn that was expected from decentralized privatization has failed to materialize to date. Of course, it was naive to expect such a thing because, with their estimated total official assets of 20 billion forints, the enterprises included last September in the "privatization program" represent a mere 1 percent of the state enterprise sector. During the nine months that have passed since then, only an estimated 1 percent of even those properties went into private hands: Eight enterprises were sold completely, and seven in part. Of course, if success is measured merely by the number of enterprises that signed a contract with one of the special firms or

changed into a stock company (state officials like to refer to those indices), then the picture is nicer: The number of the former was 371 and that of the latter was 107 on 30 June.

Those enterprises—consisting mostly of public and intellectual services (cleaners, hair salons, auto repair shops, electric appliance repair shops, designing institutions), of small factories that broke away from large industrial enterprises, and of enterprises that have minuscule markets, little profits, and are frequently on the brink of bankruptcy and liquidation—are seldom attractive to a foreigner or a former business partner. (The rare exceptions to date were Sensor Enterprise, two gravel-pits, and Borsod Manufacturing Enterprise.) The only possible (and, because of the danger of losing jobs, imperative) way to privatize them is to have their management and employees buy them themselves. (That is what happened to date at Szombathely's Kermix, at Commercial Investment Enterprise, and at Zalaegerszeg's Electric Maintenance Enterprise.)

In principle, the Employee Stock Ownership Program (MRP) and the E-Credit [Subsistence Credit] provide financial support for self-buying, but both alternatives are based on the assumption that the enterprise is profitable. The former is somewhat more advantageous—the debtor is given a two-year grace period, he can pay back the loan from untaxed profits, and employees do not have to risk their private assets—but provide only quasiownership for a long time. The E-Credit, with the current 17-percent interest—repayment of smaller (less than 10 million forints) loans must begin after a grace period of only one year—necessitates yields that most companies are unable to come up with. Banks do not even talk to firms that are in bankruptcy proceedings (unless they are on “buddy” terms) or to anyone, for that matter, who has inadequate collateral. And if the bank provides credit for the privatization after all, it will mortgage the assets, of course, even if solvency is indicated by the current earnings, thus shutting the door on any future development loan. Then, the company, which in the end has managed to find an owner, is faced with the question “Is there life after privatization?” because, having been bought by its management and workers, the “only” things it has not acquire are things that it needs the most, namely, new markets, a new profile, up-to-date knowledge of management, and supplementary capital.

Several service enterprises, e.g., the Auto Repair of Miskolc or the Duna Hair Salon Company, were squeezed between the grinding stones of two privatization programs. For in the preprivatization phase, the AVU was required to sell a few of their business outlets, but there were no buyers. Most of the enterprises could be sold within the framework of decentralized privatization but, according to regulations, the new owners must also “supervise” the business outlets to be preprivatized until they are sold, and hopeful investors are somehow not very willing to do that—thus, affairs are standing still. Appropriately for an absurd drama, in the meantime employees have left the ominous hair salons.

According to the counseling firms, one reason for not having been able to sell more enterprises was the time needed for the process of changing them into stock companies. According to regulations, the enterprises must be offered to their work force, allowing 30 days for them to make a decision. Local governments are also allowed 30 days to make up their minds, and brokers frequently get entangled in lengthy debates with their lay and uninformed representatives while unclarified legal affairs with parent companies or founding ministries also emerge from the murky past. The essence of decentralizing privatization is that, in principle, the AVU, the owner, signs the founding document “blindly”—with all responsibilities assumed by the brokers—but, according to a unanimous statement by numerous brokers, until the most recent times, the AVU's council of directors often took more than a month to find a pen.

Since the counseling firms are remunerated by the AVU only when proceeds from the selling of property actually flow into the AVU's account, they usually have the enterprises themselves reimburse them for their expenses during the long months of restructuring—even though they cannot get much out of the impoverished firms. However, some of them—e.g., the Duna Holding Company, which leads with signed contracts with 52 enterprises—will restructure, in the spirit of establishing long-term relations, free of charge. Those who get involved with an enterprise that is ready for liquidation do not fare well (two of Capital, Inc.'s four firms, and four of Dunaholding's were such) for the AVU will reimburse them, at the most, only for their expenses incurred in assessing the catastrophe. For that reason, the more cautious counselors—e.g., the Hungarian-Finnish Macon, Inc.—deal only with firms which already have a prospective buyer at the time of the restructuring to begin with.

Of course, whether a buyer can or cannot be found is, in reality, a question of the extent to which the seller is willing to lower the price. But the brokers must adapt to the whims of the AVU which has a rather strong, and short-term, interest in proceeds and which is trying to over-insure itself politically. Thus, according to estimates, about 30 percent of the property's value is the “psychological” limit to which the brokers “dare” lower the price. Considering the fact that privatization has brought only losses, not gains, for the German property agency until now, the AVU will have to go through a new period of learning in order to recognize that merchandise must be sold at a price that the buyer is willing to pay, otherwise the seller will be stuck with rotting merchandise.

However, the time for this has not yet arrived because, according to the plans of the second phase of decentralized privatization, which has been regularly announced by the AVU since last December but which has not yet even begun, the limit at which the broker may sell the property without official approval will be set at 80 percent of the given enterprise's own capital. With regard to the speed of the processes, that condition will

probably neutralize the effect of another innovation that is positive in principle, namely, the AVU's pledge that it will sign the documents of restructuring within five days.

Although the list of another 278 enterprises with assets valued at 70 billion forints, which were included in the second phase, which was "officially" announced in early May by privatization minister Tamas Szabo, was published in the press, the involved parties themselves have not, as of last week, been notified of that fact. For instance, the delay allegedly cost the MHB's [expansion unknown] investment subsidiary 2 million forints because the balance of assets of the Reanal plant that was prepared earlier in expectation of a faster take-off of the program, "lost its validity" after 180 days. True, another reason why the brokers cannot start working is that the AVU has not yet given its final approval for the so-called blanket contract between them and the AVU.

That is probably exacerbated by the fact that the brokers have complained during the past months about the AVU's intention to make things stricter; for instance, in reference to the larger size of enterprises that would be involved in the second phase, the AVU now demands a bank guarantee of at least 10 percent of the capital of the enterprise to be sold as opposed to the earlier 10-million-forint bank guarantee, and the smaller brokers do not have enough security for that. The AVU probably also believes in a disciplined planned management, for in the new contract it would allow each brokerage, regardless of the size of its staff, to sign contracts with only 15 enterprises. At the same time, it would disqualify those who have not signed a contract with any enterprise during the first phase (there are a dozen such firms, owned mostly by foreigners). Some counselors say that the result of the new requirements will be that larger brokerages with more capital will select the enterprises that have better prospects and are more marketable while no one will find it worthwhile to deal with inferior enterprises. We will have to wait only a year, and the AVU will become aware of that, too.

### Short-Term Industrial Policy Concept Announced

92CH0827A Budapest FIGYELO in Hungarian  
16 Jul 92 p 14

[Unattributed report: "Short-Term Industrial Policy Concept (Part I): 'But It Is Necessary'"]

[Text] *The industrial minister promised to submit a middle- and long-range plan of industrial policy in the fall. The work began with the analysis of the current situation and the formulation of urgent tasks. And lo and behold, as a result of that, the government recently discussed and accepted the "short-term program for managing industry" based on that analysis. In the first part of our series, which is not intended to be exhaustive, we will present the program itself, which we will analyze in our next issue from several points of view.*

The system of methods demonstrated and proposed for industrial policy and crisis management, and their

implementation in reality, has the purpose of enabling the government to carry out its 1992 tasks of economic policy, and to put into action the programs of industry, development, and employment as close to the plans as possible.

The most momentous change took place in the organizational transformation of state-owned companies. The number of monopolies was decreased, and trusts (OKGT [National Metallurgical and Engineering Trust], MAT, MVMT [expansions unknown], and the Brick and Tile Manufacturing Trust) were transformed into economic corporations. The explosive increase in the number of small companies and economic organizations, especially those with fewer than 20 employees, continued.

The companies were differentiated considerably according to their performance. A group of companies appeared that was able to cope with market change and the change of ownership. Another group of companies, especially those oriented to the Comecon market, are now in a critical position. That group also includes those businesses whose products are viable, and whose management is successful, but because of the economic crisis their market potential is unfavorable. Government measures must help those companies stay on their feet.

