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BULGARIA

Cultural Weekly Analyzes Political Developments

Rise of Opposition

91BA0159A Sofia KULTURA in Bulgarian
19 Oct 90 p 3

[Article by Rumén Daskalov: "The Slow Revolution"]

[Text] The current period experienced by our society is considered a transition from totalitarianism to a democratic system. It would be unlikely that anyone would deny that, in our country (unlike in Czechoslovakia, Hungary, and the GDR), this process is occurring quite slowly. For the time being, the elimination of the totalitarian structures is only at its beginning, and most of the old political officials, who are to be blamed for the total crisis experienced by the country, have remained on the political stage (and even consolidated their positions after the BSP [Bulgarian Socialist Party] won the elections). Why is this transition so slow, and why did it fail to assume faster and more drastic "revolutionary" forms?

What was lacking, above all, and what is still lacking, to a large extent, has been the type of political standards of the broad population masses that could have given mass support to a more decisive opposition to the old totalitarian regime. The "patriarchal" passiveness, obedience, and political indifference of large population masses, fear and lack of confidence in their own forces, are, on the one hand, the consequence of the totalitarian regime and, on the other, its natural support. This is a closed circle that is difficult to break. Most of the population, although not believing in totalitarian communism, failed to find within itself the fulcrum that would have enabled it to separate itself sharply and unhesitatingly from the ordinary way of thinking, developed under totalitarian conditions, and the consequent behavior and life-style. It was unable to reject the fear of and obedience to superiors and stop the state from regulating its private affairs and expect everything "from above," or to eliminate the violated feeling of ownership and economic initiative, replaced by obedience to officialdom and a convenient life with minimal claims and demands, petty illegality tolerated by the corrupt nature of the state (semilegal petty thefts), and so forth. Naturally, the fear of change, in general, skillfully fanned by BSP propaganda, which in this case assumed a conservative role, was operating at full strength. It was thus that, initially, the population was unable to create within itself strong and mass supported civic movements that could formulate its programs and become a base and reserve for the opposition, which organized itself in various parties and which turned professional. Most people did not even vote for the opposition! The role of such a broader and very efficient civic initiative is now being assumed by movements, such as those ecological initiatives (their broad popularity is indicated by sociological surveys), the movement for truth, and others.

The Opposition: An Outside Voice

Naturally, the lack itself of mass discontent (and, in any case, of firm opposition to the regime on a mass scale) needs an explanation. At this point, we could "admire" the clever classical way with which the regime manipulated the people, by pitting the capital city against the other large cities and the provinces, in general, the ordinary "people" against the intelligentsia, Bulgarians against Turks, and so forth. Society was totally dominated by the state-totalitarian structures, down to the last enterprise and cooperative farm, institute, and educational institution. Through its membership, the party had blended not only with the hugely expanded state machine but also with all social relations, in general. Adding to this the fact that no one had any economic independence and that the majority of the people were kept on the minimum survival level, relying on the monthly dole, it becomes clear why even without any ideological control and police repressions it was difficult to develop a significant opposition to the regime. Although paradoxical, it is true that the poorer, the more suppressed, and the less free a nation is, the more obedient it is to the will of its rulers.

The nature of the organized opposition itself (at least as far as its main and most influential part is concerned) can explain the lack of faster and more decisive steps aimed at the democratization of society. Before 10 November 1989, we had no social forces that could provide a mass organized opposition to the regime. At the beginning, the opposition consisted essentially of the intelligentsia and stemmed from the common root of totalitarianism. It almost failed to separate itself and to oppose the totalitarian regime. Ideologically, as well, it opposed the regime more with Marxist criticism than with ideas of classical bourgeois liberalism.

Let us also not forget that "Zhivkov and his circle" pursued a systematic policy of involving a large number of people in support of the regime and the fact that this policy was aimed mainly at the leading elite in all areas of life. Furthermore, loyalty was a prerequisite for access to leading positions and even to education. In particular, and independently of the preliminary selection, a policy of systematic corrupting of the intelligentsia was pursued with the help of money, honors, and positions, and the direct involvement of many people in cooperating with the secret services, which led to the widespread blossoming of informing. As a result of all this, today the ruling party is checkmating probably a number of noted opposition officials, including some parliamentary leaders, and perhaps (within certain limits) may be forced to cooperate and avoid the exposure of its own guilt. It is also quite easy to explain why, after becoming members of parliament and, consequently, legalizing their status, many of the opposition leaders can start building their own personal careers, which strengthens their solidarity with the rulers and delays change. It is thus that the question of the personal guilt of many officials of the communist regime was dropped from the agenda, the truth about the past was suppressed, and

many of the previous rulers retained their power under the new conditions. This will probably be the price the parliamentary opposition will have to pay for being granted access to ruling positions.

Actually, today the factors that could speed up change exist not only within the parliamentary opposition but also, to an increasing extent, outside the parliament: in the mass, such as the trade union and ecological movements, and parties, such as the Alternate Socialist Party, as well as specific civic initiatives triggered by a variety of reasons. The main social contingent of the opposition, along with most of the intelligentsia, consists of young people, economically active individuals (including some who are relying on speculative business), as well as a growing segment of workers and farmers.

Not least, delaying the change are many powerful interests related to the old regime and that, in all cases, are blocking its drastic elimination. These are the interests not only of high officials of the totalitarian system but also of the numerous middle and lower *nomenklatura* (including areas where it has remained virtually intact), and the ideological defenders of the regime, threatened by deprofessionalization and unemployment. These are the interests of active fighters privileged by the regime, the high-ranking military, state security officials, and members of the other secret services of the regime, dogmatic Stalinists, and many other categories. This makes clear why the changes are encountering fierce (overt and covert) resistance and why their acceleration is threatened with substantial social stress and conflicts. Gradualness is necessary to those who have ruled so far in order to make all possible "unions" and alliances with the new economic and political forces and, partially, directly to convert themselves into the new, this time economic (enterprise-capitalist), elite of the future.

These notes are not an appeal for a more decisive "revolutionary" conversion to a democratic market-oriented society. Obviously, this would hardly be possible with the present deployment of forces, and, in any case, will depend on the estimates of the leaders of political parties, who best know the possibilities. My purpose is to characterize the features of the transition in our country and to comment on some of the reasons for them. I believe that, regardless of anything else, those who are responsible for the present national catastrophe should be held liable, and, in any case, the system that has led the country to this situation should be morally discredited.

Role of SDS

91BA0159B Sofia KULTURA in Bulgarian
19 Oct 90 p 3

[Article by Nikolay Slatinski, RDP [Republican Democratic Party] deputy, Grand National Assembly: "SDS [Union of Democratic Forces] and the Traps of Developed Socialism"]

[Text]

The Opposition: Voice From Within

1. In a few months, tempestuous and dramatic events radically changed the political face of Eastern Europe. We must note the merit (truly historical!) of the SDS [Union of Democratic Forces] in the great Bulgarian awakening. In not one of the former so-called socialist countries did such a coalition of parties, associations, and movements with different orientations, different objectives, and views concerning the governmental system and social life arise as the main opposition force.

The rich range of trends and emphases in the great antisocialist revolution will provide researchers with "food" for endless analyses, summations, and monographs. My objectives are more modest. Convinced that the SDS is a phenomenon, I shall try to find the key, the approach to this phenomenon, to find within its origins the restrictions encoded within it, and the errors and successes of its growth—at least some of the reasons for its current conflicting behavior.

The SDS is not only the offspring of the changes in the country but also its generator. That is why the argument of what comes first, the democratic changes or the SDS, is like the controversy about the chicken and the egg. All SDS activities have taken place in a fierce and dramatic yet romantic struggle against the traps laid by defeated socialism in visible or concealed places. These traps are also inside, within the invisible fabric of this alliance, in its ideas, motivations, and ambitions.

People judge the tactics and comment on the behavior of the SDS, and make guesses about its interparty relations and the frictions within the complex conglomerate of aspirations and the morality of the leaders. There are few who realize entirely the tremendous efforts demanded by this daily surmounting of one's own ideas, of scratching off the rust of past decades and painfully pulling out the accretions of totalitarian thinking and removing from the living flesh the tumor of a dogmatic deforming legacy. Believe me, the essence and the existence of the SDS are an effort of taking off, of pulling out of the ossified restrictions and avoiding the always ready traps. Whenever a trap closes on someone, we need the courage to rally our entire intelligence in order to get rid of any blind feeling of inevitability.

2. For months on end, the version of direct interference by high BSP [Bulgarian Socialist Party] circles in the formation of the SDS has been instilled in the minds of the people. A number of arguments are being cited, such as the fact that permission for the first democratic meetings came directly from the Politburo, that many among the SDS founders were party members, some of whom subsequently withdrew from the party, and so forth. Even if such intentions of assuming total control over the opposition existed, they proved to be futile (I exclude the trite spying methods such as listening to people's talks, following individuals, reading their correspondence).

The BSP ideologues stubbornly insinuate that the SDS has become contaminated by bolshevism and that a blue is replacing a red totalitarianism. There is an enumeration of allegedly hard to refute manifestations of intolerant bluntness, intolerance of criticism, and recurrences of the slogan of "he who is not with us is against us." What matters, however, is the extent of the damage, the position on the basis of which a struggle with such faults is being waged, and whether or not it is being waged at all. I, for example, do not believe that we exaggerated in providing information on the mass graves and socialist concentration camps. The SDS simply failed, despite numerous facts, to make the people understand the main conclusion, the fact that, after 1944, several waves of liquidation not only of dissidents but, in general, of thinking people as well took place in Bulgaria, thus beheading the Bulgarian intelligentsia periodically and with merciless consistency and pitilessness. This is the main reason for the fact that there were no events in Bulgaria similar to those in Berlin in 1951, in Budapest in 1956, in Prague in 1968, in Gdansk in 1980, and in Tbilisi in 1989. That is why I do not deny that most of the personalities in the SDS come from the Communist Party. Furthermore, I claim that, with few exceptions, almost all of us come from it. Defeated socialism has imbued us and settled within every single little corner of our minds and keeps trying to commit treason. All of us are its slaves, and, like great people did, we must squeeze out of ourselves this slavish poison.

I reject the pathos and the arguments of the clever docent, based on the elementary concept of "stand up so that I can sit down." Without showing a single doubt, he accused the SDS of cynicism, for what other name could be given to deliberate greed and an open thirst for power? On the other hand, he ignored various manifestations of some opposition leaders, similar to actions committed before 10 November. I try to see the malicious red spirit concealed behind it instead of joining in the action of exposing communist agents planted in the SDS. It is primitive to abuse R. Vodenicharov merely because his behavior differs from ours. In some cases, I do not agree with his statements, but I ascribe them to the aspiration, which is natural in any person, to surmount his own complexes, particularly when he draws a balance of the path he has covered so far.

3. Something leads me to think that most BSP members see the political struggle in our country as a story in Boccaccio's *Decameron*. Naturally, the BSP is assigned the role of Rustico, the hermit, whereas the SDS is the naive Alibec. This young girl wanted to serve God in the best and easiest fashion, and Rustico was able to convince her that this is best accomplished when the "devil is introduced in the hell to which God has condemned him." Eventually, Alibec indeed agrees that "serving God is an infinitely pleasant job." It would have been nice if, after our restructuring, the SDS had been able to say that "to serve democracy is an endlessly pleasing job." Alas, this did not happen.

We speak of the traps in the nets the system laid along our path. Unquestionably, the most treacherous among them was the nonviolence agreement. The SDS successfully passed this difficult and highly moral test, sacrificing some of its popularity for the sake of its principles. The proper move was that of a political stalemate rather than of answering demagoguery with demagoguery.

The wrong steps taken by the SDS continue to alternate with incredible successes. In the choice of a president, the persistent support of the candidacy of Dr. Dertliev almost ended in catastrophe. The entire blue faction was in shock when V. Vulkov was only a few millimeters away from the presidential chair. Shakespearean scenes with tragic oaths of loyalty were acted. I had the feeling that I was in a Pioneer rally or a menagerie. However, once again there was a miracle! Somewhere, moral forces were found to break with the illusion of salutary pragmatism. That is why I respect these people: They pay a high price for their errors, but they do not become despondent; they get up and keep going until their next trial, when they are once again threatened with a fall and when the burden of black and white thinking, without options, reminds them of its existence. Such was the case of the "quick" reaction to Dr. Trenchev, following the fire at party headquarters. A brief and clear criticism of a half-thought-out view was provided by P. Simeonov: "I exclude the participation of the Podkrepa KT [Labor Confederation] and of Dr. Trenchev in setting fire to the BSP building. Such situations frequently arise, demanding a culprit, for which reason selective words, actions, and retorts of a given individual are chosen. The people need an enemy, and today some are trying to find one."

The critical period experienced by the SDS and its thousands of sympathizers, until it proclaimed its refusal to participate in the government set by the BSP, is the latest example of dues paid to nonobjective evaluations and schematism. There were more accusations and charges of conciliation, treason, and who knows what else. Yes, there were people ready to sit in the ministerial chairs. However, this was not a symptom of the "Golemanov" complex but the naive faith that the salvation of Bulgaria demanded of the SDS to agree to dance to someone else's tune. Men who expected an outstanding career as statesmen forgot the sad Fatherland Front experience of setting up a coalition in 1944-46, and many other things....

4. It would be no exaggeration to say that the SDS is being literally torn by the irreconcilable struggle among contradictions built within it: between the specific and the general, the part and the whole, and birthmarks and moral advancements. What is tragic and beautiful in this struggle is that, with each step forward toward democracy, the SDS is approaching its own end. The SDS means a constant surmounting, on the one hand, of the aspiration of individual parties to break up coalition restrictions and, on the other, the threat that the coalition may turn into a monolith. It is worrisome that the

two largest parties within the SDS suffer to a considerable extent from the defects of struggling with obsolete quantitative concepts, straining to become nationwide, emulating the party with a capital P. Like it or not, it reminds us of the fixation of the "backbone of the alliance." A particularly unpleasant picture appeared in the registration of candidates for people's representatives. The hope is that the variety of ideas and personalities within the SDS will remain, nonetheless, a sobering element blocking such self-delusions.

5. At present, as the feelings of futility and doom intensify, conditions appear for malignant changes in society. Concepts and indications of a new reality are being spread systematically and quite deliberately: order, measures, neofascism, civil war, and populist dictatorship—a reality that forebodes a dark future. Let us be clear: If there is any danger of a coup, a dictatorship, or violence, it comes exclusively from the most reactionary forces within the BSP, those who have the weapons and the huge amounts of money.

The entire society, subjected to misery and destabilization, could blow up like the party headquarters, which caught fire from the sparks of the discontent of the street. In that case, as well, the true arsonists will remain hidden as they watch everything burning with blue flames. This will be the result not of democracy but of flammable materials that were carefully stored in advance. This is the most terrible trap defeated socialism could set.

6. Years from now, overflowing with sentimentality, we shall describe to our grandsons the way, at one point, despite all logic, a romantic and impossible Union of Democratic Forces arose in Bulgaria, totally imbued with totalitarianism and corroded by contradictions and dogmatic thinking.

We shall tell them about the way this union abounded in traps, about hopeless efforts, and about optimists and terribly naive people. However, the point is that those people won. They first won over themselves, and then they defeated the system despite errors and illusions.

"Was it terrible?" our grandchildren will ask.

"The terrible came later," we shall answer, "after ordinary and normal human life began."

Weekly Analyzes Costs of State Bureaucracy

91BA0142A Sofia 168 CHASA in Bulgarian

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Oct 90 p 16

[Article by Trayko Dorin: "State Officials Cost Us 2 Billion"—first paragraph is 168 CHASA introduction]

[Text] Those who work in the attorney general's office, the pillar of lawfulness, are paid exactly as much as employees of the People's Palace of Culture. This, however, is not the only budget paradox.

If, during the first six months of this year, wages in the entire national economy (not counting farming organizations and private companies) have reached 4 billion 603 million leva, then, according to the budget approved in March of this year, state and government bodies, the courts, the attorney general's office, and other departments will, by the end of December, put in their employees' pockets 2 billion 149 million and 633 thousand leva. This amount does not include the expenditures for the National Assembly, the Council of Ministers, as well as the steeped in secrecy and nebulosity [Ministries of] Internal Affairs and Defense. So who says our country is poor?

This spring, after the general budget was passed by parliament, Belcho Belchev, the minister of finance, said that "a sharp cut in government spending has been planned" by as much as 53 million leva. And then he added: "During the year, a similar cut is expected." We saw it happen: According to a decree passed on 9 May, the new scale for jobs and wages in the central government and the people's councils shows an increase of about 44 million leva. In other words, they have almost reached the earlier level of half a billion. This is only for comparison: The professors and teachers of all VUZ [Higher Education Institutions] and company professional and training institutions get a total of 159,423,000 leva.

The "patron" state is most generous when sponsoring itself. The staff at our three academies—BAN [Bulgarian Academy of Sciences] and the Medical and Agricultural ones—get as much as the host of supposedly smart people of four ministries put together. So far the government has not kept its promise to increase the salaries of scientific workers. Let us hope that indexing will stop the brain drain on the country. It is unlikely....

On balance, however, the Ministry of Foreign Affairs enjoys an allocation from the budget of 25,738,000 leva. And our native alma mater, the Saint Kliment Ohridski Sofia University, gets along somehow with its measly 13 million. The present and former Ministry of Economics and Planning is much more favored; it gets all of 28.5 million leva.

In a rule-of-law state, everything is proper. Even when those who work in the pillar of lawfulness, the attorney general's office, are paid exactly the same amount as the employees of the People's Palace of Culture: a little over 4 million. The Committee on Culture was credited with 23,300,000 from the approved budget for the "salaries" fund, while such a useless institution under the conditions of self-government and independence as the Committee on Science and Higher Education was given 12,446,000 leva.

Bureaucracy is like sand. You cannot hold it because it runs out between your fingers. This is why cuts come and go, only scratching the surface of the state sphinx. The 2 billion 150 million leva supporting the apparatus of [government] departments and people's councils is an

incomparably great quantity as compared with the amount appropriated for technological progress and research, which is 355 million, or for health care, which is only 1 billion 662 million.

The government is trying hard to mend the ragged clothing of finances. Stooped over in its fancy suit, it is mending stitch by stitch. Prices soar upwards uncontrollably, while the promised indexation is being implemented step by step because of a lack of funds. Savings institutions are expecting with trepidation mass withdrawals, while, at the beginning of every month, banks go berserk trying to put together between 500 and 600 million in cash to cover salaries.

The country really is poor. But its government folks are playing with billions.

Zhivkov Letter to DUMA Refuting Accusations

91BA0113A Sofia DUMA in Bulgaria 12 Nov 90 p 6

[Letter from Todor Zhivkov to the editors of the newspaper DUMA, with copies to the Bulgarian Telegraph Agency and Bulgarian Television and Radio: "T. Zhivkov Writes"]

[Text] *The articles published in the newspaper DUMA of 7 and 8 November 1990 compel me to answer some of the attacks on me and my family. I have an understanding with the public prosecutor's office that I will observe procedural and civil discipline and that there will be no mutual censure, explanations, or recriminations on the pages of the newspapers or in any other public forums. This is one of the reasons for my not appearing before the Grand National Assembly.*

The newspaper DUMA has violated this ethic by publishing data regarding the amount of foreign currency that was purchased, about housing that was allocated, and motor vehicles that were purchased. These are facts that are under investigation and are absolutely not newly discovered archives of the BSP [Bulgarian Socialist Party] leadership. Specially empowered agencies and personnel have been occupied in this activity, and it has been regulated by Political Bureau decisions and Council of Ministers' decrees and orders. Like all activity, it is also subject to strict intradepartmental control.

What I shall say will probably have the ring of self-justification, but, since for a year now false facts have been published and other facts suppressed, I think it necessary to give some particulars. I also want to say a few words on these questions because my long silence is wrongly interpreted by some people.

First, regarding allocated housing. I am surprised that this question can be raised at all in such a light, and I do not think that this activity was illegal. I regret that I was unable in my capacity of head of state to give housing to all the Bulgarian families that needed it and were having a hard time. The

decision was that I was to have at my disposal about five or six housing units to satisfy applications addressed to me personally.

I want to say that the published list is very inaccurate, not to mention prejudicially selected. On it there are people whom I neither know nor recollect as having received housing at my direction. At the same time, I do not see the names of a number of figures who are now teaching us democracy and are making pretensions of indicting us. This is my first comment on the article.

Second, regarding the amount of purchased foreign currency. Without going into an accounting analysis, let me point out that the bank rate of exchange at which the foreign currency was purchased never was and never could have been within my legal competence.

For a year, prejudicial facts have been repeatedly published in the press, but there has been no mention, for example, that the motor vehicles purchased by the UBO [Coastal Defense Administration] could not be sold by their possessors and were returnable to the UBO. The UBO then sold them by auction at unregulated prices, with the proceeds deposited for the benefit of the state budget. Mention has been made several times of motor vehicles purchased by my family. I want to ask, because authoritative information is claimed, why no mention is made of the fact that the car cited in the published article—my granddaughter's Volkswagen Golf—was a personal gift to her by the firm on my official visit to the FRG in 1986. Protocol and good form required acceptance of this gift. However, inasmuch as it was made because she was the chief of state's granddaughter, I ordered that this car be appraised, and the Bulgarian state paid for it at its actual price. Are these facts not known to those who claim legal competence, or were they deliberately suppressed?

Another, the BSP leadership and the newspaper DUMA could have made an effort to compare the amount of foreign currency that I purchased with the resources that any head of state, whoever he may be—including me—has at his disposal.

