



JPRS Report

East Europe

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CZECHOSLOVAKIA

Differences in CSFR, Soviet Damage Estimates

LD0106015191 Prague CTK in English 1239 GMT
31 May 91

[Text] Prague May 31 (CTK)—The positions of the Soviet Union and Czechoslovakia regarding the assessment of damage caused by the more than 20-year presence of Soviet troops in Czechoslovakia differ considerably—the Soviets speaking of millions while the Czechoslovaks of thousands of millions of crowns.

Representatives of the Czechoslovak Committee for the Environment informed journalists here today of last week's talks in Prague with the Soviet side, at which no agreement had been reached. Under last year's agreement on the withdrawal of Soviet troops from Czechoslovakia, Czechoslovakia was expected to present its account of the damage by December 1 of this year. The Soviet side, however, has asked to have it already by June 30, 1991, when the Soviet troops are to be definitively gone and there will no longer be any Soviet commissioner to see to it that the damage was really done by the Soviet side. Czechoslovak officials who took part in the talks described the conduct of the Soviet delegation as "imperial diplomacy" as if it saw the more than 20-year presence not as an occupation but as international assistance.

Czechoslovakia's preliminary estimates of the damage caused by the Soviet occupation troops are put at 3,000 million crowns. A study of the extent of the damage alone has cost Czechoslovakia 160 million crowns. Some experts consider this sum too low, saying it covers only the damage done near the town of Mimon in north Bohemia where the Soviets had an airport. This district is in addition completely devastated by the use of sulphuric acid in the the extraction of uranium.

The Soviet Union insists on the damage running only into millions of crowns and puts the appraisal of immovable "property" it is leaving in Czechoslovakia very high. For the Czechoslovak side these buildings are rather a burden hardly worth the price of building material. The flats, for instance, are not fit for use by Czechoslovak citizens. Czechoslovakia decided to comply with the Soviet Union's request and will draw up a preliminary account of the damage by the end of June, and agreed also to have the extent of the damage assessed by independent third-side experts.

Political Talks on Creating Constitution

LD0106130291 Prague Ceskoslovensky Rozhlas Radio
Network in Czech 1600 GMT 31 May 91

[Text] The creation of federal and republican constitutions was on the agenda of today's meeting of over 30 politicians representing the highest legislative and executive organs of the federation and the republics at Budmerice near Bratislava. Among them were Vaclav

Havel, president of the Republic; Alexander Dubcek, chairman of the Federal Assembly; Dagmar Buresova, chairman of the Czech National Council; Frantisek Miklosko, chairman of the Slovak National Council; and the two republican prime ministers. Also taking part in the meeting were representatives of parliamentary coalition and opposition parties and movements. The talks, however, were terminated and immediately after that, detailed information was granted to journalists by President Vaclav Havel:

[Begin Havel recording] I am empowered by the participants in today's meeting to announce, above all, the fact that at 1430, without any preliminary signs of illness or disease, toward the end of a calm discussion, Deputy Barta suffered a heart attack and died shortly before 1500. He was immediately granted medical aid by several doctors present who did all that was in their power. The participants in today's meeting honored the memory of Deputy Barta with a minute's silence and I have been asked to convey their condolences to the members of his family. One can say that he died on the job. Apart from that I should like to say that following this event we have decided to interrupt our talks.

As to the talks themselves: Taking part were representatives of all the political parties represented in all three of our parliaments. Representatives of these parties gradually acquainted those present with the views of their parties and movements, with the contents of the federal constitution, the process of its creation, and various problems connected with it, they acquainted them with their views on this entire topic. Not all of them were given the floor. Three of the participants could not communicate their views during the morning.

According to my own personal impression, the talks were very businesslike and of a working nature, there were no signs of any confrontations of conflicts. It appears that space has been opened on this broad political ground for further talks, it appears that all have the will to find solutions, both on the contents of the federal constitution and on the process of creating it, so that there might be hope that this process will eventually be successfully completed. We have agreed that these talks, which have now been interrupted, will continue in Kromeriz, Moravia, in approximately two weeks. [end recording]

Praise for Slovaks Miklosko, Carnogursky

91CH0625A Prague LIDOVE NOVINY in Czech
15 May 91 p 3

[Article by Petr Prihoda: "Slovaks of a European Stature"]

[Text] It is just in a moment of reduced Czech attentiveness that Slovakia is presently experiencing one of the key chapters of its modern history. There are here, the applicable ancient model of cunctation is the one bequeathed to us by the Israelites when in the desert they found a desire to go back beyond the Red Sea to the social security of Egyptian slavery. But unlike in the

Czech lands there was a kind of a laser effect: all the Slovak aversions were voiced right away.

With clenched teeth the handful of the brave joined the struggle for Slovak parliamentarism. It is somewhat underdeveloped there in the spirit of old Magyar traditions and its binding rules of the game have not yet been experienced. This makes even stronger the superior force this handful must confront. It has not yet won but it is not giving up.

If someone prevails in a struggle he becomes a man. We already have one, right now he is our president. The struggle is not a tavern brawl, for it goes on also on the inside. And in Slovakia which lacks the experience of dissent it is precisely now the time of the crucible. I believe that the hardest struggle both inside and outside has been conducted by Frantisek Miklosko, today already a Slovak of European stature.

A new round is just starting there. The fight will be for the same thing but also for something more. Another gladiator entering the arena is named Jan Carnogursky. If someone believes—as is occasionally written—that bending down to pick up political power lying unattended in the street was an easy thing to do, or that accepting the office of the Slovak prime minister was a smart party-political ploy, that person has failed to consider a great many things.

Jan Carnogursky will have to face a number of opposition players all at once, each of them different, and many problems both old and completely new. He will have to contend with his own movement of which he is not the embodiment because he stands out too much. Also with his own nation which does not love him because it has succumbed to Meciar's siren song. Certainly with the "federals," the power which this canny fighter wants to see derived while he himself does not want to be derived from it. Among his difficult partners will be also the community of Western Christian Democratic parties to where he would like to steer his movement even though it is still a little wide of European standards.

It is on his shoulders that the "clog" of the sharp ambivalences of the Slovak soul now rests: Its longing for a world stature and the contrary pull that behind-the-stove "hominess" lambasted already by Ludovit Stur. Also, the controversial chapter of Slovakia's war-time past and unwillingness to make a clean breast of it. The traditionalist from of Slovak Catholicism, a national church par excellence, and the aggiornamento of the world's Roman Church. The unquenched Slovak thirst for statehood, and an integrating Europe rather visibly disinclined to favor it. Slovakia's nationalities problems. Slovakia's social problems. That which is called there a Slovak economic specificity. Slovak resentment toward Czechs. And of course Czechoslovakism, however residual but extremely unpleasant to Slovaks, denied by Czechs and yet still alive in Czech consciousness....

Too much of all this has come to weigh on this slight man and he surely knows it. He knows that he has landed in

the focal point of too many disparate forces. Hence his responses are thoughtful, careful; he husbands his strengths. He can prevail not as the leader of a movement or a tribune of his nation but solely as a statesman, as another Slovak of a European stature.

I do not know if we understand fully the difficulty of his task. I hope he prevails in it.

Legislature's Resolution on 1944-48 'Atrocities'

LD0106203191 Prague Ceskoslovensky Rozhlas Radio Network in Slovak 1300 GMT 31 May 91

[Text] On the final day of the 15th joint session of both Federal Assembly chambers the deputies passed the amendment to Law No. 173 of 1990 which abolishes the law on the organization of physical exercise and which amends some other relations concerning voluntary physical exercise organizations.

At the end of the session members of the House of Nations adopted a resolution, in which they are asking the Federal Government to provide a final clarification whether or not the atrocities committed by NKVD [USSR State Security Committee] bodies in the period 1944-48 on the citizens of our state were carried out with the knowledge of the Czechoslovak Republic leadership. This concerns Czechoslovak citizens who were forcibly removed to the Soviet integration camps.

The 15th joint session of both Federal Assembly chambers ended then. The next one should be held from 2 July.

HUNGARY

Israel's President Herzog on Upcoming Visit

AU1006080691 Budapest MAGYAR HIRLAP in Hungarian 6 Jun 91 pp 1, 4

[Interview with Israeli President Hayim Herzog by Pal Bokor in Jerusalem on 4 June: "Israeli President on Jordan's Initiative: Hungary Is Very Important"—first four paragraphs are MAGYAR HIRLAP introduction]

[Text] President Hayim Herzog gave an interview to the Hungarian press for the first time in the history of Israeli-Hungarian relations. Hayim Herzog, who will arrive in Budapest on an official visit on 11 June, received our foreign policy columnist and granted him an interview.

Hayim Herzog is the sixth Israeli president in a line started by the Hungarian Tivadar Hertzl. Hayim Herzog has been president since 1983, and he was reelected in 1988. Similar to the other Israeli military leaders, he is an extremely popular person in Israel. As a former head of the military intelligence and participant in all the Israeli wars, he has outstanding military experience. He also represented Israel as a diplomat in Washington, Ottawa, and at the United Nations in New York.

This interview took place in the nicest cottage area of Jerusalem, at the presidential residence surrounded by a beautifully kept garden.

On the day of this interview, Hayim Herzog was also interested in the same thing as all the other Israeli and Arab leaders, as well as the world press, namely whether there will be direct talks between Israel and Jordan.

[Bokor] Mr. President, according to signs coming from Jordan last week, one could draw the conclusion that this country might be willing to negotiate on solving the long-term problems. In your opinion, what are the chances of direct Israeli-Jordanian negotiations?

[Herzog] Naturally, I welcome the Jordanian king's signals according to which we should openly talk to each other. I stress the word "openly." I hope the reaction of the Arab world will not be hostile. After all, a big revolution has taken place in this area and we have crossed an important barrier. I think that [former Egyptian President] Sadat's historical visit was this boundary. Now, the issue of future negotiations with Israel, rather than confrontation, is the main point of interest in the Middle East. Today, we are in a situation in which there is an Israeli Embassy in Cairo, complete with the Israeli flag. All this in Cairo, the capital of the Arab world and of the Arab League. This new situation is accepted. Syria also opened its own embassy in Cairo, despite the existence of an Israeli Embassy there. Things that could lead to negotiations and to recognizing the fact that there is a need for direct negotiations with Israel are gradually emerging.

[Bokor] What is your opinion about a new structure in the Middle East, and a new peace order, given the changes that have taken place in East-West relations. In your book "The Arab-Israeli War" you said that the Middle East conflict has always been a part of the East-West confrontation. What kind of influence could the big changes under way in the East-West relations have on the situation in the Middle East?

[Herzog] Obviously, there is an influence. However, if you talk about a so-called "new order" that people started to mention after the Gulf war, I must say that, in my personal opinion, everyone talking about a new order in the Middle East reveals that he does not understand the situation of the Arab world quite well. This is an area where people say one thing and mean something else, and where there are people who can change their opinion overnight. My personal opinion is that there is some movement now that is leading Israel out of the conflict. However, I do not see any sign of the emergence of a new order because each Arab country acts according to its own interests and does not want to risk these interests for anything called "new order" or even Arab unity. These are relatively abstract notions.

[Bokor] To treat this subject in a less abstract way, let me return to the Jordanian signals. King Husayn is known as a fighter pilot. You are also known to occasionally pilot an airplane.

[Herzog] I think the king flies commercial airplanes and not fighters.

[Bokor] I wanted to say by this that the two of you have common interests.

[Herzog] There are other things, too. I used to enjoy sea parachuting very much. I used to jump in Eilat. Husayn used to do the same in Aquaba. In addition, both of us like sailing. Both of us have yachts and sometimes we even pass each other.

[Bokor] All right. Let me then ask you whether the time will come when you will not pass each other?

[Herzog] Yes, we will stop....

[Bokor] In other words, would you be ready to talk to Husayn?

[Herzog] With great pleasure; anywhere and anytime. I am ready for this and so are the other Israeli leaders. There are no psychological problems in this respect.

[Bokor] Would you also be willing to talk about territories?

[Herzog] I cannot do that in my position. The president cannot negotiate on matters on which there is no consensus.

[Bokor] How could the negotiations be successful without such a consensus?

[Herzog] These talks could be successful because this government has its own concept, just as the previous government had its own concept, namely that, in the first phase, a Palestinian autonomy is acceptable for everyone. If we succeed in coming to an agreement on this matter, we will then be able to put other issues on the agenda. In other words, negotiations would not run into difficulties.

[Bokor] Is the policy of "territories for peace" still valid, or it does not exist anymore?

[Herzog] I cannot give an opinion on any issue that is a source of debate in Parliament. Naturally, this does not mean that I do not have an opinion. I just cannot talk about this.

[Bokor] Mr. President, next week you will be travelling to Hungary. In connection with this, I would like to ask you a simple question. Why are you travelling to Hungary and not to some other country in the region?

[Herzog] Hungary was the first East European country to invite me. To be more precise, I received an invitation from CSFR President Havel before then, but Mr. Havel asked me to come at the end of summer because they will be having a big commemoration then. In any case, I think that Hungary is a very important country. It is a country with which our relations are developing in a very satisfactory way. There are already some Israeli investments in Hungary. Moreover, there is no country in the

world that knows you as well as we do. Furthermore, I think it is important that Israel is a Western country with links to the European market and close relations with the United States. I think that this fact is rather important for the countries of East Europe that are looking for ways into the world market.

[Bokor] Mr. President, are you saying that Israel could play a kind of intermediary role between Western markets and East Europe?

[Herzog] In many respects, that is the case. Do not forget that Israel has associate membership in the EC. I think that this is very significant. So is the fact that Israel used to be the only country in the world to have a free trade agreement with the United States (I think that Mexico and Canada now have such an agreement). This gives us a special position on the U.S. market; among other things, it guarantees a total exemption of duties on our products.

[Bokor] I think that this special position is even more applicable to Soviet-Israeli relations....

[Herzog] Yes, that is true. Considering the fact that we only have consular relations with the Soviet Union, not diplomatic relations, there is a lot of coming and going between our two countries. For example, only last week I had the opportunity to welcome three members from the Soviet's Foreign Affairs Committee.

[Bokor] Many people believe that, instead of facilitating things, the new Soviet travel law will prevent Soviet citizens from travelling abroad. Could this also have a negative influence on the emigration of Soviet Jews to Israel?

[Herzog] I do not think so. We have to base ourselves on the fact that a change has occurred among Soviet Jews. There have been anti-Semitic manifestations in the Soviet Union, and most Soviet Jews have realized that they should move to their own country.

[Bokor] What is your opinion on Hungary's Middle East policy? [Herzog] It is a little bit too soon to ask. I am just studying Hungary's viewpoint. I did hold negotiations with Gyula Horn, the first Hungarian foreign minister to have visited Israel, and we agreed that Hungary had broken off relations with Israel because of pressure from the Soviet Union. The Soviet Union is still an important factor for us, as well as for you. From the point of view of trade (and other things), you were able to provide better for yourselves than other East European countries.

[Bokor] Mr. President, what feelings do you have about your visit to Hungary?

[Herzog] I am awaiting this visit with great interest. In Hungary, the history of Jews really dates back to Roman times. Hungarian Jews played an important role in the cultural development of the Jewish people. I am proud of the contributions that Jews have made to Hungarian culture, and I am also proud of the contributions made by Hungarian Jews to Israel's culture. Let me just say

that some of our best writers and political satirists are Hungarians. Moreover, I see this as a very symbolic visit. I am travelling to a country from which the Nazis banished 600,000 Jews to the death camps of Auschwitz. My visit is a tribute to them, once and for all, although such commemorations are always a sad experience for me. This is the first country behind the former Iron Curtain that I will visit. In other words, it will be an exciting experience. These last few days, I have been reading a lot about Hungary, and I have been watching films. I have heard about the great development of Jewish religious practices in your country. In Budapest, I will meet with the representatives of the great local Jewish community. Put together, all of this gives great practical significance to my Budapest visit, which makes the visit very desirable for me.

Estonian Parliamentarians Arrive on Visit

*LD0906173891 Budapest MTI in English 1700 GMT
9 Jun 91*

[Text] Budapest, 9 June (MTI)—Heading a delegation, Alar Maaropd, secretary of the Foreign Affairs Committee of the Supreme Council of the Estonian Republic, arrived in Budapest on Sunday at the invitation of the parliament's Foreign Affairs Committee.

While in Budapest, the Estonian guests will be studying legislative practices at the Hungarian Parliament, and meet representatives from the foreign affairs, defence, human rights and minority committees.

The delegation will be received by Gyorgy Szabad, speaker of the parliament, and leading officials from the Ministry of Foreign Affairs and the Ministry of International Economic Relations.

Parliament President Szabad Interviewed

*91CH0582A Vienna DER STANDARD in German
3 Apr 91 p 8*

[Interview report by Norbert Mayer: "We Want To Cut Ourselves Loose From Asia"—first paragraph is DER STANDARD introduction]

[Text] Budapest—The president of the barely one-year-old, new Hungarian parliament, Gyorgy Szabad, is a historian by profession. Which is why he has gotten used to developing long-range strategies. In a press conference he described the pitfalls of history which the members of parliament of the young democracy are learning to deal with.

"Our own experience is important in returning to a democratic parliamentarianism. From 1848 on, Hungary had a genuine parliament," says the politician in a seemingly circumspect way, speaking of a long tradition which had been suddenly interrupted. After the end of the communist era one would "almost have to square the circle: create stable constitutional conditions and a stable framework for a constitutional state."

"The parliament's democratic rules certainly constitute the first pillar for this; the second are the regional autonomic administrations." Szabad thus mentions one special achievement of the 1989 "velvet revolution," and after pausing for effect, he adds another attractive feature of the new freedom: "For the intermediate term, we are trying for a parliamentary election of the Constitutional Court."

Transition Period

The professor treats his parliamentarians as he does his students. In the debate about televising the proceedings of the upper house he took a position against such an innovation, to avoid the semblance of a spectacle. But today, he says, cooperation after a long and hard election campaign is more important than dramatics.

"At this time we are unable to produce patent leather shoes for fancy outings. What we need are wooden clogs to help us negotiate the rocks in the river. We must pass laws which will enable the people to weather this very difficult transition period."

Hungary, he says, wants to join the West, wants to cut loose from Asia. "The conditions we must create are such that for the West to cooperate with us will be neither an adventure nor a charity. Democracy must still pay the bills of goulash communism."

Understandably, the Hungarians have to contend with some fears on the path toward democracy. "In our country there is a latent antiparlamentarianism. The people want prosperity now," says the shepherd of democracy in the East Bloc's Westminster, referring to the threat to the young parliamentarianism which worries him the most.

Controversy Over Return of Mindszenty's Remains

91CH0583A Frankfurt/Main FRANKFURTER
ALLGEMEINE in German 2 May 91 p 8

[Article by Andreas Razumovsky: "Controversy About the Spiritual Heritage of Cardinal Mindszenty: Opening of the Tomb Before the Return; The Body Has Not Decomposed"]

[Text] Vienna, 1 May—For several weeks now, the return of Cardinal Joseph Mindszenty's exhumed body, set for 2 May, has been considered an outstanding event. The body of the cardinal, considered (and not only by Hungarian Catholics) the greatest son of his people, is being transferred from his temporary burial place in Mariazell to Esztergom, the traditional seat, cathedral and tomb of princes of the Church who have held the title "primate of Hungary" for many centuries.

Cardinal Mindszenty offered the Communists heroic resistance, was tortured and jailed in 1948 by Hungarian Stalinists, spent the years 1956-1971 in internal Hungarian exile in the U.S. Embassy in Budapest and, after

leaving for Vienna, became an emigre for good. After tragically clashing with Pope Paul VI, he died in 1975.

The program of the ceremonies is complex and splendid. The organizers—the Austrian church and the Cardinal Mindszenty Foundation, in conjunction with Austrian Radio/Television—claim it to be "comparable in range and sumptuousness with the funeral of Zita, Austria's last empress. At the same time it will be a display of the conservative Catholic Austro-Hungarian elite, harking back to old traditions. Kurt Waldheim and Prince Hans Adam, the heads of state of Austria and Liechtenstein, together with members of the Hungarian and Austrian governments and the highest ecclesiastical dignitaries of the two former fraternal countries, will accompany Cardinal Mindszenty in Styria, Lower Austria and the Burgenland, on the way to his final rest in Hungary.

However, just days before the date, dramatic elements have surfaced that needed to be eliminated forcibly by police intervention: Bitterness and strife among Mindszenty's successors in Hungary's Catholic hierarchy and other personages who are laying claim to the spiritual heritage of the great prince of the Church. The dispute about Mindszenty in the 1970's raged just as much in Vienna as in the Vatican and Budapest. As Viennese Cardinal Archbishop emeritus Koenig lately recalled, the conflict involved the diplomatic efforts of the Vatican (especially Pope Paul VI and his "foreign secretary," Casaroli) to arrive at a somewhat tenable relationship with Communist Eastern Europe—to allow at least for the consecration of new priests and bishops—as against the allegedly excessive inflexibility of the unyieldingly anti-Communist and, also allegedly, increasingly senile Cardinal Mindszenty.

The preparations for the exhumation in the pilgrimage basilica of Mariazell once again confirmed that the yawning chasm between the rulers of the Church in Hungary—in place since the 1960's and ready for compromise—on the one hand and the heritage and tradition of Cardinal Mindszenty on the other, has still not been bridged. Monsignor Tibor Meszaros, 74, the cardinal's former secretary and long standing confidant, and three other persons chained themselves to the wrought iron gate to the tomb on 24 April, when preparations for opening it were to begin. Meszaros said he was firmly resolved by his action to prevent the transfer of the body at the present time. He alone was authorized—because expressly bidden by Mindszenty—to permit the transfer only "when not a single Soviet soldier remains on Hungarian soil."

Until the night of Wednesday neither the Benedictine prior of Mariazell nor Archbishop Rudolf, president of the Cardinal Mindszenty Foundation, had succeeded in amicably persuading Monsignor Meszaros and his companions to leave and abandon their efforts to prevent the transfer. On the contrary, Meszaros had even more sharply defined the meaning of his protest action: It was directed against Cardinal Paskai, appointed by the Vatican to be Mindszenty's successor as archbishop of

Esztergom and primate of Hungary. Cardinal Paskai was accused of having arrived at an accommodation with the Hungarian Communists under Kadar, having always agitated against Mindszenty and traduced him as late as 1986 in an Austrian newspaper as a fossil whose "rigid attitude had inflicted enormous damage on the Hungarian Church." Meszaros claimed that, before Mindszenty could be laid to his eternal rest in Esztergom, it was most of all necessary to remove from Hungary—even before the Soviet soldiers—those clerics also in the hierarchy below Cardinal Paskai who "even two years ago acted as Communist spies."

These harsh objections first of all disrupted the exhumation and transfer ceremonies, and they also raised doubts about their peaceableness. According to the program released and to the general astonishment, it is now certain that Cardinal Paskai will attend neither the ceremonies on Austrian soil nor the last requiem in Esztergom Cathedral. Recalling the words of Cardinal Koenig, Austrian and Hungarian bishops have joined in an appeal to forget the past and now look toward the future. That is also the meaning of the self-imposed mission by the Cardinal Mindszenty Foundation.

Since its establishment and financing from gifts and the revenues accrued from Mindszenty's memoirs, published in many languages, the foundation, headed by Archduke Rudolf of Austria-Este and managed for many years by Monsignor Ferenc Harangozos, looks after Mindszenty's spiritual heritage and the training of young Hungarian priests in his spirit. Politics have intruded here also. Liberal circles in Vienna are objecting to the "feudal" attitudes of the deceased cardinal. He is charged with sticking to the medieval doctrine, according to which the primate of Hungary is also the viceroy and, therefore, viceregent of the crown of St Stephen in the king's absence or incapacity. Vienna also notes with some acerbity that the Hungarian Government evidently does not object to Otto von Habsburg, brother of Archduke Rudolf and, in the view of Hungarian and Austrian royalists, pretender to the throne, will be present at the requiem in Esztergom "as the guest of the Church, not of the state."

Among the greatest worries of the Mindszenty Foundation is the indifference of churchgoers in Hungary—something that is probably due to the unfortunate past: Hungarian Catholics often feel themselves neglected as the result of the bitter controversy between the wing of "royalist" conservatives and that of the "collaborators." Many Catholics have been drawn to various sects. Experts in Vienna consider that the work of the Mindszenty Foundation may be revitalized by the fact that resolute steps have been taken toward Mindszenty's early beatification. These efforts will be given even greater impetus by the discovery—broadcast by the media last Wednesday—that, when exhumed in the night, the cardinal's remains "showed no signs of decomposition."

ROMANIA

Nonratification of Treaty With USSR Urged

91BA0726A Bucharest "22" in Romanian 10 May 91
pp 1, 6

[Article by Victor Barsan: "A Country Without Traitors"]

[Text] One geography test favored by older generation teachers was to show the state boundaries on the map. Few of us would be able to trace our country's border exactly in the area in which the Romanian element is most threatened. Because in spite of the distressing indifference with which we look upon that region, our country does stretch beyond the Dniester. There are several counties there—or districts in the terminology in effect—that belong to the Republic of Moldavia and consequently are an integral part of lawful Romania.

At the risk of boring the few who know the facts, we will recall that in August 1990 a Soviet pseudo-republic was established in that region with a Romanian majority population of about 300,000 that split away from Kishinev: the Moldavian Transnistrian SSR. In that "republic," the Russian speaking mafia, formally denounced but de facto encouraged by the Kremlin, protesting against the Kishinev "nationalists," decided to defend the Moldavian people from the excesses of Romanian "extremists," namely from the Latin alphabet and the tricolor flag.

Since then one of the most moving examples of Romanian heroism has been in evidence: the authorities have been unsuccessfully searching for a Moldavian willing to betray his country by joining the Supreme Soviet as a deputy or the government as a minister, and failing. No Moldavian could be coopted in the assembly that decided the establishment of the "Moldavian" pseudo-republic, and none of the poor peasants' sons facing an apocalyptic poverty agreed to trade it for the luxury of a dignitary's life paid for in betrayal. To us, who live in the Levantinized realm of Bucharest obsessed by the thought that our neighbor is a possible informer, the failure of a power expert in bringing people to their knees and corrupting the soul to find one traitor in 300,000 people is a real miracle.

We, the champions of paradoxical situations (the most common being that we are "a poor nation in a rich country"), are probably the only state that left the most noble, most dignified, and purest part of its people outside its boundaries. As one poet put it, we are a body whose heart is elsewhere.

While the border situation may have been created by circumstances that cannot be blamed on the Romanian people, our resignation to the current political map is an unacceptable mistake. Even less acceptable is to confirm our eastern border by a friendship treaty with the aggressor.