A third group of companies is no longer viable because of their unprofitable production, which utilizes a large amount of materials and energy. Their transformation is slow, and because of problems of liquidity, the majority of them is facing bankruptcy.

Industrial processes in 1992 are determined decisively by the development of the international and domestic economic environment. After the treaty is signed [as published], the duty on about \$1.4 billion worth of industrial exports will be abolished. Thus, in 1992, industrial products will have a considerable advantage in terms of duties, the amount of which can be estimated at \$160-170 million, which in itself will increase our yearly convertible exports by 1.6-1.7 percent.

### Crisis Management

If the government's attitude remains unchanged, recession will continue, and even companies that are still viable will go bankrupt. It is necessary for the state as owner to participate in promoting structural change by assuming a part of the risks, providing means, carrying out reorganization before privatization, creating new jobs where capacities are freed, and managing the crisis phenomena which will necessarily accompany this transformation.

The basic principles of the strategy of crisis management are the following:

The government alone is unable to assume the general crisis management of the entire economy; the responsible participation of local economic and social organizations and local governments is essential. (...) Not even temporarily is it realistic to maintain activities which

cannot be made efficient in the course of crisis management—financing losses, as it were—and thus to prolong the crisis. (...) The solution for regional crises worsened through backwardness can be enhanced if crisis management goes hand in hand with the implementation of regional programs of development for the improvement of the infrastructures of production and the human sphere, and the improvement of the environment. Today Hungary does not have a professionally well-founded program of this type; a recurring problem is that there are no concrete development projects which could be offered to foreign investors. Although under the present economic circumstances one cannot realistically launch a comprehensive, large scale program of infrastructural rejuvenation in 1992, still it is necessary to begin the detailed formulation of the program and the concrete development projects. Developing a system of crisis management methods is an urgent task, because the signs of crisis are becoming more pronounced as the bankruptcy law takes effect. The government must slow down this process among other things with well thought-out, monetary means of crisis management.

As a first step, we designated the companies (corporations) which are in a difficult financial position because of basic allotments by the state in connection with earlier developments, state loans, long-term credits of large amounts, and debts towards the budget. These companies possess a stock of orders and a staff of well-trained professionals. Their products have a market, but because of problems of liquidity, they are expected not to be able to maintain their operation once bankruptcy procedures have been initiated. Government intervention is needed to manage their debts.

Outside the designated circle of companies there are yet other companies, of course, the fate of which is already being settled in some way (OKU, OART, DIMAT Corp., Csepel Automobile Factory, Paper Manufacturing Company, HUNGALU Corp.). Further, there are industrial organizations with lower returns from sales which require the same treatment as the previous ones in view of their strategic positions, regional employment policies, or the interests of national security.

That the TB [Social Security Administration] commissioned a specialized firm with the valuation and sale of assets offered to clear debts is a good initiative. A large portion of the debts by companies has accumulated primarily with a certain group of suppliers, the public utilities (electricity, gas, water, sewage). In order to settle these debts, we propose that the companies be awarded mid-range credits with preferential interest rates, which could be secured by the real estate they intended to sell. In order to prepare the structural reorganization of the companies with the help of the Company Reform Loan awarded by the World bank, the close examination of seven companies has begun with the participation of specialized foreign firms, and preparations for this examination have started in 50 companies. It will be partially financed by a loan from the World Bank, and to a greater extent by a Japanese Government aid package

and a contribution by the Hungarian Development Foundation. The privatization income given to the Hungarian Investment and Development Corp. must go to support the acceleration of the structural reorganization of industry and privatization by raising capital, buying shares, and creating a favorable financial framework. It is justified to extend that credit primarily to start improvements that are in accord with the goals of structural policy, or are connected to the major directions of research and technological development.

The new institutions proposed by the portfolio, the Regional Associations for Economic Development, would promote the solution of economic problems in the regions by locating resources which could flow into the respective regions, by utilizing the existing foundations in a more coordinated fashion, by establishing regional programs and furthering development campaigns, and by providing market information. The funds necessary for maintaining their operation and for crisis management would be raised jointly by the central and regional government organs, commercial banks, interested domestic and foreign investors, and the already functioning companies in each respective region.

The most critical prerequisite for crisis situations is the growth of unemployment. In order to stop that process and in support of a proposal by the Regional Working Committee of the Economic Cabinet, we approve of the establishment of employment associations. Furthermore, a significant factor in the solution of regional employment problems is the development of the service sector and the retail network.

Small and medium-size enterprises have a significant role in relieving regional disparities and tensions. For that reason, allowances and loans with low interest rates are necessary to establish new jobs and expand existing workplaces.

#### The Day After Tomorrow

We have begun to develop a long-term strategy of industrial policy. The system of measures supporting this industrial policy has to be effective in the promotion of privatization and entrepreneurship, the support of small and medium-size enterprises, the increase in export performance, the promotion of investments, the transformation of the K + F [expansion unknown] system of organizations, environmental protection, environmental management, and the protection of industry and markets.

In order to promote the change in production profile and the change of markets, and to further privatization, the Ministry for Industry and Commerce proposed the creation of a Structural Reorganization and Privatization Investment Company, to be established with the participation of the state.

The promotion of entrepreneurship and the support of small and medium-size enterprises must be enhanced,

for instance, by the following methods: investment assistance, preferential loans and loan guarantees to start enterprises, stock purchases by the state to promote the acquisition of risk capital, creation of institutional prerequisites for the provision of risk capital, the organization of business innovation centers, creation of the infrastructure of services for enterprises, the establishment of a network of information, and the creation of "incubator houses" for entrepreneurs.

#### Protection of Industry and Markets

In order to increase export performance, in the framework of the updated system of export bids, conditions must be created that are more favorable than the norm (for instance, assistance for technological development) for improvements with the purpose of creating marketable export goods. Finding markets must be assisted by the expansion of the network of trade posts in foreign countries.

The task of research development programs and special bids is the creation of consortia for research, development, innovation, and marketing, which would receive central subsidies.

The new organizations created by the partial privatization of institutions and development companies and by their joint holding has the purpose of reorganizing institutions and the entire K + F sphere.

The conditions for quality improvement will be created (among other things) by the following measures: the inspection of the system of licensing by the authorities; the assessment of the situation of quality control institutions; the creation of a new system of accreditation; the initiation of a Quality Control Center. The K + F policy treats environmental protection and environment-friendly technologies and procedures as a definite priority.

In the area of the protection of industry and markets, we consider the introduction of internationally used measures necessary for the protection of industry. One of the most important methods for the protection of industry connected to specific products is making the import of products dependent on the norms and regulations covering health, consumer protection, and environmental protection. To do this, we must develop the Hungarian system of quality attestation, we have to bring our standards in accord with those of the EC, and we have to introduce the EC directives. (...) For products and countries to which duty concessions apply, a rigorous system of certificates of origin must be developed, like the one in use by the EC and the EFTA. Another measure connected to specific products is a dumping procedure, the regulation of which allows for the initiation of market protection measures. This can be accompanied by the system of so-called value-leveling duties, the purpose of which is, in accord with international practice, the separation of subsidies to exporting countries.

In commissioning domestic infrastructural investments, a much more definitive support of domestic industry

must be exhibited. In that respect, for instance, the minimal percentage of domestic products (30 percent) must be stipulated as a requirement; in the case of bids, if the technological content is identical, domestic bidders must be given preference up to a price limit amounting to the international market price plus 15 percent; foreign firms can only submit bids if they undertake to give a certain percentage of the orders to a Hungarian company and submit a joint bid with the Hungarian companies.

#### [Box, p 14]

What could be the purpose of a program of industrial policy? At last week's plenary session of the Arbitration Council, the participants gave very different answers. As it turned out, employees think that developing a program of crisis management is a government task. The program must contain the definition of measures and goals for crisis management. The current draft was judged to be better than the previous ones because it suggests concrete measures—preferential loans, capital increase from privatization income, tax remission—to assist in the structural reorganization and market change of viable companies and enterprises. On the other hand, the employees were missing the designation of goals for industrial policy, the branches to be developed, and ideas about employment and education. Moreover, they proposed that the IKM [Ministry for Industry and Commerce] develop a program that would contain a statement of major tasks according to deadlines and persons in charge. On the other hand, the representative of employers pointed out that possibly even that material will not convince everyone that an industrial policy is necessary at all. They think it is necessary, and the real question is what its function and its methods should be. They dispute whether the task of industrial policy is to formulate natural goals of the old kind, including deadlines and persons in charge. What an industrial policy should undertake is nothing more than the creation of the economic environment, and in the long run, the exploration of the comparative advantages of the Hungarian economy. That is to say, a strategy can only be built on this basis. Both employees and employers felt the lack of a protection of domestic industry. In their opinion, Hungarian products are at a disadvantage even on the domestic market; foreign companies, even if their products are not much better, move better on the market. The old, experienced foreign trade companies with a monopoly have disappeared, and new ones have not replaced them yet.