At the same time, I want to ask why data like the following have not been published:

—I was given about 15 luxury Western automobiles that I relinquished to the state, whereas the one that my family had at its disposal was purchased with my own funds.

—Why have data not been published about the gifts made to me from 1956 to date of pictures, crystal, objets d'art, and a multitude of artistically worked gold and silver objects, valued at millions of dollars. All these were inventoried and handed over to the state and are publicly available for all who desire to see them.

Obviously, if I and my family had wished to enrich ourselves, this could have been done much more easily by virtue of these gifts. Most of them were not given in my capacity as head of state, but for personal reasons.

Surprisingly, these and other similar facts have for a long time to date escaped the attention of the BSP, the newspaper DUMA, and other mass information media, which continuously mold public opinion. Thus, for example, the 8 November 1990 issue of the newspaper DUMA mentions sums in the amount of 34,000 leva granted as a benefit to each of my grandchildren on the death of their mother. But I want to ask those giving out the information why they don't mention something else as well—namely, that neither of the two ever received the orphans' pension legally due them. If they had wished to enrich themselves by these sums, they would not have made a donation of 34,000 leva to the former Lyudmila Zhivkova Foundation, or one of 5,000 leva to the Children's Fund. It goes without saying, somebody most likely suppressed these facts.

And here I want to say that the BSP leadership, in the grip of panic, has taken a course whose only outcome is the party's complete destruction. My successors now find themselves in a position in which I was placed a year ago. By these actions, a final illusory attempt is being made to draw some line of demarcation between the "guilty" and the "innocent." We are witnesses of Balkan political theater—everybody wants to leap across this line without being too scrupulous about the means. But I want to remind the present BSP and opposition leaders not to forget that history has this shortcoming—it likes to repeat itself.

Thousands of people, whose sole "privilege" was their dedicated work, are now placed in the degrading position of being unable to defend themselves. In the final analysis the truth is the same—no matter what position a person held in the party or state hierarchy, he could possess no more than one house and one country house.

As for accountability, I could ask questions of more people, and not just people of the BSP who are making ready to leap across that borderline behind which there is nothing but disgrace. But, for the present, I shall keep silent because I still put reliance on human morality and political reason.

Todor Zhivkov
Sofia, 9 November 1990

Editorial Note by DUMA

T. Zhivkov's accusations against DUMA are not precisely targeted because, as it happens, the newspaper published information of the Commission of the BSP VS [Supreme Council] on responsibility and those at fault for the crisis.

However incongruous the assessments may be that the former first party and state leader gives of the BSP's problems, the newspaper is publishing the letter without abridgements so that the reader may be more fully informed.

Republican Party Chairman Interviewed

91BA0124A Sofia DUMA in Bulgarian 1 Nov 90 p 5

[Interview with Professor Aleksandur Popov, Republican Party chairman, by Mila Manova; place and date not given: "Between the Blue and the Red Elephants"]

[Text] The present interview is with the leader of the Republican Party in Bulgaria. For technical reasons, the word "Bulgaria" had been omitted. The Republican Party and its chairman, Lenko Rusanov, insist that it be made public that they are a different, a right-wing, party that has nothing in common with the socialist parties and their press.

The Republican Party in Bulgaria was founded on 6 January 1990 in Sofia. Its main objective is the establishment of a democratic, parliamentary and law-governed republic, which will guarantee the free expression of all citizens as equal. It opposes the totalitarian system and favors civil peace, the privatization of some means of production, including the land, and an open market economy. In the social area, it supports providing social funds to the local municipalities. It draws its experience from parliamentary practices in the United States, Italy, and France and cooperates with republican parties in many other countries. Its slogan is "For a Pure and Holy Republic." Its chairman is Professor Aleksandur Popov, architect, married, grandfather.

[Manova] In your view, Mr. Popov, why is a republican party needed precisely now? Bulgaria has been a republic for more than 40 years.

[Popov] The shaping of my republican views and my efforts to act in their defense go back to 1943, following the death of Tsar Boris and the Regency's assumption of power. As of then I began to study the forms of rule in countries such as the United States and believed that Bulgaria's future lies in becoming a parliamentary republic, which would be most consistent with the spirit of our people. Later, after 1947, I realized that the new regime was taking the path of deformations and was unaware of the opportunities provided by such a type of administration. Sometime in 1948, while a multiparty system still existed in our country, with the best of intentions I wrote letters to the Republican Parties in the United States and Italy, and I was immediately summoned to the militia. I shall not describe to you my own happenings, but I had always believed in the need for such a party. Today this has become a fact.

[Manova] Do you have many members and sympathizers?

[Popov] They are numerous, but it is difficult to organize them. The people are still looking at parties above all through the lens of some kind of narrow pragmatic interests. This is normal but delays understanding the advantages of the basic principles. Most of our members, who are in the several thousands, are also members of

the technical intelligentsia. However, this does not bother me. I do not believe that the BCP [Bulgarian Communist Party] was the party of the working class, and, in general, today the class approach in organizing a party is out of place.

[Manova] What are the channels through which your ideas will reach more people?

[Popov] Our platform is very broad and was formulated after extensive scientific studies. It covers in detail a great many problems of economics, agriculture, scientific and technical progress, scientific activities, the political system, and national policy. We prefer debates, talks, and intellectual contacts as the means of dissemination and popularization of such ideas. We consider dialogue the best approach to participation in social life.

[Manova] Are you not disturbed by the revival of monarchic feelings and the establishment of parties with a monarchic slant?

[Popov] I am confident that, in Bulgaria's case, ruling through the institution of the monarchy is an anachronism without a future. We favor a multiparty system and the pluralism of ideas, and we do not consider people whose views are different from ours as enemies. In political practice, everyone has the opportunity to prove whether he is in step with our time and the needs of the majority.

[Manova] However, it appears that many people like to display monarchic feelings.

[Popov] There are many explanations for this fact. In my view, the monarchic system is not well known because of the prohibitions imposed in the past. Today it emerges idealized, surrounded by some kind of martyr's halo. It is also supported by religious circles. Also important is the attractive and intellectually gifted personality of Simeon, whom I, too, respect as an individual. However, republican ideas prevail in our country and do not need any noisy protection. We are certain that the institution of the presidency should be given a new status. We firmly defend the view that the president should be elected directly by the entire nation with secret balloting, express the interests of the people, and report to them.

[Manova] Do you not feel somewhat isolated in your role as a nonparliamentary party in opposition but not in the SDS [Union of Democratic Forces]?

[Popov] In the beginning we had some contacts with the SDS, and we even jointly visited West Germany and worked for the allocation of funds during the electoral campaign. Where those funds went remains unclear. Nothing was "returned" to us, to our party. I am disappointed not only in the old but also in some of the newly visible political personalities who consider themselves members of the opposition. Not only the ruling party but they, too, are to be blamed for the fact that universal equality remained nothing but a meaningless slogan. Today life is dictated by two forces that do not allow anyone else near them: the BSP [Bulgarian

Socialist Party] and the SDS. They have appropriated funds for mass information and most channels through which people can be influenced, not to mention the power structures.

[Manova] They rule the country as a result of the electoral results.

[Popov] Given goodwill, greater opportunities are always possible. In my view, the greatest opportunity that was lost was the fact that Andrey Lukanov formed a one-party government. The possibility existed of establishing a government on a much broader basis in order to reach a greater national consensus and seek contacts with a great variety of circles. It is not a question of our direct participation or of holding ministerial positions. The difficult crisis demands a sensible cooperation among forces. This could have taken place.

[Manova] Does it mean that you are ready to cooperate with the BSP?

[Popov] In our country, democracy is only now being established, and all political forces have changed somewhat. Despite its disappointments, the Republican Party is prepared to cooperate not only with the BSP; a compromise with a view to the overall national interests is possible on different levels and in different degrees. However, it must be a degree that does not conflict with our basic principles and liberalism as a most common ideological ground. Therefore, our doors remain wide open.

[Manova] Our country is facing a number of difficulties. What is your greatest concern and your greatest hope?

[Popov] Concern? I could name hundreds of concerns—the economic crisis, the political bipolarity, the difficult situation of the socially weak, the time wasted in undertaking serious reforms. The most worrisome are the delays in the process of humanizing the society. We are increasingly seeing a moral vacuum, profiteering, corruption, violence, and the moral disorientation of the individual, against a background of economic and political chaos. By carrying such "baggage," we remain quite distant from Europe. Yet there are talented people in our country, and the country is capable of making progress.

Social Democratic Party Publishes Draft Charter
91BA0119A Sofia SVOBODEN NAROD in Bulgarian
9 Nov 90 pp 1, 7

[Draft charter of Bulgarian Social Democratic Party]

[Text]

Draft Charter

The BSDP [Bulgarian Social Democratic Party] is an inseparable part of the world social democratic movement and conducts its activity on the basic principles thereof, adopted by the Socialist International—freedom, justice, solidarity.

The BSDP strives to build and promote a humane, democratic, and prospering society. It makes use of legal means completely in keeping with the country's Constitution and laws.

General Principles

1. Party practice in the BSDP shall be based on the following:

- a) Glasnost and publicity in party practice.
- b) Electivity of all party leadership offices.
- c) Accountability of leaders and control over their activity, including dismissal from office.
- d) Autonomy of the basic organizations in deciding all questions touching upon their activity not in conflict with the charter and program of the BSDP.

2. Relations among BSDP members shall be based on the following:

- a) Mutual respect and esteem for the dignity of the individual.
- b) Equal opportunities to participate in party practice.
- c) Free and open discussion of all party problems and preclusion of harassment for criticism.

3. The decisions of all organizations and bodies shall be made by a majority of 50 percent plus one of those present, provided there is a quorum.

a) A quorum shall be present if at least half of all members or delegates are present. If enough members or delegates are not present, the meeting shall be postponed for one hour and then considered legal however many of them appear.

b) For meetings at which elections are to be held, all participants shall be invited, with confirmation by signature, one week in advance. The list of those invited together with the signatures collected shall be an integral part of the minutes of the meeting. Otherwise, the meeting shall be deemed illegal. If a quorum is lacking at the meetings at which elections are to be held, they shall be postponed for one week. If at the second meeting a quorum is again lacking, after waiting for one hour the meeting shall be considered legal.

c) Those who express their disagreement shall have the right to defend their views, including via the party press, without creating obstacles to implementation of the decisions.

Membership—Rights and Duties

4. Any adult citizen who has not been placed under judicial disability or deprived of his civil rights, who accepts the BSDP program and charter and is not a member of another party or political organization, may be a BSDP member. BSDP membership shall be held in the basic organization of one's place of residence.

5. Joining the BSDP is accomplished on written application to the governing body of the basic organization.

a) Admission shall take place at a general meeting of the section of one's place of residence. The new member shall pay his membership dues and receive his membership card in a month's time.

b) Newly admitted BSDP members who have been members of other parties or have been members of the BSDP and have left it for some reason may not hold responsible and elective offices in the BSDP for at least one year after their admission.

6. Every BSDP member has the following duties:

a) To participate in BSDP activity in keeping with his ability.

b) To promote, by his conduct, the influence and prestige of the BSDP.

c) To pay his membership dues regularly.

7. Every BSDP member shall have the following rights:

a) To participate in the formulation and implementation of BSDP policy.

c) To elect and be elected to any BSDP body.

c) To raise questions with and make suggestions to all BSDP bodies and receive relevant information.

d) To receive protection from the BSDP if he is harassed for political reasons.

8. Members who by their actions have impaired BSDP influence or hurt its interests may be penalized by censure or expulsion.

a) Action to censure shall be taken by the governing body of the basic organization in the individual's presence and shall be made known to all members thereof together with the justification for it. An individual having more than two censures in the space of one year may be recommended for expulsion from the BSDP.

b) Expulsion is an extreme measure and shall be employed only in the gravest offenses. The individual shall be invited to a general meeting investigating the case. In the event of the individual's nonappearance, the investigation shall be postponed till the next meeting, which may make a decision even in the individual's absence. The expulsion shall be voted upon at the general meeting of the section.

9. In the event of rejection for membership or expulsion, the individual shall have the right to refer the question to the KRK [Control and Audit Board]. If the KRK's decision does not satisfy him, the individual may refer the matter to the TsKRK [Central Control and Audit Board], whose decision shall be final and binding.

Ideological Currents and Discussions in the BSDP

10. Political discussions at all levels of the party are the basic means of updating and improving the BSDP's ideological basis and practical activity.

11. Partywide discussions shall be conducted on BSDP activity of paramount importance, such as the following:

a) Changes in and additions to the BSDP charter and program.

b) Other questions of partywide importance that at least 10 percent of the basic organizations insist on discussing.

12. BSDP members having similar standpoints on the questions under examination may form ideological currents, within which they may promote and defend their viewpoints.

Ideological currents shall not be permitted to grow into autonomous organizational structures. Factions shall not be tolerated in the BSDP.

Organizational Structure of the BSDP

13. The organizational structure of the BSDP shall include the following:

a) Basic organizations.

b) BSDP Central Council.

c) Conference and congress.

Basic Organization

14. Every basic organization shall act on behalf of the BSDP. Only basic organizations shall have a right to a party banner and seal.

The basic organization shall be set up on a practical territorial principle.

a) The basic organization's boundaries shall coincide with the obshtina's boundaries. In a given obshtina there shall be only one basic organization.

b) The mass of the membership in each basic organization shall include the BSDP members living in the territory of the obshtina in question, having membership cards, and paying their membership dues regularly. A membership card shall be issued without delay on an individual's admission and may not be confiscated or held up. In the event of expulsion or withdrawal from the BSDP, the dropout shall be asked for his membership card.

c) If the volume of the mass of membership or the size of the obshtina does not permit the holding of general meetings, territorial sections may be created (by wards or by settlements) within the basic organization. Sections may exist only within a basic organization and serve for better efficiency in its work. The number of section members shall be determined by practical considerations.

d) The guiding authority of the basic organization shall be the general meeting. If the basic organization is composed of sections, the functions of the general meeting shall be assumed by a meeting of delegates.

e) A control and audit board shall be established in each basic organization.

15. The basic organizations shall be in direct contact with the Central Council.

16. The general (delegates') meeting shall have full powers to decide all matters affecting the existence of the basic organization, including the following powers:

a) To elect a chairman, a secretary, and a treasurer of the basic organization and from five to 10 members of its governing body.

b) To elect the chairman and from two to four members of the control and audit board.

c) To elect delegates to BSDP congresses and conferences.

d) To nominate candidates for all elective offices in bodies of state authority and local self-administration.

17. The regular general meeting shall be held at least once every three months. Extraordinary meetings may be convened by the chairman of the basic organization and on request of one-third of the governing body or one-fourth of the members.

18. The leadership of the basic organizations and sections, the plenipotentiaries for a delegates' meeting, and the control and audit board shall be elected for one year.

Any one of those elected may be removed before the end of his term only in accordance with the procedure by which he was elected, a two-thirds majority being required therefor.

19. The governing body shall perform the following:

a) Organize and monitor the execution of the decisions made in the general meeting.

b) Decide current questions in the practice of the basic organization.

20. The regular meetings of the governing body shall be held at least twice monthly. Extraordinary meetings shall be convened by decision of the chairman or on request of one-third of the governing body.

21. If the basic organization consists of sections, the members of each section shall:

- a) Elect a chairman, a secretary, and a treasurer, the latter accountable to the treasurer of the basic organization.
- b) Plenipotentiaries to the delegates' meeting shall be elected in proportion to the number of section members. The quota is the same for all sections in the basic organization. (For example, one plenipotentiary per five or 10 or 15 section members.)

Only section members may attend and nominate candidates when the election is held.

22. The chairmen and secretaries of the section organizations shall:

- a) Organize party activities in the section's territory.
- b) Carry on operational liaison between the governing body of the basic organization and the section members.
- c) Participate in the sessions of the obshtina governing body.

23. In the basic organizations or city (okrug) councils, clubs may be established according to interests. Their basic function shall be to formulate problems involving party activity that fall within the sphere of their interests.

a) Club members shall be members of the counterpart basic organization of their place or residence. Nonmembers of the BSDP may also participate in the clubs' activity.

b) In their capacity as creative elements of the BSDP, the clubs may receive assignments for study from the local and central governing body.

c) The clubs shall be free to determine their own structure.

24. In the large cities that are administratively divided into more than one obshtina, as many obshtina organizations shall be created as there are obshtinas. The chairmen and secretaries of these obshtina governing bodies shall constitute a city council that shall have no administrative functions. The city council plus the chairmen of the obshtina organizations from the territory of the former okrugs shall constitute an okrug council. It shall have only informational and agitprop functions and may not be an intermediary link in the contacts of the obshtina organizations with the BSDP Executive Council.

BSDP Conference and Congress

25. The congress is the supreme organ of the BSDP. Congresses shall be convened not less than once every four years.

26. The date of the opening of the congress, the quota for the election of delegates, and the proposal of an agenda shall be announced by the Central Council through the BSDP official press organ at least three months in advance. The final determination of the agenda shall be made at the first session of the congress.

27. Participants in the proceedings of the congress with a right to a deciding vote shall be the duly elected delegates from the basic organizations and the members of the BSDP Central Council and the TsKRK unless they are delegates. Members of the BSDP parliamentary group shall participate with a right to an advisory group unless they are delegates. Only duly elected delegates may stand as candidates for elective offices.

28. The congress shall:

- a) Accept and consider the report of the Central Council and the TsKRK on their activity.
- b) Consider and accept the proposals for change in and addition to the BSDP program and charter.
- c) Determine the basic directions in BSDP activity in the subsequent intercongressional period.
- d) Consider and approve the party budget.

e) Elect individually a chairman, a deputy chairman, a general secretary, and a chairman of the BSDP TsKRK. It shall determine the size of the Central Council and the TsKRK and elect the members thereof. All nominations of candidates shall be made by the Central Council. The delegates shall have the right to propose additional nominations and challenge the nominations that are made. The congress shall elect the Executive Council from among the membership of the Central Council.

29. During the period between the regular congresses, annual party conferences shall be held.

a) One representative per basic organization, determined by the governing body of the same, shall participate in the proceedings of the conference.

b) In lieu of the delegates who for objective reasons are unable to participate in the proceedings of the conference, the basic organization shall elect new ones in accordance with the same procedure.

30. The conference shall:

- a) Accept the Central Council's annual report.
- b) Monitor the execution of congressional decisions, making amendments where necessary.
- c) When necessary, make the decision to convene an extraordinary BSDP congress.
- d) Pass resolutions on newly arising problems in party practice.

BSDP Central Council

31. The Central Council shall be elected by the congress, and its mandate shall coincide with that of the congress.

During the period between congresses, it shall manage BSDP current activity such as the following:

- a) Provide collective leadership in keeping with the decisions adopted by the congress.
- b) Render direct assistance to the basic organizations.
- c) Allocate moneys that are received and bear responsibility for the proper disbursement thereof, within the limits of the approved BSDP budget.
- d) Represent the BSDP before state bodies, parties, movements, organizations, and so forth.
- e) Formulate the BSDP's preelection platform and approve official BSDP nominations for the elections as well as the forms of cooperation with other parties.
- f) Make preparations for and convene the congress and conferences.
- g) Accept the Executive Council's report on its activity and the plan for its operation between sessions of the Central Council.
- h) Approve the organizational structure and table of organization of subsidiary bodies.
- i) Propose BSDP nominations for ministers and other offices in bodies of state authority and public organizations.

32. The Central Council shall meet regularly every quarter and, if necessary, shall be convened by the Operational Bureau or on request of one-third of the Central Council's members.

The BSDP parliamentary group and the ministers who are BSDP members shall inform the Central Council of their activity.

33. The Executive Council shall organize and prepare the agenda of sessions of the Central Council and shall organize and monitor execution of the decisions adopted. The Executive Council may decide current questions in BSDP activity.

The Executive Council shall render an account of its activity to the Central Council, the congress, and the annual conference.

The BSDP chairman shall *ex officio* be chairman of the Executive Council.

Central Control and Audit Board

34. The TsKRK shall:

- a) Check on the complaints of BSDP members and make suggestions regarding their final solution by executive bodies of the party. It shall examine only applications examined at the KRK of the basic organizations.

- b) Monitor observance of the charter and proper implementation of the budget and the expenditure of monetary and physical resources, as well as the management of BSDP property.

- c) Formulate methods directives for the KRK's of the basic organizations.

Relations With State, Public, and Other Organizations

35. The BSDP shall pursue its policy in all possible legal ways, including the participation of its members in legislative and executive bodies and cooperation with public, political, trade union and other organizations.

36. BSDP members elected to representative bodies of authority shall constitute a group pursuing the general policy in keeping with the principles of social democracy, the BSDP program, and the BSDP Executive Council's decisions.

37. The BSDP shall nominate its own candidates or support other candidates in the elections held at different levels. Individuals of high public prestige and the necessary professional attributes shall be nominated as candidates.

Candidates shall be nominated by the basic organizations and by the Central Council. The official BSDP candidates shall be approved by the Central Council.

38. The BSDP shall propagate social democratic ideas among youth and shall actively promote the Union of Social Democratic Youth and the Social Democratic Union of Women.

Information Media

39. The BSDP shall establish central information media by decision of the congress, the conference, or the Central Council, and local information media by decision of one or more basic organizations.

The directors and editors in chief of information media shall be elected by the bodies that establish them.

The BSDP shall strive to cooperate on a democratic basis with all information media—press, radio, television, and so forth.

Finances and Economic Activity

40. The BSDP shall raise funds for its overall activity in legally permitted ways—the collection of membership dues, donations, income from economic activity, and so forth..

- a) The minimum amount of membership dues shall be set by the BSDP congress or conference. Anyone is at liberty to set the amount of his membership dues himself above this minimum.