The entire Romanian population of Bessarabia and many of us here received the Romanian-Soviet Treaty as a profoundly damaging act to our national interests. The sacrifice of Bessarabia—which perturbingly occurred just we were commemorating the Paschal sacrifice—sharpened the feeling of frustration of the Romanians “over there,” whom in a syrupy and impotent language not backed by matching behavior we call “our brothers across the Prut.”

However, as always in our history, nothing is really lost forever. The Romanians are difficult to wake up, but in the end they do wake up. The pathetic reactions carried in the press both here and there cannot fail to touch all of us. The Parliament members [MP's] have the historic mission—this is how easy it is to go down in history—not to ratify the treaty. If not one man was found among the 300,000 Transnistrian Romanians to play the Kremlin's game, we can hope that no traitor will be found among our MP's either. Bessarabia is awaiting their reaction with trepidation. Perhaps their expectations won't be deceived. SFATUL TARII (daily newspaper of the Moldavian Parliament) of 11 April carried on page 1 an item broadcast by Bucharest radio in the afternoon of 10 April, which reported that Senator Romulus Vulpescu requested the Romanian government “to take a clear attitude against the Ribbentrop-Molotov pact with all its consequences.”

These days, when almost all our energies should be focused on the Bessarabians, the television carried at prime time a long reportage, without commentary, on the Eger meeting. It was a meeting rife in deplorable moments about which we do not hesitate to express our great disappointment. At the same time, that meeting did not really come as a surprise to those who carefully monitor the Romanian-Hungarian relations. A good number of Hungarians are characterized by an exaggeration of difficulties, a tragic view of life—including its historical aspect—and an inability to correlate between ambitions and practical opportunities. This is a burden that deserves our compassion rather than our indignation: Budapest ranks first in suicide statistics. The nostalgia for Greater Hungary could not disappear within the span of a few generations. It is, however, becoming increasingly powerless at the level of political action. The problems of Transylvania must, of course, be viewed with greatest attention, but also calmly and reasonably.

Fostering hostility between small nations was always one of the dominant traits of imperial policy. As one friend from Kishinev was saying, “I don't know what the KGB command is thinking, but if I were in its place I would stir up trouble in Transylvania to make sure that the Romanians don't think about Bessarabia.” A panicky approach to the Transylvanian issue and creating a psychosis about the alleged danger to Romania will make it impossible for it to regain its rightful territories, and will thus constitute a mistake that generates a harmful defeatism, if it isn't purely and simply an act of treason.

Had this kind of defeatism been present in our policy in 1916, Greater Romania would never have emerged. Currently the conjuncture is infinitely more favorable to us. The collapse of the Soviet empire is imminent. National emancipation can no longer be halted either by military or economic blackmail. “We won't stay in the empire even if we have to go back to using oil lamps,” say the Moldavians.

There is a danger that the truly historic moment that is approaching will find us unprepared. We are still looking upon Bessarabia in the wrong light. The beauty of that region is not apparent to the physical eye. There are neither palaces, nor highways, nor gold mountains there. On the other hand, its beauty becomes generously apparent if we look at it with the eyes of the soul: it is inhabited by a purity that to us seems incredible.

Communism, which exacerbated the primacy of matter over spirit, marked us more lastingly than we would like to believe. Our inability to grasp the invisible beauty of Bessarabia is a measure of our inability to grasp the primacy of the spirit over matter. Our indifference toward Bessarabia reflects our servitude to communism. In vain do we march in the streets shouting “Down with communism;” as long as we cannot give Bessarabia our love we are still subjects of the red ideology.

Critical Analysis of Recent Cabinet Changes

91BA0731C Bucharest ROMANIA LIBERA
in Romanian 1 May 91 pp 1-2

[Article by Florin Gabriel Marculescu: “A Failed Reshuffle”]

[Text] Self-confident as usual and trying to emit a wave of (noncontagious) optimism, Prime Minister Petre Roman on Monday came to the Assembly of Deputies to support a cabinet reshuffle conceived, as he suggested, in a spirit of broad and generous opening toward the opposition. He didn't do it out of love for democracy, but compelled by the sorry situation inflicted on the country by incompetence and superficiality at the end of one and a half years of governing and by the economic collapse that is looming increasingly large. Political mistakes of the most serious, which culminated in the political violence plotted by the rulers last June, have pushed Romania into an unprecedented isolation internationally and deprived it of credits and investments indispensable for its economic recovery. It is true that, in contrast to Mr. Iliescu, the prime minister endeavored to repair the consequences of such nefarious mistakes and finally managed to win the blessing of the European Council and even a goodwill visit from the French president who—for reasons that we don't yet understand—agreed to underwrite a government team in obvious decline. But there is one thing, an essential one in our opinion, that Mr. Roman has not achieved: the normalization of relations with the United States. During unofficial talks recently conducted in Washington—which failed to produce any practical results—he

was probably compelled to admit some of the deficiencies of our original democracy; consequently, here he is now, obligated to this step in order to win much needed international credibility. In his brief address before the deputies he used extremely veiled formulas to confess the true reasons for the government reshuffle.

Only someone ignorant of the Romanian realities could have been fooled by the picture of our idyllic economic recovery depicted in the "unique" vision of our prime minister. At a time when the country's currency reserves are down to zero and when securing loans not for recovery, but merely for survival in the precarious conditions of our economy is still of the domain of hoping, Mr. Roman, with juvenile light-heartedness, projected resumed investments in key areas and ended by daydreaming about the possibility of an economic miracle. We do need encouragement, but not gratuitous, essentially populist statements! An economic and financial picture had been presented to Parliament only a few days previously by Messrs. Vatasescu and Isarescu, and the views of those distinguished experts stood in stark contrast to Prime Minister Roman's unchecked optimism. The painful realities of our daily life cannot and must not be ignored or diluted. In conditions of a normal political life they would have brought about the resignation of the current government, not a mere cosmetic measure. Not to mention perfectly justified requests to dissolve Parliament, form a transitional (national unity) government, and organize early elections. Those are unacceptable solutions to the Iliescu-Roman tandem, who think of themselves as providential and irreplaceable however big their blunders.

Thus, Mr. Roman was obligated to proceed to a government reshuffle, i.e., to a political solution apt to assure him credibility and credit. Except that instead of honestly entering into negotiations with the opposition parties, he chose to coopt some personalities from among the opposition in the belief that the advantages he was offering would persuade them. That was a deplorable tactical mistake, because none of the prominent personalities to whom Mr. Roman alluded without naming accepted to cooperate. We learned that he tried to lure Messrs. Rene Radu Policrat, Emil Tokacs, and Marcian Bleahu, but failed before their dignity. On the other hand, he did succeed in attracting second string politicians seemingly willing to compromise their political future for the sake of some ephemeral luster: Mihnea Marmeliuc, Dinu Patriciu, and Valeriu Pescaru. The first, a good quality professional but repudiated by the PNL [National Liberal Party], served as labor minister in the Roman provisional government. The second is a versatile politician who seems to have taken this step in disagreement with his own party (PNL-Young Wing). And finally there is Mr. Valeriu Pescaru, holder of a doctoral degree from Moscow and a former trusted collaborator of Manea Manescu, currently based in a satellite party (PDA) [Democratic Agrarian Party]. Mr. Roman can be said to have missed again. In fact, he expressed his regret for not having been able to secure

more convincing cooperation from the opposition, adding that the latter failed to join his initiative out of political considerations for which he found no justification.

The other names on the reshuffle list belong to either prominent FSN [National Salvation Front] members (Ion Aurel Stoica and Dan Mircea Popescu, an adviser to President Iliescu who probably advised him during the miners episode, too) or obscure ones (Deputy Radu Berceanu), or to FSN sympathizers (Traian Basescu) and alleged "independent" politicians (Florian Bercea and General Constantin Nicolae Spiroiu). Also on the list presented are the names of some well-known members of the government now rotated to other posts. That is the case with Mr. Eugen Dijmarescu and Victor Stanculescu. The latter was transferred from the army to industry, in a move with predictable outcomes. Naturally, the key positions will continue to be held by the FSN, whereas the newcomers were offered second-choice seats. This being the situation, we feel entitled to ask: what will be the payoff for Mr. Roman since the political formula he was pursuing failed to materialize? If we were to cite the merciless comments of people like Ion Diaconescu, Dan Lazarescu, Mihai Balanescu, Sergiu Cunesco, Geza Domokos, etc., we could be accused of subjectivism in our selection. Therefore, we will cite the far more moderate views of Mr. Stefan Cazimir: "The prime minister now suggests reshuffling the government by coopting new persons, some of them of a different political orientation than the majority party. What can we expect from those persons? Evidently no political guarantee; perhaps a moral one. But anyway, a professional guarantee. It would, however, be unwise to believe in the long-term value of such a government formula." Harsh criticism of the government was heard in the addresses of Messrs. Gheorghe Manole and Danut Fleaca (both of the FSN—20 May). Mr. Petre Turlea (FSN), eschewing any subtleties, said that the reshuffle was nothing but a violation of the wishes of the electorate!?! And thus, at the last minute, at the decisive moment of the secret ballot, Mr. Stefan Cazimir's prophecy came true. The governmental formula presented didn't survive even for 24 hours, as Dinu Patriciu and Radu Berceanu failed to secure the votes required for their ministerial confirmation. Since the vote of the Assembly of Deputies is decisive in this respect, Mr. Roman must now think up new solutions for the vacant posts, which he will no doubt find. We are positive that however he does it, the reshuffle will be a failure. At the most, he will win another few months. But a long illness...

PSD Leader Sergiu Cunesco Interviewed

91BA0731A Bucharest ADEVARUL in Romanian
1 May 91 p 3

[Unattributed interview with Sergiu Cunesco, acting chairman of the Social Democratic Party; place and date not given: "Modest Results, Big Hopes"]

[Text] [ADEVARUL] How many deputies does PSD [Social Democratic Party] have in Parliament?

[Cunescu] Three.

[ADEVARUL] Why only three deputies?

[Cunescu] We were unable to carry out an appropriate electoral campaign because of the atmosphere of incitement against the historical parties, and we also had financial difficulties. Currently, however, we are regarded differently by the public and we are positive that social democracy will meet with success in the next election.

[ADEVARUL] How do you manage financially? You have handsome offices and presumably you're paying a high rent.

[Cunescu] We hope that rents won't go up for the political parties, because that would hamper political activities. We rely entirely on membership fees and donations. We have not organized satellite enterprises because we believe that it is cleaner to engage purely in politics. We hope that a solution will be found at the national level, such as a legislative initiative by all the parties in Parliament, so that the political parties can function. Now everyone has finally accepted the idea sanctioned in all the democratic parties that the political parties, including the opposition, are a part of the state.

[ADEVARUL] In how many counties do you have organizations?

[Cunescu] In all of them, with the exception of Counties Covasna and Harghita, where the great majority belongs to the UDMR [Democratic Association of Hungarians in Romania].

[ADEVARUL] Are you affiliated with the Socialist International?

[Cunescu] Yes, and we have the continuity for the period of communist dictatorship. We have received strong moral support from the International, but no material aid. In fact, we established contacts with our colleague parties in West Europe as much as our means permitted.

[ADEVARUL] What new elements emerged at the latest PSD congress which ended not long ago?

[Cunescu] The congress had three concrete objectives: to hammer out a more extensive program, to make changes in the statute, and to elect the party leadership by secret ballot. Until the congress the party was led by the group of initiative, so the opportunity of the election was taken to legitimize the party leadership. Among the rightful members of the Steering Committee are the head of the national women's organization and the head of the youth organization.

[ADEVARUL] If your congress did so well, how do you explain the dissidence in the PSD, which was recently declared by a group even on television?

[Cunescu] It is a matter of a microminority of 18-19 persons who do not merit attention. They belonged to the Bucharest organization and two of them even held positions in the party directorate. The Congress did not renew their mandate and that is probably the explanation.

[ADEVARUL] What do you think of President Iliescu's work?

[Cunescu] The president has made a series of mistakes that have boomeranged against him. That is why he has lost some of his popularity and is increasingly isolated at the Cotroceni Palace. I even told him directly to claim responsibility for some of the mistakes made in order to increase his popularity.

[ADEVARUL] You asked President Iliescu to claim responsibility for mistakes in order to increase his popularity. I understand that you are concerned about his popularity.

[Cunescu] We are not concerned about his popularity and, although we are not among those who shout "Down with Iliescu," even before the elections we appealed to his decency and conscience not to run in the election because he was an important figure in the RCP [Romanian Communist Party]. His participation in the election split the people in two camps, and that is very bad. A president must be a symbol of national unity and serve as an arbiter and a moderator in public life, something that Mr. Iliescu has not managed.

[ADEVARUL] You said that he split the country in two. But take for example the United States: is it not divided in two at the time of elections, according to the preferences of the electorate?

[Cunescu] Mr. Iliescu had its origins in a certain party.

[ADEVARUL] What do you think of the manner in which the Roman government is implementing the reform?

[Cunescu] Most of the enterprises have been left to deal with their own difficulties and have not been assured conditions for the transition to a modern economy. The foundation for the transition was not prepared in practice. I thus join in Mr. Birladeanu's criticism of the government. On the other hand, Mr. Roman is trying to impose his viewpoint on Parliament despite the fact that he is subordinated to it, because Parliament itself voted him in.

[ADEVARUL] What are your complaints as a party?

[Cunescu] We are not assigned offices in the provinces, although it must become clear that the parties must be consolidated.

Our message to the people is to understand social democracy and to joint our struggle. Our motto is, "Through truth to social democracy."

PSD Leader Cornel Nica Interviewed*91BA0731B Bucharest ADEVARUL in Romanian
1 May 91 p 3*

[Unattributed interview with Cornel Nica, chairman of the Romanian Socialist Democratic Party; place and date not given: "A Policy for the Needy"]

[Text] [ADEVARUL] Many of the political groups in our country claim their origin in social democracy. Do you have your explanation for that?

[Nica] There is no doubt that this end of the millenium belongs to social democracy. Thus, socialist or social democratic parties are government parties in countries with democratic traditions such as France, Austria, Spain, Sweden, and Italy. The Romanian people are close to social democracy because of the generous programs supported by center-left political parties like the Romanian Socialist Democratic Party [PSD].

[ADEVARUL] What distinguishes your party among these social democratic parties?

[Nica] Our party is distinguished by both its program and the concrete actions it too, as well as by the consistency of its actions. The platform-program with which we ran in the elections was a viable and realistic program tailored to the needs of our conationals, and at the same time it was a modern and European program. In particular, the transition must be aimed at achieving a social market economy attained gradually, with a view to preempting tension and social conflicts. The "social" adjective serves to stress the support that must be given to people disadvantaged by nature or fate who have fallen into poverty, have lost their jobs, are working in industrial branches doomed to crisis, are single parents or have to care for large families, are handicapped in some way, or belong to some other social group that deserves to be protected and needs to expend more energy to be able to keep pace with those who are more productive in making a living. This protection may take a financial form—subsidies, aid, allocations—or the form of special rights awarded by the state to people who deserve such protection. Moreover, pensions must be revised. Pensions must receive annual, dynamic increases, in other words, must be regularly adjusted to the rising salaries of the employed population, and must also be protected against currency devaluations. Similarly, I think that the social security and aid system must be diversified into: health insurance, retirement, accident insurance, unemployment insurance, rent aid, children allowances, youth allowances, social aid, housing aid, etc. The PSDR policy is also concerned with the most gifted elements in society, for whom it wishes to create conditions to attain the productivity of which they are capable.

[ADEVARUL] By tradition, social democracy has maintained close ties with the trade union movements. What

is the situation in your case? What do you think of the recent public demonstrations of certain trade union centers?

[Nica] We had and we continue to have ties to trade union centers (the CNSLR [National Convention of Romanian Free Trade Unions], for example) and with the trade unions of various economic branches throughout the country. We responded and continue to respond to every appeal along this line. Our relations are relations of mutual information and support. I am not familiar with the details of the programs of actions of all the trade union centers, which at times seem to be following their own policy, which may be justified in view of the social tensions generated by the government's program. I believe that street pressure does not lead to resolving the complex problems of the transition.

[ADEVARUL] Do you see yourself as belonging to the opposition? What do you think about the actions of the opposition?

[Nica] We do not see ourselves, we are a part of the opposition, but of the realistic and constructive opposition, not that which tries to parlay the people's complaints into electoral capital. What is incomprehensible is the attitude of some parties which declared themselves republican—some even had candidates for the presidency—but then became monarchist. I was and I remain a supporter of the presidential institution which, at least at this stage, ensures Romania's prestige and stability in the world. Of course, platform-programs do undergo changes in keeping with social dynamics, but such changes must not affect the fundamental principles. Equally incomprehensible for a constructive opposition are some of the alliances made by parties with different political orientations.

[ADEVARUL] Are you satisfied with the PSDR's presence in politics? Do you intend to establish relations and alliances with other political groups?

[Nica] I am not completely satisfied, although our results are noteworthy. Even if PSDR had enjoyed the advantages of the electoral results of other political parties, I would not have declared myself satisfied because the reality excludes this kind of condition. In fact, this is a continual and dynamic process. The PSDR did not have and does not have any intention to merge. We are open for dialogue with all the democratic political forces. I believe that in the future we will convince the electorate thanks to the consistency of our actions.

[ADEVARUL] What attitude did you adopt toward the social laws debated in Parliament?

[Nica] In the spirit of the constructive opposition I mentioned, we actively participated in the passage of the legislative drafts in question. I suggested various amendments, some of which were accepted, others not, although they were rigorously prepared with help from experts in various professions and discussed with certain

trade unions. Some of our positions coincided with those of other political forces of the same orientation.

[ADEVARUL] What ratings do the Romanian government's activities get from 33 Obedenaru St.?

[Nica] Generally critical, as we stated at the presentation of the Declaration-Program. Other political forces had nothing but praise to show their satisfaction, but later they also openly criticized the government program. We appreciate the government's endeavors, but we have serious reservations about its method of action. Most of the government's actions were insufficiently prepared and the stages of the reform have not been precisely outlined. The government did not present to Parliament the concrete operational program promised by the prime minister at the time of the declaration of intent. In fact, it seems that, as the government spokesman stated at one point, the government looks upon these relations and reports as all the "gesture" required for the smile to bring "spring." The reality contradicts this optimism. Old structures and relations have been demolished without being replaced with others. There is chaos in the economy. The law is not always observed. A damaging mentality has been created that democracy means everyone can do what he wants. Equally serious is the paralysis of the administration, which favors bureaucracy, corruption, and nepotism. The convertibility of the leu is pursued, but stores operating in hard currency are still allowed and taxes (like car insurance, for example), are levied in foreign currency, as if Romanians were paid in dollars or marks. Any explanation along this line becomes odd. We understand the need for price liberalization, but the Romanian president had to intervene to stop the government from committing another political blunder. Nevertheless, we believe that the most serious is the short-sightedness of the government's actions.

[ADEVARUL] Do you support a national unity government?

[Nica] Yes. I believe that all the political forces represented in Parliament should actively contribute to the country's recovery. I am aware of the fact that this implies a great risk, but I think that every responsible political party must assume such risk.

Problems of Ethnic Ukrainians Discussed

91BA0707C Bucharest ADEVARUL in Romanian
14 May 91 p 2

[Article by Ivan Covaci, first vice chairman of the Union of Ukrainians in Romania: "Fair Treatment for the Ukrainians in the Maramures"]

[Text] This is the time when in the Maramures the sheep are led to mountain clearings to graze, and in places where there is absolutely no arable land, like in the Ukrainian communes of Poienile de Sub Munte (13,000 inhabitants) and Repedea (7,000), the moving of the flocks is treated with particular care. Except that this year the farmers in those areas don't have many places to

take their sheep, because three pastures (three mountains) out of their too few pasture acreage compared to neighboring Romanian and Ukrainian villages, were taken away from them and given to others. In fact, the discontent has been brewing for over one year. Last year people blocked the road to get the attention of the prefecture...

This time, after many appeals to decisionmaking factors, they were allegedly told: "Go to your Stalins, Brezhnevs, and Gorbachevs to ask for your rights!" (The answer belongs to Messrs. Havasi and Grigore Pop of the County Agricultural Directorate). An evidently irresponsible answer that the prefecture should have immediately condemned. Which was not the case.

The population gathered in communal centers and demanded that the prefect come and clarify the situation. County Prefect Gheorghe Popa, however, dispatched someone else, Mr. Iura Parascinet, a cultural adviser, and Melola Mesaros, member of the leadership of the Maramures Organization of the Union of Ukrainians in Romania, for the purpose of calming the spirits. However, during the discussion with the citizens the emotions welled over, spirits became heated, and the two delegates and their drivers were seized and locked up for the night, watched by shepherds.

The next day a cable was drafted at the prefecture demanding that a governmental commission come to the area to examine and resolve the situation. At the same time the president's adviser for the minorities was contacted and he promised to form a joint commission, including Parliament members [MP's], which was scheduled to travel to the area on Monday 13 May.

During this time, 200-300 villagers got into trucks and drove toward the border with the Ukraine, where they shouted their complaints, demanded to cross the border, and requested help...

Those are the facts.

In the belief that too little is known about the Ukrainian population in Romania, I want to take this opportunities to point out a few data. The number of Ukrainians is 250,000 (until now the statistics were falsified and did not reflect the reality). The Ukrainians living in our country may be divided into three groups: the Maramures-Bukovina group, with a documented presence of more than 600 years; the group of Northern Dobruja and the Danube Delta, which settled there as of 1775 when the Secea Zaporjeana was eliminated (according to some historians, that was the first democratic state structure in Europe); and the Banat group, with settlements dating back to the second half of the 19th century, who had come here from the Subcarpathian Ukraine for economic reasons. Their (majority) religion is Orthodox with the bishopric in Sighetul Marmatiei, and Greek-Catholic with the bishopric in Radauti. Press organ: VILNE SLOVO, a social, political, and cultural bimonthly (the former NOVII VIK) published in Bucharest since 1949, and the monthly literary magazine NAS

HOLOS, founded in 1990 and brought out by the Union of Writers. Thirty one Ukrainian writers are members of the Romanian Writers' Union. Organizations: Union of Ukrainians in Romania, with local, county, and regional branches.

And finally, I would like to add that the postrevolutionary period has not resolved the essential problems of the Ukrainian population in the Maramures, some of which were left up in the air or at the discretion of indifferent people. I believe that urgent measures are required to permit the development of a population exposed to squalor and to allow them to join the other categories of the population in a peaceful, brotherly coexistence of mutual respect and cooperation.

Discovery of Securitate Documents Related

*AU2905084591 Bucharest ROMANIA LIBERA
in Romanian 21 May 91 pp 1-2*

[Article on discovery of Securitate papers signed by ROMANIA LIBERA journalists Petre Mihai Bacanu, Alexandru Pikalski, Tudor Artenie, Razvan Ion, Igor Antip, Andrei Antica, Andrei Dumitru, Cristian Botez, Ion Mazilu, Sandu Constantin, and Eugen Flenches: "The Hole in the Forest—There Is Still a Political Police"]

[Text] Only a week after the Events of 13-15 June, more precisely on the evening of 22 June 1990, a khaki-colored truck with a tarpaulin and a Bucharest license plate—the type that belongs to the Ministry of the Interior—was with difficulty climbing the Bratiei Valley on a bumpy mountain road, about 12-15 km North of Berevoiesti commune (Arges County). One might easily guess that such a load could only go to the hunting cabin of Riusor. However, the truck passed this last lodge (which has two heliports) and continued to climb toward the heart of the forest. Nobody could suspect that the precious load was under the protection of former Securitate Colonel Bordeianu, who—it seems—knew the place very well. The truck stopped at the edge of a ravine near the river. Several tonnes of documents from the Securitate archives were unloaded. Under cover of darkness, those who accompanied the unusual load started to unload, tear apart, and throw the documents into the hollow. Then they tried to set the documents aflame. The wind started to blow away the burning papers. Another solution was found: The people brought shovels of earth from the banks of the river to cover the archives. A few days later, the village people started searching the area and recovered a fair amount of documents (some of them reached our editorial office as well and were published, mostly in the weekly "Strictly Secret"). Then, the "grave diggers" Colonel Bordeianu, Major Tudor, assisted by the head of the local police station Warrant Officer Soceanu, started the scramble for their recuperation. And to make sure that nobody dare search through the secrete archives, Colonel Bordeianu (who seems to be reactivated in the new democratic structures) arranged for 8-10 dump trucks of waste to be brought from

Cimpulung Mines (obviously our healing economy can permit itself to consume so much fuel needed for the transport of waste to... the forest)

Eleven months after the above mentioned events, eleven ROMANIA LIBERA journalists "armed" with cameras, video cameras, and shovels started to uncover the destabilizing truth.

Under a layer of marl, waste, and clay a "vein" of Securitate "deposits" were found. The great surprise is that there is still a political police in Romania even after the revolution. In these archives of documents of the former Securitate, we also found documents that had been removed from the National Liberal Party headquarters during the miners actions.

It took us a whole day to uncover the truth. Starting from the repeated statements that there is no more Securitate, we come and say: There is, Gentlemen; there is more than ever. What we saw among the layers of earth in a ravine gives us this certainty.

If you think that the discovery of a part of the Securitate archives is not so important, than we believe that to discover proof of the fact that the Securitate still exists, is very important. Files about former dissidents (maybe current ones as well) will be revealed from the earth thrown there by the people of the secret police, who are still active.

It seems that those who buried the documents also participated in the "miners' actions" as well. How did the documents of the year 1990 get to the Securitate archives? It is a disturbing fact that the fate of so many people was buried. Lists of victims and of the hangmen as well, of those about whom Mr. Virgil Magureanu [head of the Romanian Information Service] said that he did not know anything, were discovered. Why were they thrown away?

Those documents themselves will call for the resignation of certain personalities of our political life! All those who are involved in the killing and the hunt of certain people must be brought to justice.

It was a very original attempt to take out explosive material from the Securitate archives through the back door and hide them in a place where few people would try to reach. We say that few would try, because the archives' material contains sure proof about recording telephone conversations, dates regarding events of the past years, and names of foreign students, in general Arabs, who cooperated with the Securitate as informers and as active personnel. After this having been said and more than that, proved, we ask ourselves whether the self-confidence in Mr. Magureanu's speeches might come from the belief that nobody would discover anything—and, accidentally, we have discovered it.