Moreover, as it turned out, agreement is not complete among the ministries, either. In the words of the deputy under secretary of the IKM, compared to earlier variants the IKM has taken the biggest step back in the matter of finances. That was the price of compromise. Namely, the IKM wanted to raise more funds for the structural reorganization of industry. The deputy under secretary of the PM [Finance Ministry] said, almost as a reply to the above, that the budget has no money for that

purpose. But even if it did, one should not finance economic transformation with central money. One must acknowledge that today not the formerly omnipotent state, but the behavior of the companies shapes the economic processes.

In view of such differences of opinion about economic philosophy, the question asked at the council meeting

seems to be justified: What will happen to the plan? Will it join the ranks of other industrial policy plans that have not been implemented, or will it become part of the unified governmental economic policy?

Frankly, the chances of the latter, at least in the opinion of this author, seem to be slimmer.

**Disgruntled Intelligence Agent Vents Complaints**  
*92EP0621A Warsaw NIE in Polish No 29, 16 Jul 92 p 3*

[Interview with unnamed Polish intelligence agent by Marek Baranski; place and date not given: "Deaf and Blind Poland"]

[Text] The sky over Warsaw had already become gray. Dusk has fallen. I stood where they had told me to, on the sidewalk in front of the Metropol. Punctually at the agreed time, a Polonez stopped in front of me.

We drove toward Grochow, but only to turn back over the Wisla in the direction of the Trasa Lazienkowska. Turn? We turned every few moments onto a new street of Saska Kepa. When the driver was certain that I had not brought an agent down on his neck, he drove onto the Trasa Lazienkowska.

I did not go in the Polonez to the goal, a secret meeting with an officer of the special services. The driver warned me that when we cross the Wisla I am to be sitting next to the left rear door. Directly under the roadbed of Ujazdowska Street, he is going to stop for a moment; I am to get out and jump the barrier dividing the Trasa and get into a car that will drive up from the other direction and stop in the left lane on the other side of the barrier. It was a black BMW. The edge of the rear door stood out slightly from the immaculate body of the car. The door was open. I jumped in. We pulled away, in the direction from which I had just come. But now this was a completely different trip. I was alone in the rear seat. An opaque wall of something divided me from the driver. There were apparently normal glass panes in the door and in the back. When I got in they seemed normal, only tinted. But inside I could not see through them. The driver locked the door from his central control. He also lit two small lights mounted on the ceiling. He? Perhaps she. Perhaps no one. I did not even notice whether there is someone else in this BMW other than me because of my emotional state. We drove quickly; I do not know where. Later I found out that the change of cars on the Trasa Lazienkowska is the most certain way of loosing a tail in Warsaw. An hour later, I smelled something. Only three cities in Poland smell that way: Jelenia Gora, Swiecie on the Wisla, and Ostroleka. Jelenia Gora no longer smells because Celwiskoza has been closed; we could not reach Swiecie in an hour; Ostroleka remained. Not only the smell but also the characteristic jolts before the train tracks that come just before the city agreed. The rails here are crooked and full of holes like all of the Polish State Railways system. Then we turned left 90 degrees. Mazury.

But they did not take me to Stare Kiejkuty, to the intelligence school. They are not so disrespectful of their new bosses. My interviewee was waiting for me in a one-room house, of which there are hundreds in Mazury, in Wilga, in Kaszuby, all over Poland. Outside the window, some birds were chirping; a man in crooked glasses was lisping that tomorrow will be hot and he

wished us a good night. When the host turned the television off; we were completely alone.

[Baranski] You wanted to talk to me. About what?

[Agent] A weekly. It has a large press run. And everyone reads it. In the Ministry of Internal Affairs, everyone. No one hides the fact. The officers, the heads, the directors, and the minister. They read it at the Belweder, too, and in the Sejm. Thus, I am certain that what I say will be read by those who should read it. Will they make use of it? I doubt it, but at least I will be able to tell myself that I did everything I possibly could.

[Baranski] But what do you want to tell me? Why the masquerade, the cars?

[Agent] I still work and I do not want for my current superiors to figure out who talked to NIE. But I do want publicly to say that we are naked and everyone can see us. I am speaking of intelligence services. In this area, the ethos did everything to take our clothes off. It did this intentionally, in an ideological madness, out of foolishness.

[Baranski] When in your opinion did it begin?

[Agent] When they removed Kiszczak.

[Baranski] You should be satisfied; you did not like him. Many even thought he was a traitor.

[Agent] Surely, but he knew his work. He knew that intelligence should be above the order. He wanted to introduce his successors to the business gradually; he wanted them to learn the rules. They were completely green. But they were in a hurry. They wanted to get into everything on the march. And they got in. They got in even before the American action in Iraq.

[Baranski] You would want Poland to change its order, its officials from top to bottom, and you would go on quietly doing your thing. That is impossible. For whom did you work, for the PZPR and for socialism, which no longer exist?

[Agent] For the state. It exists. Whatever it's kind, it exists. The officers can be gradually changed. The agents cannot be frightened. To expose them is a crime. Against them and against intelligence. I repeat—the network is above the order everywhere. Only not in Poland.

[Baranski] You are getting hysterical. What exposing, what crime?

[Agent] Desert Storm, for example. We gave the Americans everything. The operational plans of Baghdad, the location of the anti-aircraft guns, the radar stations. Even 12 hours before the attack, they were able to begin to effectively block the electronic eavesdropping, the radiometry, and the air defense system of Iraq. They turned to butter. Practically without any losses. When you give people such important information you cannot avoid revealing the source of the information. We were very

well off—in construction firms, trade firms, in private firms. What we had! Later a few officers were promoted and the head of intelligence at the time even got a medal from the Americans. The newspapers, radio, and television reported it. The colonel received honors; he even smiled, but he knows that after that he can never be certain of his fate. He had been exposed. And the Iraqis are not fools. Moreover, they do not forget, and they are fanatics.

[Baranski] You are disturbed by our servility to the Americans? The KGB did not disturb you?

[Agent] It is true that now everything is reversed. There have already been courses in London, in Washington. They are good. But they have a better position in Poland than the Russians used to have. The Russians did not know the last names of our agents. Sure, they got information from us that we ourselves were not in a position to consume, but they did not know from whom.

[Baranski] Are you now fighting the Russians?

[Agent] In comparison with the former friendship and cooperation we had, you can call what is happening now a war if you really want to. Although for me things are now just normal. They are rapidly building their network in Poland. They are recruiting like everyone. Trade with the Russian soldiers and officers stationed in Poland is very fashionable. The Northern Group of the Soviet Army, as long as it is in Poland, is very good cover for Russian operations. It is natural for there to be counter-intelligence groups in an army. To what degree they are counterintelligence and to what degree they are institutions of Russian intelligence, only they know. If then someone deals in weapons, gold, gasoline, or is gladly doing a brisk business with "suckers" who let themselves be defrauded, then he ought to count on the suckers at some point, and demand cooperation of another type. A similar fate can happen to businessmen operating in a completely civilian area. Those who import to Poland pure alcohol for re-export to Russia. They import Mexican Marlboros, Filipino sugar for them; they create fake invoices, and cheat on taxes and commissions. The Russians do not have a lot of money, but they gladly sell rare metals in exchange, for example. Do you really believe that there is so much disorder there that no one is controlling strategic goods? One transaction is enough to waste an entire life.

[Baranski] And what about us? Nothing?

[Agent] Not quite. In 1989, an "eastern" division was formed in the First Directorate of the Office of State Protection. They began from nothing. It is still a weak unit, but it is attempting to gain agents, to build a so-called deep intelligence. The Border Guard is handling "shallow" intelligence along the border.

[Baranski] Do Polish and Russian intelligence services cooperate?