- b) From the moneys collected from membership dues, the basic organizations shall remit 30 percent to the Central Council.

c) Instructions shall be prepared regarding the method of collecting, disbursing, and accounting for moneys.

d) The Central Council shall make special decisions regarding the assumption of large-scale financial obligations and the purchase of property and means of production.

41. The BSDP shall be a juridical person and shall be represented by its chairman, deputy chairman, general secretary, or special plenipotentiaries.

SDS Daily Comments on New Laws

Laws Discussed

91BA0117A Sofia DEMOKRATSIYA in Bulgarian
13 Nov 90 p 2

[Interview with Georgi Markov, member of the Democratic Party within the SDS [Union of Democratic Forces], by Milena Dakova; place and date not given: "Before the End of the Year the Grand National Assembly Must Promulgate Exceptionally Important Laws"]

[Text] About 10 days ago, the Grand National Assembly voted a program for its legislative activities until the end of the calendar year, drafted by a special parliamentary work group.

The program was submitted to a plenary session by Georgi Markov, a member of the Democratic Party within the SDS [Union of Democratic Forces] and chairman of the work group.

[Dakova] Mr. Markov, what laws are included in the adopted legislative program?

[Markov] The draft laws are divided into three groups: laws that will ensure the legislative reform in economic activities; laws pertaining to the reform in self-government; and other laws, equally important, related to the rights and legitimate interests of the citizens, such as the Law on Names, the Law on Pensions, the Law on Amnesty, and others.

[Dakova] Which are the laws that will make possible a transition to a market economy?

[Markov] Such a transition can be achieved only through a series of interrelated laws. However, until those laws have been passed, certain changes will have to be made in the current legislation. The economic reform will begin with amendments of Ukase No. 56. The draft bill was already discussed by the legislative commission of the VNS [Grand National Assembly]. It will liberalize company foreign trade activities. The amendments will make possible an initial so-called minor privatization, affecting essentially entities in the areas of trade and services. We know that usually small enterprises are the main source of new developments and the opening of new jobs in a market economy.

We are familiar with the experience in Poland, where today small enterprises are providing jobs to about half a million Poles. That is why we should not wait but should revive economic activities as soon as possible. We are hoping to ease the heavy tax burden of companies. Foreign investments, as well, will be encouraged.

[Dakova] I hope that you are not relying exclusively on the amendments to Ukase No. 56 in order to achieve such a revival.

[Markov] Of course not. By the end of November we should consider in plenary session the Law on Farmland. So far seven draft bills have been submitted, which are quite different in terms of the ideas they contain. The main objective of the law will be to settle the question of ownership, and the use of farmland and returning it to its owners.

Also included in the first group is the draft Law on the Protection of Competition, which mandatorily must precede the Law on Privatization. The purpose of this legal act is to settle the question of protection against unfair competition, and the creation, support, and abuse of monopoly status or any other actions that could hinder competition in the economic area.

Equally important is the Law on Bookkeeping. This law should organize bookkeeping in our country on an entirely new basis and make it equal to that of the other European countries. Along with this law, most likely we shall promulgate, although it is not included in the program, a special Law on the Audits Office. Such legal acts have been passed in all countries with a market economy. The audits office will be under the jurisdiction of the parliament, and its main task will be to monitor the propriety of state budget expenditures.

[Dakova] To the best of my knowledge, also planned is the promulgation of the Trade Law, which will fill the vacuum in our present legislation.

[Markov] It is expected that, by the end of the year, the Commercial Code, which Bulgaria had instituted as early as 1896, will be debated and passed. The law was abrogated in 1947. It is interesting to note that the program submitted by the American specialists Richard Ran and Ronald Utt recommends the literal borrowing of entire sections of this law. Immediately after that, the Law of Privatization and related conversion of state and municipal enterprises into stockholding companies will be considered, involving the sale of state and municipal enterprises, and so forth.

[Dakova] In previous discussions published in this newspaper, you commented on the need for reform in local government and administration. Do you have anything to add to these matters?

[Markov] The laws on local government and administration and related laws on the new administrative-territorial division and the new electoral law are priorities not only because of the need for a reform in local

government and the election of new local organs. These draft laws are important because the matter they settle is closely related to the economic reform. For example, it is contemplated that the new municipalities, as the real local government organs, will formulate their own programs for privatization of municipal property.

[Dakova] Is such a program not excessively ambitious? Seventeen laws are a great many, particularly if we take into consideration the "speed" with which the socialists in parliament work.

[Markov] This is a bold program. However, it is the maximum amount of laws that could be promulgated before the end of the year. It would be difficult to say at this point where we shall be entirely successful. Conditions for the work of the legislative commission are still lacking. Furthermore, the material related to economic legislation and of items subject to the regulation of local government are quite complex. We are not trying to reform a system but to make a reform that will result in a new system.

Still, the fact that the draft bills already exist makes us feel optimistic. However, by the fault of the deputies belonging to the ruling party, we are losing a great deal of valuable time. Such was the case with the "depolitization," which was being reduced merely to changing a single article in the Law on Political Parties. This could have been accomplished in two or three days and not taken three months.

The lawyers of the SDS will be absolutely constructive toward such draft bills, the more so since most of them were written by us. However, we shall support not only our own draft bills but also those submitted by the government, providing that the ideas they contain are consistent with our electoral program and with the good of Bulgaria.

[Dakova] The limited time at our disposal prevented us from discussing the Law on Foreign Investments, the Law on the Police, the Law on Amending the Ukase on Encouraging the Birthrate, and the Law on Amending the Law on Public Health, which are also part of the VNS legislative program to be completed before the end of the year.

Contradictions Noted

91BA0117B Sofia DEMOKRATSIYA in Bulgarian
14 Nov 90 p 2

[Article by Candidate of Juridical Sciences Aleksandur Dzherov, chairman of the VNS [Grand National Assembly] Legislative Commission: "The Justice Organs Are in the Labyrinth of Contradictions"]

[Text] Under BCP [Bulgarian Communist Party] rule, we had become accustomed to the fact that a law may not be applied if a leader wished otherwise. Frequently, lawyers did not have the final say in the making of basic decisions because their objections hindered the strategic plans for the "upward" development of the socialist state.

A brief look at the draft bills currently submitted indicates the lack of a legislative line to be followed and of deadlines. It is hard to believe that the government is able to submit for consideration a civil code, considering that such a code has been under discussion for more than 20 years. Nor should we expect the drafting of a commercial code, which we truly need, to be easy. It is more important and urgent to consider the current Ukase No. 56 and the regulation governing its application. Both hinder any use of foreign capital in our country and the possibility of normal functioning of foreign and mixed companies. This ukase must be amended so that, at least for the time being, we can create the necessary conditions for normal economic activities. The government should focus its efforts on changing the existing regulations, directives, and other legal acts.

Despite the major changes made in the Law on Citizens' Property of last March, the regulation on the application of the law remains unchanged. That is why today we have a total discrepancy between the stipulations of the law and the regulation. The latter contains interpretations concerning stipulations in the law that have already been amended.

An amendment was made last April to the Law on the Territorial and Settlement Structure, dealing mainly with condemnation and compensation. However, the regulation governing its application remains unchanged. The law directs us to the regulation that, because of its stipulations, is no longer applicable.

The same applies to the Law on Property, which was amended on 17 April, although the Regulation on State Property remains consistent with rules that have already been abolished. This regulation shows a great many anachronisms in terms of the sale of state property.

What can we say about the Regulation on Prices of Real Estate of 1973, Article 1 of which stipulates that the prices of real estate being condemned, whether by a court or through the voluntary division of real estate, are based on the present regulation. According to the legislative amendments we cited, which were made last spring, it is the market prices that must be enforced.

Considering this abundance of conflicting rules, was it not necessary for the government, over the past seven months, to do what was necessary in order to change the legal acts (the regulations applicable to the amended laws)? Will Bulgaria be the last country in Europe to establish a normal legal system?

Tasks of Parliamentary Agricultural Commission

91BA0136A Sofia IKONOMICHESKI ZHIVOT
in Bulgarian 7 Nov 90 pp 1, 4

[Interview with Professor Atanas Ganev, chairman of the Parliamentary Commission on Agricultural Policy]

and Reforms in Agriculture in the Grand National Assembly, by Ventselav Ganchev; place and date not given: "Here Professionals Are Active"]

[Text] Continuing with its initiative, today IKO-NOMICHSKI ZHIVOT describes to its readers the Parliamentary Commission on Agrarian Policy and Reforms in Agriculture of the Grand National Assembly. This is understandable because the implementation of its targets and tasks will determine to the greatest extent possible the future development of the sector that, according to the general understanding, can quickly and successfully take our country out of the economic crisis.

[Ganchev] Mr. Ganev, it would be interesting to know who are the specialists on the Permanent Commission on Agrarian Policy and Reforms in Agriculture. Most generally, what are its tasks at present, and what tasks are already considered to have been implemented?

[Ganev] We know that the VNS [Grand National Assembly] created 16 permanent commissions and a number of temporary ones. Their titles largely reveal their functions. As a whole, the tasks of our commission are very important. They are particularly responsible and difficult. The draft laws it will prepare and submit to the VNS will have historical consequences for the nation. In other words, both the commission and the VNS have assumed a great responsibility to future generations.

The Permanent Commission is one of the largest. It has 39 members and is based on the proportional representation of the different parties in the parliament. The commission's leadership is as follows:

- Chairman: Professor Atanas Ganev (BSP [Bulgarian Socialist Party]), agricultural economist, doctor of economic sciences.
- Deputy chairman: Mikhail Mikhaylov (BZNS-NP [Nikola Petkov Bulgarian Agrarian Union]), university training in history.
- Deputy chairman: Khasan Khasanov (DPS [Movement for Rights and Freedoms]), university education.
- Secretary: Ivan Pantelev (BZNS [Bulgarian National Agrarian Union]), higher agronomy training.

According to convention, three subcommissions have been set up within the commission:

- On the draft Bill on Farmland, Privatization, and the Food Industry, chaired by Marko Markov (BSP), higher economic training.
- On the economic and social problems of agriculture and the Bulgarian village, chaired by Stoyno Atanasov (BSP), higher zootechnical training.
- On preservation and reproduction of the agroecological potential, chaired by Professor Trifon Georgiev (SDS [Union of Democratic Forces]), with higher agronomy training.

The leadership and the members of the commission have considerable practical, political, scientific, and economic experience. Their areas of training and specialties are quite varied. The commission employs scientific workers, agrarian economists, agronomists, zootechnicians, philosophers, political economists, engineers, teachers, actors, and others. All of them, however, are directly or indirectly related to agriculture and the Bulgarian villages, care for them, and are involved in the problems of that sector. With their high professionalism and attitude toward the problems of agriculture, almost all are working actively and showing a responsible attitude toward their obligations.

So far, at different meetings, we have repeatedly discussed mainly the draft Law on Ownership and Utilization of Farmland. The commission heard Minister Todor Pandov, who informed us of the specific intentions of the government in the area of agriculture and the food industry. We are gradually concentrating also on the drafting, discussion, and adoption of other bills and measures related to the problems of agriculture and the food industry and, more specifically, their economic associations. Our activities will be related to the draft bills on privatization and destatification of state, municipal, and cooperative enterprises; cooperatives, competition, and exchanges; banks and the credit-financial system; amendments to Ukases 56 and 922; taxes and insurance; and a number of amendments of a constitutional nature.

On 11 October 1990, the commission submitted to the VNS Bureau the draft Law on Ownership and Utilization of Farmland it had passed. The bureau made copies of the draft bill, which were distributed among all people's representatives in parliament. This draft is being discussed by the other commissions, as well, above all by those concerned with legislation, economic policy, social policy, ecology, and civil rights.

[Ganchev] Unquestionably, the core of your work so far has been to draft a law on the land. Are there substantial differences between the draft that was already published in the press for nationwide discussion and the draft your commission adopted and submitted to the parliament?

[Ganev] As I have done on other occasions, let me mention that at different times the VNS officially received four drafts submitted by different organizations. Officially, on 23 October—that is, 12 days after we submitted the draft of the Permanent Commission—a draft Law on Farmland was submitted to the VNS by the SDS Parliamentary Union, which has still not been passed on to us by the VNS Bureau. However, it was published in the newspaper DEMOKRATSIYA and we studied it. That same newspaper also published a draft bill on agricultural production. What is characteristic in this case is that essentially all drafts share a number of features. They are different in terms of their names, scope, and structure, but their objectives and tasks are the same: restoring the land expropriated after 1946 to its true owners.

We know that the preliminary governmental version was drafted by the Ministry of Agriculture and Food Industry with the help of a number of other ministries and organizations. It was adopted by the Council of Ministers and submitted to the VNS. This project was published as early as 22 May 1990 for nationwide discussion. A number of recommendations, opinions, and suggestions were received in this connection. That led to two subsequent drafts, after which it was submitted by the government to the VNS.

After debates within the Permanent Commission, we accepted the view that the government's version should be taken as a basis. This was not only because it was the earliest but also because the government has priority in legislative initiative. Naturally, this does not mean that we made no use of the remaining drafts submitted by the political organizations. The representatives of these organizations expressed views on every single article of the draft bill, and many of them were taken into consideration; an entire section, dealing with land relations, was taken from the draft submitted by the BZNS. It can be said that a number of differences exist between the last variants the government submitted and the variant adopted by our commission. At its last session, which was held on 10 October 1990, the vote by the 36 commission members attending was as follows: 26 "yea," seven "nay," and three abstaining. The draft law was adopted. I would like to think that even those who opposed it or abstained do not reject the draft in its entirety but object to individual formulations and concepts or had other reasons.

[Ganchev] It is clear that the only option concerning the future development of this sector is privatization. However, do you not believe that even privatization should have some sensible limits? Practical experience indicates that a number of advanced countries are making efforts to strengthen some social forms of labor organization.

[Ganev] I shall defend some of my purely subjective views, proceeding from my profound inner understanding and not exclusively on the basis of the party I represent in parliament. It is an open secret that we have developed a powerful material-production base. We have significant production specialization and concentration in the individual farms, a fact that is the envy of many countries and foreign specialists. This is the objective foundation for the organization of a modern, highly mechanized, intensive production system and is consistent with global trends, aspirations, and experience. At this point, we could argue about the scale, dimensions, and technical standards of the production process, the meaning and content of such an organization, the self-seeking biases, and the errors that were made. It would be unfair as well as unnecessarily pessimistic to ignore this fact and this objective reality as a foundation for a modern production process. This is a fact all of us must take into consideration when we take steps to solve one problem or another within the sector, both now and in the future.

I still claim that in our country it is not the form of public organization of production that is to be blamed for the condition in which the sector finds itself. This is confirmed by our positive experience up to a certain time in the past. This is equally confirmed by the experience of Czechoslovakia, Israel, and many other countries. The trouble came from subjectivism and adventurism and an improper attitude toward the sector, as well as overlooking its specific nature and requirements.

In the new political and economic circumstances prevailing in our country, when we speak of privatization of production in agriculture as the only accepted option, we should also consider the form it will take and the path it will follow. I am not opposed to the organization of private farms, which, I am sure, we shall have in the future and which I do not consider bad in any way. The reevaluation is clear and official. It is still too early and difficult to guess which will be the predominant way in our country in the future. We shall be able to see this a few years after the enactment of the Law on the Land or, perhaps, even later than that. Under the new circumstances, the farmers and commodity producers will determine, without petty supervision, administrative measures or coercion, and, on the basis of their common sense and the public and private interest, what path they shall follow henceforth. Whatever we may decide, however, I believe that we would be wrong to abandon the principle that "the land belongs to those who farm it." As a gift of nature, it should be used most efficiently and not turned into a means of enrichment for people engaged in other activities. It is clear, however, that the cooperative labor farms cannot and should not be kept in their present form. How many will there be? Where will they be located? What names and sizes will they have? Will there be uniform cooperative farms everywhere? They will unquestionably come in a great variety. In my view, the future belongs to the agricultural production cooperative. Whereas in the past the poor peasants looked at the cooperative as their salvation, the time has now come to give full scope and total emancipation to the agricultural production cooperative, with its true specific principles of organization, development, and management. Our agricultural production cooperative should return to its initial principles of organization and management by private landowners, organized for the purpose of collective farming, using modern facilities and highly productive technologies that exceed the forces and possibilities of the individual farmers. Only thus can high production-economic results of joint labor be attained.

It can be said that, after the constituent congress of the Union of Cooperative Labor Farms of 6 and 7 April 1990 and the new model statutes that were adopted, although still timidly, our farms are adopting this way of development. However difficult this may be now, this is the only right way, and this is something the leaderships of the labor collectives are aware of. Henceforth, success in competition and rivalry among the various forms of ownership of agricultural enterprises can be relied upon only by making joint labor attractive. Naturally, our

state and society must provide more generous aid to the development of the sector and give priority to the attention and concern they show for this sector, also under the conditions of a market mechanism. This attention and concern should be manifested through economic measures and incentives familiar to our country and elsewhere.

[Ganchev] A few words on the "Achilles' heel" of privatization: How will the land be destatified (although it has never been statified legally)? Or, more precisely, how could its previous owners, their heirs, or anyone who would like to engage in farming acquire land?

[Ganev] Following the promulgation of the Law on Land Ownership, the former owners and their heirs are the ones who will determine by themselves how to farm it, whether on a private or a collective basis. For the time being, the draft stipulates three options: return their land to them and let them organize their own private farms, give the land to the state (to the State Land Fund) for a certain compensation, or keep it within the cooperative labor farms and earn rent from it in amounts stipulated by the general assembly of the farm.

In the case of those who have no land of their own, a certain procedure and means have been stipulated to provide them with the same.

[Ganchev] How long would it take to implement an agrarian reform in Bulgaria?

[Ganev] This is a difficult and rather complex process. The practical implementation of the law must not and should not be quick. This is only the legal foundation. The difficulties will be substantial under our circumstances, and it would be premature to anticipate all obstacles. Naturally, this process will develop at a different pace and over varying periods of time in the various parts of the country and farms. The problem is to create conditions and prerequisites to this effect without excesses and without various artificial complications.

HUNGARY

Tokes on Revolution, Reform Communists

91CH0159A Vienna PROFIL in German.
No 42, 15 Oct 90 pp 74-75

[Interview with Reformed Church Bishop Laszlo Tokes by Michael Cramer; place and date not given: "Spirit From the Past"—first paragraph is PROFIL introduction]

[Excerpts] Laszlo Tokes, the clergyman from Timisoara, who was persecuted by Ceausescu, escaped death for a second time in Hungary. [passage omitted]

[Cramer] Is it not a paradoxical situation for you to be lying in a Hungarian hospital, being guarded by Hungarian bodyguards, and having possibly been put into a wheelchair by a Hungarian?

[Tokes] I know whereof you speak and what all my friends in Romania and Hungary consider to be a fact. But I simply cannot imagine that it was precisely here in Hungary that my life was to be extinguished. This accident could have happened anywhere in the world. By the way, a few days ago, the Romanian ambassador was even here at my sickbed and offered me the moral and material support of his government.

[Cramer] Will you avail yourself of this assistance?

[Tokes] It was probably more theoretical in nature. [passage omitted]

[Cramer] So you want to play a role in the public life of Romania in the future as well?

[Tokes] Yes, that is my plan because this country must once and for all finally be liberated from extremism, terrorism, manipulation, and lack of freedom. We are compelled to live through times today which are worse than they were under Ceausescu. The president and the government are pure puppets of the police, of the Securitate apparatus, and of the Army. These institutions dictate what has to be done.

[Cramer] How is this liberation to look?

[Tokes] There must be, and there will be, a second revolution. I hope and pray to God that it will be a peaceful one. Like the citizens of the GDR, we wish to bring about a change in our country through peaceful means. The regime is to be brought down not with weapons, blood, and tears, but through peaceful demonstrations and manifestations.

[Cramer] And you yourself will stand at the head of this second revolution?

[Tokes] Today, I am far better versed in political situations than was the case previously. In December of last year, I was not prepared and in the months which followed I was overtaken by political events. Although I was a member of the Council of the National Front until the unrest in Tirgu Mures. However, at that time, I had not anticipated that all would turn out not for the better in the country, but rather for the worse. I always favored a moderate movement; state power on the other side was not to be provoked. But since the elections in May I know that my place is on the other side.

[Cramer] You were also criticized for sitting too long at the same table with Communists in the first months following Ceausescu's downfall, whereas others in the opposition, such as Doina Cornea, soon resigned from the council.

[Tokes] I am not an obdurate cannibal of Communists even now. One cannot condemn all Communists as a matter of principle. There are many who were previously Communists and who have changed. See Miklos Nemeth in Hungary or Imre Pozsgay. They must be praised, although they were Communists. Without them, the

peaceful transition to a democratic system in Hungary would not have been possible.

[Cramer] Following a second revolution, who is supposed to stand at the head in Romania?

[Tokes] Our main problem lies in the fact that there are no alternatives. Everyone knows that President Iliescu has virtually no power. The actual strongman, who is directed by the police and the Army is Premier Petre Roman. And the government uses brute force to suppress all tendencies toward more freedom and liberalism. President Iliescu serves only to decorate and legitimize the first revolution. [passage omitted]

POLAND

POLITYKA Weekly News Roundup: 9-15 Dec

91EP0167A Warsaw POLITYKA in Polish
No 50, 15 Dec 90 p 2

[Excerpts]

National News

[passage omitted]

Wojciech Jaruzelski, [former] president and commander of the Armed Forces of the Republic of Poland, said farewell to the soldiers of the Polish Army. The minister of defense thanked W. Jaruzelski "for an important and fruitful contribution to the development of the Polish Army." Gen. Jaruzelski said, among other things: "I am a man of three epochs. First, childhood and the years of boyhood. Then, as a small cog, believing in the values which were at the time road marks, I attempted to serve Poland. I met difficult duties; sometimes beyond measure. It happened I wandered, but I think I succeeded in not staying lost. To the degree I was able and it was possible, I attempted to make the entry into the third epoch of changes and democratization occur in an evolutionary manner, without shocks, without the aid of the army. I am proud of the fact that it did not happen here as it has in our history and elsewhere that a Polish soldier raised arms against another Polish soldier. We have entered the third stage capable of realizing the tasks which the nation, the state authorities, and the president assign us."