Reports, files, confiscated religious poems and religious literature, "black" lists, forms, and other papers that belonged to the Securitate and even post-revolutionary

documents will not be found on the shelves of certain archives. In an original democracy [reference to Iliescu phrase referring to postrevolutionary Romania as a "original democracy") the way in which Securitate archives are deposited could not help bearing the sign of this originality. The Securitate is erasing its tracks. That is the explanation for Mr. Magureanu's calm when he was faced with Claudiu Iordache's motion. At any time he could state that those documents do not exist. However, we found them. The lives of some people were buried for the second time. The Securitate has not vanished, in spite of Mr. Petre Roman's statements to the British nation. The presence of certain National Liberal Party documents proves the activity of the Securitate on 14-15 June 1990 at the opposition political party headquarters.

The action in itself is a proof that the political police has been and has remained omnipresent and omnipotent. Maybe the press bureau of the Romanian Information Service, where Colonel Bordeianu is currently carrying out his duties, will provide some explanation.

The make-believe democracy that a well known malefic organization tries to give our daily life cannot mislead us any longer.

Thus, the Securitate continues to defy us. Securitate criminals and devastators try to burn the tracks of their crimes. They try to abuse history and try to lie about investigations, pursuits, informers, and collaborators, and evidence of Arab terrorists and their groups. More than that, they burn and bury proofs that confirm the fact that the Securitate was alive and calmly carried out its duties even after the revolution. The proof of it are the recent documents. And all this under the direct and clear protection of those in power.

These archives buried in a ravine in a forest are proof of no more nor less than the fact that the new leadership has continued to function according to the laws of the communist regime and that the Romanian people were permanently, shamelessly, and nonchalantly fed with lies.

We ask the government to investigate the case that we have related in this article and establish who is guilty of the attempt to destroy the archives of the Securitate; we ask the government to make public the measures that it is taking.

SRI Accused of Securitate Practices

*AU2905114591 Bucharest ROMANIA LIBERA
in Romanian 22 May 91 p 2*

[Article by Ioana Iuga: "Arrogance, Lack of Professionalism, and the Ridiculous..."]

[Text] In connection with the revelations of the newspaper, ROMANIA LIBERA, about the ways in which the Securitate is getting rid of documents that clearly prove that it is very guilty of crimes against people (we are

talking about the documents that have been buried near Berevoiesti Commune), the Romanian Information Service [SRI] spokesman issued a communique for release to the press. The text was also read during the "Current Events" television news program by Mr. Nicolae Ulieru, the spokesman of the above mentioned institution. This was a text that again shows arrogance, the habit of falsifying facts, and the incapacity of this body to understand and accept the fact that we are not a nation of stupid and retarded people. Only self-assured people who are used to imposing their point of view, regardless of arguments, can allow themselves to deviate so much from logical thought. One can see clearly that the SRI is perpetuating the old Securitate practices, an organization which the above mentioned body, through its manager and spokesman, is not tired of saying was abolished. Only such arrogant people can permit themselves to deviate from the truth and avoid answers to elementary questions and become ridiculous without embarrassment or without being affected by it. Thus they prove undeniably that they lack professionalism, which, to be honest, we did not suspect reached managerial levels.

Mr. Ulieru said that within the context of the events of 22 December 1989, it was decided that 500 documents, regarding the source of information (by this, one should understand informers used by the Securitate) and about 100 files referring to people who were under surveillance should be destroyed, they should be burned. Who ordered this measure and who was interested in thusly protecting the collaborators of the Securitate? Why, when Bucharest, Sibiu, Buzau, and Brasov were being splashed with blood, were "others" busy hiding the horrible acts carried out by the Securitate? Thus, who gave those orders? Which units carried out the orders? Here are some of the elementary questions which Mr. Ulieru did not deign to answer. These are questions that regard the core of the problem but, as far as one can see, the SRI believes that if it does not want to ask such questions, we should not ask them either. Then, Mr. Ulieru—and through him the leadership of that institution—said that, as a matter of fact, such paper is only waste paper and that, in accordance with the dislocation plans (Who drafted those plans?), the officers destroyed—by tearing apart—documents which did not have any operational value; so they put them in sacks which were supposed to be deposited in units in charge of collecting waste paper. Just imagine that while people were dying in the street, our innocent Securitate was very busy collecting waste paper! They were fulfilling their normal duties, namely they were thinking of protecting our forests from further cutting! After Mr. Ulieru assured us again that these papers were not important and the management of the SRI is not involved in the action—that it was only a matter of some officers violating rules of discipline—and that the SRI assumes complete responsibility (If it is not involved why does it assume responsibility?) the spokesman reached the core of the problem, that is, what the SRI believes (and wants us to believe too!) is the core of the problem: "The country is going through very difficult times. We believe that the

'sensational revelations' of ROMANIA LIBERA cannot have a positive impact as long as a previous clarification of the issue has not been sought, so as to avoid putting the domestic and foreign public opinion in the position of being misinformed and drawing their conclusions on the basis of false premises.... However, we remind the public on this occasion too, that the information already circulated and which has no connection with those circumstances were state secrets and should have been made public only within a legal framework." This is reference to the data published by our newspaper in the magazine STRICT SECRETA, data that originates from the archives buried in the ravine near Berevoiesti commune.

With these statements, Mr. Ulieru stretches the absurd and ridiculous "reasoning" of the institution he represents to its very limits. If the respective papers were waste paper without any importance, why do we need legal approval to examine them? Who should have granted us that approval? The Forrest Protection Unit in the vicinity of the ravine where the papers were hidden? The mayor of Berevoiesti commune? The Arges County Prefect's Office? The enterprise in charge of collecting reusable material? The Water Management Department? And if that paper is not important, why should they destabilize the country, how could they disturb the domestic and foreign public opinion? And finally, if the SRI is not involved in this story, what were papers taken from the National Liberal Party headquarters during the miners actions doing under heaps of earth? And why does the SRI forget that the papers were buried on 22 June?

The vehement tone in which the communique was conceived and the tone in which it was read, but mainly the confused nature of the so-called arguments prove even today, in the year of our Lord 1991, that the SRI is far from being the institution which got rid of the sins of the Securitate. It is not interested in the facts; it is not interested in the seriousness of those facts, in their significance; and finally, it is not interested in its own reputation. Just like its predecessor, the Securitate, in spite of all evidence the SRI wants to impose its own viewpoints which are regressive, revolting, coercive, and humiliating. This institution which lives from our poor salaries, which is still asking the Parliament for funds, and which tries to convince us about the benefits of the Law on National Security through which it again enslaves us, well, this institution has forgotten (if it ever had anything to forget!) that people died so that we finally can be free. The SRI does not realize that many of us are willing to sacrifice our lives in order to prevent cowardice, lack of character, obedience, and collaboration practices flood our intellect. The SRI does not realize that our national being refuses to be invaded by the cancer of lies and by the chins of certain forces which rely exclusively on those in power.

National Treasure Return Urged; Contents Listed 91BA0707B Bucharest ROMANIA LIBERA in Romanian 4 May 91 p 1

[Article by Lucia Iaru: "Romania's Treasure"]

[Text] After the visit that our (elected) president paid to Moscow to sign the friendship treaty with the USSR we learned that during the official talks he also raised the matter of the country's treasure that was evacuated to Moscow in 1916.

By a coincidence I found among some very old papers a few pages from the magazine A.L.A.C.I. (I think they must be more than 40 years old) which list the precise contents of the treasure and the circumstances in which it was evacuated to Moscow in December 1916 by Romania's National Bank.

Just in case the president did not have handy a list of the two shipments sent to Moscow that year, I feel duty-bound to supply a table of the first and second shipments, for the purpose of informing the public:

First Shipment				
No. of Boxes	Contents of Boxes	Amount	Rate in Gold Lei	Total Value in Gold Lei
111	English Pounds	886,482	25.22	22,357,076.04
550	Austrian Crowns	87,798,560	1.05	92,188,483
726	German Marks	116,050,000	12.35	143,321,750
48	Turkish Lira	379,074.75	22.70	8,604,996.82
7	Carolines (Romanian lei)	1,065,705	1	1,065,705
288	Napoleons	46,117,140	1	46,117,140
3	Russian coins, new and old	117,212.10	2.66	471,384.20
1	Various coins	103,605.12	1	103,605.20
2	Gold ingots	337,247.80	1	337,247.80
1	Various currencies	13,063.86	1	13,063.86
2	Jewelry of H.M. Queen Maria	7,000,000	1	7,000,000
1,740	Boxes with a total value in Gold Lei			321,580,456.84

Here is the text of the document: "The authorized delegates of the Czarist government have solemnly pledged in writing toward Romania and the National Bank to keep and to return the valuables they received

and, after a careful examination concluded on 16 February 1917, they deposited them at the Kremlin Citadel. In the wake of the revolution of February 1917, Lvov's provisional government, which came to power on 14 March 1917, declared that it recognized all the obligations assumed by the Czarist government toward the allies and implicitly ratified the guarantees given in connection to keeping and returning our treasure, which was the private property of the National Bank, deposited in Moscow.

"A few days before the battles of Marasesti, the National Bank sent the second shipment, whose valuables were also deposited at the Kremlin. Those valuables came to 1,594,836,721.09 lei, of which the gold itself made up 574,523.57 lei and the archive 500,000 lei. The official delegates of the second Russian coalition government headed by Kerensky pledged in writing to keep and return both shipments intact. These were the two shipments sent to Moscow under the name of the Romanian Treasure:

First Shipment			
No. of Boxes	Contents of Boxes	Value of Deposits	
		Lei gold	Lei stabilized
1,738	Gold metal stock of Romanian National Bank	314,580,456.84	10,147,736,376
2	Jewelry of H.M. Queen Maria	7,000,000	225,806,000

Second Shipment			
	Gold proper from National Bank metal stock	574,523.57	18,532,981.3
	Archive	500,000	16,129
163	National Bank archive, titles, shares, other valuables of the National Bank	1,593,762,197.52	51,411,580,967
1,621	Cash, jewelry, paintings, and other valuables deposited by private persons and public and private institutions	7,500,000,000	241,935,000,000
3,549	Boxes containing valuables worth lei	9,416,417,177.93	303,754,785,325.66

After Bessarabia was joined to Romania in 1918, the diplomatic relations between Romania and Russia were broken. I cite the text: "This situation prompted the Bolsheviks to seize the Romanian treasure, thus violating the rules that govern the deposit and the precise

texts of the Hague Convention, which stipulates that 'The property of the subjects of a state found on the territory of an enemy state may not become the property of the enemy, nor can they be placed under sequester.' After confiscating the valuables the Council of People's Commissars repeatedly stated that they will be returned intact to the Romanian people. The fate of some of the valuables is known. What is certain is that Romania did not receive, nor did it authorize anyone to receive its treasure deposited in Moscow, in its entirety or parts thereof. Later, in April 1922, the International Economic Conference of Geneva recognized our rights and on 1 May of the same year it recommended to the Soviets, through the French Foreign Ministry, to return to the Romanian government all its valuables. On the basis of the decision of the international forum and of the obligation pledged by various Russian governments, Romania is entitled to claim and to obtain the return of the entire treasure deposited in Moscow by its public and private institutions, or the equivalent of 303,754,735,325.66 lei. In point of fact, Mr. Mikhail Ostrovsky, the Soviets' minister in Bucharest, on 14 December 1934 symbolically handed over some of the many objects of a great scientific value from the Romanian treasure in Moscow, and at the 19 February 1935 House session Mr. Savel Radulescu, undersecretary of foreign affairs, informed the Assembly that for the time being the Russian government was putting the archives at our disposal, some of which had already arrived, packed in almost 1,500 crates.

"A few remarks are called upon in connection with the recent restitution. Some newspapers, prompted by reasons on which we will not now dwell, hastened to publish reports and comments to the effect that the USSR had returned our treasure in its entirety. Since the public had not been informed by an official communique, the false idea thus spread struck roots. The reality, however, is entirely different. Out of 3,549 boxes shipped, almost 1,500 have arrived. Many had probably been examined immediately after the 1917 revolution and, with a few exceptions, their contents present almost no interest. Consequently, the problem is still pending."

Thus, the problem has remained pending since 1917. Now, the president, armed with concrete data black on white, should have pleaded our interests in Moscow. And if the Soviets are such good friends as the treaty states and if they declared the Ribbentrop-Molotov pact null and void, then we are waiting with trepidation to regain our ancestral lands as soon as possible: Bessarabia, northern Bukovina, and the Herta region. At the same time, we expect to receive the 2,049 boxes of valuables, if they are still on deposit at the Kremlin, because they would help us overcome the economic crisis with which we are struggling. We have been waiting for so many years to see our wish fulfilled, our great wish for the unification of all the Romanians in one

country, as they were in the year of grace 1918. Perhaps the elderly among us, too, will live to see this miracle, with God's help.

Journalists' Code of Conduct Published

91BA0726B Bucharest ADEVARUL in Romanian
14 May 91 p 5

[“Text” of statement of ethical principles for journalists approved by the November 1990 congress of the Union of Romanian Journalists and scheduled to be finalized by its National Council]

[Text] Freedom of the press implies independent and free information and the freedom to express ideas and criticism. Newspaper editors and journalists must be conscious of their responsibility to the public and of the obligations devolving from the prestige of the press. They will discharge their journalistic tasks to the public as dictated by their profession and conscience without allowing themselves to be influenced by personal interests or motives alien to their trade. The principles of journalistic deontology are designed to preserve the ethics of the profession, and they are:

1. Respect for truth and honest information of the public are the supreme imperatives of the press.
2. News and reports intended for publication in the form of texts and images must be verified with the care demanded by the circumstances. Their true meaning must not be either distorted or falsified by means of wording, titles, or image interpretations. Documents must remain faithful to their meaning. Unverified reports, rumors, and speculations must be presented with the due reservations. In the case of artistic photographs, the captions must explain that they are not documentary pictures.
3. Published reports and statements that reveal themselves as false must be corrected within the shortest possible time and in an appropriate form by the press organ that carried them.
4. It is not allowed to use incorrect methods of procuring reports, information, or images.
5. The confidentiality agreed upon at an interview designed to obtain information or an assessment must be respected as a matter of principle.
6. Each person employed in the press must keep professional secrets and has the right to refuse to supply references or to disclose the identity of the sources of their information without the latter's express authorization.
7. As part of the press responsibility toward the public, editorial articles must not be influenced by personal or commercial interests or by third parties' interests.

Writers and editors must resist such temptations and clearly separate between editorial texts and publicity material.

Publicity texts, images, and drawings must be designated as such.

8. The press must respect the privacy and intimate space of the individual. When the private behavior of a person overlaps with public interests, the press may use information from that area. First it must be verified whether the publication of such information does not violate the individual rights of third parties.

9. The publication of gratuitous accusations, especially against a person's reputation, is against journalistic ethics.

10. The publication of texts or images apt to hurt the moral or religious feelings of a group is not in line with the responsibilities of the press.

11. The presentation of violence and brutality for sensational purposes must be eschewed. Reports must be made with an eye to protecting the youth.

12. No one should have to suffer discrimination on grounds of sex, group affiliation, race, religion, or nationality.

13. Reports on police or court proceedings must be made so as not to cause prejudice. Consequently, the press must avoid taking any subjective position in articles or columns apt to cause damage, either before or during such proceedings. Suspects must not be presented as guilty before standing trial in court.

In connection to juvenile delinquency, it is preferable to avoid citing names and publishing identifying pictures in view of the future of such youth, provided in is not a matter of serious crimes.

14. Articles on medical topics must avoid any kind of sensational presentation apt to arouse unjustified fears or hopes in the readers. Scientific discoveries that are still at the experimental stage must not be represented as definitive.

15. Accepting or giving any kind of advantage that may curtail the freedom of decision of writers and editors is against the prestige, independence, and mission of the press. Anyone who allows himself to be bought for the purpose of airing or withholding information is acting against professional honor and ethics.

These principles are in keeping with the norms accepted by the free press in democratic countries and by the international organizations. They have been approved by the UZR [Union of Romanian Journalists] Congress of November 1990, adopted by the convention of representatives of other associations of journalists in Romania, and will be debated with a view to being finalized at the meeting of the USZ National Council and the Federation of All Press Trade Unions scheduled to be held tomorrow, 15 May 1991, in Cluj-Napoca.

YUGOSLAVIA

Slovenia's Pucnik on Possible Army Provocations

*AU0906155691 Vienna Oesterreich Eins Radio Network
in German 1500 GMT 9 Jun 91*

[Report by Karl Jekowsky including unattributed interview with Dr. Joze Pucnik, leader of the Yugoslav Social Democratic Party and head of the Demos coalition, in Graz on 9 Jun]

[Text] A two-day meeting entitled "The Future of Central and Eastern Europe—Social Democratic Perspectives" ended in Graz today. The meeting was also attended by the party leader of the Yugoslav Social Democrats and the coordinator of the Demos government alliance, Pucnik. He stressed that the Slovene parliament will declare its independence from the people's republic at the end of June. After that date, it will be very difficult to ensure a controlled withdrawal of the Yugoslav People's Army. Pucnik expects further provocations by the Army.

[Begin recording] [Pucnik in German] Unfortunately, such incidents will probably occur in the future as well. We will try to prevent them. However, as far as the assumption of power by the Army is concerned, I consider this very unlikely, but I cannot rule it out completely. I believe that it will be possible to regulate the relationship with the Army largely through negotiations which will be chaotic, difficult, and lengthy. I think that ultimately we will reach an agreement. I believe that the Army shows a certain readiness to accept a compromise.

[Vienna Radio] What kind of provocation do you consider likely? That barracks of the Slovene Territorial Army will be attacked, as happened two weeks ago?

[Pucnik] There might also be clashes between different groups at public rallies. Clashes might be caused by either side. This danger exists. Second, operations by the Army—involving the arrest and punishment of certain local functionaries, for example, or trying to gain access to the recruits—might lead to armed conflicts, because we will defend both the representatives of our state and the recruits with all possible means. However, I hope that this will not be necessary. [end recording]

CZECHOSLOVAKIA

Trade With Soviet Union Discussed

91CH0594B Prague HOSPODARSKE NOVINY
in Czech 15 Apr 91 pp 1-2

[Article by Marcela Doleckova: "The Possibilities and Prospects for Czechoslovak Exports to the USSR—We Are Not Giving Up"]

[Text] Recently, when the Slovak premier returned from Moscow he claimed that he had obtained orders there which would guarantee work for 100,000 people; and he did not need to overly exaggerate: The Soviet market is so unsaturated that there is no problem in arranging for sales there. The problem lies elsewhere. The problem is who will pay and when?

To continue to export to a country which evidently has no hard currency with which to pay for goods is, undoubtedly, more than a risk. The Czechoslovak economy is, however, in a very difficult situation: While we are attempting to tie up with the European Community (perhaps an associative agreement will actually be signed this year) and Czechoslovak exports will increase in that direction, this year, and at this moment, Czechoslovak enterprises need to continue exporting massively to the Soviet Union.

This consideration was the foundation for the Dienstbier plan. He anticipated that the Western countries would provide the Soviet Union with credits of around \$16 billion, which would be intended only to finance imports from Poland, Hungary, and Czechoslovakia. Of course, the situation today is already different—politically and economically—than the euphoria which existed at the time this idea was developed, a year ago. Although the Federal Ministry of Foreign Affairs states that the Dienstbier plan continues to be useful for exploratory talks, the Ministry of Economics is, however, already admitting that, given the chaotic situation in the Soviet Union, the relatively complicated design of the Dienstbier plan can only be realized with difficulty and the Federal Ministry of Foreign Trade states, with complete pragmatism, that attempts to realize this plan are useless, for the time being.

A number of various Soviet entities are still operating with the Dienstbier plan when they are attempting to revitalize Czechoslovak-Soviet trade with a reference to the fact that the traditional Czechoslovak positions in the USSR are being usurped by Western enterprises. Truthfully said, the Soviet market is so enormous that it could accommodate a far greater number of suppliers. In contrast to Czechoslovak enterprises, however, Western firms are at a substantial advantage today—they have the strength of being able to grant long-term credits.

The fundamental notions in restructuring the economic relationships between Czechoslovakia and the USSR were based on the fact that it is necessary to make the transition with respect to collaboration from the center

to the enterprise sector. Realization of this concept was supposed to be aided by accounting in convertible currencies and under world conditions. This concept already showed up prior to November 1989 and was being asserted primarily by the Soviet Union. In view of Soviet exports of petroleum, this is understandable on the whole.

Despite attempts by Czechoslovakia to assert a certain transitional period, Czechoslovak-Soviet trade was to be handled in accordance with world conditions and in hard currency as of 1 January 1991. However, the shift in collaboration from the center to the enterprise level was unsuccessful. L. Martak, deputy federal minister of foreign trade, stresses that the sole reason for the failure is the situation in the USSR: The USSR could not afford internal convertibility for the ruble and foreign trade is far too hamstrung by regulations, including presidential decrees, which limit the arranging of barter trade transactions. The result is that collaboration at the enterprise level is being significantly blocked by the Soviet side. It is precisely in this connection that Deputy Minister L. Martak—like M. Sobek, the director of the Department of Foreign Economic Policy at the Federal Ministry of Economics—was quite critical of various Soviet citizens who are given space in the Czechoslovak press (including in HOSPODARSKE NOVINY) and who place the blame for the difficulties involving Czechoslovak-Soviet trade upon Czechoslovak institutions. While their intentions sound good, it has not been possible to assert a single one under conditions of current Soviet practice.

For this year, the so-called indicative listings have remained in effect for the time being—listings which are essentially a list of goods in which both the USSR and Czechoslovakia are interested. From the interest, it can be deduced that Moscow will also pay for these goods. However, the volume of the indicative listings only accounts for 30 percent of Czechoslovakia's deliveries to the USSR in 1990. The intensive efforts on the part of Czechoslovakia to expand sales to the Soviet Union are, however, already reflected in agreements at the level of the republics: Through their efforts, the indicative listings are expanding, but this is still not contact between enterprises.

For the enterprise sector, consideration should be given to collaboration in the form of joint ventures involving Soviet enterprises of an all-union or republic scope or joint ventures involving foreign capital. Another possibility is cross-border trade, to which Soviet laws ascribe a certain exceptional position. The simplest form would, of course, be trade for national currencies—something in which the Federal Ministry of Foreign Trade is placing the greatest amount of hope.

Czechoslovak state organs are striving to achieve maximum stimulation. The government has already approved a proexport fund of 500 million Czech korunas which could be drawn on by enterprises to help them pay interest on credits; moreover, enterprises have the opportunity of obtaining credits from foreign banks at

lower interest rates. Deputy Minister L. Martak noted, in this connection, that Czechoslovakia has impotent as well as potent enterprises which know what to do. They are not sitting back and waiting for contracts to be concluded for them by the ministry. A certain amount of assistance will also perhaps be forthcoming from Russia House, the planned trading organization, even though similar services would clearly be already provided by existing organizations. Both the Federal Ministry of Foreign Trade and also the Ministry of Economics are convinced that, following the economic decline in the Soviet Union, there will have to be a turn for the better and that Czechoslovak enterprises must be prepared for that moment. Moreover, L. Martak adds optimistically that any of our enterprises need only find a partner in the Soviet Union who wants their production. They need not have any dollars, rubles will do, and the situation is fluid. To the extent to which an adequate number of such potent enterprises will be found in Czechoslovakia, Czechoslovak exports to the USSR in 1991 could perhaps reach a level equal to about 70 percent of last year's exports. And that would be a success.

Economy Minister Dlouhy on Arms Conversion Issues

LD0106141491 Prague Ceskoslovensky Rozhlas Radio Network in Czech 1600 GMT 30 May 91

[Text] We shall now return to today's session of the Federal Government which again dealt with further steps toward conversion of arms production into civilian production. At a news conference following the session, the policy selected was commented on by Vladimir Dlouhy, federal minister of the economy:

[Begin Dlouhy recording] The entire problem is divided into two spheres: The first, setting up the so-called special fund of special technology; and the second, the actual conversion of arms production into civilian production. We are tackling a truly very critical situation in arms production, while there are some enterprises which manufacture products which currently, or in the very near future, will reflect certain needs of the Czechoslovak Army from the point of view of its defense ability. I stress straight away that it is not heavy military technology, but rather ammunition and some other supplementary equipment. The government faced a certain dilemma here—in the current situation where there is no demand, but where in the future we can expect this demand—either completely do away with such production while bearing in mind that if and when there is a demand, it will be necessary to introduce it again; or to carry out complete conservation of such production which, of course, means not only disbanding the existing professional collectives but also maintaining and renewing the (principal) materials, and possibly also carrying out partial modernization of production lines. The onset of the production is then demanding from the point of view of time and materials and supplies. The third possibility is a combination of partial conservation with partially maintaining production. The government

has approved the third approach. That means we will maintain at least partial production in those enterprises where one can expect either demand in exports or demand on the part of the Czechoslovak Army, not this year, but in the years to come.

That is why the government has agreed to set up a fund of special technology which can be subsidized up to 500 million korunas in the current year. The administrator of this fund of special technology will be the Federal Ministry of the Economy. The fund of special technology will buy the production specified by the Federal Ministry of Defense. This fund will try, by all kinds of entrepreneurial, commerce, and management methods, to place this production for export. We consider this a kind of a zero stage of the conversion—that means specifying those types of arms production which, from the point of view of possible exports or from the point of view of future needs, have perspective, and where it would be more costly, during, let us say, the following five or seven years to do away with such production, reintroduce it again or replace it by imports in the future, or where it would also be more costly to set aside entire production lines, to conserve them and restart them again. We consider it also from the economic point of view as the most effective solution and, at the same time, the solution which will clearly show in which sphere arms production may continue. We call it a zero step because the first step then is the actual conversion of the other production to civilian production.

In the second sphere, I must note that it has been decided, in harmony with the meeting in Bratislava, that arms enterprises, both in the Czech Republic and in the Slovak Republic, will present to the republic ministries their projects for conversion of arms production into civilian production. We presume that these projects, above all, will have a normal way of financing, that is via the banking sector. Only in the situation when the banking sector does not consider it possible to finance these projects shall we make, in arms production, the exception of having the additional possibility of financing by the state. We presume that the republic ministries will carry out preliminary selection. Mr Belcak, Slovak minister of the economy, said today that the Slovak Ministry of Economy will submit to the Federal Ministry of the Economy selected projects which will call for support at the federal level. It has been agreed that this support may be drawn up to a further 1.5 million korunas. [end recording]

Cabinet Approves Arms Industry Conversion Funds

LD3105205191 Prague CTK in English 1725 GMT 30 May 91

[Text] Prague 30 May (CTK)—The Czechoslovak Federal Cabinet approved today the use of up to 1,500 million crowns in funds from the federal budget to support conversion to nonmilitary production in arms factories.

The ministers also earmarked 500,000 million crowns for the establishment of a special fund to subsidize armaments production for the needs of the Czechoslovak Army. With the liberalization of prices at the beginning of the year the army, which is the armaments industry's biggest customer, has been forced to cut back considerably on its expenditures.