[Agent] There is no place for cooperation of the old kind. There is room for an Interpol-type of cooperation: narcotics, terrorism, mafia. And perhaps the Left. At one time we knew that among the members of the PZPR [Polish UNited Workers Party] there were Russian spies. Today among the Social Democracy of the Polish Republic [SdRP] we have not encountered any. But I feel that my bosses would want very much to find something like that. And they have talked with their bosses about it. I heard they have spent a lot of money on some secret delegations to Moscow during the affair of the Soviet loan to the PZPR. They badly wanted to find some proof of betrayal, selling out, and they found nothing. There was nothing. I can imagine the scream in the papers and in the Sejm if they could prove anything whatever.

[Baranski] And our traditional opponent, German intelligence, what do they know about us?

[Agent] Everything! Poland for them is surely a boring country. Nothing here can surprise them. There is nothing they do not know about.

[Baranski] Now I am not surprised that when Macierewicz and Naimski took over they began by sealing up the Ministry of Internal Affairs: new passes, identification papers, magnetic cards, additional guards.

[Agent] In reality, they completed the destruction. If someone says that intelligence and counterintelligence are the eyes and ears of the state, we can say that Poland is blind and deaf.

[Baranski] What kind of proof do you have?...

[Agent] When the previous head of intelligence was removed from his job, it was said that he himself wrote the report on his removal. Meanwhile, he was fired because he did not want to make available to the new heads of the Ministry of Internal Affairs and the Office of State Protection a complete list of active foreign agents. I am not certain that his successor did not proceed in the same way. As far as the network and last names are concerned, Macierewicz's and Naimski's people were uncompromising, even predatory. They collected information from everywhere. For example, in one of the documentation sections they copied the files. There were forms there that are attached to every intelligence file. They contained the subject, what the information concerns, the cryptonym of the report agent, the cryptonym of the evaluating officer. A good intelligence officer on the basis of this information can locate the reporting agent. Thus recording these cards is automatically suspicious.

Macierewicz's boys rummaged in the finances. Intelligence has its financial center. They are unusually secret affairs. They keep the agent's files. Under the cryptonym, initials, or under a false last name of the reporting agent, all payments are recorded. Among them are recorded with the letter N all the payments to so-called illegals. For every intelligence service they are the most valuable.

[Baranski] Who are they?

[Agent] Let us say that a foreigner comes to Poland and dies. We find out that he had no one; he was completely alone. Then we hide the death and we put our man in place of the corpse. "He" returns to "his" country and begins to live normally. He works, perhaps he even gets married. They also attempted to solve these "illegals." That is incomprehensible. Furthermore, in a stupid way they went to work on the section for legalizing "illegals." One knows they must have all their documents in order, and they must have everything that a normal person has with himself, and around himself: letters, photographs, a pen, notes, clothing. Someone must prepare all that. That is the work of those in in the legalization section. They worked not in the main buildings of the Ministry of Internal Affairs but in another place in Warsaw, guarded by soldiers of the Nadwislanski Military Units. Macierewicz and Naimski moved them to Rakowiecka. They wanted them under their nose, but primarily they wanted to know on an ongoing basis who is being sent where, who is already working where.

[Baranski] Don't the head of the Ministry of Internal Affairs and the head of the Office of State Protection have the right to do that? That is illogical.

[Agent] They do, it is clear they do. Only they did not know what they are doing. Making them privy to anything is a real danger. They, for example, did not realize that moving such a section, like legalization, reveals it. If someone is watching a building, in high boots, moreover—that is, from the Ministry of Internal Affairs—then every foreign intelligence service working in Warsaw knows it is necessary to watch such a building well. If these same faces seen previously somewhere else are now seen on Rakowiecka, the moved have ceased to be secret. On the contrary, they attract attention, because it is now known that they did not move just anything to the central building but something important, since it is to be ready to hand. The intelligence service, perhaps services, have figured out what it was before you came here for this conversation. That is why I mentioned it. The members of the Christian National Union [ZChN] had still another move. Naimski, for example, told all the operational sections to prepared detailed reports on all cases in progress: cryptonyms, information sources, the category of cases. He also told them to record all the officers in intelligence (first and last name, section, rank, position); all the people working in posts abroad, and all the safe places ("LK") available to the intelligence service. When that order was executed, in how many copies, who has them?

[Baranski] Are you claiming that after the affair with the files the agents of Polish intelligence, its informers, will demand an end of cooperation, destruction of their files, debts, payments?

[Agent] Yes. So that my bosses were certain that you talked to someone "from within" I will say: Switzerland and Wroclaw.

[Baranski] Which means?

[Agent] You do not need to know, they know.

We each drank another cup of coffee and said good-bye. In front of the house, the same BMW was waiting for me. When I got out near the Metropol, the sky over Warsaw was already turning red. The sun was about to come up.

I went home on foot. I looked around constantly. Damn, it is catching.

### **Racial Discrimination, Intolerance Described**

*92EP0619A Poznan WPROST in Polish  
No 32, 9 Aug 92 pp 27-28*

[Article by Wieslaw Kot: "The Terror of the Average"]

[Text] If someone is different from us, then he is not one of us. And since he is not one of us, he is strange.

The discussants are indignant. In response to the question whom they would like to close up in a ghetto if it depended on them they respond that they do not want to "lock up," "separate," or "fence off," anyone, but they immediately give a list of people "with whom they want nothing to do." Those infected with AIDS, homosexuals, alcoholics, and the homeless should disappear from the train stations. In Poland, there is no place for them like the one for retarded children, raised in houses under the care of nuns. The discussants are more understanding of those groups of renegades, whom they know have found their place (hotel saunas for nudists) than, for example, for homosexuals, since they have not heard of their clubs yet. In conjunction with this, the homosexuals should disappear. The discussants do not know where nor how, they are only convinced that "they should not be," that "someone should deal with them." It is not known who that is supposed to be, perhaps Kotanski, perhaps the nuns? The respondents to a telephone survey by the editorial staff on the subject of "strange" people in society stick to one thing, that this problem not concern them.

They have nothing against beggars and children with HIV as long as "someone" "takes care" of the matter in a way that keeps them from being condemned to the choices of the residents of Laski or Jozefow. "I do not wish them ill," says a middle-aged office worker, "but let them go somewhere else." Where? "I do not care where, as long as it is far from me."

About "strangers" in ethnic terms, the discussants speak without great emotion. It is clear that they have strong opinions and that they have already expressed them frequently. "Strangers" are above all Jews. The discussants describe them most frequently with the words: "conspiracy," "manipulation," "fraud in business," "power exercised in secret." The fact that the discussants have never seen a Jew other than on television means nothing. "You think that you can recognize them by their large nose?" one of those asked explains to a naive

one. "I recognize them today by how they push for power." The discussant does not want, however, to give names of politicians because "everyone knows who they are anyway." If someone speaks about Jews, he usually uses the phrase "we Poles" in the next sentence. That "we" does not appear then in relation to any social program or to any party.

Gypsies, "repulsive, dirty, bad," are strangers because they do not want to participate in what is happening in Poland, if one does not count fortune telling with cards and selling pans. "I have nothing against my child's class consisting of 50 percent gypsies. On the condition, however, that the gypsies do not lower the level of instruction, manners, and dress." "What will my child get from fraternizing with swarthy colleagues if after years of joint education he will only be able to go to a 'vocational' school, forgets how to brush his teeth and begins to curse." Another discussant complains: "Obviously, I have nothing against gypsies as such. They can play with my son on the condition that they exchange computer programs and not cigarettes stolen from their parents. But it so happens that I have never heard of a gypsy kid who knows how to use an IBM. When he learns, I will invite him. Then, as part of a cultural exchange, I will travel with the wagons."

In Poland "black" means an African student rather than an American basketball player. "I have nothing against blacks, but," declares one of many discussants. The dislike for the dark-skinned is humorous. They eat no one; they are not seeking power. The discussants speak of their skin color as a kind of funny handicap. In company, jokes about them "just coming down from the trees yesterday" arouse no moral opposition. "If there were more of them," adds a Warsaw resident with a higher education, "we would treat them as Americans do in the southern part of the United States: a black is useful to you so that you can say when things are going wrong: 'That one is worse off than I am'."