A study of the legal foundations of martial law, done by Prof. Janina Zakrzewska of the Silesian Science Institute, claims that the introduction of martial law on 13 December 1981 was substantively, jurisdictionally, and legislatively illegal. The authors of martial law and the deputies of the eighth Sejm were fully aware of the illegality of the actions associated with the introduction of martial law.

The 28th Congress of the Polish Scout Union met in Bydgoszcz. It adopted two oaths (one "with God," the other without). It also introduced, on a suggestion by International Scouting, a clause stating that "training in

the Polish Scout Union is based on humanist moral values deriving from the universal, cultural, and ethical values of Christianity." The delegates elected Scoutmaster Stefan Mirowski, the legendary soldier of the Grey Ranks [Szare Szeregi—scouting organization active in the Polish underground during World War II], chairman of the Polish Scout Union. The position of chief was assigned to Scoutmaster Ryszard Paclawski, since April 1990 deputy chief of the Polish Scout Union.

On the morning of 3 December 1990, PRAWO I ZYCIE presented a mosaic of Sejm deputies. Of the 173 former PZPR [Polish United Workers Party] seats, 105 are in the Parliamentary Club of the Democratic Left (PKLD), 41 in the Polish Social Democratic Union, and seven deputies are independent. An eighth independent deputy, Marian Czerwinski, the only one elected in the first round of June 1989, has announced his desire to join the Citizens Movement—Democratic Action (ROAD). There are 10 unaffiliated deputies. The so-called large Polish Peasant Party (PSL) has 76 deputies; the "small" Polish Peasant Party (PSL) [led by Henryk Bak] has four; the Democratic Party (SD), 26. The Citizens Parliamentary Club (OKP) has 28 christian democrats, three members of the Christian National Union (ZChN), four member of the Forum of the Democratic Right (FPD), 28 members of the Citizens Movement—Democratic Action (ROAD); and 26 members of the Center Accord.

Lech Walesa, in a interview with journalists of RZECZPOSPOLITA (6 December 1990), in response to a question about his position on "the campaign of slanders and provocations" conducted by S. Tyminski: "I only have a request for all the appropriate services. Tyminski cannot be allowed out of the country. Tyminski must answer for everything that damaged Poland and the name of Poland in the world. In particular, he must apologize to the prime minister and many other individuals. We cannot allow this to pass even in the name of democracy and learning democracy."

Senator Jaroslaw Kaczynski, editor in chief OF TYGODNIK SOLIDARNOSC and the leader of Center Accord, on the nomenklatura (in an interview for RZECZPOSPOLITA): "The apparatus still directing the state economy and the new groups deriving from the new Polish capitalism, it too is controlled by the nomenklatura. The place in the system still decides economic success." [passage omitted]

The Supreme Court, in a closed session, suspended the registration of NSZZ [Independent Self-Governing Trade Union] Solidarity '80 until a new law on trade unions is adopted.

Wages in November 1990 reached 1,400,274 zloty and increased by 10.3 percent in relation to October.

The Union for Real Politics (UPR) has been registered as the Conservative-Liberal Political Party (K-LPP). Among the founding members are Stefan Kisielewski, Janusz Korwin-Mikke, and Prof. Andrzej Stankiewicz.

Jan Widacki, deputy minister of internal affairs, announced on the television news program *Wiadomosci* that, until 1989, in the Ministry of Internal Affairs there was a section for provocations and sabotage. Its activities were in consultation with the KGB. Gen. Platek directed it. As an example of the actions of the group, J. Widacki said that 10 officers of the Ministry of Internal Affairs who participated in a pilgrimage to Jasna Gora, had poisoned food, damaged cars, and distributed specially prepared leaflets.

The 1991 budget for the Senate calls for more than 134 billion zlotys. The main expenses are to maintain the chancellery and the senators' offices. In 1991, these offices will no longer be shared with the deputies, but will be separate and have their own personnel. The cost of organizing one office, excluding personnel expenses, is 347 million zlotys. [passage omitted]

Fares for LOT [Polish Airlines] flights on foreign routes will increase by an average of five to seven percent because of increased fuel costs.

Poland's debt in convertible currency has increased to \$45.2 billion at the end of September 1990 from \$40.8 billion at the end of 1989. However, the ruble debt has decreased to 5.1 billion rubles from 5.8 billion.

Solidarity intends to discuss the principles for setting the lowest wage with the government. It proposes the average level for 1991 be 590,000 to 600,000 zlotys a month. [passage omitted]

The post office is shrinking says EXPRESS WIEC-ZORNY. During the first quarter, in comparison with the quarterly average in 1989, the post office received 45 percent fewer magazines, 42 percent fewer parcels and insured letters, and 31 percent fewer registered letters. Post offices are being closed: three in Zakopane, five in the Tri-Cities [Gdansk, Gdynia, Sopot], and four in Warsaw Voivodship.

The weekly ZWIERCIADLO has ended its existence. It has been replaced by a monthly of the same title edited by the same editorial staff, which appears in a changed format with significantly more attractive contents. [passage omitted]

Opinions

Danuta Walesowa:

(Interviewed by Renata Mroczkowska-Jankowska, GAZETA GDANSKA 5 Dec 90)

[Answer] Throughout the entire presidential campaign, I felt bad. It was difficult for me to accept the fact that people whom we knew, whom we had received as guests many times, for whom the doors of our apartment had always been open, and who had many times asked my husband for help not only turned away from him but also were able to speak in unpleasant terms of him. When they needed him, he was good; when he ceased being needed, suddenly he became bad. That is very distressing, and I am amazed that my husband always attempted to understand their behavior, to explain their actions. My husband is much more tolerant and understanding of people's faults than I.

Jan Krzysztof Bielecki, deputy of the Citizens Parliamentary Club (OKP) of Gdansk:

(From comments for GLOS WYBRZEZA 3 Dec 90)

[Question] Is it true that you are prepared to form a new cabinet?

[Answer] I do not want to speak unequivocally on the subject. Until the parliamentary elections, which will be held in about three months, the government should not change. Generally, the point is not just stabilization and settling the situation in the country, nor is it the lack of solid parliamentary support which would change the administration of Tadeusz Mazowiecki.

Stanislaw Stomma, senator:

(TYGODNIK POWSZECHNY 9 Dec 90)

"The stubborn Polish-Russian conflict in the 19th century was at base a dispute about Polish influence east of the Bug, a dispute about Lithuania, Byelorussia, and the Ukraine, or at least about that part on the right bank of the Dnieper. The powerful empire of the czars feared the dynamism of the Polish people, even when they did not have their own statehood. How different things look now.

"At present, Russia is not a barrier for us in the east. The vigorous nationalism of our three neighboring peoples creates a natural boundary, and they are jealous of their territories in the face of Polish penetration. They constitute now a guard for the new boundary in the east. We can hope for cultural understanding and the development of cooperation in that area, but there can be no talk of territorial claims from the Polish side. Polish political aspirations in the east are now a closed chapter." [passage omitted]

HUNGARY

Soviet Withdrawal: Rumors of Napalm, Nerve Gas

91CH0158A Vienna PROFIL in German
No 42, 15 Oct 90 pp 71-73

[Unattributed article: "Napalm on the Pusztas: Occupiers Withdraw, Leave Polluted Environment Behind, but Demand Billions for 'Investments'"]

[Excerpts] In Komarom on the Danube, a former training area was transformed into a wild waste disposal site for used oil and chemicals. For days the acrid smoke of burning tires poisoned the air. In Esztergom, traces of napalm were even discovered in the soil, and the news reports spoke of careless handling of nerve gas. In the Pusztas, between Kecskemet and Bugacs, barrels containing chemicals, explosives, cartridges, mines, and used oil had been buried in the ground. The Russians refuse to say how much, and what kind of poison they have buried in the ground in the Pusztas. Gabor Demszky, the liberal candidate for mayor of Budapest, comes up with a sobering appraisal: "The Soviets dealt most carelessly with the most dangerous materials." [passage omitted]

Originally, the Russians would not allow Hungarian experts to enter their barracks prior to their withdrawal. Now the experts do have access to them, but they are not allowed to carry out any investigations. Again and again there is speculation that the Russians kept bacteriological and nuclear weapons in Hungary, but State Secretary Tarjan does not believe that they did.

In Esztergom, Ervin Szepesdi, the vicar general, takes us through the former priests seminary. The venerable building which was built in the Middle Ages survived two world wars intact. But now, after 37 years as a Soviet military hospital, it is in almost total ruin, "because they never fixed a thing." A year ago the Russians abandoned the building and moved their hospital to another location. At the time, they did not know that they would withdraw. They have been gone completely from Esztergom since January. [passage omitted]

POLAND

Need To Enhance Nation's Air Defense Voiced

91EP0142A Warsaw PRZEGLAD WOJSK
LOTNICZYCH in Polish No 11, Nov 90 pp 6-8

[Article by Colonel Dr. Witold Pokruszynski: "The Defense Doctrine and Air Defense of the Republic of Poland"]

[Text] The new defense doctrine of the Republic of Poland has become reality. In light of this, what is the role of air defense? Two extreme tendencies prevail on this issue. The first markedly favors restricting its potential within the framework of restructuring the armed forces and partial disarmament in Europe, whereas the other favors the preservation of the existing level with only a partial modernization of the air defense system. Both the former

and the latter tendencies do not meet modern requirements and, even worse, do not follow from the defense doctrine adopted. Therefore, without getting involved in historical discourse, we should put forth the following thesis from the very beginning: The defense capacity of a state depends to a decisive degree on a powerful and well-organized air defense. With a view to confirming this thesis, we should first of all outline, at least cursorily, possible threats to the republic from the air. The thesis thus worded is also confirmed by the recent promotion of the theory of "air-land battle 2000" in which the main role is assigned to the air force because it has been believed so far that air strikes, in the initial period of an armed conflict in conventional warfare, may preordain the course of further action in our defensive scenario, in the European Theater of Operations (ETW).

This great significance ascribed to the air force is the result of its destructive impact, range of action, precision, response time, tactical versatility, and multiple use, as well as the presence of intelligent weapons on board virtually every means of attack. The still increasing number of the means of air attack which may operate from different strategic-air directions covering the entire territory of our country with their range is a second, no less important factor. Between now and 1992, the existing number of the means of air attack in the ETW may increase by 20,000 unmanned airborne systems (BSL) capable of destroying various facilities even if protected by a strong air defense.

A considerable increase in the combat potential of air forces in recent years, including air means of attack, precision weapons in particular, improvements in the forms and methods of their combat use and their combat readiness give us grounds to assume that our potential adversary, after conducting only partial mobilization on the pretext of exercises, may begin hostilities by using conventional means, with missile and air strikes throughout the entire depth of the operational grouping of troops and targets in deep rear areas.

Proceeding from that dangerous of a threat and the defensive nature of our doctrine, which does not provide for us to be the first to start hostilities and deliver preemptive strikes, it has become an urgent necessity to reveal on the pages of the press the role of the air defense of the Republic of Poland in a new situation which is more difficult for it. This difficulty is mainly the result of the need to wage a large air-defense battle against superior enemy forces within the framework of gaining control of the air, because deflecting massive air strikes by the enemy, especially in the initial phase of an armed conflict, will depend not only on the quantity and quality of the means of air defense but also on other factors, such as the combat readiness of troops, their response time, effectiveness of actions, the structure of civil defense, as well as the mode of using and commanding the troops.

Of course, if the significance of air defense increases (to which the provision of Point 5 of the Defense Doctrine of the Republic of Poland also testifies), the requirements it has to meet also change. They are the result of the existing degree and directions of threat, the goals of air defense, the adopted concept of performing a defensive operation in the territory of the country by operational troops, and general assumptions regarding the conduct of an air-defense operation in a coalition setting.

We pose the following requirements for modern air defense:

- The ability to destroy the means of air attack of the enemy in all sectors of threat, in the entire range of flight altitudes.
- An opportunity to concentrate the efforts of air defense on principal directions and points.
- High effectiveness of air defense.
- An opportunity to continuously affect the enemy through the entire depth of defense.
- An opportunity to effectively combat the means of air attack in the environment of strong electronic interference.

Taking into account conditions for the conduct of air defense in the territory of the Republic of Poland in light of an increasing air threat, we may make its precise basic assessment without major errors. Thus, modern air defense should be unified, effective, maneuverable, and resistant.

Even after a cursory assessment of the existing situation, I have doubts as to whether our air defense has these four basic features and, therefore, whether we can characterize it as being modern.

The need to create a unified system of air defense in the territory of the Republic of Poland is due to objective reasons, mainly the nature of actions by the operational troops in a defensive operation, the need to provide cover for our own and allied troops regrouping in the territory of Poland, the expediency of combining cover for the troops with point air defense in the territory of the country, as well as an opportunity to deliver air strikes in the very first hours of an armed conflict within the framework of the first offensive air operation by the enemy.

The expected nature of the action of the enemy means of air attack and friendly forces in a defensive operation suggests that on an operational scale the air defense will have common directions of threat, regions, sectors, and lines of air defense, as well as the objectives of the first and following air-defense operations.

Air defense in the territory of the Republic of Poland, especially in a defensive scenario, should accomplish the following main tasks: the destruction of principal groupings of the means of air attack on long-range approaches before [reaching] the borders of the country and interdiction lines; concentration of the efforts of air defense on the main axes of threat and the defense of the most important points; conduct of combat operations through the entire depth of the grouping of operational troops and the location of points in the territory of the country.

The complexity of these operations raises the thought that modern air defense means primarily modern means of combat and command and bold, modern views on the structure of defense.

It appears that now is the best time to analyze the issue of air defense for the Republic of Poland objectively, without emotion, boldly, and on its own merits, from the standpoint of the doctrine in effect and current realities, as well as in the light of the long-range development of the means of air and space attack until the end of this century.

Going back to the thesis set forth in the beginning of this article, I would like to recall that before World War II countries which had not solved the problem of air defense had to capitulate within the very first weeks of hostilities. The same may happen at present and in the immediate future, but within a considerably shorter period of time, measured in days or hours. Hence, I state with confidence that operations in the third dimension, that is, in the air and space, rather than on land and at sea, as has been the case, will be of primary significance in a future military conflict in Europe.

We must anticipate probable events through familiarity with the essence and mechanisms of air defense and consistent actions, because the future battlefield is becoming increasingly demanding and cruel for the sluggish and the incompetent.

BULGARIA

Currency Exchange as Solution to Inflation

91BA0120A Sofia DUMA in Bulgarian 30 Oct 90 p 4

[Article by Barukh Shamliev: "Perhaps a Currency Change?"]

[Text] What should be undertaken after the VNS [Grand National Assembly] has passed the program for further democratization and for accelerating the conversion to a market economy? This is no longer a rhetorical question because it is a question of priorities and time breakdowns. An erroneous and hasty choice would slow down the program, which would have fatal consequences.

A number of disparities exist in setting priorities. According to some, this should be a law on ownership and land. According to others, we should begin with demonopolization, competition, and the trademark law. Still others emphasize the price and tax reforms. According to some, not least, in terms of importance, destatification and privatization should come first. The government's program itself sets the following priorities: destatification and privatization, followed by a new monetary-credit and banking system, a new system for state and foreign exchange finances, demonopolization, competition and liberalization of prices, and, finally, a new foreign economic and foreign currency system.

The greatest trouble today is caused by inflation.

This is a scourge for both the national economy and the existence of the people. It is steadily worsening. There is no likelihood of restraining it in the immediate future because the financial system is profoundly disrupted and because, instead of restricting the mass of money, an additional 21 billion leva are being put into circulation in the wage fund, pensions, awards, fees that lack a corresponding commodity backup. Given this situation, the first in terms of time and significance, in order to ensure the successful solution to the crisis, should be the strengthening of the financial system in general and of the leva in particular. Without this, financial support of all other parts of the program becomes inconceivable.

The science of economics and global experience teach us that surmounting the economic crisis, particularly a crisis accompanied by unrestrained inflation, is related to the application of a packet of measures in various combinations. The prime role is that of strengthening the financial system and the national currency. Without it, balancing supply with demand or the circulating currency with the amount of goods and services becomes inconceivable.

For the sake of the truth, we must admit that the stipulated steps are traditional and have been known for centuries.

These steps are the following: a drastic lowering of budget deficits, subsidies, investments, and defense expenditures,

reduced to a sensible limit; lowered administrative costs; an increased interest rate; demonopolization; destatification; privatization; and so forth.

Let us emphasize that priceless time was unjustifiably wasted in promoting their implementation. The great difficulties being experienced and that will be experienced are due largely to fluctuations and indecisiveness, which were manifested in the course of weeks and months. The government itself describes its program as cruel because the only solution to the crisis is that of taking urgent, radical, and socially unpopular steps.

The claim that the political situation remained adverse for months on end and that there was no legitimately elected parliament that could vote a packet of so greatly needed laws sounds unconvincing. This may be true but only partially. Thus, for example, there were no hindrances to the quick implementation of unquestionable anti-inflationary measures stipulated in the program: raising the interest rate for deposits made by citizens and on loans to companies. This could have attracted money to be deposited in banks rather than serve as an inflationary fuse. All banks throughout the world change their interest rates as many times as required by the dynamics of capital and the level of inflation. As it were, the Bulgarian National Bank remained under governmental rule. The budget deficit, meanwhile, quadrupled without any stop being put on state crediting of investments in both areas of the public economy. No National Assembly vote was needed to float a bond loan and introduce a system of term deposits paying a higher interest.

Nowhere in the governmental program is the exchange of currency mentioned as one of the efficient ways of strengthening the leva. Objections to the exchange of currency is understandable because this step includes confiscatory elements. However, such fears should not be exaggerated. The significance of the exchange of currency should be assessed not merely on the basis of abstract theoretical concepts but also of real facts, facts that exist.

At present, the total amount of money circulating in the country is 44,370,000,000 leva.

"Hot money"—that is, the cash outside deposits in the State Savings Bank—exceeds 20 billion leva. The volume of available goods and services, based on comparable prices, is at best one-third of that amount. How can these two masses of currency and goods and services be balanced? Three methods are most frequently applied:

The first is for the money in circulation to be drastically reduced or for prices to be increased by several hundred percent. This method was chosen in Poland, where prices were increased by a factor of nine.

The second possibility is to increase the production of goods and services to such an extent that a commodity of

equal value exists for each leva on the market. In our country, under the present circumstances, this would be an illusion.

The third possibility is a currency exchange.

The main objection to the exchange of currency is that it encroaches on the funds of people who earned this money by honest work. This is indisputable. It is a question of something else: at whom the exchange is aimed. Furthermore, in cases of war and national catastrophe, everyone must make some sacrifice.

Let us consider what the structure of savings is in the State Savings Bank, which, at the start of this year, had deposits totaling more than 22 billion leva. Let us further note that the average deposit per savings account is 6,000 leva and, most important, that no more than 5 percent of the holders of savings accounts account for nearly one-half of all deposits. More specifically, following is the breakdown of deposits: 28.9 percent, from 1 to 100 leva; 21.3 percent from 101 to 500 leva; 13 percent from 501 to 1,000 leva; 14 percent from 1,001 to 2,000 leva; 12.1 percent from 2,001 to 4,000 leva; 8.6 percent from 4,001 to 10,000 leva; 1.9 percent from 10,001 to 20,000 leva; 0.2 percent from 20,001 to 40,000 leva; and 0.01 percent for over 40,000. If an eventual future currency exchange is such that the old leva will be exchanged for a new leva for up to 10,000 leva, this will mean that the bulk of the owners of savings deposits will not be affected, and the benefit to the national economy will probably amount to several billion leva that will be withdrawn from circulation. Let us remember that, in the unification of the two Germanys, the exchange of currency in the former GDR with FRG currency was based on a similar approach.

One billion leva of Bulgarian currency is outside the country.

Should we feel sorry for the owners of such funds? It is true that this currency is not active on our market. However, it is also true that, in the West, 1 leva is worth 10 cents, and it is thus that some foreign tourists come to the country for virtually nothing.

What to do with the money hidden in mattresses and tin cans? Most of it is of questionable origin. This is a substantial amount, almost equal to deposits in the State Savings Bank and is, actually, the working capital for the "shady economy." In all cases, such currency could not be considered equal to that of the conscientious depositors who have savings accounts in the State Savings Bank.

We are being cautioned that the exchange of currency is an expensive operation that would cost 600 million leva. Let us not argue about the amount. To say the least, however, it would be improper not to note its results, the extent to which the monetary circulation will be reduced, the extent to which the exchange rate of the leva will be improved, the increase or decrease of bartering among

enterprises, and the way the exchange will influence pegging the currency to the dollar.

Some economists hastily proclaim themselves firm opponents of the monetary exchange. However, their arguments are more political than economic. According to them, such an exchange would be useless because both the Mafia and the *nomenklatura* have already turned into physical assets the huge amounts of money they acquired a long time ago. We should emphasize, however, that what matters most to the Mafia and the *nomenklatura* is to have capital in order to "carry on" their trade at speculative prices. Summer cottages, real estate, gold, and dollars are the consequence of this.