In other business, the cabinet expressed its approval of the course of negotiations on an agreement concerning the termination of two contracts on buildings used by the Soviet Army probably to store nuclear weapons and house Soviet military specialists on Czechoslovak territory. The contracts, negotiated on the highest level and signed by the two governments in 1965 and 1986, were classified top-secret and less than 20 people in Czechoslovakia were aware of their existence.

The cabinet reaffirmed its goal of achieving a 5,400 million crown surplus in the 1991 federal budget, before moving on to look at last year's budgets for the federation and the republics. Both the Federal and Czech budgets showed a surplus in 1990—4,100 million and 230 million crowns respectively. But the cabinet decided to transfer some of the federal surplus to cover a 470 million crown deficit registered in the Slovak republic's books.

The federal ministers also agreed to open official negotiations on obtaining a structural adjustment loan (SAL) from the World Bank. Analogous to the IMF loan, the SAL is intended to strengthen the Country's balance of payments in the hope of stabilising the crown's exchange rate, while policymakers manage the internal convertibility of the crown and the peeling away of the state's former restrictions on foreign trade.

If the SAL is approved Czechoslovakia would receive approximately 450 million dollars to be used to fulfill the goals spelled out in the "Memorandum on Development Policy," to which Czechoslovakia must adhere in order to remain eligible for assistance.

Finally the cabinet discussed and voiced its approval of the agenda of the upcoming and final meeting of COMECON, the former communist trade bloc, on June 28 in Budapest. As agreed at the last session of the CEMA on May 17-18, the council will sign a protocol on its own abolition, which will take effect with its signing.

Custom-Free Zone To Start Operations in Ostrava

*91CH0560B Prague HOSPODARSKE NOVINY
in Czech 4 Apr 91 p 4*

[Article by Jaromir Pohan: "Millions Without Customs"]

[Text] The silver wing surfaces dully reflect the morning sun, the hills bow to the earth and the aircraft smoothly touches down on the concrete runway. Modern conveyor belts empty the bottomless belly of the still screaming machine, from which containers of machinery make

their way on a designated path to huge modern assembly buildings. From the opposite direction they encounter other containers, full of assembled, packed goods making their way to the empty plane. In a moment the plane begins to roll down the runway and in an instant is lost in the morning haze, which slowly dissolves under the strengthening rays of the sun.

This is how those in Czechoslovakia working to create a customs free zone imagine that the zone will function. Yes, now, because the first customs-free zone in our country is coming into being surprisingly rapidly.

"The corporation was established on 4 January of this year," Eng. Miroslav Rozsypal, director of the entire Free Zone, Inc. project, tells us. "In fairly short order we got permission to set up a customs free zone on the condition that the entire project be completed by 1 May. The project in the meantime is going to cost a bunch of millions. To get started, the Free Zone has six stockholders made up of enterprises and institutions from North Moravia: the Ostrava City Office, Unitrading, Czechoslovak Automotive Transport [CSAD], the North Moravian Economic Union, the Moravian Chemical Plants, and the Ostrava-Mosnov Airport. There were several reasons to set up a customs free zone and to set up a corporation. The first is the need to deal with pressing problems in the areas of jobs and ecology, which are the two biggest problems facing Ostrava. The customs free zone will provide many jobs in clean working environments in the context of international cooperation. This is helped by the sophisticated infrastructure near Ostrava, which has Czechoslovakia's largest airport, one capable of handling the largest aircraft in the world."

This is all clear and logical, including plans to enclose three customs free areas (two in Ostrava and the third at the Ostrava-Mosnovska airport) with a three meter high fence. Inside the fence will be state of the art equipment, including computers, with not even a mouse being able to get out. But what is the principle of a customs free zone?

"When goods are being handled in a customs free zone we do not conduct drawn out customs inspections or demand other paperwork," explains Dr. Vlastimil Panacek, director of the Ostrava customs office, when describing the overall functioning of the zone from a customs perspective. "The only requirement is a list, in duplicate, of all the goods. Usually, customs formalities apply here only if some goods are being transported out of the customs free zone."

"An example is perhaps the best way to explain the functioning of the zone," Eng. Vaclav Klecka, director of Ostrava Unitrading, Inc., says with a smile as he joins our roundtable discussion of the customs free zone. "Let's say we have an interesting offer to buy some goods in Poland. We buy the goods in the USA, say, then transport them to the customs free zone without any kind of customs payments, saving roughly 200,000

Czechoslovak korunas [Kcs] on each million of value of the goods. We then sell them to interested parties in Poland. This is one possible use of a customs free zone."

Before hearing about other functions of the zone, we learn that the zone has two types: a business area and an industrial area. In the business customs free zone goods are packaged, marked, and the like, while in the industrial zone we can add value to components, assemble, disassemble, etc.

"Another example," as Eng. Rozsypal adds his experience to the discussion, "We can buy any amount of automotive parts at any price, assemble them in the customs free zone then sell the finished products at a higher markup. We can sign a contract even with the manufacturer of the parts stipulating that instead of profits they can receive a certain percentage of the finished cars on our territory outside the customs free zone. In practice this means that these cars can easily turn up in automobile showrooms."

How simple. And if you still do not understand, here is another example. A kilogram of coffee regularly costs something like \$3.20 worldwide. If we buy the coffee in bulk, in jute bags, it costs something like \$1.40 per kilogram. We can package it in the customs free zone then and sell it for \$3.20. We add to the transaction only our ingenuity. Nothing more, but nothing less.

The idea understandably comes up of whether a customs free zone might be misused by foreign firms who might bring toxic waste or other waste. This cannot happen. This would come under an import prohibition that also covers certain veterinary products, products that threaten morality, and the like. Free Zone is an opportunity for enterprises and for private entrepreneurs.

Domestic Market During 1991 Examined

91CH0579A Prague HOSPODARSKE NOVINY
in Czech 4 Apr 91 p 3

[Unattributed article: "The Domestic Market in 1991"—first paragraph is HOSPODARSKE NOVINY introduction]

[Text] The development of the Czechoslovak economy is the object of consideration on the part of many specialists, however, forecasts are expressed with much restraint and predominantly take the form of alternatives. Part and parcel of these considerations are also opinions as to how the situation will be developing in the domestic market. One of these opinions—which was worked out by the Ministry of Commerce and Tourism of the Czech Republic—is published below.

A fundamental macroeconomic proportion which determines the status in the domestic market is the relationship between the volume of income by the population and the price level of consumer goods. The mutual relationship involving the growth of income and the prices of goods and services was listed toward the end of

1990 in a forecast by the Ministry for Economic Policy and Development of the Czech Republic in two variants. With a 20-percent growth in the price level, the forecast anticipated a growth of nominal wages by 9 to 13 percent; in considering a price increase of 50 percent, the forecast anticipated that nominal wages would rise by 25 to 32 percent and stated that these estimates would further depend upon the monetary and physical restrictions of the state. The result of the tripartite negotiations at the end of January was the signing of a general agreement, on the basis of which real wages were not to be lowered by more than 10 percent during the second through the fourth quarter of this year, in comparison with the level in December 1990. At the same time, a minimum wage was established at 2,000 Czech korunas [Kcs]. Even though the estimate of the mutual relationship between the growth of incomes and prices in 1991 is burdened by a high degree of uncertainty, it is possible to figure on a growth of total incomes by 15 to 20 percent and a growth of retail prices by 30 to 50 percent.

The prerequisite for the rational functioning of a market mechanism is the assertion of price liberalization involving the broadest possible circle of goods. Only a small portion of products for which central so-called maximum prices are established are the object of regulation. The danger of uncontrollable haphazard price movements, when retail prices could rise to the same extent as prices of inputs, should be prevented by the antimonopoly law which was approved on 30 January 1991, and which is effective 1 March 1991.

First Results of Price Liberalization

In January 1991, in conjunction with the liberalization of prices, there occurred an express movement of the prices of goods and services in the domestic market, involving virtually the entire structure of the foodstuffs industry and of nonfood items. From the standpoint of the consumer, the consequences of price liberalization made a particularly sensitive impact upon increased prices of basic foodstuffs from direct deliveries. With respect to decisive foodstuffs products, there was a definite lowering of material sales in comparison to the same period of last year. During the first half of the month, sales of milk declined by an estimated 30 to 70 percent, those of meat and meat products by 50 to 70 percent. Moreover, the demand for cottage cheese, yogurts, and cheeses was expressly lower. Sales of butter, delicatessen products, and frozen fats declined. Whole milk was unsalable in selected localities.

With respect to industrial goods, sales volume amounted to 84 to 121 percent of last year's figure. Some of these products, however, experienced minimum sales as a result of high final consumer prices. On the other hand, even at higher prices, customers were purchasing household textiles, bed linens, cotton underwear, cooking utensils, bicycles, sewing machines, and several other household appliances.

An evaluation of the developments on the domestic market during the first months of the year leads to the following findings:

- Prices in sales outlets of the state sector were higher than those in sales outlets of the private sector;
- The price increase was primarily concerned with basic foodstuffs from direct deliveries, followed by goods of a wholesale character and some industrial goods;
- The magnitude of the commercial span exceeded the customary limits which were acceptable by customers.

Price dictation, which had hitherto been facilitated by a noncompetitive environment and the effort on the part of producers and commercial establishments to maximize profits over the short period, encountered budgetary restrictions on the part of households. Consumers reacted by expressly lowering the volume of purchases pertaining to selected foodstuffs or by looking for more price-advantaged types of goods in cases where the same products were available at different prices.

Credit Policy, Privatization, Monopoly Position of Commercial and Production Entities

In 1990, some 50 to 60 percent of the overall goods inventory under the jurisdiction of the Ministry of Commerce and Tourism of the Czech Republic were covered by credits and the magnitude of the credits was as high as Kcs25 billion. Of this volume, Kcs15 billion applied to constantly revolving inventory necessary to assure the smoothness of supplies and sales. In the immediate future, the level of supplies will also depend upon the credit policy of the monetary institutions, particularly upon the magnitude of credit frameworks. In comparison with 1990, the magnitude of credits was not only absolutely lowered, but commercial prices rose at the same time. As a result, there is the risk that commercial enterprises will be reducing their purchases of goods from suppliers and that this will result in restricting the amount of goods being offered on the domestic market. The Federal Ministry of Finance dealt with the problem of credits for constantly revolving supplies by creating the Consolidation Bank, to which commercial enterprises may transfer 50 percent of these credits. These credits will be paid off under more advantageous interest conditions than has been the case up to now, with a pay-back term of eight years. The granting of credits for the remaining portion of the constantly revolving inventory will be handled by mutual agreement between the commercial enterprise and the appropriate Commerce Bank.

Other possible risks in the relationship with the quality of supplies are based on the process of so-called small privatization, which is proceeding very slowly.

The narrowing of the goods offering or a complete deficit can occur for other reasons as well. Currently, for example, this involves the conduct of some monopoly producers (Calex and Tesla Orava), which are not delivering products to sales outlets at all or are charging

unacceptable prices which make salability of these products impossible. The Ministry of Commerce and Tourism of the Czech Republic requested that the Ministry of Finance of the Czech Republic and the control organs verify the price calculations involving the above producers. On the other hand, it is not out of the question that price monopolies of commercial entities will come into being and have a direct influence upon demand.

Estimates of Demand Development in 1991

Price liberalization accompanied by the current decline in the value of the Czechoslovak koruna to a level of Kcs28 per \$1 U.S. can, in the course of the year, bring about an increase in the level of retail prices up to the limit of around 50 percent. The payment of higher costs for energy, gas, water, sewer, transportation, and several other fees will most likely alter the ratio of expenditures by the populace for goods and services. The magnitude of the realized retail trade turnover in 1991 will be dependent on the intensity of the above-mentioned factors, but particularly upon the relationship between the development of price levels and monetary incomes. Overall, it can be anticipated that, in terms of value expression, the magnitude of turnover will be approximately at the level of 1990 or possibly somewhat lower. On the domestic market for consumer goods, there will be a gradual increase in the amount of goods being offered over demand. This tendency will primarily involve durable goods.

With respect to foodstuffs, the economizing conduct of the population will result in a decisive decline in consumer interest in canned, prepared foods and semifinished products, in brand name nonalcoholic beverages, syrups, chocolate candy, some butter, dairy products in general, meat and meat products. Expressly lowered demand must be figured for virtually all social demographic groupings, with the exception of the highest income categories (maximum 3 percent of the population). At the same time, overall consumption on the part of households will become still more differentiated.

As a result of the opening of the gap between prices and incomes, it is necessary to anticipate more express changes in consumer orientation. With respect to industrial goods, a substantial portion of consumers will prefer to purchase standard products at lower price levels. More rational conduct can be expected also in decisions involving the purchase of food products. In view of the lowering of the amount of disposable income, consumers will orient themselves primarily toward cheaper types of foods, without regard to their significance from the standpoint of healthy nutrition.

Food Products

In the first half of 1991, we anticipate a decline in consumption of up to one-fourth. For the remainder of the year, it is possible to anticipate some stagnation or only a further slight decline in the demand level. The

privatization of a major portion of the sales network will create a qualitatively completely new competitive environment which will cover reserves in the cost area of commerce. But even this prerequisite cannot be overestimated because it will depend on the level of commercial prices in the agricultural-industrial complex, which continues at a high level of monopolization. For understandable reasons, suppliers will attempt to maintain prices at the highest possible level or at the level which still facilitates smooth sails for them. The reaction of consumers following the adjustment of retail food prices last year gave rise to the maximum decline of consumption with respect to meat, meat products, fats, milk products, and milk (from 33 percent to 8 percent).

Within the framework of overall food consumption, strengthened efforts at self-sufficiency and production for one's own account will play a significant role. From the regional standpoint, this tendency will be more discernible in the rural area and in settlements in the vicinity of towns.

Within the framework of meat and meat products, there will likely be major shifts in the structure of consumption—from more expensive beef to pork and smoked meats and toward fish products, to the extent to which they will be available on the market. Demand will probably be around 80 percent of last year's figure cumulatively for this entire class of product. This development will be influenced as well as magnified by consumption in kind.

It is possible to also anticipate a relatively high restriction of consumption with regard to the group of milk and milk products, particularly involving milk and butter. Despite the fact that these are basic types of goods involved in daily consumption, the conduct of consumers in January clearly documents the fact that they will not be willing to accept overly high prices for these commodities. Currently, their decisions reflect a highly sensitive reaction, even involving minor price differences. It is likely that the consumption of butter will be at a level of 70 percent and milk at a level of 65 percent of last year's comparable figures. Even with regard to cheese, there will clearly be shifts in the structure of demand, shifts away from domestic hard cheeses and foreign cheeses to processed cheeses which will even be replacing butter in the consumption pattern. The development of demand with respect to this assortment is relatively difficult to predict, but it is anticipated that demand will decline by about 25 percent.

Last year, the consumption of sugar was 20,000 tons higher than was normal for previous years. This quantity—about 10 percent of the overall consumption of sugar—represents stockpiling on the part of the populace in anticipation of the beginning of 1991. In view of the growth of prices for canned and confectionery products, it can be anticipated that the demand for sugar will be at a comparable level with 1990. On the other hand, it can be anticipated that demand for candy and confectionery products will be 20 to 25 percent lower.

The demand for eggs will decline gradually in conjunction with the anticipated development of in-kind consumption. The demand for eggs will certainly be affected by efforts involving the home production of deserts and dumplings and, therefore, it is estimated that it will decline more moderately by around 10 percent.

The decline in the consumption of potatoes by 20 to 30 percent during the first half of 1991 is an estimate which is based on the current deficit in the domestic market. A revival of consumption during the second half will depend on the assurance of quality varieties for seed. Increased in-kind consumption is anticipated and so are current changes in eating habits and a change to higher consumption of rice, flour, and pasta products. The extent of these substitution effects will not be apparent until further developments in consumption are analyzed. In view of the fact that potatoes are a traditional component of alimentation, the overall average demand for the second half of the year will be around 90 percent of last year's demand, assuming that high-quality potatoes are available.

With respect to flour, it is anticipated that demand will be either stable or slightly higher; pasta products demand will be approximately 15 percent lower. In view of the increase in in-kind consumption, an overall decline in the demand for vegetables is anticipated (up to a 20-percent decline) and a drop in tropical fruit (by 30 percent) is expected. It is likely that the consumption of alcoholic beverages will be declining (by 15 percent), that of bottled beer (by 8 to 10 percent), and consumption of bakery products would be declining by 20 percent.

Industrial Goods

As a result of higher prices for industrial goods, it is estimated that demand will decline by an overall 50 percent. Estimates of demand are more complicated than those for foodstuffs, primarily in view of the significantly extensive assortment. At that, the basic trend in the development of demand will be influenced by several factors (the extensive liberalization of trade, the liquidation of certain production facilities, the entry of private entrepreneurship in the domestic market, the credit policy, changes in foreign trade relationships, etc.). It is not possible to find a comparative situation for such a relationship in the past.

The demand for textiles and textile products reacts relatively strongly to price rises. The greatest decline is being recorded clearly by the consumption of products of an investment character (draperies, bedding, household textile products, etc.). With respect to these products, demand could decline by up to one-fourth and more.

The consumption of goods made from cotton will most likely be lower, particularly because a high share of finished products and of all basic raw materials is imported. With respect to cotton products and knitted underwear, demand could decline by as much as 25 percent and a similar decline can be anticipated with respect to clothing products. With respect to children's

products, the function of exchange markets will increase and will exert an influence upon the lower demand for new products.

The demand for footwear in 1991 will be influenced particularly by high prices. The greatest decline in consumption can be anticipated with respect to men's footwear (by 30 percent), the decline will be smaller for children's shoes, and will be smallest with respect to women's shoes. In some cases, demand will be influenced by purchases made at public exchange markets (ski boots and skating shoes) and by transfers among relatives and neighbors. The demand for leather fancy goods is anticipated to be approximately at 60 percent of last year's level.

The consumer class of household items includes durable goods. For example, these are washing machines, freezers, furniture, sewing machines, and other small electrical appliances for the household. It is anticipated that demand for these products will decline by more than 50 percent overall. We believe that purchases will be motivated only by essential renovation and that in some cases demand can become completely frozen. This is attested to by the results of conservation with respect to the purchase intentions of the populace for 1991. They indicate a declining demand, for example, for kitchens by more than 70 percent, for automatic washing machines by 74 percent, for refrigerators by 55 percent, for sewing machines by 88 percent, etc.

Household items are the most diverse class of consumer goods and, in addition to kitchen requisites, also include glass, porcelain, electrotechnical goods, utensils, etc. With respect to this class of goods, the greatest decline in demand for industrial goods is anticipated, but in view of the extensive nature of the assortment, the forecast must be handled with great care. It is possible to favor the views that consumption could decline by as much as 75 percent for various types of goods and that some products will be totally unsalable this year.

It is very difficult to say anything at all about the demand for building materials. Incomplete construction projects will likely be completed. There will clearly be a decline in the construction of new single-family homes and, thus, demand will be restricted. On the other hand, maintenance or reconstruction will not only not cease, but its volume will more likely increase in conjunction with privatization and property restitution. These proportions can be considered as equal in value and, therefore, a stagnating demand can be anticipated.

This year, as a result of the drastic increase in the price of fuels, a steep decline in fuel consumption is being considered. Demand for fuels (bituminous coal, brown coal and briquettes, coke) will most likely be at 75 percent of last year's comparable figures during 1991.

The estimate of the demand for personal automobiles is based particularly on the fact that the price of the most popular vehicle in the domestic market virtually doubled in comparison with 1990. Lowering the sales tax for

automobiles from 40 to 32 percent was not reflected in a more express growth of demand. In the further course of the year, it is anticipated that interest in purchasing automobiles will decline and result in sales problems.

Conclusion

The indicated fundamental tendency affecting demand can be perceived as anticipated development during the course of 1991. Consumer demand will gradually form in conjunction with the assertion of individual steps of the economic reform. The most serious situation on the domestic market will most likely occur in April through May, when the process of price increases will essentially be concluded involving all consumer goods and increases in fuel prices and thermal energy will be asserted at the same time. A high price increase for goods and services paid for by the populace over a relatively short time frame can, while adhering to a strict wage policy by the state, result in social unrest with negative impact upon the overall progress of the economic reform.

Curiously Mixed Results of Economy in 1991 Seen

*91CH0595C Prague HOSPODARSKE NOVINY
in Czech 22 Apr 91 pp 1-2*

[Article by "vl": "On This Year's Results of Our Economy—Questions Without Answers for Now"]

[Text] Over the first three months of this year, production of goods in industry was 11.9 percent lower than during the first quarter of last year; in March—compared to the same month last year—it was even 25.3 percent lower. Last year, during the months listed, industrial production had already declined slightly in comparison to 1989. The situation is no different in the construction industry where construction output remained 35.8 percent below the level of the first quarter of last year. The above numbers have already been freed from price influences so as to make it possible to make any kind of comparison at all. However, the data are overly gross and also preliminary in nature to permit any clear conclusions to be drawn at this time. Nevertheless, the March decline in industrial production, which was relatively significant without any further discussion, will give rise to a number of considerations.

Everything would look different if we could calmly state that the decline in production was accomplished only at the expense of its unnecessary or surplus component. However, it does not seem that this is the case everywhere. For example, in the ready-to-wear industry, the index of production for the first quarter (after excluding price influences) was 71.1; in the textile industry, it was 83.8; in the leather-working industry, it was 81.3; in the foodstuffs industry, it was 82.9; in the production of frozen foods and tobacco products, it was 68.5.

Unfortunately, these are once more indicators for entire branches of industry without the opportunity to differentiate according to individual products; yet, one can

visualize what deliveries to the domestic and foreign market look like, even without regard to the actual composition of the assortment.

On an overall basis for the first quarter of this year, Czech industry is doing a mere single point better in production of goods than is the industry of Slovakia, but did worse in March alone. In March, the production of goods in the industries of the Czech Republic was 26.8 percent lower than for the same period of last year; in Slovakia, production was 21.6 percent lower. Similarly, the decline in employment and productivity, computed on the basis of goods produced, was greater in Czech industry than in Slovak industry.

The situation is no clearer in the domestic market. According to data provided by the Federal Statistical Office, the physical volume of retail trade declined by 37.1 percent in comparison to the first quarter of 1990; in March alone, the decline was 43.9 percent. Consumers clearly indicated what they thought of the price explosion. Moreover, they did not have to consult their own pocketbooks for too long a time. Nevertheless, there is something here which does not fall into the probable scheme of consumer conduct. In March, these numbers indicate that sales declined more than they did at the beginning of the year when it was possible, so to speak, to live on inventory or to defer purchases.

Another matter is the private sector, beginning with the most primitive image, like sidewalk sales or sales directly from a vehicle. These sales are being made both by individual small entrepreneurs, and also by manufacturers themselves in an effort to circumvent the commissions charged by stores and possibly the unwillingness or inflexibility of trading enterprises. It can be rightfully anticipated that time will bring about a shakeout in these conditions and that we shall again be making purchases primarily in sales outlets and buy less on the sidewalk, or only do so as an exception. The second thing is that the volume of such sales cannot be easily estimated and cannot even be supplementally read in tax returns, to the extent to which these are made at all.

The existing course of our economy will probably give rise to as many opinions as there are various angles from which it is regarded. And one and the same fact can be called one thing and another: Such as growing sales difficulties which can also be designated as forming a buyer's market, a course leading from the dictatorship of the manufacturer or supplier to strengthening the position of the consumer and customer. One thing is certain: The error of careless production, production for inventory purposes, or perhaps only production involving intervention by the state has ended; the battle for sales, for customers has begun.

Adaptability to Economic Reform Discussed

*91CH0594D Prague HOSPODARSKE NOVINY
in Czech 18 Apr 91 p 3*

[Article by Eng. Dagmar Hanzlova, Institute of Economics of the Czechoslovak Academy of Sciences: "Transformation of the Economy and Adaptability of the Enterprise Sector"—first paragraph is HOSPODARSKE NOVINY introduction]

[Text] The necessity of transforming the Czechoslovak economy to a market-type economy is doubted by very few people today. However, an express difference of opinion exists with regard to the approaches involved in the method of realization of this complicated maneuver.

One of the principal causes of conflicts of opinion is undoubtedly the underestimation of the depth of the economic problems which paralyze the adaptability of the microsphere on the one hand and severely limit the volume of real resources at the disposal of the state on the other hand. Underestimating or even ignoring the difficulties which quite objectively limit the maneuvering room at the microlevel as well as at the macrolevel still further complicates and slows down the transformation processes.

Delineation of the Room for Adaptation

Room for adaptation to the conditions of a market economy in the enterprise sphere is delineated by the intensity of the economic pressure to which the enterprise sector is exposed and by the opportunities which it can utilize to accomplish its adaptation. Because the goal of economic policy is not normally the liquidation of its own economy, but rather "natural selection" of viable economic units, this goal should also be reflected in the character of this policy. The room for adaptation, in which Czechoslovak enterprises are currently moving about, is given primarily by the restrictive fiscal and monetary policy, by more stringent criteria of efficiency applied to economic activity, by efforts on the part of enterprises to become financially independent, by the opportunity to initiate direct contacts with foreign investors and banks, by the internal convertibility of the Czechoslovak koruna, by the softening of the criteria for efficiency of exports as a result of the devaluation of the domestic currency.

In view of Czechoslovakia's high degree of dependence upon exports, it is quite natural for the strategy of economic policy to specifically give preference to export capability and to set it as one of the most fundamental criteria for enterprise selection and as a factor supporting the process of forming a new more efficient structure for the economy. However, it is not possible to overlook the fact that, given the present measure of devaluation of the Czechoslovak koruna, export capability can be used as a criterion for state support for efficient structural changes only with great care. The dramatic decline in the opportunities for export to the former CEMA countries and the practical halting of

exports covered by long-term government credits (with the exception of as yet unresolved problematic investments in the USSR) particularly place those Czechoslovak enterprises who placed their products directly or indirectly precisely in this territory in a very difficult situation.

Scope of Adaptation

An orientational notion regarding the scope of the necessary adaptation of Czechoslovak enterprises to the new conditions, particularly with respect to doing business abroad, is provided by data on the structure of Czechoslovak exports and their existing territorial aims. As recently as 1989—in other words, prior to the time the CEMA market fell apart—exports to CEMA countries accounted for virtually 69 percent of the volume of exported production and only 31 percent of the total export volume went to markets of developed countries. While the structure of exports intended for customers in CEMA countries was dominated by machinery, installations, and tools (66 percent), this commodity only accounted for 13 percent of the exports aimed at the demanding foreign markets. If the export of machinery to developed nations accounted for a mere 10 percent of the total volume of Czechoslovak machinery exports, the export of fuels, materials, and raw materials to these countries, in contrast, amounted to 56 percent of total export volume.