The "capitalist centrifuge" has sown a new type of "stranger" in society. We asked several dozen businessmen in Poznan and Warsaw about people who had become "strangers" to them during the start-up of their own business. They agreed that, most of all, poor people had become strangers to them. These businessmen are themselves just starting out and they emphasize that this does not mean that "someone has less." Rather, they see a certain philosophy of poverty. A poor person is not someone whose property burned in a fire yesterday, nor a freshly divorced man who has lost half his property. A poor person is someone who practices a "philosophy of poverty."

"The state does not help me; the nomenklatura has taken over the partnerships; I have moral principles which do not permit me to run a business." The poor by choice have a constant alibi: "I am poor, but honest." Poverty is becoming strange because its world is shrinking drastically; one has no money for newspapers, theater, restaurants, and trips. One closes oneself in a circle of friends

similar to oneself, who confirm each other mutually in their conviction that somehow they will get by. A person of working age who accepts his poverty with time becomes increasingly boring, empty, and separated from life.

Capitalists just appearing in the market also mention as a mark of estrangement a lack of "flexibility" in work. It marks "lovers of one position," whose career path reduces to surviving through retirement without risk and effort. Such a type of worker occupies an increasingly lower position in the hierarchy of the firm and frequently disappears from it altogether. Business eliminate people who think slowly, who are of little intelligence, incapable of quickly evaluating a situation.

As a third characteristic of the "stranger," businessmen mention a lack of ambition. They emphasize that many of them have had to compensate for a lack of education and knowledge of market rules, foreign languages, or the principles of business management with aspirations and determination.

"Stranger" is also someone without the ability to "think positively," without enthusiasm for what he does.

The business community excludes and isolates those who have not forgotten the ceremony of complaining about "objective difficulties" that reigned in the People's Republic of Poland. If someone goes around saying to others and himself that "things are hard" and that a given project "will fail," then usually in reality, in accord with his expectation, it fails. The businessman ceases to be a businessman and seeks a position, to be sure poorly paid, but one that will guarantee that here "there is nothing that will fail."

We also asked entrepreneurs what range of freedom they have in choosing personnel for their firms. The answers were in general agreement—"the terror of the average reigns." The employees instinctively cling to those who do not stand out and know what they are doing. "Obviously I can fire those who work too slowly and I will be able to replace them with the same kind because there is a quiet but effective conspiracy against 'Stakhanovs' in the labor market."

In small towns and rural areas, where people know each other better, we asked about strange customs. "Who is more to be condemned: a girl in a short skirt and a see-through blouse, or an unshaven, toothless drunk?" The girl was criticized most frequently because "she can lead someone down the wrong path"; on the other hand, someone who did not shave caused no harm to anyone.

The respondents would prefer a religious do-nothing for a neighbor. At least, they know he is a lazy-bones. Meanwhile, someone who constantly avoids church must have secret and important reasons for that, and one never knows "what really makes him tick." The following were not considered "strangers" in a small community: a notorious drunk, someone who did not keep his word, a beggar, or a slob.

In a closed community, "strangers" were identified by secondary physical characteristics much more frequently than elsewhere, revealing a simplistic, frequently desperate attempt to comprehend the world in which they live.

As "suspect," they mentioned with complete seriousness "red heads," "hunchbacks," and "people who never look you in the eye."

People who wore glasses were considered conceited people with above average education. We asked who arouses the greatest trust: a man in a suit, a pigtail, and a black bag in his hand or a punk dressed in skin and sequins? Both were treated with equal antipathy: the one in the suit for suspected thievery and the punk for being a bandit. "Then how should one dress in your town in order to arouse trust?" The answers: "normally," "humbly," "ordinarily," and most frequently "like everybody else."

Finally, we asked whether the discussants distinguish "different" from "strange." Their understanding was as follows. "If he is not one of us, he is strange." And "different"? "If he is different from us, then he is not one of us. And if he is not one of us, he is strange."

#### **Lewandowski on Privatization, Foreign Capital**

*92EP0593B Warsaw RZECZPOSPOLITA (ECONOMY AND LAW supplement) in Polish 21 Jul 92 p I*

[Interview with Janusz Lewandowski, minister of privatization, by Ada Kostrz-Kostecka; place and date not given: "How To Energize the Ministry and Privatization?"]

[Text] [Kostrz-Kostecka] Certain irregularities have been taking place at your ministry. How can they be avoided at present?

[Lewandowski] In 1991, the ministry was still in its formative stage when it started operating and so, in my opinion, formal oversight was unavoidable, unless we had first completed designing the structure and composition of the ministry before starting to operate. Such oversight cannot be repeated in 1992—that is obvious.

[Kostrz-Kostecka] Will the conclusions inferred from the comprehensive six-month audit by the NIK [Supreme Chamber of Control] be helpful to repairing the situation at the ministry?

[Lewandowski] After the ministry, while carrying out ownership transformations, became gradually a kind of trusteeship office supervising not just several but several dozen or several hundred Treasury companies, it had to acquire new duties and introduce a new accounting system. Of course, we also drew conclusions from the NIK's audit. I believe that it would be best if a couple of NIK employees were to be transferred to our ministry, because, as it turns out, their way of looking at things is highly needed.

[Kostrz-Kostecka] Have you yet offered employment to anyone at the NIK?

[Lewandowski] One NIK employee has transferred to our ministry, to the post of director of the department for administrative and financial affairs.

[Kostrz-Kostecka] The NIK audit mentioned, among other things, negligence in protecting the interests of the Treasury.

[Lewandowski] At present our ministry is about to start operating with redoubled energy, yet please consider how we recently have been constantly getting stuck in a blind alley by viewing privatization through the prism of the NIK's audit. I simply cannot agree with such a one-sided view of privatization and the Polish reform. The interests of the Treasury are best protected if decisions to privatize enterprises are taken and enforced, and much less protected when officials tie everything up in red tape and specialize in postponing decisions. Yet that was what happened in the first half of 1992.

[Kostrz-Kostecka] But what about the concept of an institution representing the interests of the Treasury? Mr. Minister, will you be a "suicide" terminating the existence of your own ministry, by promoting private enterprise too much?

[Lewandowski] The new government, which has, through the mouth of Minister Kuron, pledged itself to hew to unprecedentedly short deadlines, will have to examine its concept of administrative system, of representing the interests of the Treasury, within two weeks. I would like to spare the personnel major administrative changes and uncertainty. For the present, I shall of a certainty not support the idea of liquidating the ministry. It is only after the development of a concept of reorganization, and of the establishment of a Ministry of the Economy or an Administration of National Wealth in some other form—together with a specific procedural scenario—that we can begin to implement changes. Until then, while reform is still underway, the operations of the principal economic ministries cannot be suspended. This concept is diametrically opposite to the one followed in the first half of this year.

[Kostrz-Kostecka] Privatization is evaluated not only in economic terms; it is also subjected to political assessments. In such a situation, Mr. Minister, how do you intend the bring about your stated desire to "clear the road to privatization"?

[Lewandowski] In a twofold manner. First, the NIK has indeed prepared a 1,000-page audit of our activities, and a position on it has to be taken while at the same time somehow defending the rationale of our actions in 1991, which I believe is possible. Secondly, at present the obstacles to privatization are chiefly due to the lack of social acceptance of the ongoing processes, and to the lack of social trust. This also is a question of receiving a political mandate; consider that we are additionally richer by the experience and methods followed

throughout the entire postcommunist camp. I see the process of building a political bridge or obtaining a political mandate for privatization as follows: Jointly with the Ministry of Labor, we shall consult the trade unions about specific proposals, and thus conclude a kind of social pact.

[Kostrz-Kostecka] Under Tomasz Gruszecki, the ministry made hardly any progress in privatization. At that time, many experts left the ministry, and allegedly there was confusion about its powers. In such a situation, how do you intend to revitalize the ministry and privatization, and recruit new personnel?

[Lewandowski] It turns out that the best people are returning, often giving up higher outside earnings. Actually, in 1991 there were enthusiasts here who wanted to accomplish the most spectacular privatization in East Europe. This is generally not appreciated, not understood; we lost the motivation of this kind in the course of the "war at the top." But now some of the people who have gone have declared their intent to return, from Russia, from Paris, from within this country. Let me name Deputy Minister Wojciech Goralczyk for example. Thus there is now a new spirit at the ministry, and the pressure of the enterprises will force a new style of work.