According to others, the first serious leak of information about a forthcoming currency exchange would lead them to immediately purchase land, property, gold, and dollars. This is ridiculous. Who would be crazy enough today to sell property and cottages and gold for little pieces of paper issued by the state?

Freezing Deposits?

Nor does the program mention another effective step: freezing for one or two years all State Savings Bank deposits at a higher interest rate. This step would block the withdrawal of paper money from the deposits other than in precisely stipulated cases and amounts, as well as a mandatory cashless payment for goods over and above the stipulated level. The freezing of deposits is very popular. Let me mention that Ludwig Erhard, the "father" of the West German economic miracle and former chancellor, referred in warm terms to such a step and to the then currency exchange that was carried out, in his book *Prosperity for All*, which came out in 1960. In March 1990, Fernando Collor de Mello, the newly elected Brazilian president, resorted to freezing deposits as well.

Any tool applied against inflation is good, but, unquestionably, some tools are better than others. The exchange of currency is one of them, and it becomes particularly powerful with the application of the entire arsenal of anti-inflationary measures rather than applied by itself. This includes budget reductions, increased interest rates, demonopolization, competition, destatification, privatization, and so forth. In all cases, we must realize that, without the strengthening of the financial system and the leva, it would be superficial, not to say thoughtless, to rely on a quick success for the entire economic reform.

CZECHOSLOVAKIA

Significance of Foreign Investments Discussed

91CH0156C Prague HOSPODARSKE NOVINY
in Czech 21 Nov 90 p 4

[Article by Eng. Vaclav Kluson: "Money Knows No Borders—Foreign Capital and Privatization"]

[Text] In my article "Privatization Without Capital" (HOSPODARKSE NOVINY No. 46/1990), I pointed out that even the coupon method of privatization will not be able to manage without a considerable volume of liquid assets, so much less so can other methods of privatization which will be introduced in due time manage without it. As the article also stressed, because the resources of our domestic capital are very limited, therefore, the only significant remaining source which in the end will also determine the success of privatization is foreign capital. The pussyfooting around this issue in our country and the preferred silence about privatization are rather characteristic.

Our first steps in this field are hesitant and timid, as if many citizens were overtaken by some instinct of self-preservation in face of something that threatens to turn us into beggars and destroy us, to deprive us of the last vestiges of our national wealth which may still be left here. For that reason, this element allegedly must be treated carefully and kept as far from us as possible. Such a xenophobic exercise in patriotism looks askance and with hostility at anyone who is seen as wanting to "sell out" our national wealth to foreigners, and it is not astounded that our dumping and various foreign trade policies had been doing this work systematically and dependably for over forty years. Perhaps one day someone will calculate its total amount.

Significance of Foreign Investments in Our Country

What are the intentions of foreign capital in our country? The answer is simple: It wants to do business here and make a profit. Nothing more, nothing less. However, that is precisely what we need the most. Naturally, that also requires such attributes as a sense of honor, punctuality, dependability, keeping one's word, making the best of one's work time, efficiency, tenacity, inspired problem solving, ability to take risks and to bear real responsibility, a correct attitude toward one's partners, high demands on one's coworkers, keeping interhuman relations on a level that makes it possible to organize and develop efficient teams, and many other similar traits and habits that are mainly only the basic moral preconditions for successful mastery of the art and technique of management and rational decision-making. Participation of foreign capital in business ventures in our country would necessarily involve also the presence of foreign managers who would doubtlessly train young generations of our managers according to the principle of "learning by doing"; they would then undergo the process of practical, effective retraining which obviously cannot be replaced by any course in management, even if presented by the best professors from the topmost universities in the West. Moreover, foreign capital makes it possible to modernize and rebuild production facilities, and to introduce new technologies; it opens new access to markets of raw materials, products and naturally, also of capital, which ushers in new opportunities for far-reaching international cooperation. Some preliminary negotiations with the Western partners indicate that under certain conditions they may be willing to invest individually in our country

considerable funds whose sum total obviously would many times exceed our disposable domestic capital.

Stages of Privatization

If the outlined prospects for the introduction of foreign capital in our country and its efficient use are realistic, one should ask at which stage of the process of privatization should foreign capital be invited, or at which stage of that process will foreign investors be ready to join. It seems to me that the least feasible process is offered by the governmental scenario for the economic reform, whose first step considers the organization of state stock companies and only in the second stage it anticipates sales of shares of those companies (to their employees and to the public, including foreign investors), or as the case may be, transfers of shares to citizens either free of charge or under very favorable conditions (the so called coupon privatization). Naturally, interested foreign parties also would have the opportunity to obtain additional shares by purchasing them from our citizens or from other physical and juridical persons in an organized capital market which must relatively soon be established in some fashion. However, if foreign capital does not appear sooner than in the second stage of the privatization process, it will be to the disadvantage of both parties—the new company and foreign investors. For instance, it will be disadvantageous for the new stock company because either the state or some of its agencies (such as the National Property Fund, the state holding association, etc), the citizens, or perhaps some other juridical persons will receive the cash equivalent for the shares sold. Thus, these resources will not become part of the company's capital assets and will not facilitate the restructuring of their assets, as mentioned above. That may occur only if capital assets are increased and new shares issued. For foreign investors, however, this method may not seem very attractive because in the situation of a capital market that is still nonexistent or embryonic and undeveloped in conditions of greatly dispersed ownership, it may be difficult to estimate the future prospects of our society and the probable development of the efficiency of its entrepreneurship. At this stage it would be hazardous for them to invest, and therefore, at best they will postpone any investments. Those among our citizens who fear that our national property will be "sold out" to foreigners may sleep in peace while this method of privatization is carried out.

If we are really interested in an effective implementation of the privatization strategy, we must take advantage of foreign investors' interest in entrepreneurship in our country must already in the first step of privatization. Such a step should include the establishment of a genuine business association, most often a stock company or a company with limited liability. The new company will be established by the state jointly with other founders who may be either Czechoslovak or foreign physical or juridical persons. The state contributes to the new association its material investment in the form of the assets of a specific state enterprise or some of its plants, while

other founders contribute cash investments. After all founders agree on the assessment of the state's material investment, capital assets will be determined and shares in that value will be issued and divided among individual founders in proportion to their investments. It is therefore obvious that in this case capital assets of a new company are higher than the real value of the association's property of the heretofore state enterprise, because part of them are contributions of other investors, usually in foreign currencies. If such a method is applied already at the very beginning of the privatization process, it makes it possible to develop the enterprise, as discussed above. Once internal exchangeability is introduced, there will not be any more reasons why the partnership with foreign capital in entrepreneurship in our country should be subjected to a special system than the one stipulated by the law on enterprise with foreign material participation.

The second stage of privatization is the sale of state-owned shares to private physical and juridical persons, both Czechoslovak and foreign. There is no doubt that an influx of new financial investments already during the organization of the company will help brighten the outlook for the new company, which will also be reflected in an appropriate reaction of the capital market. All shareholders, including the state, will be interested in the growth of the market price of their shares, because that is important for the success of potential future issuances as well as for the development of the part of shares that is still owned by the state. It is obvious that if the privatization process is conceived along these lines, the state will not start selling its shares immediately after the establishment [of the company] but wait for a time when it becomes profitable. This also will increase interest of foreign investors in such shares. If among the cofounders of a new company are foreign companies of such renown as that enjoyed, for example, by the Volkswagen, General Electric, Westinghouse Electric and other companies, then it would undoubtedly facilitate the input of their shares in foreign capital markets and naturally, also the place of newly issued shares in those markets. Conditions for the admission of securities to stock exchanges abroad are extremely rigorous, and most of our new stock companies cannot meet them. Although specific measures are being adopted to facilitate trade with such securities in stock exchanges abroad (for instance, in the United States such instruments should be the so called certificates of deposit—American Depositary Receipts [ADR's]—the key to the solution of this problem is evidently the guarantee of demonstrable prosperity and favorable long-term outlooks of our society.

Thus, in accordance to the method of privatization described here, foreign capital may play a role already at the time when a new association is launched, during the sale of shares that are in the hands of the state, and of course, during every increase of capital assets, i.e., during the underwriting of the newly issued shares. As a

matter of fact, this last instance stems from legal regulations of most countries, which give preference to the heretofore shareholders when newly issued shares are offered for sale.

Conditions for Admission of Foreign Capital

One may ask, under which conditions of the privatization process will foreign capital be interested in investing in our country. That means to provide, on the one hand, favorable opportunities in specific cases of privatization, and on the other, general opportunities on the level of the state's economic policies. In the former instance, foreign investors will want their involvement in our country to enhance their advantage in competition; therefore, they will examine individual effects of potential concentration (horizontal, vertical or conglomerate), and effects of professional qualification of work forces, scientists, technicians and managers. They will weigh potential advantages of current market trends, the developed distribution network and naturally, the condition of production equipment and many other criteria.

In all probability, an important aspect will be their acquisition of at least a majority share in the new company, so that [the foreign investors] may get a firm hold of the management and decisionmaking processes in the new association. However, they may not insist on the fulfillment of that condition if the holding is otherwise considerably splintered. Without a doubt, among favorable economic-political opportunities, which will raise the interest of foreign investors, is a relatively low level of wages and payments which, in comparison with their levels in the developed countries, will decline even further after devaluation. In fact, the low exchange rate is very favorable for foreign investors because with relatively low investment, for example, in dollars, they may obtain a relatively extensive capital share in Kcs in a privatized enterprise, both at the time of its organization or later, when the state-owned shares of that property are sold. On the other hand, for foreign investors devaluation cuts capital profits from their investment. Nevertheless, in the beginning this last criterion may not play any major role because they are concerned about the long-range prospects of the enterprise and not about the instant high profitability of the privatized enterprises which they do not expect anyway. Of course, as soon as the enterprise begins to recover and generate profits, foreign investors, as well as any other shareholders, will earn profits in the form of income and property. Therefore, under certain additional conditions devaluation may encourage an influx of foreign capital in an extent that would accelerate and in general, make possible thorough rebuilding and modernization of privatized enterprises and moreover, help stabilize the Kcs whose rate, as compared with the freely convertible currencies, would not only stop declining but could even rise. Both the profitability and the value of foreign investments in our country will improve. Thus, for foreign investors radical devaluation of the Kcs right at the start of the privatization process is very favorable; the lower the rate, the greater the hope for its speedy recovery and growth, and thus, also for future profits in property and income.

On the other hand, from the standpoint of the state as the owner of enterprises heretofore in state ownership, or the owner of sizeable shares of privatized enterprises, radical devaluation of the Kcs is disadvantageous. As we mentioned, it enables foreign investors to gain important shares of property at a very low cost. However, devaluation will further lower the relative value of the share of state property, which was undoubtedly realistically assessed according to this method of privatization. However, on the other hand, the liabilities connected with the transfer of payments of profit earned by shares of foreign investors will also decline. This liability may increase with the gradual growth of the rate of exchange, but of course, in terms of currency, its importance will diminish because from the standpoint of the state, the exchange rate will increase the advantage for foreign investments in privatized Czechoslovak enterprises. A current discussion focuses on the question, at what initial exchange rate of the koruna to launch the reform process and thus, also the process of privatization. Nevertheless, this question has already been in effect answered. If what we said about the partnership of foreign capital as a necessary precondition for privatization is true, then the very introduction of this question and the formulation of two entirely divergent variants will probably lead to a situation where foreign investors by their waiting tactics will force us to resort to a radical devaluation anyway. After all, few of them will invest in a country whose currency they expect to continue declining. Just the opposite is true: The more radical the devaluation, the more the foreign investors expect the rate of exchange to escalate. The rate of exchange will then recover precisely at the moment when they start making major investments in Czechoslovakia.

Is This a Sellout?

Let us return to our question posed in the introduction, i.e., whether the described approach to the partnership of foreign capital in business ventures in our country is, or is not, a "sellout" of our national wealth to foreigners. If foreign investors participate in the establishment of a new enterprise (or a stock company), they take nothing away; on the contrary, they bring in financial investments, know-how, concepts of entrepreneurship, and other assets mentioned above. If they buy shares from the state or in free market, they pay for them an appropriate cash equivalent, and thus, the state does not lose its property but on the contrary, it retains it in the most liquid form, i.e., in cash, or in very liquid claims. Therefore, it may invest such funds, for instance, into ecology and into outdated branches of our public property, where private capital will make no investments in the near future. Such investments certainly do not detract from our national wealth; the exact opposite is true: they open advantageous opportunities for the development of our country's production potential. The appearance of foreign companies in our country, or their infusion in enterprises owned heretofore by the state, may also relatively rapidly resolve the problem concerning the liquidation of large monopolies. We must realize that every successful major foreign company is active in international

markets where it is necessarily exposed to powerful competition in which our enterprises thus far would mostly fail. Consequently, foreign capital will also introduce a competitive environment particularly for large monopolistic enterprises which will thus gain a substantially greater opportunity to prove their mettle and to find their niche in international competition.

Profitable capital bears no national characteristics and knows no national borders. Of course, it is a fact that it prospers more in some countries than in others. For that reason, it constantly seeks better opportunities for its deployment and constantly moves from one country to another. Nevertheless, such flows and ebbs of the capital are no sellouts or purchases of national wealth that benefit one country and harm another. Efficient allocation of resources must always benefit both the owner and the recipient of the capital.

New Law on Income Tax Discussed Briefly

91CH0080A Prague ZEMEDLSKE NOVINY
in Czech 29 Sep 90.p 9

[Article by Drahoslav Zeman: "Citizens' Income Tax"]

[Text] Last week the Federal Assembly passed a law on citizens' income tax, which will go into force on 1 January 1991. There are several points worth discussing, but today we will concentrate on those passages that provide initial, very rough guidelines. However, it would be in the interest of every entrepreneur to familiarize himself in detail with this essential law and its implementation.

Let us remember that the law does not apply to income received from employment or from literary or artistic activity. It does not even apply to income from the entrepreneurial activity of those taxpayers who are entered in the enterprise register (the latter are subject to income-revenue tax), with the exception of entrepreneurial bonuses (that may not exceed 10,000 korunas [Kcs] per month) and the portion of profit from entrepreneurial activity used for the personal needs of the entrepreneur—which is subject to the law on citizen's income tax.

This law combines the former citizen's income tax and citizen's income tax from agricultural production. The following, for example, are exempt from the tax: incomes of members of agricultural cooperatives, which are paid them by the cooperative to which they belong as bonuses for work, or as compensation payments for surrendered assets, inheritance and gifts, winnings, interest, income from sale of assets (but not for immovable assets sold within two years of purchase, for cars sold within six months, and for securities sold within three months of purchase).

The basis of the tax is the difference between the income attained and outlays expended within one calendar year. In respect to income from agricultural production on plots of land, the tax base includes an amount that is no less than an amount equivalent to the sum of the average standard yield and the total acreage of all lands suitable for agricultural cultivation. In respect to entrepreneurs, the tax base is the difference between the income from entrepreneurial (or other earning) activities and the outlays expended to attain, ensure, and maintain them.

The entrepreneur may, for instance, deduct the following as expenses from his income: deductions in the amount of the valid regulation, interest from loans and credit for the acquisition, reconstruction, and modernization of long-term assets connected with the earning activity, expenses for the training of apprentices, expenses for small and short-term items, expenses for advertising, insurance, travelling, expenses for representation (up to one percent of the total income), and expenses for research. There are also other deductible items from the tax base, for example, for an entrepreneur who is supporting a child or wife (husband) with a low income, or is himself receiving a disability pension. Tax relief has been established if a worker with changed abilities (Kcs4,000) or with more serious health impairment (Kcs12,000) is employed.

TAX RATE		
With a Base of		
From (Kcs)	To (Kcs)	
0	60,000	15%
60,000	180,000	Kcs9,000 and 25% of the base exceeding Kcs60,000
180,000	540,000, To Kcs39,000 and 35% of the base exceeding Kcs180,000	
540,000	1,080,000	Kcs165,000 and 45% of the base exceeding Kcs540,000
1,080,000 and over		Kcs408,000 and 55% of the base exceeding Kcs1,080,000

A 25-percent or 30-percent lump-sum tax has been set for some incomes. The tax period is the calendar year. Everyone who receives an annual income exceeding Kcs1,000, which is subject to this tax, is obligated to submit his tax returns by 15 February. Further details and methods of payment including possible recourse are then also specified in the law.

It will also be interesting to observe how the governments of the CR or SR will make use of the opportunities provided by the law, to exempt certain types of income from the tax, and to permit tax or regional relief.

Supplement to the Law

Average Standards of Yield Per Hectare of Agricultural Land

Economic Production Group*		Average Standard of Yield in Kcs per Hectare
I	1-10	6,000
II	11-20	5,000
III	21-30	4,000
IV	31-42	3,000

*Economic production groups express the economic capacity of a specific part of the agricultural land resources. The basis used to determine them is the soil value of the agricultural land resources of the CSFR. The relation of normative production to costs for every evaluated land ecology unit is derived from the soil value production parameters. The basic classification is corrected by including additional objective improvement or deterioration factors.

Nation's Corporate Law Compared to West's

91CH0145D Prague HOSPODARSKE NOVINY
(supplement) in Czech 7 Nov 90 p 3

[Article by Eng. Petr Choulik, candidate of science: "Will Czechoslovak Stock Companies Have Inherent Defects? Confused Perceptions: On the Difference Between Laws on Stock Companies in Our Country and in the World"]

[Text] It seems that stock companies are predestined to become the pivotal point in the denationalization of a considerable part of our enterprise sector. I believe it is worth examining how the proposed plan for stock companies put forward by our theoreticians differs from Western, unquestionably mature practice.

On close examination, we could find a large number of elementary differences. Most of them are due to the refinement of legislation on stock companies, which, in contrast to us, has been developing for decades in Western Europe. That is an understandable difference, which is sometimes visible at first glance in the scope and details of the relevant legislature. For example, I have in mind the law on stock companies valid in the FRG. It is to be expected that, learning from experience, we, too, will attain a more perfected form of the relevant legislation sooner or later. Thus the existence of such differences should not be a cause for alarm, if it were not for the fact that, hidden among them, are differences that change the very foundation of the operation of a stock company so much that, under certain circumstances, they could turn this efficient form of enterprise into a nonfunctional hybrid. Therefore I believe that it is worth examining these differences in more detail and that a discussion with the authors of the draft of the law and with our legislators may lead to a correction of former perceptions of stock companies in Czechoslovakia. There are at least three of these differences that create inherent defects in our future stock companies and they are a result of the confusion about the terms Board of Directors, Supervisory Council, and Equity Capital. Let us now take a more detailed look at what is involved.

The Board of Directors

The duties of the Board of Directors in Western countries are given by the fact that the Board of Directors constitutes the business management of the company. It represents the company both in and out of court, and bears responsibility for the management of the company. Yet the Board of Directors is not dependent on instructions from the shareholders. In its activity, the Board of Directors is obligated to consider the interests of the shareholders and the company employees, as well as the interests of the company. Because of their special obligation of loyalty to the company, the members of the Board of Directors as an agency of the stock company, are not allowed to have any employment other than their office as Board members. They may perform no additional activity that could, because of the time and effort involved, endanger the full performance of the Board of Directors' activity. The scope of the Board of Directors' tasks in connection with the management of the company, is not explicitly defined by the law. The law merely stipulates the following tasks: to keep all records related to the company's activities, i.e., bookkeeping, all accounts and records, etc., furthermore to draw up the annual accounting report, and a status report, to prepare the general assembly and implement its decrees. Thus, in its very essence, it is an effective management tool, whose members must fully concentrate on the business management of the company, in other words, they must work diligently in it on a daily basis.

In contrast to this practice, which has surely been tested innumerable times, and the effective tasks of the Board of Directors in stock companies beyond our western borders, the authors of our proposed plan envision the Board of Directors of privatized enterprises as some kind of external agency in which, at best, there can be only one truly executive member, the executive manager, while the other members in this agency represent external interests—at this time, apparently the interests of the ministries as the administrators of shares. This is the same as if the shareholders were to hold office on the Board of Directors and, judging by the perceptions, maybe they should. I hope that future shareholders will not be so absurd. This perception blends two concepts—the concept of a shareholder and the concept of a professional manager. The Board of Directors in a Western stock company generally is not composed of shareholders, but of managers. Therefore they are usually divided up by function. Because of this division, appropriate operational departments are created for the whole enterprise at the level of the Board of Directors, for example, the appropriate finance and accounting department, sales department, etc.

The people who would be appointed to the Board of Directors in our stock companies from outside would understandably consider their work on the Board of Directors to be a minor, so to speak secondary, duty. The very principle makes it impossible for such activity by the Board of Directors to be effective. There would

necessarily have to be other, professional, business management of the company in addition to it. But it would not have the authority, status, and thus the accountability of the Board of Directors. And that is the stumbling block. Thus, from the point of view of the system, our conception is definitely a misconception. Its only significance would be for the members of the Board of Directors themselves in the form of advantages, which the office provides. But surely this brings back to mind past practices, which we are trying to get rid of?

The Supervisory Council

On the whole, the characteristic feature of the Supervisory Council's main task in Western countries is its activity in controlling the management of the enterprise. Its functions, as established by law, are:

- The appointment and removal of members of the Board of Directors.
- Constant control of the management of the enterprise.
- The in-court and out-of-court representation of the company in regard to the members of the Board of Directors.

In contrast, this purpose of the Supervisory Council, which is so essential for the trustworthy management of the enterprise, is underrated in our country. Yet surely the Supervisory Council should perform those tasks that are, for instance, entrusted to the Board of Directors in some of the proposals for the transition legislation that I had a chance to see. I believe it should.