At first glance, it is clear that attainment of territorial reorientation with respect to Czechoslovak exports and changes in their internal composition in favor of finished (and particularly engineering-type) production is a task of a longer-term nature. Extensive sales difficulties which are besetting Czechoslovak enterprises which previously exported all or a predominant amount of their products to today's defunct CEMA market or to insolvent developing nations cannot be solved overnight by increasing exports to demanding markets offering foreign exchange encashment. Given the high degree of saturation of Western markets with high-quality highly diversified production, offered at a broad scale of prices, it is not possible to assure a more significant increase in the export of Czechoslovak products to these markets by merely underbidding the prices—something which is facilitated by the devaluation of the Czechoslovak currency—nor through pressure which impacts upon Czechoslovak enterprises as a result of the restriction of domestic purchasing power. The salability (not to mention the competitiveness) of exported production is dependent upon the attainment of at least minimal utility parameters where the minimum is determined by the demanding target market. Toward this end, however, it is necessary to have at one's disposal a sufficient amount of information regarding sales possibilities and to have the capability of assuring effective advertising and quality service for one's products, on the one hand, and, on the other hand, to have at one's disposal an inventory of machinery whose technical-economic parameters would facilitate the manufacture of at least salable standard production.

Conditions for Adaptation

An evaluation of the adequacy (and thus also of the effectiveness) of the macroeconomic policy and specifically those policy provisions which are intended to create conditions for the gradual adaptation of enterprises to the increasing demands of the domestic and external economic environment must stem from the confrontation of these measures with the real situation of the enterprises. This situation is quite clearly determined by the long-term effects of the centrally directed model of a fiscal and accounting policy which generally "took from the rich" and "gave to the poor" until it succeeded in leveling the capital assets of the enterprise sector at a very low level.

The inventory of machines, which, for years, was inadequately modernized and where virtually 70 percent of the machines and installations are at best at the technical level equal to the beginning stages of automation in the 1950's with the average age being approximately at the level of 15 years, when compared to the technical-economic parameters of machines with which our foreign competitors are equipped, presents only very limited capabilities in the form of the immediate increase in exports to demanding Western markets. The high degree of physical obsolescence of our equipment makes it impossible, in a number of cases, to achieve even standard quality with respect to manufactured production in harmony with originally planned technical parameters of the machines, because these are liquidated at around age 30 on the average (in developed nations, this turnover time is one-half as long as in this country).

The objectively high need for modernization investments (even taking into account the likely liquidation of a certain number of Czechoslovak enterprises) is in sharp contrast to the absolute shortage of domestic and external sources of financing. Given this situation, it is impossible to consider that the reduction of the profit tax to 55 percent is adequate. Similarly, leaving write-offs in place at their place of origin, although this is accompanied by a certain increase in write-off standards, cannot solve the shortage of finances more fundamentally, given the existing high degree of average value obsolescence of machine equipment. For example, in the engineering industry, more than 80 percent of the enterprises have machines which are 51-percent value-obsolete; in more than 45 percent of the enterprises, this degree of obsolescence is between 51 and 60 percent. The share of machinery which has been completely written off is today already approximately one-fourth of the installed basic assets; in the engineering industry, it virtually amounts to 30 percent. It is, therefore, logical that the contribution of external sources in financing modernization investments will have to be substantially higher than is the case in developed nations. There, where profits are taxed on the average at around 30 percent and where there is the opportunity to utilize accelerated write-offs and benefit from additional tax relief, the share of external financial resources in investments amounts to approximately less than 50 percent (for example, in

Germany, it amounted to a mere 20 percent in 1981-85; in the Netherlands, not quite 30 percent; in France, a little more than 60 percent, etc.). Along with the relatively low need for external sources to finance investment projects, their availability in developed nations is also substantially higher than that in Czechoslovakia. A developed financial and capital market makes possible a broad selection of methods of acquisition of these resources; competition in the financial market then reduces financing costs for investments connected with paying off credits.

In this connection, it is impossible to not comment on the much-discussed question of increasing interest rates in Czechoslovakia from the previous 6-7 percent to the current 24 percent. There is no doubt that they had to be increased if only because demand for money was beginning to increase dramatically and the rate of savings declined so much that in 1990 there was an absolute drop in savings deposits for the first time since 1953. As is well-known, the level of realistic interest rates is given by the difference between their nominal value and the level of inflation. In view of the fact that wholesale prices in February 1991 (as opposed to February 1990) rose by 71.3 percent, it is clear that the current level of interest rates is by far not excessive. However, it was possible to get a head start (and not merely to react to the situation after the fact) in solving credits for rapid turnover supplies.

Increases in the interest rate are difficult to consider as the key problem involved in external financing in Czechoslovakia. In addition to limits on the amount of capital loaned out by banks and their inexperience in the area of entrepreneurship, the problem is particularly a shortage of objective instruments for identifying inefficient activities, which makes the audit functions of banks more difficult, including their decisionmaking. An undeveloped financial system also makes it impossible to distribute investment risks in the most optimum manner and to assure the efficient allocation of financial resources and, thus, stimulate structural changes by directing savings into the most profitable investment opportunities. The already realized measures which make it possible for enterprises to initiate direct contacts with foreign banks should contribute to a positive turnaround and to a gradual improvement of the given status.

Possibilities for State Intervention

An additional economic measure which will palpably increase economic pressure upon the enterprise sector and which will result in the danger of another wave of inflation is a new increase in the price of energy inputs which is being prepared. As a result of the practical impossibility of implementing rapid changes in the technological equipment of enterprises, changes which could primarily assure a substantial decline in energy costs per unit of production, it is difficult to avoid having the greater portion of such a price increase not find reflection in production costs. "A mere" increase in economy

can, in the majority of enterprises, lead to elimination of only a minor portion of this price increase. For example, with respect to energy-producing coal alone, its price is projected to increase by the middle of this year by approximately 120 percent which, together with the previous price increase in December of last year, results in a possible overall price increase of 230 percent. Increasing the cost of energy for the small consumer will then still further lower overall purchasing power and will intensify domestic sales difficulties. An increase in the cost of production at the enterprise level can also weaken, to varying extents, the stimulative effects of devaluation.

If the increase in the price of energy and fuels is not to miss the mark with its effect, enterprises must be afforded the opportunity to adapt. Even under conditions of a developed market did the governments of the developed countries rely only on the functioning of undistorted market signals as a result of the real cost valuation of energy during the energy crises of the 1970's and the beginning of the 1980's, but, on the contrary, rather actively stimulated the microsphere in its efforts to achieve substantial energy savings. For the most part, this involved the systematic use of financial and tax instruments to stimulate investments in energy-saving technologies and to develop research involving alternative sources of energy. To expect that increasing the price of fuels and energy will stir enterprises to undertake substantial energy savings in the near future is not in harmony with reality.

State assistance to the enterprise sector is highly desirable even in the area of providing information regarding developments in the world market. In the countries of West Europe and in Japan, small and medium-size enterprises have quite currently assured access to this type of government information. The government will also have to become more involved in the "reconstruction" of disrupted foreign trade relationships in the CEMA countries, even at the price of temporarily returning to barter transactions which will, naturally, mitigate the pressure compelling exporting enterprises to adapt to more demanding conditions which exist in highly competitive Western markets. The overall social benefits connected with the realization of this step will be undoubtedly greater than the costs because it is not possible to figure that the major portion of production which was previously destined for "Eastern" markets will be successfully placed (even below cost) in "Western" markets. In the opposite case, there is a threat of a barely controllable wave of unemployment with all its original negative manifestations. The first contacts in this direction have already been initiated.

The long-term nature of the process of adaptation as it applies to Czechoslovak industry, its high investment costs, and the deteriorating economic situation demand that the maximum be done to make the economy accessible, primarily for those foreign investors who are interested in transfers of progressive technologies. The government must form a completely clear picture as to

where it will be desirable to utilize foreign capital and, in conjunction with this notion, where it will be desirable then to support its interests through the suitable advertisement of investment opportunities. A great deal of uncertainty among precisely this group of foreign investors is caused by the long-term political destabilization of Czechoslovakia. In view of the fact that a domestic political crisis seriously threatens the overall process of transformation, its final solution cannot be deferred indefinitely.

Because it is not possible to anticipate a more massive influx of foreign investments and foreign bank capital, which would finally help in launching real adaptation processes in Czechoslovak industry in the immediate future, the possibility of accepting foreign government loans should not be excluded in advance. Moreover, government loans were the principal source of the influx of foreign capital to the Japanese economy during the time of its industrialization in the 1950's. It is clear that criteria for granting these resources to enterprises would also have to be in harmony with the philosophy of reform.

The extent and depth of the difficulties with which Czechoslovak enterprises must come to terms in the process of transforming the economy are, to a certain extent, immeasurably greater than the problems which companies in developed nations must solve. The devastated machine inventory, the completely inadequate financial resources, the indebtedness, the practical absence of any previous experience involving a market economy, the shortage of specialized skills, and the method of thinking and acting which have become fixated after 40 years of a functioning command economic system (but sometimes even an unwillingness to adapt), these are all things with which the industrial enterprises should come to terms in a relatively short time frame if economic collapse is to be avoided. However, no other less-demanding solution exists.

Even the state, whose activities cannot, in the current situation, be limited only to strengthening economic pressure and cultivating a market environment, must play its role in this process—a role for which there is no substitute. Given the constantly shrinking opportunities to make use of “grandiose” fiscal and monetary policy in support of enterprises which have a clear picture regarding their new production programs, the importance of a more express commitment on the part of the state in initiating temporarily disrupted foreign trade contacts, particularly those involving the USSR, and creating more favorable prerequisites for a gradually more balanced export orientation on the part of Czechoslovakia using the help of various forms of foreign capital participation is growing. On a broader scale, and with government support, requalification courses should be organized for enterprise managers because, in the final analysis, the fate of the entire economic transformation is dependent on their adaptation. In the interest of effective realization of all above measures, it is, however, essential that a clear decision be made as to

whether the more radical solution of the protracted domestic political crisis, even though it may be temporarily more costly, might not nevertheless be of benefit from the longer-term perspective.

Employers Union Makes Reform Recommendations

*91CH0579F Prague HOSPODARSKE NOVINY
in Czech 5 Apr 91 p 9*

[“Excerpt” from proposals by the Union of Employer Associations of the Slovak Republic, the Czech Republic, and the CSFR: “On the Course of Economic Reform”—first paragraph is HOSPODARSKE NOVINY introduction]

[Text] The Union of Employer Associations has turned to the deputy prime ministers of the governments and to other ministers and representatives of the economic sphere with its position regarding the existing course of economic reform. It considers particularly four areas in the current systems changes to be critical. With respect to these areas, it submits proposals dealing with the possible elimination of the principal risks. With respect to this portion of their position, we are publishing a substantial excerpt below.

Price Liberalization and Demonopolization of the Economy

The one-time liberalization of prices gave rise to sharp growth in prices along with the actual danger of unleashing an uncontrollable inflation spiral. Efforts to regulate prices in the spirit of the pricing law can lead to the administrative management of price developments, but are obviously not capable, however, of halting inflation in sufficient time. On the other hand, the absence of real measures in the antimonopoly policy is disturbing. As it is, the devaluation of the Czechoslovak koruna has already strengthened the strong position of supplier organizations. And, moreover, it virtually made the replacement of inefficient domestic products through imports impossible across the entire processing industry. Meanwhile, it stimulates the export of raw materials and semifinished products, containing a low level of processing, at disproportionately low prices. We recommend the following to eliminate the above “irrationalities.”

The Institute in Difficulties

Despite the fact that the Management Institute, which was established in the Office of the Prime Minister, enjoys a good reputation among the present captains of Czechoslovak economic life, it is compelled today to fight for its bare existence. This key educational organization, noted for its School of Management, for organizing scientific seminars, for its consultation services, and for last year's Project Psychocomp, which was aimed at psychologically examining applicants for service in

state organizations, is attempting to persuade the government that it is appropriate to continue close collaboration. The government, on the other hand, points to a shortage of financial resources to finance this contributory organization.

The institute, which is now able to virtually earn its own way and which, beginning in the second half of this year, will become financially totally independent thanks to a "slimming down" and other measures, finds itself in an enchanted circle. If it is capable of self-financing, it is, therefore, not a contributory organization. A quasisolution would be a consulting organization, totally independent of the government, which would mean, however, the loss of goodwill which had been created over the long term and which, among others, was established under government auspices.

The management of the institute believes that the optimum way to resolve this budgetary problem would be to transfer the institute from the jurisdiction of the Office of the Prime Minister to a fee-paying Czech ministry. The most appropriate ministry being considered is the Ministry for Economic Policy and Development of the Czech Republic.

The institute's existence is assured until the end of June—and let us believe that a solution which is beneficial to all will be found in time.

In the pricing field, we recommend legislative protection for consumers and sanctions for violations of market ethics principles. Particularly, we recommend the prosecution of every instance in which established maximum prices are violated, without dickerings, and making sure that even the resulting modification of prices for substitute products be governed by these prices. A logical organizational measure which offers itself is the connection of price regulation with protection for economic competition in one central organ, whose principal task would be the protection of consumers.

Taking into account the degree of monopolization of our economy, we recommend assertion of the expansion of antimonopoly measures above the level which currently exists in economically developed countries. For example, this involves the siphoning off of monopoly incomes with the aid of a system of high antimonopoly taxes on profits of corporations, the realization of interventional (substitutional) imports, paid for out of central foreign exchange resources, the institutional support of the state and assistance for investment activities in developing competitive products, with a possibly express advantaging of private entrepreneurs.

To prevent a possible further devaluation of our currency (the inflationary devaluation spiral), we recommend working out a mechanism for the long-term stabilization of the current exchange ratio, perhaps even at the price of possibly returning to foreign exchange regulation on the basis of uniform foreign exchange standards and the renewal of property foreign exchange

accounts for enterprises, in conjunction with the introduction of a free foreign exchange market.

Restrictive Policy

An across-the-board restrictive financial as well as currency policy, aimed at halting the inflationary rise of prices, threatens to bring about inauspicious results under our conditions. The developing depression, accompanied by a growth in unemployment, already now threatens the fulfillment of the goals of the fiscal policy in the guise of a surplus or possibly balanced state budget. A financial crisis threatens some highly sensitive areas (agriculture, the health industry, education, scientific research). A longer-lasting economic stagnation will substantially reduce revenues for the state budget from the economic sphere and, at the same time, will compel a rise in its social expenditures (for example, to provide material support for the unemployed and to valorize pensions). An economic decline, combined with a price rise, would expressly prolong the period of consolidation and adaptation for our economy. Consequently, we propose that the usefulness of further continuing the existing methods of asserting restrictions be evaluated and the possibility of their modification in combination with a selective structural policy, even possibly at the cost of financing the economy at a budget deficit be considered. We recommend that, in selected cases, consolidation programs of enterprises, which are capable of further development, be financed out of the state budget, with pay-back provisions, but, of course, only to the minimum extent necessary, for example, to cover minimum guaranteed wages. An enterprise which has real prospects will prove able to secure its expansion itself by utilizing credits. We recommend the creation of conditions for correct price relationships by asserting the principle of selling goods in the domestic market at prices which correspond to those prices the enterprise could realize with its goods in foreign markets. With respect to enterprises which do not have export possibilities, the realization of prices which are higher than foreign prices for comparable goods should be subject to taxation and possible competition should be created by importing goods without asserting import surcharges.

Realization of the Process of Privatization

In the area of privatization, we stress its economic function by which we understand the transfer, by the state, of inefficiently handled activities to activities which are efficiently handled by nonanonymous ownership entities, carried out without or with a minimum short-term decline in production and a subsequent growth in prosperity. An administratively conducted privatization cannot be economically efficient and financially healthy. In this connection, we draw attention to the possible impracticability of a parallel assertion of the coupon method of privatization in conjunction with foreign capital during the privatization of a specific enterprise. In a standard method of privatization, market value is asserted; in applying coupons (signifying a possibly extensive scattering of owners), valuation is

essentially accomplished on the basis of the nominal remainder value. In many cases, this can mean a slow-down in the privatization process (just like restitution of property to former owners).

In facilities acquired as a result of restitutions, it will be appropriate to use tax or other regulations having a similar effect to assure the rapid onset of entrepreneurship. In the event restitution claims are asserted regarding property which has already been privatized, it will be essential to make use of the possibility of joint undertaking, involving the existing and original owners. For purposes of negotiating capital participation by foreign investors within the framework of preparing privatization projects, we recommend that the establishment of joint ventures be given priority and that the sale of existing properly functioning capacities be effectively restricted.

In view of the fact that the privatization process will clearly slow down in contrast to the original expectations, we consider it to be essential to work out a regime for operating state enterprises or state joint stock companies until such times as they are fully privatized which would prevent incursions by the state administrative apparatus into the operation of the enterprises. The extent of the jurisdiction of employees of the state administration should be determined by legislation and be limited to checking on adherence to the legal code. In administering state property, laws should assure that employees of enterprises going through the privatization process can exert their influence, but under conditions of excluding any kind of political influences.

Assistance for Private Entrepreneurship

Currently, private enterprises, particularly private production enterprises with more than 25 employees, are basically in the same situation as state enterprises. They have the same tax, payments, and regulatory obligations, the same access to bank credits, and, thanks to insolvency or undisciplined customers, most of which are state enterprises, they even have the same payments difficulties. The sole difference exists with regard to the consequences, which are shared by the entrepreneur himself in the event of the liquidation of a private enterprise, whereas in the event of liquidation of a state enterprise the loss is borne by every citizen, including the above-mentioned entrepreneur. Private entrepreneurs, for the most part, have sizable credits instead of the requisite free capital which might facilitate expansion of the enterprise, credits which they used to establish the enterprise. In view of the fact that it is precisely these enterprises which are the crystallizing germ of future prosperity in our economy, a suitable environment must be created for their existence, leading to their entrepreneurial stability and development. Development of this type of enterprise is negatively influenced particularly by the law on private entrepreneurship on the part of citizens, which expressly separates entrepreneurs registered in the enterprise register from the others, particularly by way of tax obligations (primarily as a result of

the current modification of the income tax). Similarly, the credit policy of banks, which make use of the mortgage right as the only security which is, objectively, frequently unfulfillable, does not support the coming into being and expansion of these types of enterprises. Without analyzing all the causes and consequences of the current status in detail, we recommend the following:

- Rescind—for a certain period of time after establishment of the enterprise (or commercial company), the obligation to pay income tax on funds which are to be invested in the development of the firm or possibly differentiate the income tax according to the type of entrepreneurial activity and its social significance, cost, etc.;
- Introduce write-offs;
- Find new conditions for wage regulation and correct the tax on the volume of wages in dependence upon newly created jobs (the hiring of the unemployed);
- Consider the possibility of correcting the profit tax by taxing profits based on foreign capital;
- Provide convertible credits, assuring realistic return on capital;
- Make possible the granting of investment credits without using the mortgage clause, on the basis of a bank-evaluated and bank-verified entrepreneurial intent which must have adequate profitability; create a fund for capital guarantees;
- Assure priority payment by customers, if they are state enterprises and joint stock companies, through strict prosecution (for example, in the case of delayed payments, require the payment of extra interests to cover interest charged for a replacement credit).

Economic Reform Effects on Ecology Examined

91CH0595A Prague HOSPODARSKE NOVINY
in Czech 19 Apr 91 p 8

[Article by Eng. Zdenek Lamser, Institute for the Environment, Usti nad Labem; Eng. Jan Mikolas, Federal Committee for the Environment; and Olga Vidlakova, doctor of jurisprudence, Legislative Institute of the Government of the CSFR: "Is the Economic Reform Unecological?—Privatization and Liberalization of Prices Will Influence the Environment"]

[Text] A favorite objection raised by some "professional critics"—particularly those whose ideas did not become supporting pillars of the philosophy of economic reform—is to stress the antiecological character of the rapid transition to a market economy. They argue not only by raising considerations regarding the lack of social confidence or regarding the need for a directed "denationalization" of state enterprises, but also bringing up the negative impact of the consistent realization of fundamental steps involved in this transition—privatization, price liberalization, internal convertibility of the currency—upon the status and development of the environment.

They are joined even by some ecologists. They draw attention to the fact that, for the time being, "nothing is being done" for the environment and that in the upcoming socially difficult period, citizens will feel that their shirts are nearer to the skin than their greatcoats, that care for the environment will end up on a side track. Given the understandable effort to solve the oppressive ecological debt more rapidly and given the inclination to perceive socioeconomic problems with impatience and with brevity, it is then only a small step toward seeking a scapegoat in radical economic reform and most easily in its spiritual father. However, such argumentation stimulates the consideration of individual steps involved in the radical reform and their significance for ecology.

A key process in the economic reform is privatization. It is not only the foundation of the market economy, but, given functioning economic regulation, represents the fundamental way toward solving ecological problems and doing so in a number of ways:

- Privatization will bring about a situation in which every corner of our country and every piece of material property will belong to someone who will care for it and will continue to improve it.
- Privatization will strengthen economizing which will be reflected in the more rational utilization of natural resources, in increased interest in utilizing secondary raw materials, in lowering energy and material requirements, and, in other words, also in lower production of waste and lowered contamination of the environment.
- Privatization will lead to economic growth and, thus, also to the formation of resources to finance actions designed to protect the environment.
- Privatization will create conditions for effective ecological regulation. Clearly defined ownership rights, encompassing all components of the national wealth, will facilitate the inclusion of ecological losses and damages in the costs to be borne by contaminators.
- Privatization will accelerate the development of economic activities serving to protect the environment.

It is essential to stress that privatization will result in a relatively rapid and economic solution of ecological problems not in and of itself, but only provided it is accompanied by functioning economic instruments designed to care for the environment and by clear ecologically formulated legislation. Therefore, it is a priority task for state administration organs which are active in the environmental area to propose a coordinated set of economic instruments and legal rules for ecological regulation for the ongoing economic reform. The goal is to stimulate entrepreneurs to engage in ecologically conservative conduct—or to erect effective barriers to counter their possible antiecological conduct. This priority system of tasks should be introduced into the economic life during this year. This is not in any conflict with radical economic reform—on the contrary: The economic reform anticipates and demands that

ecologists create the required environment on a system-wide basis. To the extent to which this has not yet occurred, it is a shortcoming primarily attributable to ecologists themselves.

The liberalization of prices is a fundamental maneuver of the economic reform which is closely connected with privatization. Provided the institution of exacting fees for contaminating the environment is fully functional, then market-formed prices will have not only an economic content, but also an ecological component. The price of each product will reflect its ecological harmfulness by an appropriate method. Higher prices of ecologically unsuitable products will result in the rationalization of their consumption.

A second fundamental maneuver of the economic reform is the liberalization of external economic relationships. The internal convertibility of the koruna will strengthen the contacts between our entrepreneurs and foreign as well as regional environmental concerns. The technological barrier of so-called ecological investments will be substantially weakened. In these contacts, our entrepreneurs will convince themselves that many of their products are unsalable for ecological reasons, are not subject to harsh ecological controls even though, in some cases, the fact that the low rate of exchange of the koruna may lead to the growth in exports of products having higher domestic costs, in other words, high ecological costs, cannot be excluded, and ecologically undesirable producers may be stimulated to undertake further development. Similarly, the fact that our entrepreneurs will have a tendency to accept orders for ecologically negative products from foreign partners cannot be excluded. Here, their regulatory roles must be played particularly by import and export licenses and accession to such international agreements which restrict such conduct.

The fundamental positive effect of ecological regulation will be gradual; it will be slow at first and the return to a healthy environment with long-term beneficial effects upon the status of health of the population will be little in evidence. Visible positive impact will be in the form of new job opportunities, resulting from activities designed to protect the environment; such activities are among those experiencing the most dynamic development in developed countries.

The law is expected to create adequate conditions for ties between the economy and the ecology, for the preventive protection of the environment and of natural resources, and for the conduct of individual entities. There is no way of reaching this goal other than through systematic legislative work in preparing specific laws, which are still missing in this country, or which are designed to replace unsuitable legal arrangements which have been overcome by developments. These include primarily laws on the protection of the atmosphere, laws on waste, on protecting nature and the countryside, on evaluating the influence of activities upon the environment, and the law on protection against foreign substances in the food

chain. A general law on the environment need not necessarily be a priority item even though its importance cannot be denied. We shall be approaching the ecologization of the law primarily by creating conditions for a unified approach by all legal entities with regard to the environment and to natural resources throughout the legal code, including economic and fiscal regulations.

Toward this end, we urgently need a set of modern laws with precise regulation of the environment on the one hand and containing provisions for economizing with natural resources on the other hand. It is not until we have these legal regulations processed and verified that it will be meaningful to work on the general environmental code. Without specific legal regulations, we shall have no choice but to look, with sadness, upon the inactivity of organs of state administration and the unecological conduct of manufacturing and commercial entities.

Much has already been written regarding the relationship between the economy and the ecology. If we abandon the area of abstractions or making pretty speeches, we must arrive at the only possible, although not overly popular conclusion, which has been verified in practice: Without a healthy economy, we cannot even have a healthy environment. In the critical state of the economy, its immediate recovery is essential so that the environment can also be restored as rapidly as possible. The most effective medicine, despite temporary undesirable side effects, is a rapid and consistent economic reform.

Social Side of Economic Reform Analyzed

91CH0594E Prague HOSPODARSKE NOVINY
in Czech 18 Apr 91 p 5

[Article by "pk": "Prices—Social Probing of the Reform"—first paragraph is HOSPODARSKE NOVINY introduction]

[Text] Increases in the cost of living are unfortunately, for the time being, one of the fundamental manifestations of economic and social reform. Some provisions were already realized last year; substantial movement occurred in January 1991; additional consequences of established changes can be anticipated in the near future. What happened in the price area last year?

Briefly stated: By 1 January 1990, the prices of daily newspapers and journals rose by 100 percent. By 24 May, the retail prices of cigarettes rose on an average by 25.6 percent, prices of cigars rose by 16.5 percent, prices of cigarette tobacco and pipe tobacco rose by 35.2 percent. At the same time, retail prices of consumer electronics products declined by 23 percent, prices of imported consumer electronics products by 35 percent; price increases were accepted for construction work for the population (by 36 percent) and paid for spa services (by 76 percent).

By 9 July 1990, the regressive sales tax for foodstuffs was eliminated. The price index for food rose by 24.6 percent. Subsequently, prices in restaurant catering rose by 30 percent, those in enterprise catering by 32 percent, and the prices of school lunches rose on an average by 48 percent. Fees payable in kindergartens and child care centers were also expressly increased.