[Kostrz-Kostecka] How are you going to attract foreign capital, which is discouraged by the unstable situation in Poland and the bad climate surrounding privatization?

[Lewandowski] The first step in rebuilding Poland's credibility was made together with a political test: Poles have shown maturity and built a government of parliamentary majority. Secondly, the Agency for Foreign Investments is beginning its promotional work and, together with it and Minister Arendarski, we shall try to encourage foreign capital to invest. We are aware that the participation of big foreign capital so far has been ridiculously low, but negotiations are continuing with very serious potential partners in several key industries: automobile, pulp and paper, shipyard, and meat processing.

[Kostrz-Kostecka] Do you intend to return to old programs such as mass and sector privatization, the "Privatization Express," which were suspended or delayed?

[Lewandowski] In its mass privatization drive, Poland verges at being ludicrous and shall become so if the third government to be formed will once again discuss the specifics of this program instead of translating it into reality. We are doing exactly the reverse of what neighboring countries, which grope in the dark, are doing. I will be an ardent supporter of a rapid implementation of the program, and I have already won over to this idea a couple of members of the Council of Ministers. The "Privatization Express" launched as an innovation in 1991 will continue to run. On the other hand, the issue of employee participation in privatization, that is, of granting employees at large enterprises special stock-buying privileges, has to be raised anew. The institution of leasing should be continued, but we should shift

emphasis to sales on the installment plan, since these protect better the interests of new entrepreneurs. Sector privatization, a concept we had devised in June 1991, was excessively oriented toward sales of enterprises, whereas its underlying purpose should be to transform the Polish economy from a socialist one to a capitalist one, to assist in considering entire sectors of the economy from the standpoint of not only privatization but also restructuring, customs protection, and relations with foreign capital—and not through the mediation of ministries, but through that of the Council of Ministers at that.

[Kostrz-Kostecka] The manner in which money-losing enterprises are liquidated has been a cause of the irregularities. This was due to, among other things, the absence of implementing regulations for the Privatization Law and the Law on State Enterprises. At present these two laws themselves are becoming outdated. Will you propose amending them?

[Lewandowski] After two years of experience, amendments to these laws are necessary but I am somewhat apprehensive on this subject, because of the drastic reduction in the membership of the Sejm Committee on Privatization. Yet a hot summer is coming: lawmakers will be working on the Mass Privatization Law, the Reprivatization Law, and amendments to the Privatization Law concerning precisely the liquidation procedure. We are also facing such problems as capital market deregulation, consideration of Treasury interests, and a draft law on the commercialization of state enterprises. A proposal for amending the Privatization Law is being polished at the ministry and shall soon be presented for consultation to other ministries.

[Kostrz-Kostecka] The long history of the Reprivatization Law is over for the time being, because the ministry has prepared another draft of that law but the government did not present it on time to the Sejm. As a result, following the first reading, the Sejm accepted a deputy-drafted version and tabled it. This document is a modified first government draft, that is, it dates from your time. But now that the ministry is supporting a completely different concept and plan, on becoming its head you have crossed over to the other side. What are you going to do in this schizophrenic situation.

[Lewandowski] The matter is already prejudged. At the ministry this is linked to the replacement of the deputy minister in charge of reprivatization. The deputy-drafted law provides a basis for the Sejm's work, and so much time has been lost that this matter should be finalized as soon as possible. At my request, while I had still headed the Sejm committee, copies of the ministry's concept were distributed to the Sejm for information. Certain ideas of Minister Krzyzewski may be utilized as well, for example, a formula for substitute compensation along with the restitution of physical property, and along with reprivatization vouchers.

**Components of Mass Privatization Plan Discussed**  
*92EP0592A Warsaw RZECZPOSPOLITA (ECONOMY AND LAW supplement) in Polish 17 Jul 92 p III*

[Article by Jerzy Thieme, director of the Department of Mass Privatization at the Ministry of Privatization: "The PPP, That is, the Mass Privatization Program"]

[Text] Several Days ago Krzysztof Dzierzawski, writing in RZECZPOSPOLITA, placed me under the obligation of answering six specific questions about the Mass Privatization Program or PPP. The first concerned the estimated value of the individual share, "so as to avoid the disappointment of the disappointed public, which may be expecting 1 billion zlotys [Z] per share." Let me point out that the framers of the Mass Privatization Program have never encouraged any hope that the shares to be distributed to the public will be highly valuable. Neither have they suggested that their value would be in the neighborhood of the abovementioned Z1 billion (let alone the more recently mentioned Z5 billion).

About 400 enterprises are to participate in the mass privatization. Nearly one-half of these, 198, has already been transformed into joint stock companies, and the aggregate book value of their assets is about Z23 trillion. Assuming a total of 400 companies, their book value should aggregate roughly Z46 trillion. Assuming that all adult citizens of this country, who number 27 million, will participate in the mass privatization program, each will receive Z1,700,0000 (that being the result of dividing Z46 trillion by 27 million). Should the program encompass 800 instead of 400 enterprises, every adult Pole should receive about Z3.5 million in terms of book value. In the event that only every 10th citizen applies for participation in the PPP, the applicants will receive 10 times as much of the book value apiece, that is, Z17 million. That is still very far from Z100 million.

We are a big country, with a population of nearly 40 million, but our enterprises are unfortunately not worth very much, as indicated by the above figures.

The PPP is principally intended to enable several hundred large enterprises to be efficiently managed by professional managers. A major factor is that in the future it will be the shareholders who will control and employ these managers.

But the whole idea of this program is to afford an opportunity for growth to enterprises that are at present worth little, and thereby also to afford to their shareholders the opportunity to augment the worth of their shares. To round out the picture, it also is worth noting that it is not possible at present to estimate the market value of the enterprises covered by the PPP, nor, more importantly, of PPP shares. That value will be determined by the market, and it probably will be at first even lower than shown by the above estimate. There exist two possibilities for augmenting the value of the shares. The first is to extend the program to several hundred more enterprises, and the second would consist in dividing the

value of the assets by the number of the citizens participating in the program rather than by the number of all adult citizens. But these matters have to be decided by politicians and not by economic experts.

In view of the above, there is no point to trying to figure out the future value of the shares, because that will be determined by too many micro- and macroeconomic factors which can be at most tentatively anticipated in isolation from each other rather than in combination. But that is not essential to accomplishing the purpose of the PPP, which, in time, is to increase the value of companies and of shares in them.

That is because the PPP is not a program for distributing assets but a program for privatizing industry, so that decisions on its future will be influenced by shareholders, but decisions on its current management will be taken by potential managers. The future prosperity of this country and its citizens will hence depend not on our becoming enriched all at once, but on the manner in which our property will be administered for many years in the future.

Mr. Dzierzawski also asked about the estimated value of the dividends. In the initial years of the PPP the management will of a certainty decide to earmark profits, if any, for restructuring and needed investments. Hence there should be insufficient profits left for paying dividends. But that is nothing surprising. The second or third largest computer company in the United States, Digital Equipment Corporation [DEC], has never yet, ever since its establishment—many dozens of years ago—paid a dividend. What is more, it has declared that it shall never pay dividends, yet the value of its stock has multiplied over these years and there has never been a shortage of buyers of DEC stock.

Besides, DEC is no exception, because in the United States a majority of the companies existing in the stage of growth and investments pay no dividends but nevertheless find many investors. What is more, such companies, termed growth companies (to distinguish them from regular ones), quite often yield to investors much higher incomes than do companies paying a regular dividend. This indicates that the profitability of an investment is decided by two factors, which in the case of stock are: the increase in the value of the stock and the dividend paid. The absence of a dividend may be more than offset by the increase in the value of shares, attained owing to, among other things, the fact that a company's income has been plowed into needed or profitable investments.

The funds for restructuring—another question asked by Mr. Dzierzawski—will come from the profits earned by fund management. Because such profits are not likely in the first few years, it is expected that the NFI [National Investment Funds] will be able to obtain loans from, among other places, international financial institutions such as the European Bank for Reconstruction and Development [EBRD]. In the case of that bank, funds can be lent only to the private sector, of which the NFI

will be a part. Such loans will be guaranteed neither by the Treasury nor by state banks, and they will be granted in accordance with the rules applying to the private sector.

The next question was, "Does privatization mean that everyone is the owner of everything, and if that is a transition period, how long will it last?"