In major Western companies, it is obvious at first glance that the composition of the Supervisory Council itself testifies to the trustworthiness of the company's management. There are usually many more members in the Supervisory Council than in the company's management and the Council is composed of representatives of other major companies, banks, employees (if the law permits), and politicians—representatives—from the state power sector if the state has a share or some other interest in the company. Would it not be more logical, in our country as well, if those individuals who are to be appointed to the Boards of Directors according to our proposed plan, were appointed to the Supervisory Councils instead? Is this not another case of confused perceptions? Probably. But, unless we clarify them in time, they will have a manifold negative effect on the efficiency of enterprise. The professional management will find itself without the authority or the accountability of the Board of Directors, the Board of Directors itself will not have an executive function and the members will not be linked with the company because it provides their livelihood—therefore they will not naturally and logically act primarily in the company's interest, the Supervisory Council will not have the necessary authority in its control function, particularly since it will apparently have no control at all over the Board of Directors. De facto, there will be one management agency too many. The only possible outcome will be incompetence and lack of accountability in

the management of the companies. Not even the moral resoluteness of the people appointed to the offices can be a sufficient guarantee, if the position will place them in a situation where authority and responsibility are not balanced. Many tried this in the past, and the only result was inefficiency and overall lack of accountability, supported by the combination of the management of some companies with the patronage of state bureaucracy. Just this once, let us learn a lesson. If not from our own past, then at least from the experience of those who are worth being considered as examples.

Equity Capital

The equity capital of stock companies in the West are resources acquired from the par value of subscribed shares. However, shares are issued at the market value, which is often much higher than the par value of the shares. The difference between the par value and the market value of the issued shares creates the capital reserves of the stock companies. Thus it is quite usual for the volume of capital reserves to exceed the value of the subscribed (i.e., equity) capital considerably.

Our perception is based on the productivity evaluation of enterprises, i.e., actually on their market price, however, it is not familiar with the term "capital reserves," and therefore it erroneously identifies the value of the enterprise with the equity capital. Correctly, it should differentiate between par value (for example, the value that is listed in the balance statement, whatever the price is) and the market value—in other words, the price someone is willing to, pay for the appropriate portion of the par value.

There are several reasons for this practice:

- Dividends are only applied to equity capital; therefore, in our country, this necessarily leads to a situation where the dividends are disproportionately low because of the par value of the shares.
- The company has sufficient reserves to cover possible losses without decreasing the equity capital; in our country, every larger or longer term loss makes it necessary to announce a decrease in the equity capital and thus in the par value of the shares.
- When the shares are issued, sufficient resources are created to bridge possible financial difficulties; these can quite realistically be expected in our country on a massive scale. Therefore it would be logical to create reserves for companies for necessary consolidation.

Furthermore, in our circumstances where adequate capital reserves do not exist, we are creating a dangerous situation for future prospective owners of investment coupons or shares. All the more so, because the majority of people are unfamiliar with the economic situation of companies, and we will be making this situation totally incomprehensible. In practice, one can assume that the results of the activities of the majority of stock companies will not be zero, but that there will be some profit. In

this case, Section 68 of the Law on Shares comes into force, which, since we keep ignoring the concept of capital reserves, annually has to change the equity capital of the company in such a case. And this means making changes in the enterprise register, constantly issuing new shares, or stamping them. This is obviously nonsense. Normally, stock companies increase their net worth by transferring a part of their profit to their reserves. Naturally, this also indirectly affects the value of the shares. But, whatever the case, it does not start a frantic administrative merry-go-round.

In my opinion, our proposed plan does not distinguish between two totally different concepts, namely equity, resp. subscription capital, and the concept net worth, which includes capital reserves in addition to subscribed capital, based on the market value of issued shares. Thus it subscribes the par value to so-called undepreciated shares, which are more suitable for small private companies than for large, stock companies. This is not an unfounded question even in relation to the customs and the structure of capital in Western countries. The lack of understanding then forces the authors of the proposed plan to consider totally subjective write-offs of nonliquid outstanding debts, unnecessary stocks, and unusable basic resources at the cost of the National Assets Fund. This problem would cease to exist if the differences in the terms equity capital, capital reserves, and net worth were untangled. Or, at least, it would be objectively resolved directly in the enterprise sector, without the intervention of state institutions, which in essence is subjective and thus antimarket.

The State and Management

The logic of examining the confusion of perceptions and terms, which we have witnessed necessarily raises the question as to what authority the state, represented by its agencies, has or should have, and what authority the enterprise management has or should have. The standard of both is well known, and it has certainly not changed overnight. Thus the only thing they can do is divide the tasks between them and study them hard. But they certainly should not ridicule them.

I believe that the state administration's main concern should be the creation of high-quality game rules for a market economy and strict verification that they are observed. I have pointed out the examples of the perception of the role of the Board of Directors and the Supervisory Council of the stock company, and the concept of capital. In these cases it is obvious that we do not have high-quality game rules. However, it would be possible to list further examples, such as the writeoff system, the tax system, or the accounting balance regulations of stock companies, or the inadequate elaboration of the legislature for a limited liability company, whose prior form necessarily distorted the desired rationality of efficient entrepreneurial activity. I believe that it is in this area, above all, that state agencies should quickly acquire and demonstrate their jurisdiction.

On the other hand, enterprise management should be composed of people who will be concerned with the development and implementation of sound entrepreneurial aims, their initiative not limited by anything but well-thought-out game rules that are established by law. Yet my interpretation of what is law is different from what we still frequently see, i.e., we define a law as the right to submit an application to some bureaucratic institution, which will ultimately make an arbitrary decision about it, without bearing direct accountability; I interpret law as precisely defined regulations, which must be observed or, at least, which must not be violated in free enterprise activity. Everything else is permitted, and it must not complicate either the maze of related rulings or instructions on execution, with which the public is unfamiliar and which were never confirmed by the legislators. If the manager is to be liable for the success of the enterprise's aims with his livelihood, he must have a decisive say in proposals for specific privatization projects. When we speak of a stock company, we must not forget that its main feature is the acquisition of uninvested capital for the entrepreneurial aims of the company, not merely the transfer of shares from one hand to another, even if this is a part of it. In the enterprise sector, the state has already proved itself to be incompetent, and should not be involved in it in any way.

The biggest economic problem of the past era was the extreme interference of the state into enterprise activity, as a result of which various bureaucratic enterprise lobbies came into being. I do not know who suggested to the state administration that denationalization, i.e., the separation of the enterprise sector from the state, could be attained by appointing state bureaucrats to the Board of Directors of state stock companies, and that the state would make the decision on the correctness of the enterprise's aims, i.e., on the process of privatization in specific cases. It is quite possible that the bureaucratic administration did this itself to spite its new leadership, which advocates the separation of enterprises from the state. So that it could again make decisions on entrepreneurial (or privatization) aims as someone who has a God-given right to do so.

If a similar provable union were to occur beyond our western borders, there would be strict mandatory punishments for the participants in lobbies that were created this way. I think that in our country, too, the law should strictly prohibit such practices and punish them (for example, through an antimonopoly office) in order to improve the health of the organism that we call the economy. Because this, too, is the foundation of a market economy in a democratic society.

Minister To Complete Privatization in 3 Years
91CH0145C Prague HOSPODARSKE NOVINY
(supplement) in *Czech* 7 Nov 90 pp 1, 6

[Interview with Eng. Tomas Jezek, candidate of science, minister for the administration of national assets and the privatization of the Czech Republic, by Pavla Cisarova and

Zuzana Knezu on 15 October; place not given: "I Would Like To Complete Privatization Within Three Years"]

[Text] At the beginning of 1991 small privatization will begin to be implemented and will be followed by large privatization. In our weekly paper, we would like to inform the representatives of enterprises about all attendant legislative and organizational measures. Therefore we requested an interview with one of the most competent people in this field on 15 October.

[HOSPODARSKE NOVINY] Mr. Minister, what is the difference between small and large privatization?

[Jezek] We have often been asked this question, in fact even in Kromerice, and so far we have always succeeded in defending our belief that it would be a mistake to define the boundary between the two sharply and quantitatively—for instance that small privatization means up to 50 people. This would cause an enormous number of technical problems for us, connected with keeping to these limits. We have defined it qualitatively. Small privatization will include the maximum of what can be sold at an auction to legally entitled persons, i.e., to physical persons and to legal entities such as cooperatives.

The difference between small and large privatization lies in what we will privatize and how we will do so. Yet the WHAT is not as important as the HOW. While small privatization will be carried out through auctions for cash, we will use the key method of finding new owners through investment coupons for large privatization. Of course, in subsequent stages, we will be selling to foreign investors for cash.

[HOSPODARSKE NOVINY] In view of what you have just said, does this mean that the coupon method has now definitively been chosen?

[Jezek] This was decided a long time ago, among the experts who drafted the law, which was first passed by the Czech Government. It is still facing the difficult passage through all the proper constitutional procedures, i.e., two more governments, and then three parliaments. I hope that it will not end up like the game of "Consequences" where the information has completely changed by the time it reaches the last person. On the other hand, we would welcome and be grateful to anyone who catches any flaws—and I am sure that there are some. But we would like the spirit, the essence, of the law to be retained.

[HOSPODARSKE NOVINY] What kind of organizational structure and division of jurisdiction will there be for the people implementing privatization?

[Jezek] The central institution, which will play the leading role in small privatization, are the okres privatization commissions. Our Ministry will have the authority to appoint them. At this time I am choosing

suitable employees from the okreses through the Association of Entrepreneurs, the trade unions, the OF [Civic Forum], etc. At this stage, before the elections, I do not think that it would make sense to choose people from the present national committees. At the same time, I cannot wait until after the elections. I have to start working with people immediately, I have to get them together, and start explaining and training them how to proceed. Naturally, other people will also work in the privatization commissions, but I need to have at least some employees now to start organizing the work, which we have to perform together, in the okreses.

The okres commissions will be crucial, I would like to create them in a balanced way, so that they will be able to eliminate a number of various interest pressures, and so that the work may proceed in the required direction; so that there will be no preference either for one side or the other, so that it will not come to the assertion exclusively of union interests, or the interests of towns and communities, or the interests of private entrepreneurs. That, of course, would be ideal; it would be wonderful if we could manage to do 80 percent of it.

A similar role as is played by the okres commissions in small privatization will be played by branch or sector commissions in large privatization. They will submit so-called privatization projects that will change state enterprises into joint-stock companies and that will determine the main aims in the utilization of shares, particularly in respect to how many will be sold for coupons. Thus, while in small privatization the organization is based on the territorial principle, in large privatization it is based on the branch and sector principle.

[HOSPODARSKE NOVINY] Will the commissions work together?

[Jezek] We would like their work to overlap as little as possible. But it will be a problem to determine what unambiguously constitutes state assets, i.e., what can be privatized, and what assets belong to other entitled persons. In other words, the problem will be to eliminate collisions between privatization and reprivatization or restitution. I am afraid of that. The commissions will have to take care that business units to which the Law on Small Restitution applies, are not included in the list. If this were to happen, and someone claimed it, the unit would have to be excluded. Through parliament we subsequently want to include an additional provision in the law, which will result from the so-called Large Restitution Law, in which redress for all additional wrongs is comprehensively being drafted. They, too, will be excluded from privatization.

Basically, one major political decision must be made. The assets which are to be returned must be clearly defined. Of course, neither my Ministry, nor I as an official, can do this. Only parliament can do it.

We have the procedure ready. It is, of course, simpler to sell than to reimburse a past owner. However, this cannot be the criterion for decisionmaking. The problem

of restitution is divided into two subproblems—restitution in kind and financial restitution—financial aid in securities or cash. From the point of view of quick progress, I hope there will not be many neutral restitutions, which make our work more difficult.

[HOSPODARSKE NOVINY] How will the money in the National Assets Fund be linked to the state budget?

[Jezek] Among economists, we divide money into, so to speak, better money and worse money. Bank money is better money. Budgetary money is worse money because it is given away, and is taken from people through taxes. There should be as little of it as possible and our economic decisions should depend as little as possible on various budgets. The greater the amount of equivalent bank money, the better. The danger is that we must not allow bank money, acquired as revenue from privatization, to be transformed into budgetary money. We must prevent this. People would withdraw their savings from the bank, the bank would lose resources for credit, and we would have to ensure that this money would continue to serve as credit money. For a while we will bind it to accounts, and only after two years will we make a part of it into budgetary money. But it is not advisable to do it "with our eyes closed."

We estimated that we could acquire moderate assets from small privatization. Large privatization will pose a greater problem. In the latter case, an integral part of the privatization plan is division into shares according to the decision as to how much will go for coupons, how large a percentage the National Assets Fund will keep to cover the debts of the privatized enterprises, how much will be offered to foreign investors, and how much to former owners.

The debts of the state enterprises are debts to banks, to the citizens. The CKD [Ceskomoravská-Kolben-Danek National Enterprise] alone has debts of 1.2 billion korunas [Kcs]. One cannot simply write them off. Actually, the citizens finance these debts through their savings. Gradually the Fund will have to reimburse the banks for these debts, so that they will be able to function. The widespread problem in our banks is their severe lack of capital; their equity capital is less than 1 percent of the total balance, which is very little compared to the world (e.g., Austrians have 6 percent). Strengthening the banking sector not only means more banks, but essentially also more bank-owned resources. The resources of the National Assets Fund must primarily serve banking purposes. Banks are the most important institutions in a market economy.

[HOSPODARSKE NOVINY] How will enterprises be privatized, gradually or in one go, and what problems are you most afraid of?

[Jezek] One of the basic ideas of large privatization is a so-called privatization wave, when a relatively large number of stock companies will be prepared, and will partly be offered for sale to the people for coupons. The

most important feature is mass sale, not individual sale; the people will choose themselves (e.g., whether they want shares in the Plzen brewery or in TEPNA Nachod, or some other factory), and their choice will actually be translated into the relative price of shares, in other words, the most important thing to come out of the whole process. We will obtain a beginning evaluation which will simultaneously be the embryo of a capital market. We would not achieve this outcome through gradual privatization.

Through the sale, we must not only find new owners, but we must also avoid the constantly debated dirty money and, above all, we must acquire the relative prices of shares and finally determine where the greatest potential of development lies. We will gather the first market information for our structural policies.

At this time no one knows the price of capital; there is no capital market in this country, and only it is capable of producing prices. We have the prices of products, but not of capital. Therefore we will privatize in one go and not gradually, and the greater the number of enterprises, the better.

As to the question of what I fear most: at this time possibly only one thing, which is that, at the last moment, someone may put all our work in doubt, everything that we have deliberated on for so long and discussed with a number of prominent experts from Great Britain, the United States, France, and other countries.

[HOSPODARSKE NOVINY] Will money from the National Assets Fund still be available, and how long will it exist?

[Jezek] The Fund will be a kind of transit station. Under no circumstances do we want the Fund to perform enterprise activities or quietly to become another dead weight. Therefore we have incorporated several assurances into the law to make sure that the only items to be put into the Fund will be what the privatization project has been prepared for, i.e., what we precisely know how to privatize.

We do not want to follow the German process and transfer the entire national assets into the Fund like the former GDR, sit on them, and operate with them from the center. There is no danger that the national assets will "solidify" in the Fund over there, because the Fund operates in the market environment of the unified Germany. We do run this danger.

To begin with, we thought that our biggest problem would be to find new owners. We assumed that there was no question as to who the present owner is. Then we discovered that this was the stumbling block. We had to state categorically that it was the state. That was a bad moment, because there was an outcry about old centralism. Therefore I keep explaining that, in order to implement the whole process of privatization in an acceptable way, it must be clear who the present owner

is. It is the state. I will do all I can to make sure that state gets rid of those assets as quickly as possible. I myself would be happy if this did not take much longer than three years. The central management of the privatization process exists only to enable us to manage the whole process successfully, and to close down the privatization ministry ourselves.

We have prepared two ways of selling state assets to foreign investors. We do not want to realize primary investment through the Fund. Foreign investors quite rightly do not feel like investing their money in the Fund, they want to invest it directly in the factory. Therefore they will be investing directly in the expansion of the capital assets of the relevant company and they will receive shares for this additional investment. The Fund will hold both money and securities and it will use them for routine financial operations in such a way as to optimize the structure of its assets.

[HOSPODARSKE NOVINY] How will the capital assets of the enterprise be determined?

[Jezek] There will be no direct changes in the enterprises' economies, everything will be done similarly to the way in which state enterprises will be transformed into stock companies according to valid regulations. In this connection we understand the transformation into a stock company to be a preparatory, necessary stage for privatization itself. It is the transformation of enterprises into a privatizable form. However, the founder of the stock companies will be the National Assets Fund of the relevant Republic.

[HOSPODARSKE NOVINY] What steps will be taken in freeing enterprises of debts for state orders (e.g., the uncollectible debts in Libya)?

[Jezek] The National Assets Fund can assume these debts on the basis of the privatization project. Of course not automatically, and not always. The portion of the debts that a bank has vs. the enterprise can be changed into an investment by the bank, and the latter will receive the appropriate shares for it. In this way the bank will be able to control enterprises.

We will keep 10 to 20 percent of the reserves in the Fund to deal with similar kinds of problems.

[HOSPODARSKE NOVINY] How will enterprises find out about the process of privatization; at this time they do not know much about it?

[Jezek] That is true. Enterprises have a right to complain about information which is inadequate, and there is other information which even we receive only shortly before others. In other words, much is being created, is coming into being. The draft of the law was finished recently, and the wider public does not yet know anything about it for this simple reason.

Of course we could publish information about our aims or about the progress of the work, but I have a feeling that this would only cause greater confusion. Because

things keep changing constantly, they are in motion, they are being resolved and being completed. In fact, even the draft of the law on small privatization that is already in print, will not have its original form, the parliaments are changing it substantially. But I believe that people follow and understand such things.

[HOSPODARSKE NOVINY] Will the nationalized assets of the KSC [Czechoslovak Communist Party] go into the National Assets Fund?

[Jezek] In part they will go directly to new owners and users. This must be considered to be an act of justice. In any case, it will be of service to everyone.

[HOSPODARSKE NOVINY] Thank you for the interview, and we look forward to further cooperation in our weekly, so that we can provide the enterprises with timely and detailed information about your aims.

Production Companies' Transformation Problems

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[Article by Eng. Vaclav Havlin, Eng. Jiri Chlumsky, and Eng. Jiri Mihola of the Central Economic Research Institute: "Hesitation, Caution, Lack of Preparedness"]

[Text]

The Transformation Process and Production Enterprises

The adopted economic measures necessitate the systematic monitoring of the reaction in the enterprise sector; the assurance of effective feedback, enabling the center to adopt timely decisions, which will ensure that the transformation of the economy will correspond as closely as possible to the accepted scenario. Signs of deviations must primarily serve to constantly fine-tune the market environment that is being created. Since the information resources have not been set up at this time, the Central Economic Research Institute is in direct contact with several tens of enterprises from heavy and general engineering, metallurgical, and electrical engineering industries, and from other production areas. Through a seminar with their representatives, the authors of the article have gathered a considerable amount of information, which reflects the present state of the reform in selected enterprises and mirrors the opinions prevalent or predominant in them.

The enterprises' approach to the reform, on the whole, is generally characterized by a strong effort to maintain continuity, justified by the fear that the structures and their mechanisms that are still functioning may be broken prematurely, which, in the present confused situation, could lead to a rapid loss of their ability to act. There is an obvious attempt in the enterprises to influence the reforms in such a way that the latter will take the enterprises' present situation into consideration as much as possible and will recognize aims and ideas about further development, which are often the outcome of

long-standing practices. Enterprises are striving to make sure that the new economic conditions will be as advantageous as possible for them, that the more radical changes will not hit them all at once, but gradually, that the overall reform will be implemented through single, thoroughly prepared and considered reform steps, which, as far as possible, will not jeopardize their present position. It is an attempt to minimize changes and the risks connected with them, an attempt that is counter to the accepted principles of radical resolutions and that could seriously harm the reform process.

According to a survey organized at the seminar, 95 percent of the enterprises questioned expect certain changes in production and the increased efficiency of production structures. However, at this time, changes in the production structure have been explicitly defined only in isolated cases. For example, only 16 percent of the producers are considering technological changes, and the same percentage intend to introduce a new production program. Sixteen percent of the enterprises wish to expand their product range and, on the other hand, only 5 percent want to restrict their product range, to implement a thorough innovation program and to transfer their activities to other areas. However, even these data seem to be full of problems because, at the same time, they show that the standard of equipment for preproduction stages is assessed to be no more than average at 70 percent of the enterprises and to be below average at 30 percent of them. The standard for postproduction stages is split equally between average and below average.

Most producers say that they are familiar with crucial technologies, which they expect to introduce within four years, and that they will ensure the maximum level of quality and reliability. However, such statements are immediately put in doubt by the fact that only 15 percent of the managing employees of the questioned enterprises are able to carry out the given approaches in respect to the employees. The seminar also confirmed these doubts. The majority of enterprises are not prepared for structural changes at this time. Some even manifest indecision and a certain amount of resignation. Therefore they welcome any help or advice from outsiders, others still believe that the state protectionist policies, import duties, import quotas, technological standards, etc., will continue to protect the domestic producers against competition. For example, within the framework of the survey, 4 percent of the respondents requested protection through a uniformly applied customs duty, 78 percent wanted protection through a differentially applied customs duty, and 23 percent wanted methods not involving customs duty.

The present production structures are still the result of past subjectivist planning decisions. Though the enterprises realize that the greater part of their production has problems and needs basic changes, so far they have not shown the necessary initiative in this direction. For instance, the survey showed that only 28 percent consider their production to be profitable. On the other hand, 43 percent of production is considered to have

problems and to be in need of restructuring. The rest is considered to "have very good prospects." Seventy-five percent of those questioned intend to optimize the structure of production in the future.