By 19 July, there was a 50-percent increase in the price of gasoline, and by 1 August, prices increases affected oils and lubricants. Another 50-percent increase in the price of gasoline, motor oil, and heating oil took place on 1 November.

Another price shock was directly connected with the October devaluation of the Czechoslovak koruna in terms of freely convertible currencies (from 17 to 24 Czech korunas [Kcs] per \$1), which stimulated a gradual rise in the prices of consumer goods based on imported raw materials or on other production components.

On 18 October and 7 December, prices of automobiles were raised.

In addition, the movement of consumer prices continued as a result of individual price adjustments for individual products or prices were raised by trading organizations within the extent of their jurisdictions (current change of assortments, higher contract prices).

The result of all of these price movements was a cumulative growth of the consumer price index for goods and services. Compared with 1989, the price level rose by 18.4 percent. Of this amount, food accounted for a rise of 24.2 percent, industrial products, 26.7 percent, and services, 12.7 percent. The average price of public catering (eating out) rose by 16.2 percent.

This year began with three important systems-wide provisions which further stimulated the growth of the price level for virtually all personal consumption goods and services for the population. These changes involve changes in the sales tax rate, another devaluation of the Czechoslovak koruna with respect to freely convertible currencies (from Kcs24 to Kcs 28 per \$1), and the liberalization of prices. The unification of sales tax rates resulted in the elimination of state subsidies to selected consumer and industrial goods which are daily necessities. At the same time, it created the systems prerequisites for a growth in the revenues flowing to the state budget, at the expense of the population.

The third devaluation of the Czechoslovak koruna with respect to freely convertible currencies proclaimed within a single year created the conditions for a cheap sale of the national wealth to foreigners holding foreign exchange, including a further intolerable cheapening of manpower. At the same time, it resulted in price increases for imported goods (with exception of Finland) compared to the status which existed on 31 December 1989 by 100 percent and, with the assertion of a 20-percent import surcharge, the price increase amounted to 120 percent. The import surcharge is to be used only

for this year (it is to be lowered to 18 percent) and, thereafter, it is to be rescinded. The price increase of imported production input materials for our industry substantially increased the cost component in the prices of domestic goods and services. It is turning out that this burden stimulated additional rises in prices.

Under conditions created by the precipitous devaluation of the national currency, given the high degree of dependence of the national economy upon foreign trade, the transition to the use of world prices and payments in convertible currency in transactions involving the former countries of the Eastern bloc, the high degree of monopolization, and an environment devoid of competition for domestic manufacturers, 1 January 1990 saw the introduction of the liberalization of purchase prices and the liberalization of the commercial span (free price formation authority granted to manufacturers and trading organizations). At the same time, administrative price-regulating instruments were applied to selected foodstuffs, solid and gaseous fuels, potable water for the household, thermal energy, rents, and transportation fares in municipal and local transportation. This encompasses the following risks:

- The automatic transferring of higher prices for input materials into manufactured goods and services rendered to the population.
- A chain-reaction price increase as a result of the precipitous devaluation of the Czechoslovak koruna in the face of a highly developed division of labor among manufacturers.
- An express weakening of the competitive pressure exerted by liberalized imports upon domestic manufacturers.
- A further decline in the quality of Czechoslovak production, destined for the domestic market, a further decline in the esthetics and culture of sales.
- A disproportionately high commercial span, dictated by commercial organizations.
- A limitation of production (as a result of low demand) while retaining a relatively high level of prices.

Whether the above risks will materialize or not will be shown by the immediate future.

Social Welfare Expenditures Examined

91CH0594F Prague HOSPODARSKE NOVINY
in Czech 18 Apr 91 p 5

[Article by "ck": "The Reform and Social Payments—How Much Will Assistance to the Needy Cost?"—first paragraph is HOSPODARSKE NOVINY introduction]

[Text] As the economy reform progresses, it is possible to anticipate a growth in the number of families who will not be capable of solving their unfavorable situation for a certain time by themselves, without the assistance of the state. This assistance will be financed from the budgets of the individual republics. What kind of resources will be available?

Assistance by the state is provided in cases where the total income of a household declines below the level which the state has designated to be the limit of social need. No citizen of our state should drop below this level. An overview of the limits of social need among the predominant types of households is listed in the table below.

Characteristics of Household	Limit of Social Need (Kcs)
Single-member household	1550
Married couple	2700
Mother (father) + 1 child	2600-3000*
Mother (father) + 2 children	3450-4250*
Parents + 1 child	3750-4150*
Parents + 2 children	4600-5400*
Parents + 3 children	5450-6650*

* Depending on the age of the children.

For purposes of computing the social needs of a family, all family income is counted. If both husband and wife work, the formula includes the salary of the wife plus the salary of the husband plus the allowances for children plus the equalization contribution (140 Czech korunas [Kcs]) plus any possible additional income. In the case of a single old-age pensioner or a pensioner receiving full invalid pay, the orientational limit of social need is set at Kcs1,550. In view of this, the lowest pension which is considered to be one of the sources of income (including an equalization contribution) has been set at Kcs1,580, effective 1 March.

The number of socially needy citizens will not only grow, but will also change its composition. Hitherto, it was predominantly some pensioners and single mothers that were dependent upon state aid. The valorization of pensions has, in part, reduced the number of pensioners below the level of social need. Frequently, however, the position of single mothers becomes more difficult; fathers hiding behind their own firms cease paying child support and their basic obligations must be supplemented, in part, by the state up to the limits of social need. The circle of socially needy citizens will be expanding even by the inclusion of families where both husband and wife are working.

The full assertion of new orientational limits of social neediness will, nevertheless, result in approximately 617,500 households with approximately 1.7 million citizens dropping below this limit.

The cost of living will increase as of 1 May in conjunction with the rise in prices for fuels and heating energy in comparison with December 1990 to a level of 139.2 percent. As a result of these price measures, as well as due to inclusion of the anticipated rise in the state equalization contribution, the number of households beneath the limit of social neediness will increase to 780,900, encompassing approximately 2.2 million members. The financial means for social security payments in this case are estimated at Kcs4.5 billion.

In conjunction with the growth in the number of households eligible for social security payments (from a present 370,000 to 780,900), it will be necessary to

expand the number of employees at community offices to such an extent that the offices are capable of fulfilling the functions of a social safety net and to help them handle the claims of socially needy citizens. In the absence of any kind of computer equipment and in anticipation of the fact that one employee could handle payments for approximately 400 recipients, the implementation of this activity will require approximately 1,960 employees. Given an average salary of Kcs3,000 per month, their wage costs will amount to Kcs70.6 million per year.

Social welfare institutions have already experienced cost increases for food from Kcs482 million per year in 1990 to Kcs626.6 million as a result of the liberalization of prices after 1 January 1991 (accompanied by a 30-percent increase in the price level for foodstuffs). The increase in prices for fuels and thermal energy in 519 social welfare institutions in the Czech Republic will be manifested by a growth in costs. The price for fuels consumed rose from Kcs34 million in 1990 to Kcs102.1 million in 1991. In the case of thermal energy during the same period, the cost rose from Kcs92.6 million to Kcs225.5 million in the first phase and to Kcs342.5 million in the second phase.

The system of adapting nominal wages, including minimum wages, to the development of the cost of living, which is the subject of the General Agreement of the Czech Republic, is intended to contribute to lowering the number of households falling below the limits of social neediness and, thus, also make contribution toward lowering the financial costs involved in social welfare payments. However, it can be anticipated that the entrance of young families upon the scene will have a detrimental effect upon the smaller opportunities for the professional assertion of young people with the currently anticipated rescission of newlywed loans, the halting of state and cooperative housing construction, and increases in the prices of industrial goods necessary for equipping a household.

Note 1 on Coupon Privatization Published

*91CH0595G Prague HOSPODARSKE NOVINY
in Czech 26 Apr 91 p 8*

[Article by "dd": "Making Investments With a Booklet in Hand"]

[Text] The sale of state property for investment coupons will be one of the forms of large-scale privatization in accordance with the approved transformation law.

On the basis of privatization projects, enterprises will be classified for the process of coupon privatization. The latter will take place in at least two waves. Each wave will contain several rounds during which stocks and securities will be offered to holders of investment coupons.

We were informed regarding the fundamental instruments and methods by which this unprecedented action can be participated in by all Czechoslovak citizens who

are older than 18 years of age by Jaroslav Lizner, the head of the Department of the Financial Database of the Federal Ministry of Finances of the CSFR and secretary of the Commission for Coupon Privatization.

It is anticipated that the first privatization wave will take place at the beginning of next year. Prior to that time, listings of joint stock companies will be compiled, and will include offerings of securities which it will be possible to acquire with investment coupons. The wave will be made up of a maximum of six rounds of auction sales of securities for coupons. Each round will have four phases: the setting of security prices expressed in investment points, ordering of securities by holders of investment coupons, processing and publishing the results of the round. Securities prices for the first round will be determined centrally and will be based on the cumulative offerings of joint stock companies and the cumulative demand of the population. In the individual waves, demand will be recorded in accordance with how many citizens will register "for the game" by having the registration page of their coupon booklet stamped.

In May, the definitive configuration of the coupon booklet is to be determined so that it would be possible to begin printing the anticipated approximate eight million booklets. In addition, it is expected that approximately five million informational handbooks, which will contain basic information on the organization of coupon privatization, will be printed. Coupon booklets (costing around 35 Czech korunas [Kcs]) and information handbooks (probably costing Kcs15) will be sold beginning in September of this year, primarily at post offices.

The booklet is supposed to contain three copies of the registration list and the actual three-part investment coupons, consisting of a minimum of 100 and a maximum of 1,000 investment points, in color combinations to designate 100, 200, 500, and 1,000 points. In and of itself, the book does not entitle the holder to make investments. In order to participate in the appropriate wave of coupon privatization, an owner must equip the booklet or one of the registration lists with a stamp, the cost of which is proposed for the first wave at Kcs1,000. An "investor" can participate in several waves, but the cost of the stamp need not be the same for the individual waves.

After being filled out by the owner, two registration pages of the coupon booklet will be detached and registered, the last of these pages—equipped with the stamp—will establish the owner's right to dispose of investment points and, in accordance with his individual considerations, deposit them with investment companies or directly with joint stock companies incorporated in the coupon privatization campaign. If an owner invests his coupons in a specific joint stock company, any possible dividends will be based on the number of shares acquired and on their prosperity. If an owner deposits his coupons with an investment company, he

thus limits his risk, but will obtain only average dividends derived from all actual investments and based on the number of shares held.

To assert an interest in the specific placement of investment points, use will be made of all three identically filled-out portions of the coupon. One portion remains confirmed in the owner's booklet and the other two portions will be registered and centrally processed. On the basis of this action, the results of the individual rounds according to which joint stock companies will be divided into two groups will be published. The first group will include companies whose securities will be subject to lower demands or where demand is equal to the offering. In such a case, there is nothing to prevent an "exchange" for coupons. (A coupon holder will prove his entitlement by displaying the confirmed investment coupon in his coupon booklet.) Any possible leftover securities will be shifted to the next round and their price will be determined in accordance with the results achieved during the previous round.

The second group will include those joint stock companies experiencing interest in acquisition of their shares which is greater than the number of shares being offered. Under such conditions, the results will be rescinded and all securities will be shifted to the next round, in which the price will logically be higher. The investment points will be "returned" and the owner can use them in a subsequent round according to his own considerations. In cooperation with the Commission for Coupon Privatization, we will present additional information and we welcome reader comments on this topic.

Privatization, Foreign Capital Viewed

91CH0579G Prague HOSPODARSKE NOVINY
in Czech 11 Apr 91 p 3

[Article by Prof. Eng. Miroslav Tucek, Advanced School of Economics, Prague: "With What Do We Enter Upon the Market Economy?"—first paragraph is HOSPODARSKE NOVINY introduction]

[Text] For the uninvolved observer, all of Europe during the second half of the 1980's was full of surprises: Soviet perestroika beginning in 1985 and the Geneva summit between President Reagan and Gorbachev in the same year, the disintegration of the power structures in central Europe, the war in the Gulf, the disintegration of the majority of Czechoslovakia's foreign markets, etc. However, we are not uninvolved observers; we are direct observers—more or less active participants in the process which we are experiencing with joy or with pain. For us, this process is objective, but, nevertheless, unpredictable.

The process of transition to a market system as an economic prerequisite for prosperity, democracy, and freedom (it is not the sole prerequisite!) is contingent upon the process of privatization which can involve, in part, the return of property to original owners and, in part, the sale or cost-free distribution of property (the

coupon method). Many managers are trying to assert the continued existence of state enterprises. They are right in contending that, in the European countries, state (public) enterprises have existed and continue to exist. They forget that their existence does not assure the maximization of their efficiency. The origin of these enterprises was always a way out based on need—irrespective of whether it involved state ownership of the railroads, the nationalization of declining industry in the 1920's in Italy, or waves of nationalization in the postwar years. All postwar privatization of public enterprises, on the other hand, led to increasing their efficiency, to their economic recovery, to a better satisfaction of customer needs.

A Conflicting Process

How to conduct the process of privatization remains a debatable question, despite the fact that the Federal Assembly has already approved the appropriate laws. As an economist, I believe that the criterion for judging the selected methods is solely the economic effect measured in terms of the efficiency of the economy. In other words, not only partial effects for state or community finances or for the individual who takes over a piece of privatized property. Partial benefits will come to naught if, in the median term, they lead to deepening the economic crisis.

Various ways of privatization are variously speedy, "small" privatization could be the fastest, the natural restitution of large units will probably be complicated and time-consuming. And time is money.

To privatize means primarily to change the thinking—and this applies to many state enterprises, particularly in the heavy industry, in commerce, and in the service enterprises. State enterprises, which will, unfortunately, still continue to exist for a number of years, must learn to behave like private enterprises because, otherwise, their founders are left with no other choice except to change their management: In no event, however, may a manager in private enterprise do anything which is in conflict with the interests of the owner (even if, surprisingly, the Czechoslovak labor code so permits!).

Currently, the starting point for all privatization projects is property restitution. For the present, it is possible to use other methods of privatization only in the event they involve state property which is not subject to restitution. Therefore, managers of state enterprises should strive to speed up the restitution process and not make it more difficult. Similarly, community representations should do the same. Property restitution is understandably encountering the strategic decisions of the new owners which are difficult to predict today. They will certainly require additional capital and the banks will likely give them priority in granting credits over uncertain state enterprises. On the other hand, however, it is clear that the development of the first major private enterprises will lead to the expansion of the domestic market, something from which even enterprises which have thus far not been privatized can profit.

The so-called small privatization will likely begin soon to meld with large-scale privatization, in accordance with the transformation law. What will happen is that, on the one side, "small" privatization will be used even for profitable medium-size enterprises and, on the other hand, a number of small operations will remain, for example, small sales outlets, which will not be successfully privatized by way of auctioning and for which methods of "large-scale" privatization will have to be used.

Will There Be Foreign Capital?

Enterprises included in large-scale privatization are, in practical terms, broken down primarily into those which will be privatized involving the participation of foreign capital and the remainder. Much has already been written regarding the importance of foreign capital participation. I would like to underscore that it is always necessary to see that this participation can be of two kinds: strategic participation or portfolio participation.

I understand strategic participation to be direct investment on the part of a foreign entrepreneur who has an interest in manufacturing or selling in the CSFR—or who is interested in eliminating competing production, or possibly in exporting unprocessed raw materials. Portfolio participation is the purchase of securities, with the investor expecting not only profitability, but primarily an increase in value (market prices, rates of exchange), when he, in other words, is not interested in controlling a Czechoslovak enterprise, but is more likely interested in its good reputation. Strategic investors are, for the most part, industrial, hotel, and other entrepreneurs, who are frequently multinationals. Portfolio investors are specifically insurance companies, pension funds, and various investment funds.

At present, it is primarily strategic investors who have an interest in investing in Czechoslovakia. Foreign partners have an interest in purchasing real estate in Prague, in the spa cities (West Bohemian spas, Piestany), in the Tatra Mountains, and anticipate their reconstruction and substantial increases in value. For the time being, there is little room for investments in Czechoslovak securities (stocks), room which should be rapidly expanded by the establishment of new private Czechoslovak joint stock companies and, particularly, during the preparation for and implementation of "large-scale" privatization. In anticipation of this possibility, the establishment of several "Czech-Slovak funds" is being prepared abroad, in collaboration with our banks. These funds expect to gather capital from various institutional investors (for example, from pension funds), particularly in the United States, the Far East, and some Arab countries. Their shares will be placed in the European capital markets.

The interest among a portion of foreign investors in investing in Czechoslovakia, particularly in Canada, Great Britain, Australia, and in other far-removed territories has recently declined. A report by one of the

largest North American banks characterizes the reasons for the decline as follows: "Growing political tension and economic problems in the Soviet Union and in parts of East Europe could expand. Reports from Czechoslovakia present a confused picture regarding future rehabilitation and privatization. Moreover, discussions dealing with the future image of the country have been given great publicity and do not present the picture of political stability."

Every politician rising to speak in a legislative organ, in the press, or at public meetings should likely become aware of his coresponsibility for the image of our republic abroad, for its credit and investment worthiness. Foreign investors monitor Czechoslovakia more carefully than we ourselves and they make their decisions accordingly.

The jurisdictional unclarity between the various governments, communities, and enterprises, between the individual ministries, and the indecisive position of some cities with respect to accepting foreign investments are exerting an unfavorable influence upon the hoped-for investment in Czechoslovakia. An example of our inability to accept foreign investments is the construction of hotels in the city of Prague. The lack of substantial dimension in this branch is great. There were at least 100 interestees in the construction of hotels in the city of Prague. However, last year the city of Prague did not issue a single building permit for the construction of a hotel, as far as I know.

"Small" Privatization

The Association of Czechoslovak Entrepreneurs of the Czech Republic attacked Minister Jezek for delays in "small" privatization (LIDOVA DEMOKRACIE, 1 March 1991). I do not wish to be an advocate for him because I am not informed with regard to some specific questions. But it certainly is not true that his ministry is attempting to take property out of the "small" privatization process and transfer it to the "large-scale" privatization process, which would cause it to be marked down for sale abroad. On the contrary, "small" privatization encompasses everything a Czechoslovak citizen wishes to buy—to the extent to which it, naturally, does not belong undisputedly to the state. According to the progress of the auctions in Prague, I have the impression, on the other hand, that silent foreign partners are standing behind some of our auction customers.

The problem of privatization has given rise to varying pressure interest groups (lobbies) which likely work even with methods which run counter to the law. The process of privatization is occurring in an atmosphere of sharp combat between various material interests. What is important is that all should have equal chances, equal access to information, and that the same rules apply to all—for domestic as well as foreign interestees. The interest of the national property funds in sponsoring the broadest possible "small" privatization is also a financial

one. In contrast to the coupon method of "large-scale" privatization, they can collect large revenues on the basis of small privatization.

The most complicated problem facing "small" privatization will be the privatization of rental houses. The changes which are in preparation regarding the housing market, with strong protection for renters (E. Osvald, TYDENIK HOSPODARSKE NOVINY, No. 9/91), will result in the fact that no one will find it worthwhile to purchase rental apartment houses, to repair them, to administer them, and, what is more, even build them. The proposal does anticipate that rents will rise, but, otherwise, virtually nothing in the existing unfavorable allocation economy will change. The legislators clearly do not wish to deprive communities of their dwelling houses so as to make possible the continuation of demanding payments for any kind of disposition of a dwelling unit or a nonhousing area. For the time being, the Association of Entrepreneurs has not taken a position on this question.

"Large-Scale" Privatization

Whereas "small" privatization involves primarily operating units about which those who acquire them probably know how to utilize them at a profit, large-scale privatization is threatened by a sales and financial crisis affecting our economy. A foreign investor, to the extent to which he strives to acquire any kind of enterprise, clearly has a notion of how to convert it to profitable operations. Even in such cases, insolvency and indebtedness substantially lower enterprise prices. However, what is to happen with industrial, agricultural, and other state enterprises which are not exactly "plums"? What is to be done with indebted enterprises who have no sales possibility for their current production and are not prepared to change their production—and "employ" (perhaps it is better said that they pay) hundreds or thousands of individuals? Will Czechoslovak citizens want them for coupons? Do such enterprises have a market price? I believe not. And what will possibly happen is that they will be acquired practically for free, perhaps for a pledge to employ part of their existing personnel, or even obtain public funds.

How To Get Out of the Sales and Financial Crisis?

The crisis situation afflicting a number of state enterprises and entire sectors of the economy has a number of causes. I consider the principal ones to be the following:

1. the loss of approximately two-thirds of the foreign markets and the resulting contraction of the domestic market;
2. the low degree of technical and commercial preparedness on the part of enterprises to react to this situation;
3. the reluctance to admit the real situation and to solve it with initiative whichever way it is possible.

The economic and fiscal crisis has been ripening for a number of years already. The old regime fell because it proved unable to solve the adaptability of the national economy to world markets and deferred the problem through the inflationary financing of exports, through magnanimous nonproductive investments, and through excessive public demand. Wages and other rewards were paid in a number of cases for activities which did not benefit society at all.

Privatization is expected to lead to an increase in initiative, profitability, and responsibility for enterprise decisionmaking, for bringing entrepreneurs to the leadership of enterprises. This is supposed to improve even the sales and fiscal situation of the enterprises. Today's bad situation, however, at the same time renders the process of privatization more difficult.

To a certain extent, the state can help the development of entrepreneurship, for example, by lowering the tax burden, particularly with respect to enterprises. Given the current taxing of profits, the advantages of profitable enterprises over unprofitable enterprises are reduced (a profitable enterprise pays 55 halers to public budgets for every koruna of profit), it prolongs the return on capital of invested resources, it increases the use of external investment financing through credits. The enterprises, at the same time, pay 50 percent of the value of paid salaries to the state budget, which also reduces their net profit. Everywhere in industrial nations, payments for health insurance and pensions for employees are substantially lower (they are contributed to by the employees themselves as well as by the state).

The tax burden should be borne primarily by citizens as wage earners or by others, particularly high wage earners, the number of whom is growing today and will continue to grow. The accelerated introduction of modern income and property taxes could help solve even such questions as housing, the mobility of manpower, the parallel existence of old-age pensions and other incomes, etc. The payments situation being experienced by enterprises is also being made worse by the system of collecting taxes on sales, which are transferred to the state budgets, and taxes on goods (for example, automobiles) which have, as yet, not been sold to the consumer.

Without a doubt, the devaluation of the koruna which, however, only replaced the existing subsidies for exports in some enterprises is supporting exports. However, it is a short-term solution as long as increases in costs, that is to say, the cost of wages, cannot be successfully prevented. From this standpoint, the tripartite agreement is a dangerous factor for the renewal of economic stability; it is a high price to pay for relative social peace.

We are dependent upon profitable exports. In all countries, exports are therefore overtly or covertly supported: by returning of the value-added tax, by supporting the export of agricultural products, by state guarantees for the export of goods and capital, or by providing state guarantees for their insurance, etc.

However, we must differentiate the payments situation being experienced by enterprises from their financial situation. The chain reaction-type of insolvency is not only an expression of a deep financial crisis on the part of enterprises, but of the inflexibility in their mutual granting of credits and in the banks.

Will the Economy Remain in Our Hands?

If I speak of a crisis, I do mean a sales crisis caused by changes in external conditions, but also a crisis involving "Czechoslovak hands" or brains. Thus far, the sales crisis has not been reflected in increased quality of work and quality of products—more likely in prices on the domestic market, which this market continues to narrow down. It will most likely be reflected in unemployment, but unemployment is spoken of more frequently than the need to adapt. And here lies the fundamental problem.

An increase in adaptability requires adequate investments. The degree of savings declines, foreign banks are little disposed to grant Czechoslovak entities credits, the sole financial injection can be in the form of foreign investments. However, conditions for these investments in Czechoslovakia are far less favorable than in a number of other European countries. Reducing taxes for foreign investors encounters resistance on the part of Czechoslovak enterprises, as well as a shortage of public funds which continue to be excessively burdened by social type of expenses and by a mammoth administrative apparatus in cities, district housing management enterprises, District Institute of National Health, an excessive number of central institutions, etc. All are fighting for survival—including the bureaucracy.

Meanwhile, there is no "threatening" danger that an excessive amount of foreign capital will be in our economy. And what does this mean anyway?

Clearinghouse Established for Ruble/Koruna Trade

*91CH0579D Prague HOSPODARSKE NOVINY
in Czech 5 Apr 91 p 1*

[Article by Blanka Ruzickova: "The Foundations of Russia House—Search for New Ways To Trade With the USSR"]

[Text] Last year, Czechoslovakia exported products worth \$5.5 billion to the Soviet Union. The value of goods, the exchange of which is, for the time being, of interest to both Czechoslovakia and also the Soviet side, this year amounts to not quite \$2 billion.

This express difference needs to be made up by exchanges between enterprises. The exchanges between Czechoslovakia and the RSFSR [Russian Soviet Federative Socialist Republic] are supposed to be brokered by the Russia House Trading Corporation which is being prepared.

During this year's negotiations in the RSFSR, it was agreed that Russia House will have its seat in Prague and a branch in Moscow. The proposal for establishing this corporation and the detailed procedures involved in the method of organization of mutual trade will be submitted by the Czechoslovak side to the RSFSR Ministry of Foreign Affairs next week. The basis for the proposal, according to Eng. Zdenek Raz from the Ministry of Industry of the Czech Republic, is accounting in Czechoslovak korunas. The prerequisite for the development of trade is the primary export of Soviet organizations to Czechoslovakia and the opening of their koruna account with the Czechoslovak Bank of Commerce. Through Russia House, these resources would then be used to purchase goods in Czechoslovakia for export to the RSFSR.

The offer which was presented to the Soviet side during the preliminary negotiations included products, semifinished products, and spare parts which we traditionally exported to the USSR. As Engineer Raz says, they primarily involved engineering products, textile ready-to-wear, knitted goods, and footwear. Overall, the value of the goods was approximately \$2.5 billion.

Upon returning from the RSFSR, Jan Vrba, Minister of Industry of the Czech Republic, stated that it is necessary to create such conditions for mutual exchange that the value of trade at the enterprise level should reach at least \$2 billion annually. However, this is not simple in view of the competition which is pressing the Soviet market from outside and given the declining purchasing power of the population. It can definitely not be anticipated that Soviet enterprises will wish to purchase products at an average or below-average quality in return for their exports.