My fellow polemicist is perfectly aware, I believe, that a condition in which everyone is the owner of everything is defined as nationalization, not privatization. Because a nationalized economy is our point of departure, creating titles of ownership—which gives every eligible and willing person the same starting chance in the form of an equal share in assets—seems to be a solution that meets the requirements of social justice. However, this situation is certain not to last very long, because transactions in PPP shares and NFI stock will result in a rapid process of consolidation of the ownership of these securities. In effect, one can "point with one's hand" and declare, "This is my money," as millions of investors are doing in America and West Europe.

As for those who do not understand or appreciate the advantages of being an NFI investor (and my fellow polemicist seems to be among them), they will have the opportunity to sell their PPP shares or NFI stock, and use the proceeds to buy stock in some or other specific factory.

There can be only one—positive—answer to the last question, that of whether privatization is a prerequisite for favorable changes in the economy. I hope that my fellow polemicist agrees with me. It appears, however, to be a purely rhetorical question utilized by Mr. Dzierzawski to pursue a complicated and erroneous line of reasoning, indicating that privatization is not necessary if it is to be preceded by restructuring. First, this claim has nothing in common with the mass privatization program, because under that program both restructuring and privatization will take place concurrently. This reasoning is also basically erroneous, because privatization is necessary to efficient management but not to efficient restructuring. For purposes of illustration, consider the example of a country viewed as reflecting one of the world's greatest successes at privatization, namely, Mexico. Without going into details, it can be stated that in Mexico restructuring as a rule precedes privatization because, as is well known, restructured enterprises can be sold at much higher prices. The state can effectively restructure the enterprises it owns, because that is a one-time measure and can be conducted by hired experts. On the other hand, as shown by experience in our part of Europe and the rest of the world, in an overwhelming majority of cases the state is an inefficient proprietor and manager. That is why the mass privatization program attaches such importance to privatization and management, which are an integral part of that program.

I believe that the answers given here to publicly asked questions will satisfy the questioner and at the same time end this discussion. I also hope that, once a new government is formed, the Mass Privatization Program will finally get moving from its political stagnation, and then we all shall ascertain its advantages in practice.

#### **Revision of Polish Laws on EC Companies Needed**

*92EP0608B Warsaw RYNKI ZAGRANICZNE in Polish No 87, 21 Jul 92 p 3*

[Article by Dr. Jaroslaw Pietras: "Establishment of Enterprises in Light of the European Treaty"]

[Excerpts] Dr. Jaroslaw Pietras was a negotiator on issues of services for Poland within the framework of the treaty on the association of our country with the European Communities.

The European Treaty on the association of Poland with the European Community made arrangements with regard to issues associated with beginning and reforming economic operations by entities from the EC in the territory of our country, and by Polish entities in the territories of the member states of the EC (see Articles 44 through 54 of the treaty). Arrangements were accepted that are patterned after the provisions of the Treaty of Rome (found in Articles 52 through 58), taking into account the need for the Polish side to gradually assume all attendant obligations.

The treaty contains precise provisions concerning conditions for setting up Polish enterprises in the territories of the member states of the EC, and enterprises from the latter in the Polish territory. First of all, on the day the treaty takes effect (the ratification process will most likely be completed before the end of this year), the EC will grant to Polish entities the same rights to set up enterprises in their territories as those applicable in mutual relations between member states. This applies to engaging in all continuous economic activities in forms other than work for hire, i.e. the establishment of enterprises by corporate and natural persons (in the latter case, this may assume the form of self-employment).

In turn, Poland will grant similar rights to the EC in a gradual manner; in particularly sensitive sectors, such as for example, finance, they will be granted as late as the end of the period of transition. The acquisition of farmland, forests, and natural resources has been excluded from the obligations of the Polish side.

#### **Right of Establishment**

In countries belonging to the EC, the principle applies that all economic entities have a right to embark on continuous operations at locations of their choice in the entire territory of the EC, regardless of the member country they come from. This is the so-called right to settle (right of establishment) which applies to both natural and corporate persons. [passage omitted]

### National Treatment

The application of the so-called principle of national treatment, that is, treatment of entities from other member countries which is not worse, from the point of view of formal law, than that of domestic entities, is the basic provision established within the framework of the EC. Compliance with this principle means that special requirements are not made with regard to foreign entities at the time they begin economic operations. [passage omitted]

### Polish Regulations

As far as Poland is concerned, the economic presence and operations by foreign entities are regulated by the provisions of the law on companies with the participation of foreign capital, as well as by provisions of some other regulations applicable to foreign entities (in addition to general regulations which are binding on all economic entities). Very many restrictions on the operation of foreign economic entities (both natural and corporate persons) have been rescinded in recent years.

Many provisions of the law are no longer discriminatory. In principle, no special, higher taxes or fees are in effect which such entities are required to pay. However, considerable differences in the treatment of domestic and foreign entities exist that are primarily expressed through restrictions on the format of foreign economic presence (that is, in the form of limited liability companies or joint ventures) and in the issuance of permits for such companies to engage in economic operations in some sectors. This means that the principle of national treatment of foreign entities is not yet fully applied in the Polish legal system and the practice of administrative procedure.

The issue of the freedom to use, lease, own, and sell real estate and land is an important factor which restricts the potential for operations by foreign-owned enterprises compared to Polish companies. A Polish law adopted as far back as the inter-war period provides for an opportunity for foreigners to own real estate or land, but with the special consent of the minister of internal affairs.

So far, Poland has signed few agreements on the mutual recognition of diplomas and qualifications. Besides, these agreements have been signed mostly with the countries of Eastern Europe, the former CEMA members. A lack of such an understanding in the new arrangement may temporarily pose a certain obstacle to Polish companies embarking on continuous operations in the territory of the EC (similar to companies from the EC in the territory of Poland) in fields which require that individuals with certain professions confirm that they have required qualifications.

### The Need for Prudence

The actual lack of regulations proceeding from the principles of prudence (so-called prudential regulations), which are aimed at protecting the interests of Polish partners in foreign companies, persons and enterprises cooperating with these companies, and consumers is a particular problem that may appear in Poland together with an

increased presence of foreign enterprises engaging in continuous economic operations.

This is the case, in particular, in the banking and insurance sector, in which foreign companies of an unknown provenance may sometimes cause losses to depositors or the insured. For this reason, many additional regulations are usually introduced in these sectors, which require foreign entities to release additional information, employ a certain number of citizens (or residents) of a given country as members of the management, and so on. Regulations of this kind in Poland are only fragmentary. Additional work should be done on them in the case of the finance and insurance sector.

The treaty touches on the issues of employment of management personnel and certain specialists in enterprises set up as foreign property. Polish law allows for the employment of foreigners with the consent of the relevant organs of state administration.

So far, the employment of foreigners by foreign companies has not caused special difficulties. This has been the result of a relatively small number of foreigners embarking on work in the territory of our country in investment projects sponsored by foreign entities. The low overall level of wages has provided substantial protection.

However, as unemployment emerges, it may turn out that current arrangements for the discretionary granting of work permits will cease to perform their functions properly. After all, they do not include mechanisms making it possible to determine precisely which foreigners have a right to embark on work in a foreign investment project in the territory of Poland, and in which cases this right will depend on the situation in the local labor market.

### Necessity of Revisions of Polish Law

The implementation of guidelines regulating conditions for the establishment of enterprises by entities from the EC in Poland will require that many legal issues be resolved that are associated with the already-mentioned issues of acquiring real estate and land for the purposes of economic operations, employing foreigners in the territory of Poland, recognizing their qualifications, and so on. Some of these issues are a matter for the distant future; others must be resolved soon. Some steps are entirely within Polish jurisdiction, such as, for example, the issues of real estate owned by foreign entities or employment of foreigners—whereas, for example, the issues of recognizing diplomas and qualifications will call for separate negotiations to be undertaken in the forum of the Association Council.

We should also observe that Polish legal provisions regulate all foreign presence in Poland similarly, whereas the treaty ensures a somewhat privileged position for a party from the EC compared to that from another country. Therefore, this will have to be reflected in relevant provisions, or at least in the practice of administrative procedure.