Despite the present lack of clarification of the production programs, practically all enterprises are preparing changes in the organizational structures. Sixty percent of the producers are striving to create new production units that will be legally and economically independent. A large number of producers (35 percent) wish to retain the present type of organization, and the rest (5 percent) are undecided. In 65 percent of them the suggested form of organization is a stock holding company. One of the shortcomings is that the new organizational structures are essentially based on the old production structures. Thus there is a real danger that old attitudes and management methods, including old, "proven" staff, will be taken over. The prepared organizational structures so far have not been tied in with the preparations for "large privatization." This could lead to the changes implemented now becoming a hindrance to privatization in the future, particularly in those cases when original owners or their heirs enter the picture because of the restitution law.

The transition to state holding and stock companies could take several years, and the subsequent privatization could take several more years. Therefore the question arises as to whether it would be possible directly to combine denationalization of the enterprises with privatization, and thus directly to make the transition from state to private enterprises. This would require the present reorganization programs in enterprises to be supplemented in such a way that they would incorporate the further phase of direct privatization.

The Present State of International Cooperation

The status in foreign competition is now changing considerably. Enterprises, established for cooperation with the USSR and other CEMA countries, are losing their ability to compete through the loss of these markets. But the disintegration of the so-called socialist market also affected our status in relation to the Western world. The fact that, generally speaking, we are only able to compete with products that require the least input of human labor, is becoming ever more apparent. This puts us in a position of unequal business partners. The distance between us and the world leaders is not so great, with a few rare exceptions, that the enterprises alone cannot surmount this backwardness. Nevertheless, they often seek solutions according to "old prescriptions" and demand that the state recompense their costs for modernization, changes in technological standard, quality, etc., justifying this demand by stating that it is not their fault that they got into this backward state. According to the survey, the business management gives preference to the following forms in eliminating the distance between our enterprises and the world standard:

—Property participation by a foreign partner.

—Own efforts.

—Development of cooperation.

—Purchase of licenses.

Strategies that aim at survival and attainment of profit at all costs conceal many pitfalls. There is the serious danger of ruthlessly exploiting local raw materials and ecological resources in the interest of foreign trade. Large enterprises, threatened with cutback programs because of structural changes, will want to insure themselves commercially, and in foreign currency sectors they will make offers below the world price or under conditions such that our needs will not be satisfied, though the enterprises will not suffer a loss themselves. A case in point, for example, is leasing with the total sale going abroad.

Totally idealistic ideas also surfaced at the seminar, e.g., that all the problems of enterprises could be solved by using foreign capital, management, knowhow, leasing, etc. They rushed in this direction, but so far the effects have been minimal. On the whole, enterprises are still seeking suitable partners. Yet after they limit themselves to a passive bid, or they underbid, they lack the substantial commercial experience of foreign entrepreneurs. An opinion was even expressed, that the isolated approaches and the actions of individual enterprises with foreign partners facilitate the situation for them because of our limited experience, and that the center should "provide a little guidance" for this procedure.

The producers continue to point out obstacles, which prevent the input of foreign capital and the founding of joint ventures. Even when they are minority participants, foreign partners demand the possibility to have input into management, they want to influence the management of the enterprise. At this time, they prefer leasing, including monetary leasing, which, however, is unacceptable for our enterprises because of the conditions, as well as the sale of technology and licenses, which also causes problems because of the foreign currency options of the producers. Our enterprises would prefer barter trade. But, on the whole, most are still waiting to see what the world will do with our economy. There is only lip service to an active approach.

The large producers are manifesting a general dissatisfaction with the work of the PZO [Foreign Trade Enterprise], which refuses to give any kind of guarantee. Therefore the new organizational structures expect to have their own foreign trade enterprises, and to send their own specialists abroad. Allegedly the foreign partners do not want their mutual relations to be mediated by a third enterprise, wither. Thirty-one percent of those questioned were interested in performing their own foreign trade activity.

The first enterprises have already started to work with foreign advisory, consultancy, editorial, and other similar companies. This is a positive step and should be encouraged.

The Economic Situation in Enterprises

The economic difficulties have not yet hit the producers with full force because, despite the changes that are occurring, this year has still provided certain securities that were guaranteed to enterprises by the nonmarket environment. Most of them produce and deliver according to commercial contracts which they concluded in the past, sometimes according to directly planned tasks. When problems crop up in individual cases, this year they can still be surmounted in some way or other. Apparent economic consolidation sometimes even gives rise to the question whether it is reasonable and purposeful to change a consolidated enterprise, to reorganize, or possibly to discontinue it so quickly. This is very dangerous self-complacency, which is not justified in the present situation.

Not even enterprises that export to CEMA countries and that will make the transition to freely convertible currency next year truly realize how serious the situation is. Frequently, negotiations in this context have not even been started, let alone concluded. When making their calculations, producers often assume that neither the demand nor the requirements will change on the part of foreign partners, and that they will therefore continue to export the same volume as before. So far, they have not calculated with the growth of competition or the intensification of competition once the Western countries make the transition to a unified market. For the time being, ignorance is bliss. Yet a resolution cannot be sought in third world countries either (something many rely on), because solvency continues to decline there.

Export enterprises where the former government granted long-term credit for political reasons, credit that cannot be changed into prompt payment now, and enterprises which, for the same reasons, delivered on credit to countries where we cannot collect our outstanding debts, have already found themselves to be in a critical economic situation. These producers are already running the real danger of insolvency (both in korunas and foreign currency) and, basically, of halting production.

The insolvency of some enterprises means that they cannot pay for supplies, and thus the suppliers end up in the same financial difficulties as the buyers. In such cases, the bank refuses to grant credit, and thus a vicious circle is created, which cannot be eliminated without participation by the bank. So far, the enterprises are not admitting that this could create extreme danger for them.

The biggest problem is proving to be the financing of the investment structure because organizations are used to investment resources being allocated to them by the center. In particular, this concerns buildings under construction because enterprises frequently believe that the center, which made the decisions on these buildings in the past, now has the duty to ensure their completion. "Expensive money" is beginning to be a problem in regard to new construction, so they are searching for

non-capital-intensive solutions, rather than for efficiency. It would be a shame if only foreign capital were to be profitable invested in our country.

According to the survey, only 20 percent of the producers are able to evaluate economically an enterprise on the basis of internationally comparable criteria. Sixty percent of the enterprises are able to form a picture according to some selected criteria. The remainder do not familiarize themselves with this area. The seminar also showed that the enterprises, so far, are unable to include the effect of price liberalization and domestic convertibility in the economic evaluation. Thus some are postponing their economic analysis. Others are drawing conclusions on specific price and rate movements in their calculations, but they are not sufficiently taking into consideration the fact that their suppliers and competitors are making similar calculations and, as a result, they are idealizing their future economic situation. They still continue in the old belief that they will be able to impose their own conditions on the market, and not realizing that these conditions will be totally independent of them. Yet this belief is largely justified in our country, because the proposed organizational changes will not significantly impact their present monopoly status for the time being, and the competition of the foreign market will be very limited, at least at the beginning of the restructuring. Nevertheless, in the interest of self-preservation, they will have to change their philosophy very quickly.

Producers severely criticized the activity of banks in connection with financing their plans. Banks are described as enduring "sanction offices with clerk's sleeve protectors," which are behaving as if they were an absolute monopoly. Bank branches, for example, offer credit, yet the only information they are able to give on its cost is "discount plus 2 percent." The banks lack any kind of entrepreneurial approach; in their opinion, it is not a matter of a banking institution at this time. Therefore some large enterprises expect to establish their own bank within their own organizational structure, which will manage not only Czech crown account but also, as of next year, foreign currency accounts.

Domestic Convertibility and Price Liberalization

The enterprises understand that domestic convertibility will have a solid foundation only if prices are fully liberalized. They realize that setting the level of the rates at anything but the market rate will merely postpone the resolution of real problems. Differences between the market rate and the official rate could lead to the breakdown of foreign currency balances and to a serious shortfall of foreign currency resources. Nevertheless, some of them believe in the so-called gradual liberalization of foreign trade, which will allow the temporary (three-to-four-year) coexistence of two rates, providing the time and opportunity for the enterprises to adapt to the new conditions. The gradual, clearly defined, and comprehensive liberalization of foreign trade would then prevent a quick collapse of the Czechoslovak economy

and the destruction of viable economic potential. A fundamental solution could be a uniform foreign currency tax on revenues, set at 40 percent in 1991, and gradually dropping to 10 percent over the years (assuming a four-year adaptation). Parallel to this, a free domestic foreign currency market should develop, where foreign currency resources will be available at a free market rate. Thus the official rate could be around Kcs20/\$1.

Overall, the enterprises are only slightly devaluing the Czech crown and this includes even those which allegedly, because of their export opportunities, could make a profit from greater devaluation. I consider Kcs20-24/\$1 to be the upper limit because, if the input price were to increase by more than 25 percent, they would collapse economically. They believe that even this rate will lead to a quick buyout of the reserve funds and thus to the loss of the natural regulation and motivation of the producers of foreign currency. On several occasions the suggestion surfaced that a part of the foreign currency should be regulated at an acceptable rate and that the other part should be sold on auction markets. According to the producers, even so, there would not be an adequate supply of freely accessible foreign currency. It will be necessary to respond to this proposal, and to show how unacceptable it is. Some people even believe that the rate of Kcs24/\$1 is merely a "bolshevistic tax" and that we should go far below Kcs20. This rate was advocated particularly by processing enterprises, which are afraid that they may have difficulties in ensuring expensive inputs from abroad, possibly from primary producers. In fact, even the fear that "the former centrally directed market may fall apart" was seriously brought up! We are mentioning all these comments so that we can get an accurate picture of the depth of the problems we are facing. On the other hand, there are also enterprises that concluded contracts in which they assumed a rate around Kcs30/\$1 in advance. In their case, a low rate would lead to inadequate creation of resources, because the aim of the concluded contracts was to acquire foreign currency resources at all costs. They will certainly not conclude such contracts again.

According to the survey, the enterprises believe that the exchange rate of the Czechoslovak currency should be:

- Maintained at the level of reproduction costs, 23 percent.
- Considerably devalued (to Kcs25/\$1), 68 percent.
- Devalued even more (to Kcs30/\$1), 9 percent.

Should there be a sudden, extreme rate change, the enterprises demand that serious consequences be resolved with specific tools. The suppressed impact of external competition accompanied by considerable devaluation should be compensated by antimonopoly measures and protection of the market environment. It will also be necessary to prevent the undesirable export of raw materials or semifinished products, or even the possible sale of equity capital abroad. This is where the

customs system must play its role, and its importance will grow particularly during the transition period. Seventy-three percent of the producers believe that customs duties should be imposed in a differentiated manner. Import duties should not apply to raw materials and investments in machinery. In regard to other imports, the duty should increase progressively depending on the degree of finish of the imported goods. At the same time, the import duty rates on finished products should be derived from the customs duties that are imposed on the export of our products to regions with free currency. Thus the import duty should be strongly regulative in character, and it should not be a state budget resource.

Only 45 percent of the enterprises said that they know how they will react to the introduction of domestic convertibility. The following are the main procedures:

- A change in import and export structures.
- A change in buying and selling.
- The import of top-quality components.
- The optimization of supplier-consumer relations.
- The cutback of foreign-currency-intensive products.
- An increase in efficiency.
- A change in prices.
- An increase in the export of direct labor.

Enterprises frequently have a one-sided view of price liberalization. Primarily they want to use it to deal with the increase in costs of their inputs, including those they will have to acquire at world prices in the future. They consider the world prices of their suppliers to be the upper limit even on the domestic market. They stringently apply the following principle: "If there is to be free price formation, it must also apply to output." This simplified attitude does not take competition into consideration and it eliminates any kind of regulation of wholesale prices, for example, metallurgical products, energy, etc. At this time, the only way that enterprises are prepared to resolve problems that have arisen is through more price movements, and they tend to demand that the state cover the losses that occur.

Since the liberalization of prices and the domestic convertibility of the Czech crown will apparently lead to the promotion of primary industry, the processing enterprises are concerned that the introduction of excessively high inputs may be exaggerated. Tax policies were also discussed in this connection. At this time, our turnover tax rate greatly exceeds that usual taxation in Europe, at least in regard to some products. Unless the taxes are adapted, for instance, in regard to the manufacture of passenger cars, according to the producer, it will be necessary to set the sales prices so high that sales may be endangered. The similarly set rate of 32 percent for the turnover tax in the textile industry practically means

cutting back the whole branch, according to the enterprises. The decrease in the purchasing power of the citizens will itself decrease textile sales, and the taxation will then totally paralyze them. Allegedly, supply for the domestic and export markets, including clothing, will collapse altogether. These opinions clearly show that attitudes in the enterprises have not yet really moved away from the philosophy of cost prices.

According to the survey, the respondents believe that, in the near future, the prices should be:

- Unregulated, 14 percent.
- Partly regulated, 86 percent.
- More regulated, 0 percent.

In connection with convertibility and price liberalization, the enterprises pointed out the danger of an inflationary spiral. If the rate of inflation rises by 10-15 percent, pressures to increase the wage limit will start to grow to such an extent that it will be impossible to satisfy them. In collective work contracts, the enterprises can guarantee a wage increase not exceeding 3-5 percent, which, however, would not be nearly enough to cover inflation. The only possible way to decrease the danger of anticipated social conflicts will be through special benefits, which enterprises will be able to provide for their employees, and which will certainly differ greatly from enterprise to enterprise. The social sector is already beginning to be very sensitive; social tension is increasing. And yet people still believe that their standard of living will not be affected to any great extent, even in the future. Therefore it can be said that, at this time, people are not really prepared for higher inflation and unemployment. Under the circumstances, enterprises unambiguously declare that social affairs must be dealt with exclusively by the state because efficient producers must consider only the economic aspects of running an enterprise.

Are the Enterprises Prepared?

According to the survey, all the enterprises made a detailed and self-critical analysis of their present condition, and have an idea what things should be like in two to five years. The managers of 87 percent of the enterprises expect that they will be able to react appropriately to the various situations that arise, and that they will recognize the opportunities, options, and the dangers linked with the development and expansion of their opportunities, options, and risks on the market. Seventy percent of the producers are convinced that they know their competitors well, and only 30 percent admitted that their knowledge in this respect is inadequate. Ninety percent of the producers intend to strive for the growth of internal strength, and only 10 percent for the growth of external quantities. Ninety percent intend to catch up with their competitors, the rest are preparing to become above average. According to the survey, 80 percent of the producers are aware of their present comparative advantages, the rest do not know how to formulate them.

Those most frequently mentioned were: qualifications, the price of the labor force, tradition and brand name, and the standard of the production base. However, individual cases, the following were also mentioned: for instance, the completion of research, social background, knowledge of eastern markets, monopoly status, and the temporary ecological nonculpability. Sixty percent of the enterprises were able to formulate their future comparative advantages clearly, on the other hand, 35 percent were totally unable to do so. Most frequently quality and reliability and acceptable prices were mentioned. In individual cases the proximity of eastern markets, attractive products, a new product, and a strong foreign partner were mentioned. These are extremely optimistic forecasts. By their answers in the survey, the producers convey the impression that the preparations for a radical change are proceeding satisfactorily. However, as became apparent during the course of the seminar, their state of preparation varies greatly and, overall, it cannot be considered to be satisfactory.

In the sector of the structure of skilled occupations, in comparison with the developed countries of Europe, it is becoming apparent that skilled occupations are under-represented in the preproduction and postproduction stages. But what is perturbing is that the enterprises are not considering reinforcing them in the near future, in fact they are doing the opposite. These facts mean that there is the danger that most producers' intentions to catch up with the competition will merely remain wishful thinking. In the sector of the professional competence of managing staff, the evaluators of the survey state that only 70 percent of the management staff have the appropriate qualifications. The moral profile of 45 percent of the managers is evaluated positively. About 30 percent of the managers have the prerequisites to spur the collectives to peak performance and, on the other hand, 20 percent do not have these prerequisites. Sixty percent of the managers know how to spur the collectives to show initiative and, on the other hand, 35 percent do not. Fifty-five percent of the managers know how to stimulate innovative activities and, on the other hand, 10 percent do not. Only about 15 percent of the managers have the ability to persuade their subordinates of the necessity to attain top quality. This is not to be expected from 35 percent of the managers. The top management in only about 25 percent of the observed enterprises believes that it can manage its own enterprise, identify the consumer, and to translate his needs into production and development better than the domestic competitors. The same percentage of enterprises fear that they will not be able to do so. However, half of the respondents were unable to give any answer at all to this question at this time.

A necessary prerequisite for the efficient operation of a mature enterprise is the assurance of high-quality information about external conditions. Enterprises often lack information about the market (domestic and foreign), basically they have no marketing, and they still produce for the stockpiles of an unknown customer. The enterprises

try to sell already produced goods on the market, new capacities continue to be created, and their full utilization is only sought post facto, and so on. Information is now a special production factor, which is best obtained by the presence of the enterprise on the market, including the world market. According to the survey, only 35 percent of the enterprises are preparing to deal with the problem of information in a comprehensive way by building up an information system where information areas, criteria (indicators) of development and changes, ways of determining signals, their evaluation, and the protection of information will be defined. The other enterprises want to resolve this problem in a partial way (through marketing studies, computer technology, the purchase of software). Forty-five percent of the organizations do not know the scope of the measures necessary to ensure information.

The Center Seen Through the Eyes of the Enterprises

According to the organizations, their lack of preparedness is largely the fault of the center because its relations to the enterprises in the transition process have remained incomplete. Individual articles from the central management often provide contradictory information and give different instructions. The center has also demonstrated some lack of coordination and some hesitation in adopting crucial legislative decisions. The producers did not say much more about their own inadequate preparedness.

The respondents expressed the opinion that, essentially, they are not affected by the managing function of the center, and some even stated that they did not need the center. In their opinion, the state should "should build up a strong machine industry and agriculture, and not allow qualified people to be drained away from these sectors into services and into the private sector." According to another opinion, "the center should, at the very least, not be an obstacle to organizations," for instance in negotiations with foreign companies, as enterprises are forced to postpone these negotiations to next year, which may already be too late. Some of the interventions are categorized as "the operation of old structures" or with the words "the offices are now out to take money away from the enterprises."

In the past, regular meetings were organized with the ministers. Now the enterprises lack direct information from the ministries and, if they do get it, it is chaotic. Most of the time, organizations gather their information through direct contacts, "through acquaintances," or through the press. Allegedly the small enterprises have the least information because they do not have direct contacts with the center. It was openly said that, at this time, these organizations only have a very sketchy idea about the reform. Therefore the respondents recommended that the center seek other ways to improve the provision of information to them. Another brunt of criticism was the current practice in training managers, which, allegedly, merely disorients people, lowers their

self-confidence and pride, and is inclined to evoke feelings of apprehension about further development. One of the directors, in fact, prohibited managers' training. The submitted drafts of laws were also subjected to criticism, as the enterprises consider these laws to be very complex and difficult to understand (e.g., the draft of the principle of the Price Law). Overall, 1991 was described as being "totally hazy." The present dismal state of the organizations' preparations for next year also attest to this. It would surely be useful to analyze this situation more closely and to clarify the true reasons for the "haziness."

The seminar pointed out some weak spots in the scenario and adopted measures, which must quickly be eliminated in order to stimulate the appropriate behavior of that part of the enterprise sector that is capable of adaptation. However, even under these circumstances, there will apparently be many enterprises, which, for various objective and subjective reasons, will not be able to adapt. Their fate will have to be decided on an individual basis, and dealt with outside the framework of the proposed stabilization program. They will be exceptions, which will have to be under the center's control, so that their numbers will not exceed a tolerable level.

The seminar also pointed out that, in the future, it will continue to be necessary constantly to fine-tune the market environment because the reaction of the enterprise sector to systemic changes in macroeconomic regulators is sometimes very difficult to foresee. This results from the present unstandardized and unstable economic and social situation, influenced by a large number of internal and external factors, which we have so far not succeeded in mastering successfully.

HUNGARY

Telecommunications: Pros, Cons of Monopoly Argued

91CH0193A Budapest *MAGYAR NEMZET*
in Hungarian 20 Nov 90 p 5

[Article by Janos Buda: "Installment Payments Are No Problem if the Telecommunications System Is Well Developed; Everyone Could Have a Phone Within Two Years!"]

[Text] Experts say that the Hungarian economy suffers an annual loss of at least 10 to 15 percent of the national revenues from the low level of development in telecommunications alone. This sum of 120 to 180 billion forints exactly corresponds to the nation's burden of interest and debt payments, i.e., \$2 to \$3 billion. However, this does not include the loss of several billion dollars resulting from the reluctance of (active) foreign capital to enter the country because of such a poor infrastructure. In the Siofok region alone, this loss amounts to a billion dollars. Thus, by adding up the various losses, the country's total losses because of the low development of

the telephone network are, by a conservative estimate, at least \$5 to \$6 billion annually.

This sum roughly corresponds to the amount Hungary would need in 1991 for interest and debt payments for changing to dollar accounts because of the CEMA's collapse, and for paying the high oil prices boosted by the Gulf crisis. Evidently then, one of the most important tasks in the economy is to develop telecommunications, together with our public road and railway network.

Arguments for Monopoly

The Hungarian Telecommunications Company (MATAV) will carry out an 83-billion-forint development (at today's prices) during its planned three-year program. A national digital network with half a million new lines will be built. The money for this will come from, among other things, restructured rate schedules (read: great price increases) to be introduced during the first half of 1991, and from loans by the World Bank and the European Investment and Development Bank. The repayment of the latter two is guaranteed by the government.