In the view of our specialists, Russia House should be a joint stock company with anticipated 50-percent participation by both sides, that is to say, by Czechoslovakia and Russia. The founding members for Czechoslovakia should be the Czechoslovak-Soviet Chamber of Commerce, the Czechoslovak Bank of Commerce, the Industrial Association of the Czech Republic, and the Industrial Association of the Slovak Republic. The joint stock company form was selected, among others, because, in case of need, it would facilitate the entry of other participants.

The negotiations began in the RSFSR because that republic is the traditional destination of more than 80 percent of Czechoslovakia's exports to the USSR. The contemplated project will, naturally, start up only provided that an agreement with the Russian side follows the submission of the proposal. In addition to statutory conditions, it will be necessary to solve some additional problems resulting from valid regulations and decrees issued on the level of the USSR. In the event of a positive response by the RSFSR, Russia House could be established during the month of May.

Secondary Market Not Yet Stock Exchange

91CH0595H Prague HOSPODARSKE NOVINY
in Czech 26 Apr 91 p 9

[Article by Eng. Jaroslav Zelinka, Czechoslovak State Bank: "Not Yet a Stock Exchange, but Already a Market—We Are Beginning To Trade Securities"]

[Text] The gradual transition of the Czechoslovak economy to a full-value market economy is bringing about major changes, even in the financial sphere. One of these is an effort on the part of economic entities to make use of a method of acquiring capital and investments through the issuance of securities—a method which is quite customary throughout the world. The existence of securities in the economy, however, requires the opportunity to handle them freely. This means that, on the one hand, there has to be the opportunity to sell them or transfer them to another owner at any time and, on the other hand, the opportunity to purchase securities which have been issued at a previous time. All of this is to take place at the given price which attaches to the security at the present and at which it is accepted by the market. It is, therefore, necessary to create a supplemental instrument which takes into account the interests of investors and issuers, which would make it possible for them to trade their own securities or securities entrusted to them on the basis of market principles.

Currently, the volume of issued tradable securities, predominantly stocks and bonds, in Czechoslovakia is low, for the time being, and does not form an adequate foundation for the efficient functioning of a stock exchange. Consequently, the Czechoslovak State Bank, in collaboration with the commercial banks, has created a temporary secondary market in securities which replaces a stock exchange until such times as one comes into being.

Trading in the temporary secondary market will be experimentally initiated in the near future. The temporary secondary market in securities is a facility which will make possible the conclusion of transactions involving securities on the basis of auctions held during a specific time, at a unified market rate, created on the basis of developments affecting offerings and demand. The fundamental principle for trading will be the establishment of a unified rate for securities which will facilitate the maximizing of the volume of transactions. In this respect, it will be based on the system of previously accumulated orders. In the case of bonds, the rate will be set without regard to the time remaining on the coupon. The remaining interest yield will be calculated separately.

The object of trading in the temporary market will be securities issued by Czechoslovak legal entities in Czechoslovak currency which are identified by an ISIN (international identification number for securities) number. This number is assigned to issuers currently by the Investment Bank of Prague. The assignment of this number guarantees that the security complies with all

considerations, particularly from the standpoint of security and protection against forgery. An overview of all securities with assigned ISIN numbers is listed in the "Listing of ISIN Codes." Securities, consisting of a folder and a coupon sheet, will be traded as a whole.

The Securities Commission, which is composed of representatives of the commercial banks, the Czechoslovak State Bank, and the Federal Ministry of Finance, will make decisions regarding the acceptance of securities for trading in the temporary market. The decision by the commission regarding the acceptance of securities for trading will be preceded by the verification of the issuer's application and by verification of the attached prospectus by the issuer's bank. The purpose of submitting a prospectus is to provide a complete characteristic of the issuer of securities, intended for potential customers wishing to purchase these securities. The prospectus must particularly contain data on the economic activities of the issuer, his financial situation, and data on the issuance of the securities in question. The issuer will be obligated to update the data contained in the prospectus at least once a year after the final annual accounting, as well as during the year if his financial situation undergoes a substantial change. All requirements which the prospectus must fulfill are listed in the attachment to this article [attachment not translated]. The listing of securities accepted for trading in the temporary market and their prices will be published on a regular basis.

In the beginning, participants in the market will be the banks and savings institutions which broker trade transactions for their clients from among organizations and the population. In practice, this will mean that anyone who is interested in the sale or purchase of securities must make a connection with one or another of the listed banks and inform it of the kind of security in which he is interested and of the conditions under which he is willing to conclude a trade. In the interest of safeguarding the temporary market against client insolvency, the client will, simultaneously, be obligated to deposit funds or securities in an appropriate account.

In the temporary market for securities, the volume of securities will be expressed in terms of portions (party). One portion represents the nominal value of a security at 1,000 Czech korunas [Kcs]. In order to make the market in securities viable, the minimum amount for trading must be 10 portions.

Mutual settlement of accounts between market participants and the actual transfer of securities will be accomplished on the basis of concluded trades. Account settlement will be supported by the Czechoslovak State Bank through Czechoslovak State Bank clearing accounts and special accounts for individual participants, established for accounting for securities. The method for transferring securities will depend on the mutual agreement between individual participants in the temporary market.

In the beginning, the securities market will be held once every 14 days with the provision that the deadlines for holding the market will be adjusted in accordance with the development of the situation on the financial market, particularly with regard to the volume of securities traded.

The chosen method of trading is adequately simple and flexible. In conceptualizing it, primary attention was devoted to making it possible for the broad public to understand the basic philosophy of trading in as short a time as possible. At the same time, it presents an opportunity for gradual expansion in accordance with the need of a developing financial market. Detailed information regarding the trading of securities in the temporary secondary market of securities can be obtained by clients from individual commercial banks. The date on which the first session of the temporary market will be held will be announced in sufficient time.

Price Index Construction Questioned by Reader

91CH0579E Prague HOSPODARSKE NOVINY
in Czech 5 Apr 91 p 9

["Text" of letter to the editors by Pavel Tomasek, Prague 6, and reply by Engineer S. Kocianova, Federal Statistical Office: "Question Mark Over the Price Index"—first paragraph is HOSPODARSKE NOVINY introduction]

[Text] The makeup of price indexes and cost-of-living indexes were queried by our reader. We asked employees of the Federal Statistics Office to provide an explanation.

[Begin letter] The processed consumer price index and cost-of-living index functions with so-called constant weights, specifically with weights established for 1989 and not with weights of the current period being measured. This fact should not be overlooked in interpreting the results which have been determined. Given negligible price movement, it can be anticipated that household expenditures will have an approximately stable structure, but this supposition is not valid in the face of sizable price changes. The sharp rise in consumer prices undoubtedly leads to express changes in the structure of household expenditures. With the greatest of likelihood, the declining level of real income will strengthen the spectrum of household expenditures in favor of value expenditures for the basic necessities, at the expense of expenditures for nonessential items. [end letter]

[Begin reply] The author of the article deals with the problem of indexes computed using constant weights (the structure of consumption) for a base year—the year 1989, and weights for the current year.

On this topic, state statistics can show that the development of prices in the CSFR is monitored by both methods and both indexes, however, cannot be used in the same period because data on the structure of consumption from the current year is not determined and

processed until the monitored time period has passed. In regard to indexes using constant weights, changes in these weights are not undertaken for about five years, both in our statistical work and also in international statistical practices. Even though a more frequent alteration of the weighting system in conjunction with judging price developments in time frames is not suitable, alterations of weights will be undertaken sooner in view of the extensive change in prices, as well as on the basis of recommendations by the International Monetary Fund. It is anticipated that 1990 or possibly 1991 will be used as base years—years for which additional specific price changes would already be included.

The structure of retail turnover, which is the basis for computing the consumer price index, was not available until approximately one month after the conclusion of the quarter. The situation in 1991 is somewhat more complicated because problems arise regarding the determination of the detailed breakdown. Household cash expenditures, which are used in computing the cost-of-living index, which are listed for approximately 5,500 selected families in the Diaries of Reporting Households, have thus far been aggregated only on an annual basis. This year, however, provisions are being made to see to it that even the structure of household consumption is monitored on a quarterly basis. This will make it possible for cost-of-living indexes to be computed on the basis of contemporary household expenditures in shorter time intervals than annually (although there will be a considerable delay).

The considerations of the author of the article regarding the magnitude of the consumer price index computed on the basis of current weights must be considered as having been merely construed because they are also based on the structure of consumption for 1989, to which he merely assigns new prices. Following the price increase in 1990 and the rising development of prices in 1991, it may be anticipated, however, that consumers will even change their consumer habits. [end reply]

Financial Management Revisions Discussed

91CH0624B Prague HOSPODARSKE NOVINY
in Czech 3 May 91 p 9

[Article by Eng. Otto Jech, Federal Ministry of Finance: "Financial Management of Budget-Supported and Self-Supporting Organizations: New Decrees Taking Effect"]

[Text] Decrees on the financial management of budget-supported and self-supporting organizations have now gone into effect or will become effective shortly.

The decrees are issued separately by the Federal Ministry of Finance, the Czech Republic [CR] Ministry of Finance and the Slovak Republic [SR] Ministry of Finance for organizations within the jurisdiction of the respective governments.

The SR Finance Ministry Decree No. 126/1991 on Managing Budget Funds of the Slovak Republic and

Financial Management of Budget-Supported and Self-Supporting Organizations has already been published in the Law Gazette in section 25; the Federal Ministry of Finance's Decree No. 150/1991 on the Financial Management of Budget-Supported and Self-Supporting Organizations Within Federal Jurisdiction is ready for publication, and the draft of a CR Finance Ministry's decree is under consideration in the government's legislative commission.

The decrees are in agreement in their basic principles especially with regard to self-supporting organizations. They differ on economic incentives in respect to the financial management of budget-supported organizations. The differences do not infringe on a uniform budgetary policy nor basically on the principle of uniform accounting.

The decrees seek the maximum possible relaxation of an ossified and for many years unchanged financial management of budget-supported and self-supporting organizations, but simultaneously seek to sustain economy-conscious conduct and proper targeting of funds available from public budgets.

The method of financial management is based on the anticipated ultimate system of financing public consumption, for instance:

- A number of still free or partially free services will be transferred to the sphere of paid services with a possible reduction of subsidies from public funds;
- The health services will be generally transferred to a system customary in advanced European countries, that is, a system assuring resources directly linked to demographic (or employment) trends with a pronouncedly lower dependence on state budget resources, with a separation of general medical and preventive care provided free from above-standard paid care. It is necessary to reckon also with medical care on free enterprise basis;
- Individual universities will become independent and there will be changes in the secondary school system and funding of apprentice training; next to the government-run school system there will be gradually introduced supplementary nongovernment forms of instruction (church and private schools);
- Certain new funds will be established replacing state budget resources, their assets to be systematically created in a linkage to demographic developments and adjusted respectively according to employment trends (a social security fund);
- There will be a permanent need to establish new kinds of social payments (unemployment benefits, cost of retraining and the like);
- In connection with local self-government there will be a change in ownership relations (communal property), and there will be major changes affecting revenue flows in regional budgets.

Budget-Supported Organizations

The intent is to gradually reduce this form to organizations of the state administration, defense, security and the judiciary, along with a gradual yet relatively rapid transition of budget-supported organizations in other fields to the self-supporting form. This does not mean that individual organizations in these fields can not acquire a different status in economic law, or conversely that some organizations from other fields cannot assume the legal economic form of a budget-supported organization. The transition of such units will not be handled by central directive but rather by creating economically advantageous conditions offering greater incentives to self-supporting organizations, a broader scope of economic activity, improved chances of obtaining off-budget resources, and the like. This ought to stimulate voluntary transition of budget-supported organizations to the self-supporting form.

The Federal Ministry of Finance's decree does not stipulate for budget-supported organizations any form of material incentive nor the possibility of endowing funds except a cultural and social services fund or respectively a special compensations fund according to Decree No. 145/1991 of the Federal Ministry of Labor and Social Affairs on handling wage funds in budget-supported and self-supporting organizations. In federally managed organizations the wage fund will serve merely as an instrument to transfer undisbursed payroll funds to the next period and will not have the character of an incentive fund. But it anticipates a broader utilization of ancillary economic activities provided their extent is defined by the organizer (for central bodies of the state administration, by their most senior official). So it will be possible for a budget-supported organization to exceed the limits of its investment and noninvestment budget outlays, among other by funds obtained from ancillary economic activity. Moreover the decree allows a budget-supported organization in the event of a financial shortfall, assuming approval from its organizer (in case of central bodies of the State administration, after agreement with the Federal Ministry of Finance), to exceed its budgeted outlays up to the amount of excess revenue.

The SR Finance Ministry's decree introduces incentive also to budget-supported organizations, in regard to exceeding budgeted revenues (excess revenues are retained by the organization in full), and savings on material expenditures, i.e., noninvestment outlays without wage funds, allocating 50 percent to the organization. Funds to be established in this connection include, apart from the cultural and social services fund, also a contingency fund and further a special compensations fund serving also as an incentive fund, to which is transferred an appropriate share of revenues in excess of budget and savings on material expenditures.

The CR Ministry of Finance's draft decree also provides for incentives in budget-supported organizations, but

only in regard to savings on material expenditures (presumably leaving these savings in full to the organization) and establishment of a cultural and social services fund, a special compensations fund and a contingency fund, similarly as in the decree of the SR Ministry of Finance.

Self-Supporting Organizations

The form of a self-supporting organization should become prevalent in the public sector. The suitable form is always determined by the organizer subsequent to agreement with the organization, as appropriate according to the work plan and objective economic conditions.

The most important provisions relating to financial management in self-supporting organizations may be summarized into several areas.

1. Investment financing is newly based on the following main principles:

- The organization's investment activity is contingent solely on disposable financial assets;
- Self-supporting organizations write off their entire capital assets (as per the Federal Ministry of Finance Decree No. 586/1990 on writing off capital assets) and the writeoffs are left to the organization as the principal resource for investment financing;
- A capital reproduction fund is being set up; its resources include primarily write-offs, investment allocations from the organizer's budget, transfers of profit from improved business results, and supplemental resources such as donated financial assets from organizations and private individuals (domestic as well as foreign), associated funds, and the like;
- Assets from this fund may be used by the organization not only for investment financing and repayment of investment loans but also for the maintenance and repair of capital assets;
- Another source of investment financing are special purpose grants from the State budget provided individually by way of the organizer's budget; these will not become a part of the capital reproduction fund and will be carried in a special account at a financial institution;
- Investment credit will be an important source of financing.

2. The organization's economic stake in profitability is a new element:

- Improved business returns are transferred in toto (according to the Federal Ministry of Finance decree and the draft decree of the CR Ministry of Finance), or in the amount of one-half (as stipulated in the SR Ministry of Finance decree) in predetermined apportionment to the following budgetary funds: the cultural and social services fund, the special compensations fund, the capital reproduction fund, and the contingency fund;

- From resources gained in this manner the special compensations fund will be the first to benefit from undisbursed wage claims as per the Federal Ministry of Labor and Social Affairs decree on handling wages in budget-supported and self-supporting organizations;
- The remaining portion of the improved business returns is to be distributed according to set shares; calculation of these shares is defined somewhat differently in the applicable decrees.

3. An important change involves the creation of conditions for expanded economic activity by self-supporting organizations, the goal being to provide the widest latitude for them to increase their own revenues:

- Assets in the contingency fund can be drawn upon by the organization to their full extent, provided that generally applicable rules are observed, in accordance with its own decision including the funding of its expanded economic activity and share purchase of stock, acquisition of stocks and bonds, and the like (with restrictions specified in greater detail in the decree);
- The organization may use investment credits also to cover operational expenses (but the State of course does not guarantee credits granted to the organization);
- There will be no more payless transfers of material property and services between budget-supported and self-supporting organizations;
- In addition to their principal business the self-supporting organizations are accorded the right to engage in other activities on the condition that they will carry out their duties as set forth by the organizer and use the funds they gain for improving and expanding services constituting their principal activity.

4. There are also changes in the binding indicators characterizing the financial relationship between the organizer (agency which provides funding) and the self-supporting organization:

- Support for activities includes not only operating subsidy including repair and maintenance costs, but also the sum of capital write-offs to the extent in which the self-supporting organization is unable to cover essential needs from its own revenues;
- A newly introduced binding indicator may be an individual investment allocation from the State budget for selected investment projects;
- In connection with mandating a write-off obligation for self-supporting organizations, the organizer may also require a levy on write-offs, specifically in case of an organization slated for a future reduction of operations or for liquidation, and also in cases where the volume of write-offs would markedly exceed the organization's real long-term needs in the investment area; however, the levy must not be set in excess of the total write-offs on structures and buildings;
- Essentially unchanged as binding indicators are investment allocations from the organizer's budget (the present investment subsidy) and respectively also

a levy on profits set individually by the organizer (funding agency) usually in the full amount of planned profit (profit for a self-supporting organization should be an unusual or temporary situation; if a self-supporting organization becomes permanently profitable, it will be in its interest to adopt a different form of management).

The decrees show substantially fewer variances with respect to self-supporting organizations than the budget-supported form. The proposed decree of the Czech Republic Ministry of Finance should differ from the Federal Ministry of Finance's version only in regard to rules governing distribution of improved business results, and some other less substantial details. In the Slovak Republic Ministry of Finance decree the principal difference is in allocating only one-half of the improved economic result to the organization.

Enterprise Tax Payment Forms Discussed

91CH0624D Prague SVET HOSPODARSTVI in Czech
19 Apr 91 pp 1-2

[Article by Milos Kubanek: "Entrepreneur's Dilemma: Paying Gross Profit Tax or Income Tax?"]

[Text] One of the few advantages of small entrepreneurs concentrating solely on the domestic market is the opportunity to choose between two methods of having their income taxed. Under the law incomes of physical persons, who may include also entrepreneurs employing fewer than 25 people and having annual receipts not exceeding 540,000 korunas [Kcs], are subject to income tax. But the same entrepreneurs, once they are entered in the enterprise registry, may become corporate entities whose receipts (profits) are subject to gross profit tax.

The purpose of this article is to examine on two basic model cases the income level at which it is more advantageous for the entrepreneur to be taxed by gross profit rates and at which level by income tax rates. The examples are: A. comparing tax liability according to the different tax rates of both methods, and B. comparing tax liabilities according to the different tax rates taking into account that a person taxed by the gross profit rate can have a part of his income (the so-called entrepreneur award up to Kcs10,000 monthly) taxed by the income rate.

But it must be pointed out at the outset that while the two model examples represent a basic and archetypal calculation of the advantages of each taxation method, in many concrete situations it is necessary to augment them with additional calculations in accordance with the type of entrepreneurial activity. Comparing two taxing methods in concrete cases has a great many ramifications, to wit: 1. physical persons and corporate entities are subject to different tax rules also in case of the turnover tax, payroll tax and social and health insurance, and 2. rules governing income taxes and turnover tax

have additionally a number of other differences, primarily different variants of depreciation policy and deductible items.

Our model examples do not take into account the dozens of possible combinations which may result from these factors but rather proceed from the assumption that the differences in rules for turnover tax, payroll tax, insurance, depreciation and deductible items are slight or non-existent. In fact this is the case with many kinds of enterprising. But in the contrary case it is necessary to emphasize again that the basic variants listed here need additional calculations. On the whole, however, it can be stated that these will, in most cases, favor the income tax.

And now the actual calculations.

Variant A

As already noted, in this variant we compare tax liability according to the basic tax rates of both methods.

For income tax the rates are as follows:

Over Kcs	Less Than Kcs	Rate
—	60,000	15 percent
60,000	180,000	Kcs9,000 and 25 percent of the amount over Kcs60,000
180,000	540,000	Kcs39,000 and 35 percent of the amount over Kcs180,000
540,000	1,080,000	Kcs165,000 and 45 percent of the amount over Kcs540,000
1,080,000	And over	Kcs408,000 and 55 per cent of the amount over Kcs1,080,000

(see Section 11 of the Law on Income Tax of Citizens)

The gross profit tax has the following basic rates:

- 20 percent for amounts up to Kcs200,000;
- 55 percent on amounts exceeding Kcs200,000.

The following graph shows the percentage rates of tax under both methods in this model situation. Let's see first the income tax curve. It shows that:

- Up to Kcs60,000 income is taxed at 15 percent.
- At Kcs180,000 it is taxed at 21.6 percent.
- At Kcs540,000 the tax is 30.5 percent.
- At Kcs1,080,000 it is 37.7 percent.

Above this level ad infinitum the tax rises gently but never reaches 55 percent.

The gross profit tax curve on the other hand shows that:

- On receipts (profit) up to Kcs200,000, the tax is 20 percent and afterward rises progressively.
- At Kcs540,000 of receipts it reaches the 42-percent rate.
- At Kcs1,080,000 the rate is 48.5 percent.
- Afterward, as with income tax, it rises gently also, never reaching 55 percent, but is always higher than the income tax rate.

Comparing these two curves we find that they intersect at two points—at an income of Kcs120,000 taxed in both cases at 20 percent, and Kcs230,000 income taxed at 24.5 percent. The shaded area of the graph therefore indicates where in this model comparison the income tax rate is higher than the gross profit rate and where it is thus to the entrepreneur's advantage to choose the gross profit tax rate. It is when his receipts are between Kcs120,000 and 230,000.

Variant B

Here we consider a case when an entrepreneur taxed at the gross profit rate takes advantage of the so-called entrepreneur award (counted as a cost) which he is entitled to have taxed at the income rate. We know that he can do so up to the amount of Kcs10,000 per month. A closer analysis will however show that accounting for this entrepreneur award in the maximum allowable amount turns out to be disadvantageous in the final aggregate, because for instance with Kcs200,000 in receipts Kcs120,000 of the entrepreneur award (for 12 months) Kcs60,000 would be taxed at 15 percent and the other Kcs60,000 at 25 percent; the remaining Kcs80,000 would then be taxed at 20 percent according to the law. So the total amount of Kcs200,000 would be subject to an average tax of 20 percent. Evidently the most advantageous course in this case is to have Kcs60,000 of the entrepreneur award taxed annually at 15 percent as income and the remaining Kcs140,000 at 20 percent at the gross profit rate. Thus the entire sum of Kcs200,000 will be taxed at 18.5 percent. (Here it must be noted that according to the income tax law a payer of gross profit tax may have the portion of the profit from entrepreneurial activity used for personal consumption taxed at the income rate. This eventuality has not been considered here. A calculation of its advantage and disadvantage is similar as in variant A, provided that Kcs60,000 of the entrepreneur award carried as a cost is deducted from the overall income.)

Thus we conclude that when the so-called entrepreneur award is included in computing tax by the gross profit method it is of the greater advantage to set the amount at Kcs60,000 annually (Kcs5,000 monthly) and have this amount taxed at the income rate, the rest then at the gross profit rate. The following graph will show the income span within which it is of advantage.

While the income tax curve understandably remains the same as in variant A, the gross profit tax curve has changed substantially and shows that:

- Up to Kcs60,000 in income it is quite irrelevant which tax is chosen because in both cases the income is taxed at 15 percent.

- In the income bracket between Kcs60,000 and 200,000 it is decidedly more advantageous to tax at the gross profit rate as Kcs60,000 is taxed at 15 percent and the remainder at 20 percent whereas the income rates would tax Kcs60,000 at 15 percent and the remainder at 25 percent and further even at 35 percent. Above the Kcs260,000 bracket the gross profit tax curve rapidly approaches the income tax curve because amounts over Kcs260,000 are already taxed at 55 percent. The curves intersect at 28.1 percent, representing an income of Kcs350,000. From this point on the gross profit method becomes less advantageous than the income tax method.

In conclusion let us recapitulate the main theses we have arrived at:

1. If other conditions (writeoffs, deductible items, payroll tax, turnover tax...) are equal in both tax alternatives and in case the taxpayer does not claim the so-called entrepreneur award, the gross profit tax method is more advantageous than the income tax method provided the taxpayer's income is between Kcs120,000 and 230,000. Incomes below and above this bracket are taxed more advantageously by the income tax method.

2. In case the taxpayer choosing the gross profit tax method makes a claim to have the so-called entrepreneur award taxed at the income rate, it is best to have this award set at Kcs5,000 per month (Kcs60,000 per annum).

This alternative offers advantage only of the entrepreneur's annual income ranges between Kcs60,000 and 350,000. If the income is higher, it is better to choose the income tax method.

Industry Critical of Government Response

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in Czech 10 Apr 91 p 8*

["Text" of statement by industrial associations of the Czech Republic and the Slovak Republic on position taken by Marian Calfa, prime minister of the CSFR, with respect to the petition of the industrial associations of the Czech and Slovak Republics, published in HOSPODARSKE NOVINY on 29 March 1991]

[Text] The objective of the petition (HOSPODARSKE NOVINY, 26 February) was to emphatically draw the attention of parliament to a very serious and rapidly deteriorating situation in the industry of the Czech Republic and the Slovak Republic, the reasons for which cannot be explained by the expressly deteriorating conduct of industrial enterprises. Given all the justified reservations pertaining to our enterprises, it is necessary to also see their efforts to master unfavorable conditions to which they were exposed during the last year for objective as well as for subjective reasons. For example, the enterprises managed to rapidly and successfully

come to grips with manpower problems connected with the one-time release of prisoners in January and with the unsystematic February and October changes in the exchange rate, with the growth in interest rates which were not reflected in changes of prices which were set in accordance with costs. However, it was not and is not within the capabilities of individual enterprises to successfully prevent the occurrence of external economic shocks and the overall crisis nature of the domestic economic situation, resulting primarily from a restrictive macroeconomic policy.

The Czech and Slovak industrial associations expected the petition to motivate the government and parliament to engage in serious and self-critical contemplation of the reasons for the threatening economic development which cannot but have serious social and political consequences. However, in its response to the petition, the federal government totally declined to evaluate the reasons for the situation in our industry and the measures proposed by the industrial associations because their acceptance would allegedly "mean the abandonment of our path toward a market economy and the intentions of the economic reform."

We recognize some of the partial reservations the government had with regard to the positions contained in the petition. However, we cannot accept a number of claims which pertain to the essence of the sharp deterioration of the situation in industry. Some of the contentions are, moreover, mutually conflicting or are in conflict with the claims of responsible government officials in other connections.

We shall continue to adopt independent positions with respect to the specific conflicting questions which we consider to be the most important. As far as the overall character of the written reaction by the federal government to the petition is concerned, it clearly reflects an effort to seek the reasons for a very bad economic development elsewhere than in the government's own economic policy. Moreover, the government swears by not further defined dogmas regarding our path toward a market economy, to which the Federal Assembly obligated it. However, the government proclamation following the parliamentary elections did not state that we should ply the path toward a market economy by way of the bankruptcy of a large number of enterprises, by massive unemployment, and by a deep decline in the standard of living of the majority of the population. Such a path is not even indicated in the scenario of the reform, which was approved in the fall. And to the extent to which progress along the approved reform scenario would actually lead our economy into crisis, then this progress must be revised by the government as well as by parliament. We hope that we have not crossed from one dogma to another. From the reaction of the government to the petition, it is not clear whether and how the government wishes to share in the solution of the crisis situation.