**CD Candidate's Meeting With Iasi Union Leaders**

92P20391A Bucharest DREPTATEA in Romanian  
18 Aug 92 pp 1, 3

[Article by A. Costin on meeting of Democratic Convention presidential candidate Emil Constantinescu with Iasi trade union leaders; place and date not given: "The Reform Must Be Political, First of All"]

[Text] [Constantinescu] Recently I asked a number of trade union leaders if they want populism or viable solutions, with costs. They chose the latter alternative. But there must be seriousness on both sides; the Democratic Convention of Romania has a program, which was finalized three weeks ago.... There is a strategic plan, without which we were groping. The strategic plan is paralleled by a very-short-term plan (six months to a year). The complexity of the problem is due to the extremely differentiated character of industry and agriculture in different parts of the country.... There is an honest answer to each one of your questions.

[Question] Do you think that there has been any reform of preuniversity and university education so far?

[Constantinescu] University and preuniversity education operate practically outside the law. The Ceausescu rules are still in effect, for university education, at least. This is what has been achieved—the autonomy obtained by us is not codified by law. We were able to start some projects but not with the necessary financial cover. There is a draft law on education, formulated by officials in the ministry. Three ministers have been replaced so far. I told each one of them that the draft should be discussed in university senates and in educational institutions, and that different variants would be obtained which "would mesh," and the best variant would emerge. But nothing was achieved and the parliament even proposed another draft law.

[Question] How do you think that the difficult issue of medical care can be resolved?

[Constantinescu] In only one way: by law. But neither Parliament nor the government has brought up this matter for discussion. In all Western countries, medical expenses are borne by the healthy and not by the sick. This is the health insurance system that supposedly ensures the quality and rigor of the examination process. The figures show us that this matter cannot be treated lightly, and that it is at the mercy of a political system. The entire population, not the political system, should ensure the state of health. It would be good if everyone, from the lord to the peasant, would observe the law.

[Question] A policy of dissolving the family is being carried out. How does a family with three or four persons manage?

[Constantinescu] The resolution of the problems requires a stable economy; they become serious in a declining economy.

[Question] What are the prospects for a young college graduate who has been unemployed for nine months?

[Constantinescu] This should not be discussed until the general situation is discussed; up to now, we have had cosmetic, linguistic reform, which has affected only the commercial sector, performing the role of a money launderer. Real privatization cannot be imagined without a reconsideration of the Romanian economy; a differentiation must be made—there are industrial giants and there are the rest of the enterprises. A distinction must be made between the two categories. The giants must be declared bankrupt, but this does not mean that the workers should be put out on the street. A rapid privatization will be necessary for the others, with the goal of converting them to small and medium production. In Germany, I was surprised to find out that 90 percent of the labor force works in small and medium-size enterprises that are very productive. The problem is clear: Unemployment assistance is given as a type of credit.... If the political framework is not resolved, the economic crisis is not resolved, nor is the problem of unemployment.

[Question] What solutions do you envisage for financing basic and applied research? And for stopping the "brain drain"?

[Constantinescu] In regard to the first issue, a law should be prepared with the aid of people involved in research. For applied research, in clear relation to the declining economy, which cannot bear the cost of new research and development, the solution is private production enterprises. Basic research is a luxury in every country in the world; it is resolved either as it is in the United States, where government funds are allocated, or by tax-free donations. An immediate solution would be the creation of research centers in universities, on the basis of doctorates; while doing research, the graduate student can defend his doctoral thesis and, perhaps, take courses over a period of three years. A few words about the brain drain: It is very serious if extraordinarily gifted young people go abroad to wash dishes or stay in Romania and perform menial jobs. It is not the same thing if a person receives a stipend to study for a master's degree or a doctorate in the United States or in other foreign countries. About 60 percent of these students will remain abroad and 40 percent will return to Romania. The 60 percent will consist of the top American scholars of Romanian origin. They will go to Congress, etc., and they will create lobbying groups for Romanian interests.

[Question] How do you think that the issue of extremism in Romania will be resolved?

[Constantinescu] Extreme nationalism is antinational while the idea of nationalism is sacred. Nationalist demagoguery and the idea of autarky are catastrophic and would lead to disaster in the international sphere. We must enter into a security system now, but for this there must be political coherence, the treatment of problems from the national perspective and not from the outlook

of party interests. Extremist parties are normal in every country. Prohibiting them is not the issue—but they should represent only an extremist minority, and should not have an opportunity to speak in the name of all the people.

[Question] What foreign languages do you know?

[Constantinescu] English and French.

[Question] Don't you think that you should have minimum protection?

[Constantinescu] I have the maximum protection provided by the "21 December" Association of Revolutionaries and I do not need the protection of the Romanian Intelligence Service, the Securitate, or any other institutions of that type.

### **Columnist on Budapest Congress, Irredentism**

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[Article by Octavian Paler: "A Hot Subject"]

[Text] I am in favor of a calm, serious discussion of Romanian-Hungarian relations, not the endless aggravation of sensitive points. Extremist bellowing, from any side, only reminds us that the lack of good sense and of intelligence in politics must be paid for dearly, as a rule. But this does not mean that it is intelligent merely to shrug one's shoulders if there is a reason for discontent. This is why I am inclined to believe that Geza Domokos was a bit rash when he said that he did not understand the concern of the democratic forces in Romania in regard to the upcoming Congress of the World Union of Hungarians. The concern is natural, in light of the organizers' intention to discuss, on the final day of the meeting, a declaration on "the self-determination of Hungarians in Transylvania." Mr. Domokos added that, in Hungarian, the meaning of the word translated as "self-determination" is different than it is in Romanian and it means "local self-management." This is possible. But why are some publications in Hungary bringing up the Trianon Treaty once again? I assume that this cannot be a question of a translation problem. This is the time to state calmly, but bluntly, as long as we can still hear each other (since our extremists will not miss the opportunity to unleash a deafening hullabaloo, for election purposes), that these are things which we cannot take lightly. Not because we are involved in an election campaign, which we do not want to be disturbed by anyone, or, to be more exact, not because we are on the eve of elections that will be decisive for the fate of democracy in Romania, but, simply because, in the life of a people, just as in the life of a man, not everything is negotiable.

The existence of Hungarian irredentism is nothing new. However, Hungarian authorities have always said that it is a marginal phenomenon, taking hold of some hot-heads, and not the policy of Hungary. So, we are all the more justified in noting that officials in the neighboring country have a very good opportunity, at the present time, to demonstrate their assurances. Not by censoring, not by prohibiting freedom of opinion, but by publicly delimiting any irredentist efforts to pour new fuel on an old fire. It has been said that a meeting of the Romanian diaspora from the entire world was held in our country, without offending any of the countries from which the participants came. This is true. However, at the meeting of the Romanian diaspora, the territorial integrity of none of the countries was at stake. It is hoped that this will not happen in Budapest either.

We understand very well that the meeting in Budapest is an important event for Hungarians everywhere. But, to the same extent, we understand other things, too. I do not think that the Hungarians in Romania have any reason to complain that they have felt alone when they demanded legitimate rights due to minorities. There are countless Romanians who proved to them openly that they are with them, without letting themselves be intimidated by the shrieks of extremists, and without departing from the belief that freedom is a common cause of Romanians and minorities in Romania, and that democracy cannot be installed by one group against another. Therefore, it would be incorrect to remember only the painful extravagances of Mr. Funar, for example, and not the truth that ordinary Romanians are not chauvinistic or xenophobic. However, apart from the extremist demagogy, it should be said the bloody insanity of ethnic "cleansing," which has filled Bosnia and Hercegovina with cadavers, arouses almost unanimous repulsion among Romanians. Why have we accepted that such a demented "cleansing" might possibly be carried out against us, even on small areas? The fact that we have our own irresponsible people, does not excuse the irresponsibility of the irredentists who dangerously trifle with murky suppositions about the "Yugoslavization" of Romania. There are, we know, voices that claim that Hungarian irredentism does not want real democracy to be established in Romania. It would prefer a "Funarization" of Romania, since extremist excesses would serve its goals better than anything else. According to this logic, the muddying of the waters in Romania, a few weeks before the election, is not a chance occurrence. But legal proceedings can only make us sick with suspicion. Therefore, we must remain within the limits of evidence. It is clear that the Budapest discussions will not be able to influence the future history of Transylvania. Instead, they will be able to have a bad influence on the 27 September elections. I would hope that Bishop Laszlo Tokes and Senator Geza Szocs, who will participate in the congress, do not want to give aid, especially now, to those who do not hesitate to ridicule our chances of emerging from the nightmare.

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