But there are several concerns about this concept of MATAV, which is also supported by the Ministry of Transportation. First, both MATAV and the ministry admit that this money will only suffice for a small part of the necessary development during these three years. In other words, by the end of this three-year program, the country will continue to suffer a loss of \$5 to \$6 billion a year, and—let us be optimistic—“only” half of that afterwards. Second, in the present state of the program, it is doubtful that it will be realized by the planned deadline and in the desirable quality. Signals are arriving from several Hungarian suppliers that have an interest in this development program that they are unfamiliar with its concrete details and, consequently, they can consider its requirements in their own production plans only as estimates. This may subsequently cause serious problems. Third, MATAV is a monopolistic state enterprise which is not only guarded against the effects of the market, and consequently, is very inefficient, but is also part of a bureaucratic hierarchy. Therefore, despite the best intentions of the enterprise's new management, there is no guarantee whatsoever for an efficient and unwasteful use of the three-year program's resources.

It is easy to see on the basis of the above, that being content with MATAV's efforts will not serve the country's interests, for millions of dollars are going to be wasted every year for a long time to come. The only feasible way is to break the monopoly that exists in telecommunications, is by allowing those who are offering basic services and others to develop networks and services.

Ministry of Transportation officials and MATAV are against this, however, as it became clear on a recent telecommunications forum for Hungarian experts. Most participants were disappointed because they got what they expected [as published]. This is where the basic principles of the new telecommunications bill were presented. It turned

out that the makers of the bill and some experts loyal to the post office want to maintain a monopoly in the basic telecommunications network although they are aware of the country's losses and of MATAV's limited abilities. Although the above would also suffice to demonstrate the untenability of their view, it will be good to see their arguments in support of monopoly.

First argument: Since telecommunications is the world's most secure, most risk-free, and most profitable investment, allowing foreign capital and market competition to enter telecommunications would mean that profits in dollars would be siphoned out of the country.

Second argument: Building several networks and allowing foreigners to enter would lead to wastefulness and technological chaos. It would increase service rates, and would eliminate investment in less profitable or unprofitable areas.

Third argument: By allowing competition and eliminating monopoly, the national control of telecommunications would be lost and the nation would become vulnerable.

Fourth argument: The country does not have enough effective demand to support two or three, or even more telephone companies offering basic network services, and most applicants today would not be able to pay the present investment contribution cost.

Fifth argument: If market competition were allowed, MATAV would be forced to lay off half of its 23,000 workers.

...And Against

There are a series of counterarguments. First, by allowing foreign capital and market competition, the annual national losses of several billion dollars would be eliminated within a year and a half or two years. Ventures are ready to take off, raising telecommunications within a year and a half to a level MATAV promises only for the year 2000. The result would not be siphoning out dollars, but the contrary. The present situation is like a dollar valve which prevents the inflow of billions of dollars into the country. Foreign participation in the Hungarian telecommunications market could be solved through license contracts. At any rate, the profits taken out by investors would only be a fraction of what the country would gain by developing telecommunications. Foreigners might even keep their profits in the country if the government in power can create an investment-friendly environment.

Second, the United States is a good example for showing that several networks and market competition do not lead to technological chaos, nor to wastefulness, nor to price increases. On the contrary, stiff competition is one of the important forces ensuring efficient management, and quality service for the consumer, and lower prices.

The compatibility of [network] systems is also in the operators' interest. It is still unclear which one of the digital networks has a future. Since we do not have the time to wait in order to find out, it is better to allow them to settle here—at their own risk. It may be included in the license contracts that entrepreneurs must develop telephone networks in unprofitable areas as well.

Third, allowing market competition and the use of foreign capital will not result in losing national control over telecommunications. On the one hand, the amount of foreign share can be specified. It is not certain that this must be a maximum of 49 percent. On the other hand, there are companies in Hungary, including some with strong capital, which were forced to build their own national telephone networks because of the backward postal network as well as factory safety considerations. These systems are still not used to full capacity. It should be made possible for these companies to further develop these networks with the help of foreign capital and Hungarian private investors and to use them for offering telephone services to anyone. National control and consumer protection can be achieved through other means and, again, the United States is a good example. Since investment in telecommunications is guaranteed to be risk-free, the maximum rate of profit can be set and excess profits can be appropriated. In the event of certain consumer complaints, the service company could be banned for a certain time period from any price increase, and so forth. Those who do not subscribe to these conditions will not build a network here. It is today, rather, that the country is vulnerable because there are not enough telephones, and it is up to a government authority and a company with a monopoly to determine, on the basis of certain debatable criteria, who may or may not have a telephone. In addition, this situation offers excellent opportunities for abuse.

Fourth, let that certain effective demand determine how many service companies it wants to support. As long as there are not enough telephones, no one can state with certainty how many networks the country can sustain. If these networks are built, not with public, but with private monies, the state and the country are not risking a single penny by allowing competition. The investors will figure out anyway to which extent it is worth it to them to enter the Hungarian market. Similarly, the size of the effective demand cannot be determined from the estimate of how many people would be able to pay the 10,000-to-20,000-forint investment contribution. This is not where profits in telecommunications come from; they come instead from its use by as large a number of people—and as frequently—as possible. It is conceivable that, in case of competition, when the goal of the entrepreneurs is to attract as many customers as possible, they would be willing to install telephones to customers even for a fraction of the present amount of investment contribution.

Fifth, if MATAV is worried that in a competition it would have to lay off half of its workers in order to remain competitive, then this is an open admission that

it would be able to carry out this task even with half as many workers. But, beyond this, the appearance of competition and several service companies would absorb MATAV's surplus labor force within a short time.

It Cannot Be Done Without the Law

There are still further arguments that support free enterprise. Having a telephone is a fundamental human right today. Not having a telephone is a violation of the citizen's freedom of speech. It is a violation of his right to have medical care, or to save lives in an emergency; and of his right to launch a venture. He who has no telephone cannot call the ambulance, the doctor, or the police when needed for protecting his life. He cannot call to ask a question of an expert in a program who is sitting in a TV or radio studio, and even though this may sound humorous, he cannot play Torpedo or other telephone games. Exercising these rights cannot depend on whether or not the person is able to pay the investment contribution to have a telephone installed. If monopolistic MATAV is unable to see to it that millions of citizens are not restricted in exercising their constitutional rights, then monopoly must be eliminated because it indirectly violates the constitution.

In this situation it is particularly unfortunate that the parliament does not want to discuss and enact the new telecommunications bill this year. The situation in the country is not going to permit much more delay. Each day of delay causes losses that can be measured in hundreds of millions of forints, just because of telecommunications. It would be good if the honorable representatives would still have a little energy left after their frequently time-wasting debates on many uninteresting issues, and would pass, this year, a liberal telecommunications law that would serve the interests of both the consumers and the country, and which would be written in the spirit of competition.

Prospects of Imported Paper Supplies Described

91CH0191A Budapest HETI VILAGGAZDASAG
in Hungarian 10 Nov 90 p 71

[Article by Gergely Fahidi: "Paper Industry:
Good Arguments"]

[Text] Despite existing agreements, starting this fall already, the Soviet Union has begun to request payment in dollars for deliveries of paper and cellulose, making the situation of the paper industry a good test case for exploring what needs to be done to make the necessary adjustments to the post-CEMA environment.

Paper will continue to be available in Hungary next year, or at least this is what the leaders of the paper industry are promising; the only question is from where, and for how much? According to some less comforting news, while the world market price of cellulose, one of the paper industry's most important basic materials, has been declining, 90 percent of Hungary's imports of that material come from two such "potentially explosive"

countries as Yugoslavia and the Soviet Union. Under a traditional dollar-cleared cooperative arrangement, our southern neighbor processes Hungarian wood into cellulose. The factories in Serbia and Slovenia are willing to continue to deliver. It is uncertain, however, whether or not there will be anyone in Yugoslavia next year who can afford to worry about foreign trade.

As for the Soviet Union, one does not even know with whom to negotiate about next year's deliveries. In the past, paper and cellulose deliveries were controlled by the all-union ministry, but since then we have seen the emergence of a new kind of association of Russian factories, and it may even turn out that eventually the plants themselves will actually decide about matters of foreign trade.

Hungarian importers for the most part are still dealing with the official Soviet specialized foreign trade enterprise. According to preliminary expert estimates, we will continue to be able to obtain 80 percent of our usual purchase of nearly 100,000 tons of cellulose, and 60-70 percent of our normal newsprint import—naturally for hard currency. This year's experiences, however, may serve as a warning. Of the 69,000 tons of cellulose we were scheduled to receive under our bilateral barter agreement, only 10,000 tons have been delivered. Soviet newsprint quota shipments ceased as of 17 July, on the grounds of domestic difficulties. During the negotiations it soon became clear that there was plenty of paper and cellulose, but only for hard currency.

Under normal circumstances, when someone commits such a serious breach of contract in international trade, one risks losing one's customers for a long time. In this case, however, the Paper Industry Enterprise decided to request permission from the ministry to be allowed to pay in dollars. That permission was granted in view of the fact that under this new arrangement, basic material and paper imports from the Soviet Union were still 20 percent cheaper than they would be from other countries.

Naturally, the domestic prices of paper products have adjusted to the changing conditions of trade. The 22 percent average increase—so far—in those prices still seem quite moderate, at least when compared with the rate of inflation. The import price of newsprint, however, has shot up at a faster rate, from 28,000 forints per ton to 39,000 forints, with further increases expected in the near future.

"We have been frequently subjected to criticism alleging that the price increases are connected with the monopoly position or the reorganization of our enterprise. These charges are without merit," claims Mihaly Juhasz, director general of the Paper Industry Enterprise, "for the industry's profit-to-asset ratio has been only 4 percent this year, which can hardly be called unfairly high. While our prices have increased by 22 percent, those of the printing industry, to my knowledge, have increased by 42 percent."

A few years ago the title "general director" meant that a single person controlled virtually the entire branch of industry. Today three of the thirteen plants—the Csepel, Dunaujvaros, and Nyiregyhaza factories, which account for 47 percent of the total production—have formed a corporation under the name Dunapack. By investing \$82 million in that corporation, the Austrian Prinzhorn group has acquired a 40-percent share of its ownership. According to the experts, within a year and a half or two, the rest of the factories will undergo similar restructuring.

While there are more and more attempts made in the form of legal objections and State Property Agency decisions to halt or reverse spontaneous moves toward privatization, so far no one has found anything objectionable about the forming of the Dunapack Corporation. The Arthur Andersen Budapest Ltd. conducted the property assessment, and found that the capital brought into the company amounted to twice the amount of its listed value. The Austrian investor had been chosen from among 16 firms, and as many as 38 other firms have expressed interest in the remaining factories of the paper industry. According to the current plans, however, the new companies to be formed will, without exception, be kept in Hungarian majority ownership. Hence, some feel that it is quite conceivable for the paper monopoly of the past to be replaced by a price cartel controlled again by the central office of the Paper Industry Enterprise.

The question, of course, is whether the Hungarian shares will indeed be retained by the increasingly leaner enterprise center, or will they be widely privatized and sold. According to Mihaly Juhasz, the enterprise center, which is expected to be reduced to a staff of 60, could continue to function as a kind of holding company, even after it relinquished proprietary control over the enterprise.

The enterprise's monopoly position may be shaken not only by reorganization, but also by the full scale "price liberalization" scheduled to commence next year. True, our chief importers have supposedly been unable to "use up" their (total of \$150 million) budget, because compared with the domestic demand, Western paper has been too expensive. Nevertheless, after the establishment of Austrian, French, Scandinavian, or even Canadian controlled companies, we will not have to worry about having anything to print on. Only on the newspapers' captions will the numbers be depressingly high.

POLAND

Danish Support in 1st Privatization Efforts Noted
91EP0147A Copenhagen BERLINGSKE TIDENDE
in Danish 27 Nov 90 p II 5

[Article by Lise Tajik: "Danish Bank Makes History in Poland"—first paragraph is BERLINGSKE TIDENDE introduction]

[Text] On Friday the Sankt Annae Bank, together with four other well known British banks, will write a chapter in Polish economic history when they launch that country's first five privatizations—an important step on the road to a market economy.

Sankt Annae Bank, the small Copenhagen-based investment bank, will be in the front line Friday when the long-awaited starting gun in Poland's privatization program sounds.

After long and arduous negotiations, the bank's Polish-born director, Kristof Zorde, was successful in gaining approval for the prospectus for the sale of the state-owned Slaska Fabryka Kabli cable factory to the public. The law firm of Ole Nielsen and Partners, which, in collaboration with the IE Fund (Investment Fund for Central and East Europe), has just opened its own offices in Poland, served as the legal adviser on the project.

The factory, which manufactures high quality copper cables, has 560 employees and had earnings in the most recent fiscal year of \$30 million. The company's capital stock is 50 billion zlotys (approximately \$5 million) and a net capital of 70 billion zlotys (approximately \$7 million).

The entire company is to be sold at an issue price of 70,000 zlotys per share, and Kristof Zorde hopes he can sell 30 percent of the shares to foreign investors.

To be sure, the Polish law on privatization permits the sale of only up to 10 percent of all the shares to foreigners, but, with special permission from the Foreign Investment Agency, the privatization ministry will allow a larger segment to be sold outside of Poland.

The Polish Bank Slaski will supervise the sale to the public but Sankt Annae Bank has offered to act as an intermediary if Danish investors should be attracted by the offer.

Advisers

At the same time the cable factory is being sold, stock sales will begin in four other Polish companies which have all had British advisers prepare the sales material.

Involved are Krosno Glassworks (Schroders), Tousit, the loudspeaker manufacturer (Samuel Montagu), Exbud, the contracting firm (Coopers and Lybrand), and the textile firm of Prochnik (Morgan Grenfell).

Taken together the five state-owned firms being offered for sale as of Friday are worth \$50 million.

However they represent just a small portion of the overall Polish privatization program.

In the coming years, a total of 7,000 businesses will be sold, but the plan has not yet been precisely drawn up.

Various concepts are under consideration. Among other things, there is discussion of the possibility that Poles might receive a number of coupons which could be

exchanged for shares, Kristof Zorde suggested. The next step he is weighing is the privatization of a group of businesses—for example an entire industry.

He has suggested to the Polish authorities that they invite Danish banks to participate in the privatization process.

"There's lots of space for other Danish banks," said Kristof Zorde, who also expects to direct all his energies into Poland—not just as an active player in the privatization program but also as an adviser to the ministry and through courses in business financing and the selling of shares directed at Polish bankers and stockbrokers.

Budgetary Bill Changes Gmina Revenues, Subsidies

91EP0136A Warsaw *RZECZPOSPOLITA (ECONOMY AND LAW supplement)* in Polish 20 Nov 90 p 1

[Article by Piotr Aleksandrowicz: "The State Budget and Gmina Budgets: Subsidized Independence"]

[Text] Initially, it was expected that gminas' own revenues would come to about 20.5 trillion zlotys. Since the Ministry of Finance estimated the necessary expenditures to be 37.7 trillion zlotys, the State Budget provided for 18.6 trillion zlotys in subsidies for the gmina budgets. This would ensure a 4-percent surplus in gmina budgets, as well as liquidity in the gminas which have below-average revenues.

As a result of discussions in the Sejm commission, a substantive change in the draft law on gmina revenues and subsidies was proposed. The share of the profit tax on corporate persons [retained by] the gminas was increased from two to five percent. In conjunction with this, it is envisaged that the gminas' own revenues will come to about 27 trillion zlotys. A subsidy of about 10 trillion zlotys will still be required. In practice, this means that subsidies will be compensatory rather than comprehensive. They will serve to eliminate differences which are due to the fact that nonagricultural gminas are in a privileged position as far as securing their own revenues is concerned.

This and other information was communicated at a press conference on 19 November by Deputy Minister of Finance Wojciech Misiag. It is noteworthy that the expenditures of the gminas will be, in comparable terms, about one-quarter smaller than this year's expenditures because funding for education has been transferred from local (gmina) budgets to the State Budget.

We have been discussing the preliminary draft budget on the pages of *RZECZPOSPOLITA* for several days now; hence I will only quote several remarks recorded during the conference.

A change in the system of funding for housing construction was predicted; it was proposed to eliminate preferential interest rates on housing loans and to introduce a

system of direct subsidization for construction by means of product-specific subsidies per square meter of the apartments built.

State subsidies for enterprises will increase by 15 percent in nominal terms, which means their decline in real terms will be 25 percent. The funds saved will make it possible to finance rapidly increasing social welfare outlays.

In addition, outlays for servicing the debt will grow faster than inflation (this year, we had a moratorium), as well as those for investment (this is a strategic decision; next year's budget should favor coming out of the recession and structural changes).

Expenditures in the sphere financed from the budget will remain unchanged or increase slightly in real terms. A reform of funding for the sphere financed from the budget, which is "overfunded," needs to be addressed urgently. The same level of services in health care, for example, may be maintained while spending considerably less money. However, the current system does not prompt one to make any savings. [Deputy] Minister Misiag mentioned in reference to this the financing of health care, higher education, the Ministry of National Defense, and the Ministry of Internal Affairs.

Few statistics were mentioned in the course of the conference; the [deputy] minister referred those interested to materials which will be submitted to the Sejm after a meeting of the Council of Ministers. The latter will adopt a draft budget law within seven to 10 days.

Recent Graduates Fill Unemployment Rolls

91EP0145B Warsaw RZECZPOSPOLITA (ECONOMY AND LAW supplement) in Polish 24-25 Nov 90 p II

[Article by Antoni Kowalik: "Vexatiousness Divided"]

[Text] In mid-November the labor offices throughout the country registered over 160,000 school graduates looking for work. This means that in the last month this group increased by 724 persons, i.e., the growth tendency remains despite the rather long period that these young people had to find a job since they left school.

Graduates make up over 15 percent of the total number of unemployed in the country (see table), except that the situation is very different from one voivodship to another. Graduates constitute the largest number of unemployed in Nowy Sacz Voivodship—22 percent, and the lowest number, below 10 percent, can be found in the Jelenia Gora, Lodz, and Szczecin Voivodships. However, in eight voivodships, every fifth person looking for work is a graduate. What are the chances that he will obtain work in the near future?

Labor Market as of 15 November 1990 in the 10 Voivodships With Highest Unemployment

Voivodship	Number of Unemployed			Total Number of Job Offers
	Total	Women	From Group Dismissals	
Warsaw	24,751	14,341	6,788	11,952
Bialystok	27,516	12,522	—	917
Bydgoszcz	36,663	20,633	5,105	1,803
Gdansk	29,570	16,102	5,169	1,979
Katowice	61,681	38,430	—	7,289
Kielce	36,890	17,659	—	999
Lublin	30,999	15,678	5,817	530
Olsztyn	32,083	15,572	—	558
Torun	27,373	14,200	4,324	595
Zielona Gora	24,912	12,544	—	590

Unemployed Graduates in Selected Voivodships

Voivodship	Share (in percent)*	Number With Higher Educations	Number With High School/Trade School Educations	Number With Primary School Educations	Total
Total	15.5	8,008	54,698	80,561	164,075
Warsaw	19.2	721	1,738	1,484	4,753
Bielsko Biala	20.8	196	1,552	1,489	3,805
Jelenia Gora	9.02	72	536	1,272	2,070
Krakow	20.6	531	1,453	1,809	3,885
Krosno	20.7	97	843	2,476	3,676
Lodz	6.3	246	1,463	990	2,899

Unemployed Graduates in Selected Voivodships (Continued)

Voivodship	Share (in percent)	Number With Higher Educations	Number With High School/Trade School Educations	Number With Pri- mary School Educa- tions	Total
Nowy Sacz	24.2	105	1,548	2,658	4,888
Rzeszow	21.2	324	1,663	2,941	5,634
Siedlce	23.7	87	913	2,177	3,529
Szczecin	9.3	81	550	889	1,670
Tarnobrzeg	20.1	97	1,138	1,847	3,516
Tarnow	27.0	129	1,382	2,646	4,409
Zamosc	20.1	149	907	1,447	2,840

*Share of unemployed graduates in total of unemployed

These possibilities, too, differ in different voivodships and regions. In Lomza Voivodship, e.g., where 2,141 graduates are registered, the labor offices do not have much to offer them. Plants are not reporting vacancies or demand for the skills described. For this reason, no courses or requalifications are being conducted because there is no way of knowing what can be offered to the youth. Training blindly will end with a return for benefits anyway, except that the graduate will be more frustrated.

The work situation is somewhat better for young people in Bielsko Biala Voivodship, for example. This "better," just as in other large centers, refers to those who have skills—know languages, know how to apply the latest office or banking technologies, or know accounting. And here is something worth noting: It turns out that the graduates of schools which teach these professions are also unemployed, because they really do not know very much. School training still has very little in common with the needs of the labor market.

If work is available, the solution can be courses and training, a great deal of which is being done in Bielsko

Biala and the Krakow region, but not without problems, it must be added. It appears, as has been confirmed in other voivodships also, that it is easier to arrange a course than to persuade the unemployed to attend it. The most frequent reactions are: "that is not my thing," or "after all, I have an education."

Can it be concluded from this that not all young people are very troubled by being unemployed? The people in the labor offices are not eager to talk about this. We have to believe the declarations made in the applications for benefits, in which no one admits to working or having an income. But many labor offices have introduced tough recruitment for retraining, declaring that refusal will bring loss of benefits. Will this bring results?

But even the toughest recruitment will not create new jobs, which are difficult to find despite the billions of zlotys allocated for this purpose from state funds. Plants continue to grapple with overemployment or have no way of adding on more services or production. The barrier is the market and the lack of technical outfitting, which cannot be bought simply on a loan.

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