Restrictive Policy and Sales Crisis

The government claims that the reason for the crisis manifestations is not a restrictive policy, but a decline in aggregate demand, including demand in the domestic market. This contention is absolutely unacceptable because the restrictive policy is directly aimed at reducing aggregate demand. To refer to the results and, at the same time, to defend the clear cause of the consequences is not only economic nonsense, but also logical nonsense.

The sales crisis cannot be blamed solely on the situation in the CEMA markets. There is also a sharp decline in demand for capital and consumer goods in our domestic market, which used to be the principal sales area for our products. And this is the result of a restrictive economic policy which first reduced demand for the means of production and, subsequently, even demand for consumer goods as a result of the sharp decline in the purchasing power of the population. In a number of instances, the decline in demand for capital goods in our market is greater than 50 percent and similar developments may be anticipated with respect to consumer goods, particularly after the price rises in energy for household use and following the acceleration of unemployment.

At the beginning of last year, the restrictive policy resulted in a downward movement along a crisis spiral in which a restriction of expenditures limits production and makes it more expensive, as a result of which the incomes of all economic entities decline sharply (the state, enterprises, and individual citizens) and their expenditures decline even further. Moreover, the state budget is burdened by increasing benefits payments to the unemployed so that budgetary means available for investments, with the aid of which it might be possible to revitalize the economy, decline most rapidly. A continuation of restrictive policy, or even its toughening, will lead to a deep economic crisis.

The large majority of enterprises, with the exception of those which produce exclusively for export to markets enjoying good sales, are impacted by the overall economic crisis. We cannot therefore accept the position of the government that "it is not possible to ruin a good enterprise by an across-the-board method." We can, today, quite specifically list very good enterprises which are being ruined by an across-the-board macroeconomic policy. The crisis development in our country is very rapid and enterprises oriented toward the domestic market are beginning to see their focal points with respect to inventories in sales inventories rather than in production inventories; claims to the contrary by the government are ceasing to be true.

In the petition, we criticized the fact that the credit and currency restriction policy was not thought through from the standpoint of causing a chain reaction of enterprise insolvencies. In its written reply to this criticism, the government claims that the reasons for insolvency are

characterized by us "in a completely false manner" and that insolvency is a "health-restoring factor in the development of the economy." This contention is in clear conflict with the statement by Minister of Finance V. Klaus in the letter he wrote to chairman of the Czechoslovak State Bank, J. Tosovsky, which was published. Among others, V. Klaus writes: "I am disturbed primarily by the fact that there is an increase in complaints by enterprises regarding the implementation of currency and credit policy and that, in a number of cases, these complaints appear to be justified. Dear Mr. Chairman, I request that you provide an accelerated explanation of these problems and that you take immediate effective measures to rectify them. Every day of delay will be costly and we shall even bear political responsibility for it." According to this statement by V. Klaus, our complaints are "justified in a number of cases" and "not completely false" as is claimed in the written response to the petition by the government. And if the enormous degree of insolvency on the part of enterprises were a "health-restoring factor in the development of the economy," why would it be necessary to adopt "effective measures to rectify," why would "each day of delay be costly," and why would there be "political responsibility" for the situation which has come about?

The close relationship between credit restriction and the growth of insolvency is attested to by the relationship involved in the decline in the volume of operating credits from August through December 1990 by 16 billion Czech korunas [Kcs], which was accompanied by a rise in insolvencies valued at Kcs15 billion. It must be said that this reduction in credits was not the result of decisions by commercial banks, but was the result of a direct incursion on the part of the Federal Ministry of Finance.

Reactions to External Conditions

In its response, the government makes several references to the principal reason for our economic problems being the drastic reduction in sales affecting our goods in the markets of the CEMA countries, as well as several other external shocks. It dubs them "objective factors which are not influenceable by economic policy." We cannot even agree to that.

The primary question is whether the extent of the sales problems affecting our goods in the USSR is not shared by the government as a result of its economic policy in which the degree of our current dependency upon the Soviet market and our ability to trade for free currencies was not well-estimated. The overly self-confident words of our federal ministers at last year's CEMA session in Sofia are constantly in people's minds and could not but result in negative echoes from the Soviet side. P. Pithart, prime minister of the Czech Government, said the following, after recent negotiations in the Soviet Union: "It turned out that the maximalistic formula to trade only for dollars is currently unusable. We shall therefore

be creating special rules and even special institutions. Otherwise, we are threatened with large-scale unemployment."

This statement not only confirms the fallacy of our previous assumptions upon which we based our economic policies toward the Soviet Union, but, at the same time, even contradicts the claim made by the federal government that the situation is not influenceable by economic policy. On the contrary, only an active custom-crafted commercial policy of the government can help overcome sales barriers which have developed in those markets which, until recently, were our principal foreign markets. We therefore value the active albeit delayed approach by the Czech and the Slovak Government in solving the problems which have arisen, which contrasts with the above-cited passive position adopted by the federal government. The repeated devaluation of the koruna, to which the federal government refers as a proexport measure, has caused a number of other serious problems for enterprises and for all of society, the overall effect of which tends to be negative and has resulted in an acceleration of the inflationary process.

An Across-the-Board and Differentiated Economic Policy

The positions of the federal government with respect to asserting a differentiated economic policy with regard to the individual branches of the economy, enterprises, or other economic entities are mutually contradictory and downright confused.

In the written statement by the government, it is first claimed that the Constitution "does not give rise to anything but an across-the-board policy." It is further stated that the individual approach demanded in the petition is "in conflict with the principles of economic reform." One page later, in the summary, it is written, however, that "in the economy, it is not possible to accept only simple unilateral measures—there is a need for subsidies, for individual debt relief, for price reductions, etc." Was each page of the government position perhaps written by someone different? Which philosophy of the government are we to lean on, to which are we to react?

A differentiated and frequently even an individual approach to industrial entities is the organic characteristic of an industrial policy. It is characteristic of that part of our economic policy which, in the words of V. Vales, is missing in our country and therefore our economic policy "stands on one foot," in his opinion. A differentiated industrial policy is asserted in the developed nations of the world most broadly during periods of economic shocks, impacting differently on various areas of activity and enterprises. Government assistance to impacted entities is adapted to objective requirements and possibilities from the standpoint of the magnitude and form of assistance and time. In our opinion, this is also what should happen in our country now because external shocks are impacting on a number of our

enterprises to such an extent that they are incapable of dealing with them on their own.

In providing government assistance to enterprises, it is necessary to assert the principle of efficiency, to base individualized aid on adaptive effects, primarily by increasing the technical parameters and lowering the costs of production. In no event are we interested in an across-the-board "pumping of money into the economy," which is mentioned in the government position.

Conception of Economic Development

In its written position paper, the government characterizes the petition's demand to "work out a state concept for the development of the national economy" as a "return to a directive plan." At the very least, this is a gross lack of understanding of the function of government conceptual activity in a modern economy. The majority of governments in the developed nations of the world today are working out not only concepts, but even strategies and programs for economic development, without controlling enterprises in a directive manner.

Rejection of the formation of a concept for the development of the national economy is curious, even in the light of the fact that the federal government repeatedly presents the parliament with a proposed law on strategic planning for approval. What will be the object of strategic planning if not the development of the national economy? What is the object of the activities of the responsible ministers anyway?

Care for the development of the national economy is a fundamental task for the economic ministries of governments. Governments are frequently also assigned these duties by law. Even parliaments should be concerned with the development of the national economy. In these very days, there is a conference in Budapest which is being held under the slogan "Parliamentary responsibility for economic development," which is being attended by representatives of our parliament. We therefore hope that even our parliament will devote itself to the problem of economic development, will take on responsibility for it, and from that standpoint will judge and influence the activities of the government. The current economic policy of the government is not developmentally oriented at all.

Inflation, Devaluation

The economic policies of the government have, for the time being, perhaps failed most visibly in the area of prices. Despite much reassurance that a restrictive policy and a budget surplus will prevent inflation, prices rose by about 50 percent from January 1990 to January 1991. This is many times the growth of prices in any of the preceding years. According to the government position, it is again the enterprises which are primarily responsible by making use of price liberalization. In conjunction with inflation, the government clearly forgot about the devaluation of the koruna, following which all foreign inputs into production are today twice as expensive,

expressed in our koruna, than they were prior to the devaluations. The enterprises thus, more likely, suppressed the cost pressure on prices, resulting from the devaluations, rather than abusing price liberalization.

The government claims that it assisted enterprises substantially as a result of the devaluations, that enterprise profits in the fourth quarter of 1990 attained a level equal to 136 percent of the profits of the fourth quarter of 1989. In making this claim, however, the fact that the extent of inflation is higher and the real value of profits created in the fourth quarter of 1990 is lower at the beginning of 1991 than was the real value of profits created in the fourth quarter of 1989 at the beginning of 1990 is overlooked. In other words, the development of real profits is unfavorable.

Enterprises and the Population

In its written position paper, the government claims that "the consequences of economic policy are impacting upon the population far more seriously than upon the enterprises." In a number of other connections, however, we encounter the completely opposite claim of our government representatives. Both argumentations are erroneous. The situation in enterprises determines the situation for the majority of the population, either directly (for employees of enterprises), or indirectly in terms of the state budget. It is therefore not sensible to insert a dividing hyphen between the status of the enterprises and the economic status of the state. By creating optimum conditions for the functioning of enterprises, the state is simultaneously creating the prerequisites for the growth of the standard of living for the population and for a strong economic position for the entire state.

The government position paper criticizes enterprises, on the one hand, for making the government transfer the burden which enterprises should carry to the people for the present and states that this cannot go on forever. And, on the other hand, enterprises are criticized for not solving the difficult financial situation by reducing the number of employees.

The latter procedure would surely be the simplest solution for enterprise management and would most likely be advantageous for those employees who would remain with the enterprise. However, the view is different from the standpoint of the national economy and from the standpoint of the dismissed employees. The second variant is disadvantageous for the state budget and, naturally, even for the impacted individuals. And from the longer-term viewpoint it can even be detrimental for the appropriate enterprise, particularly if the difficulties being experienced by the enterprises are temporary and if, in the foreseeable future, they will be in need of employees to again utilize their capacities. It is a question, of course, whether the dismissed employees will return to their original jobs. Nowhere in the world are employees dismissed frivolously, commensurate with a momentary decline in production.

The published position of the government, as a result of its unyielding, and one could almost say dogmatic, clinging to the exclusive truth of its procedures and views, is overly reminiscent of the ignominiously known positions of previous governments. We therefore challenge the government to the extent to which it is truly interested in creating a democratic society and in saving our economy to an open and creative debate, in which we shall jointly seek ways out of the crisis situation. Let us seek them before the efficiency of enterprises breaks down to such an extent that there will be no resources available for the so much proclaimed social safety net.

More Pressure Needed To Change Management

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in Czech 25 Apr 91 p 7

[Article by Eng. Vilem Kodytek: "Should the Government Slow Down the Reform?"]

[Text] Currently, there is much discussion in the pages of HOSPODARSKE NOVINY on whether the economic reform is not overly rapid. Various authors protest against the sharp devaluation of the koruna, against credit and budgetary restrictions, and propose alternative ways to achieve a market economy. There have even been scientific works of a classic fashion on this topic, consisting of identifying the enemy—the hireling—and promoting his destruction through citations from the classics. What does it matter that instead of citing Marx, Rasin is being cited today? I believe that it will not do any harm for me to inject a view from below into these macroeconomic discussions.

The impact of the elements of the alternative way—restricting the demand for foreign exchange, the regulation of prices, the redistribution and keeping of enterprises above water—on the economy is well-known. These elements make it impossible for enterprises to engage in entrepreneurship and compel them to deceive the government. The hooker lies in the fact that the government is attempting to manage enterprises on the basis of information over which it has no control.

The present government has exerted great pressure upon enterprises with the aid of those means over which it does have control, but even that pressure is not adequate to bring about a change in the conduct of these enterprises. Instead of permitting this pressure to penetrate into their enterprises, enterprise directors have turned their backs on it and have begun shouting that Vaclav Klaus intends to pin the enterprises to the mat. In the first round, their backs held out and the government was forced to make some concessions. Why did this happen?

State monopoly has disappeared, "large-scale" privatization has thus far not begun. In this transitional period, power in the enterprises has been taken up by a structure which, during the previous regime, acted as a gearshift lever of the party-state bureaucracy and hence holds in its hands the enterprises' finances, accounting, planning, internal organization, personnel, and other functions;

enterprises today are governed by an enterprise bureaucracy. The bureaucrats are convinced that the world is recognizable with the aid of reports. They are, therefore, unfamiliar with the actual status of things and are not aware of it. Their management is based on comparing reports with plans and standards. As long as the enterprise is fulfilling the plan, they persist in their blissful inactivity. In the event of difficulties, they have ready recourse today to price increases and conservation measures (even that is some progress in comparison with the past). They perceive the causes of their unsuccessful management today exclusively in external factors such as the liberalization of prices and price regulation, the unchanged limit on inventories, credit restrictions, customers who fail to pay, etc. They cannot, therefore, enter the battle against external factors. This counterpressure is the motive force behind inflation. I mention, by the way, that this is not a question of any kind of conspiracy; although the conduct of the enterprise sector is miserable, it is, nevertheless, legal. How much deeper are the ditches which the enterprise sector would encounter along the alternative way!

We lived for many years with subsidized foods, dwelling and energy were also subsidized. Anyone who did not want to be suspected of robbing the family subsidized it by stealing. The proximity of an ecological catastrophe, buildings that are falling apart, obsolete production facilities, and a neglected infrastructure leave no doubt in anyone's mind as to the source from which we drew the subsidies and as to what we have become accustomed to. The confidence for every economic entity, which is promised by J. Sejak (THN, No. 11/91), is something that our economy now actually needs least of all. The government will seemingly be compelled to develop still greater pressure upon enterprises in the next round so as to penetrate the hard shell of intraenterprise socialism. The later that this occurs, the worse will be the social consequences which we can anticipate. Resolute action is, therefore, essential.

Improvement Programs Missing in Companies

91CH0595D Prague HOSPODARSKE NOVINY
in Czech 25 Apr 91 p 2

[Article by Eng. Karel Cerveny, Hradec Kralove: "How To Kill an Enterprise"]

[Text] The largest engineering plant in Hradec, the ZVU ["Victorious February" Plants, National Enterprise], selected me last year as its economic deputy. I was appointed to the job on 25 September 1990. After taking up my duties, I conducted a detailed analysis of the status of the economy of the enterprise in the 1990 plan, as contrasted with the actual status in 1989 and I determined the following facts:

- The model of dynamic development of the basic indicators showed a decline of productivity, a slower turnover of inventory, a rise in expenditures in wages, a decline in the effectiveness of basic assets.

- At the same time, there was a decline in production and in shift work, a decline in the number of unique workers. Inventories increased, there was a virtual one-year stockpile of production materials, the period was characterized by purchases which exceeded consumption.
- Expenditures for technical development continued high, but economic benefits resulting from the realization of solved tasks were not monitored; the same is true of the economic benefits of investments.
- Overhead costs were constantly growing, the ratio of production workers to administrative employees was 1:3, an obsolete bonus system existed, foremen were enjoying a poor wage position, the enterprise was heavily burdened by credits, calculation systems were not being utilized, intraenterprise management was not functioning, etc.

Absolutely nothing was done to facilitate the transition of the enterprise to market conditions from 1 April 1990, when the enterprise became a state enterprise. Although more than 40 specific tasks were assigned to the individual sectors of the plant with deadlines for completion by 31 December 1990, their control was not undertaken and so a number of matters remained strictly on paper. Of the most important unfulfilled tasks, it is possible to identify the following: a change in commercial policy, a new system for managing inventory, dismissal of 700 technical-economic employees, monitoring the benefits of technical development and investments, measures to reduce the number of unfulfilled economic contracts. That is why I proposed a program of financial restrictions for the fourth quarter of last year which brought about the turnaround in the management of the enterprise during that period.

For 1991, I have prepared a number of other changes in the economy of the enterprise:

- Revival of the activities of a damage and inventory commission to manage inventory.
- Introduction of regular consultations with the economic sector, consultations with economists of economic centers, consultations among operations managers.
- Organizational changes—transfer of prices to the economic sector; creation of a department for planning expenditures.
- Introducing budgeting of secondary profits and costs.
- Negotiating budgets with economic centers.
- Assertion of a number of measures in reducing costs—stopping the employment of Polish workers, halting the payment of standardized wages out of reserves, reducing the reserves allocated to production orders, expanding the payment of hourly wages, accelerating the accounting process for cancellations, reducing the credit burden, and making installment payments on lapsed credits.

In preparing for the economic reform, I supported the processing of intraenterprise management rules, including the stimulation of economic centers, a new

wage policy, rules for price formation, including a gradual transition to the use of new prices, rules for managing foreign exchange, and rules for the methodology of analyses.

In view of the fact that the insolvency problem had not been solved and in view of the anticipated decline in sales while making the transition to the use of fully new prices in the third and fourth quarters of 1991, I proposed to the director of the enterprise that he assert a set of restrictive measures as a deliberate operation to save the enterprise. Among others, there was supposed to be a substantial reduction in the number of administrative employees, a freeze in the growth of average earnings, a restriction of capital expenditures, the sale of unneeded inventory and resources, and the introduction of strict inventory regulation. The reaction on the part of the director was a great surprise for me. He canceled my appointment.

And now, a few items of information regarding the present management of the enterprise:

- There is no program.
- No tasks are being assigned or controlled.
- At consultations, criticism is levied against the government and against Minister Klaus, but the enterprise is not carrying out any measures.
- The enterprise management is opposed to the establishment of joint ventures and the participation of foreign capital.
- The management is even opposed to reducing the number of administrative employees.
- A favorite slogan of the director goes as follows: "Protect the enterprise against the effects of the market and assure full employment."

The status of the management of the enterprise is catastrophic and despite the fact that the trade unions as well as the oversight council proclaimed their disagreement with the cancellation of my appointment, it is the representatives of the postcommunist approach who are again victorious over the economic reform.

Sorting Out Businesses With Future Complicated

91CH0595F Prague HOSPODARSKE NOVINY
in Czech 26 Apr 91 pp 1, 3

[Article by Blanka Ruzickova: "When and Whom To Support—Determining Which Enterprises Have a Future Is Not a Simple Matter"]

[Text] Recently, the fact that it is necessary to support enterprises which have a future has been heard repeatedly and in various forums. Picking the right ones under present conditions is, however, very difficult. The Department for Economic Information and Analyses of the Ministry of Industry of the Czech Republic is working out, among other things, a methodology for evaluating the economic situation affecting individual manufacturers under its jurisdiction.

Mathematical models for evaluating the financial situation of enterprises are already in use abroad. However, whether they can be simply taken over is a matter of dispute. Foreign models reflect the conduct of enterprises in a mature market economy. In contrast, our manufacturers are dealing with their problems under conditions where the market is still forming. Moreover, that which constitutes the greatest burden on them can be characterized as the burden of the past. If an analysis is to have any kind of evidentiary capability, it must be based on actual influences and the present standing of enterprises.

As we were informed by the director of the Department for Economic Information of the Ministry of Industry of the Czech Republic, Eng. Jaroslav Horinek, the decisive criteria in the processed model is the indicator of indebtedness pertaining to net worth. This is a ratio between long-term obligations and the net worth of the enterprise. Supplemental indicators cover the distribution of credit installment payments, the development of insolvency, or, for example, an increase in inventories on hand.

Of course, a worked-out analysis can understandably be nothing other than a mathematical overview. Even in that case it is true that theory is gray and the tree of life is green. The theoretical results must essentially augment practical experiences, in other words, even subjective views of specialists familiar with the situation of the enterprise.

On the basis of the prepared model, documentation was recently worked out for a certain "classification" of enterprises under the jurisdiction of the Ministry of Industry of the Czech Republic. After evaluating input data and judging the position of the given manufacturers within the framework of individual branches of industry, enterprises were roughly classified into three groups. The first group includes those enterprises which do not require assistance. The second group includes enterprises which, even despite external assistance, have only very limited perspectives.

The third group is made up of manufacturers who are intolerably indebted, but, according to available data, have a decent chance for development. These are precisely the problem enterprises which can, under certain conditions, have a future. However, they need assistance now. To the extent to which any kind of assistance form is being considered, it is necessary to stress that a majority of cases would involve a flat-out writeoff of debts or the provision of subsidies. Once again, this will only be a seeking of ways to provide temporary relief to these enterprises. For example, by granting credits to negotiate a critical time or by rescheduling existing installment payments.

Understandably, we were interested in at least a percentage representation of enterprises in individual groupings. Of the overall number of some 1,300 vetted enterprises under the jurisdiction of the Ministry of

Industry of the Czech Republic, approximately two-thirds could deal with their problems through their own forces today. On the other hand, approximately 6 percent of manufacturers have been identified whose situation is extraordinarily unfavorable. According to Eng. Horinek, however, their classification in this grouping cannot lead to the drawing of across-the-board conclusions. Much like the ministry, the situation of these enterprises will be also contemplated by the banks. In other words, how the enterprise will demonstrate its prospects for the future is entirely up to it.

With respect to the group of indebted enterprises which are considered to have a future, consideration is being given to the possibility of debt relief. However, a fund of national wealth, which could be used to cover the acute needs of these enterprises, thus far does not exist. In seeking resources which could take over obligations of the enterprises until such times, it is again only the banks that remain. Moreover, virtually every enterprise is indebted precisely to the banks. The overall method of solving this virtually unsolvable problem expressly exceeds the framework of jurisdiction of the ministry. That is why its employees believe that a certain consensus will have to come about between the enterprise sector and the banks. Without such a consensus, more manufacturers than is healthy for our sick economy would likely go under.

Incorporation Problems, Advantages Examined

*91CH0543C Prague HOSPODARSKE NOVINY
in Czech 5 Apr 91 p 7*

[Article by Karel Dukasch: "Corporations Under a Magnifying Glass: Part Five"]

[Text] The economic and social advantages stemming from the operation of corporations are accompanied by certain of their shortcomings and drawbacks. Against the main advantage of corporations—the relative ease of raising substantial capital by pooling the smaller capitals of several owners, for the purpose of a joint business enterprise—there is the possibility that unnecessary enterprises might be formed, causing an imbalance of supply and demand. Slow response to an arising situation could cause a crisis in an industry or line of business.

Further shortcomings in the operation of corporations stem from the generally employed mode of their supervision and management. Although a corporation is headed by the general meeting of its stockholders and by an elected board of directors, most often the actual management of the enterprise is entrusted to paid executives—to the general manager and his staff. Although they receive high salaries and bonuses linked to qualitative results, and their livelihoods depend on the corporation's survival, these executives do not exert themselves as much as an individual entrepreneur would.

To avoid too independent decisionmaking by their hired executives, some corporations unreasonably limit the

scope of the executives' authority, reserving a substantial proportion of the decisions for the board of directors or even for the general meeting of stockholders. In such cases management of the corporation becomes cumbersome, and its ability to respond to timely situations is limited, which could mean the end of the enterprise's prosperity.

The individual entrepreneur flexibly responds already to the first signs of marketing difficulties and makes the necessary changes. A corporation's response to a new situation is more lengthy. Fearing the loss of their invested stakes should the corporation go into liquidation, stockholders keep a nonprospering enterprise in business, in the hope of turning it around. Especially in corporations where too many decisions are subject to preliminary approval by the general meeting of stockholders, various serious problems are deferred until the next general meeting of stockholders, instead of being solved quickly. As a result of the delay and failure to take action, the corporations incur losses. Specifically because of this unfavorable characteristic of corporations, the view has gained acceptance that, as a form of business organization, they are less suitable where an immediate and flexible adjustment to the business cycle or to demand is desirable (in the production of fashion goods, for instance). Corporations are much better in businesses involving regular, rhythmically recurring activity, not influenced by major and frequent external factors (for instance, in the mass transport of freight by water, rail, pipeline or other modes, in electric power generation, in the production of staple foods, etc.).

It is expensive to manage and supervise a corporation. Besides the high salaries of the executives and their staff, the members of the board of directors and of the supervisory board, as well as the auditors, receive substantial fees for their work. This fact becomes clearly evident from an analysis and comparison of the costs of a corporation as opposed to the costs of a similar sole proprietorship, where the proprietor usually handles the firm's administration himself or with a staff of minimal size, whose salaries do not tend to be too high. Therefore profit usually declines when a prospering sole proprietorship has been converted into a corporation.

A negative feature of corporations is destructive profiteering in its various forms and manifestations. A typical example is excessive overvaluation of a stockholder's capital contribution in kind (rather than in cash) when the corporation is being established. But the subsequent difficulties and possible bankruptcy fall also on the innocent stockholders, and not just the culprits.

The same motive—voting maximum dividends at all cost—can lead to general skimping that ranges from neglecting industrial safety and environmental protection, through the absence of effective marketing or failure to provide effective and timely training of suitable quality for employees, to neglecting the modernization of plant and equipment, of the technology and of the products themselves. Similar efforts have a very woeful

effect (especially when the corporation is a monopoly) on setting exorbitant (monopoly) prices for goods and services, at the general public's expense.

In countries where corporations are established by charter (known as the charter system), the appropriate agency is able to intervene, and thereby to influence and eliminate in advance some of the dangers to the public and to the corporation itself.

Our Law on Corporations dispenses with the charter system, thereby increasing the stockholder's entrepreneurial risk and the possibility of unfavorable effects upon the general public. Practice will soon show what amendments the mentioned law will need to keep the corporations' shortcomings at a minimum.

Small Privatization Auction Status Reported

91CH0594C Prague HOSPODARSKE NOVINY
in Czech 12 Apr 91 p 9

[Article by Dana Dvorakova: "Spring in the Auction Halls"]

[Text] Small privatization, one of the first swallows heralding the oncoming changes in ownership relationships, should—in contrast to real swallows—mean a real spring during the first days of spring. A spring which carries with it an arousing following a long period of winter hibernation, a spring indicating the blossoming of small and medium-size undertaking, the blossoming of live and keen competition.

What are the facts? In the Czech Republic, 1,088 operating units were registered for auctioning by 24 March of this year and 880 of them were actually sold, which amounts to a coefficient of success with a value of 0.76. The cumulative total of the auction prices in the Czech Republic amounted to 244.435 million Czech korunas [Kcs] and, as a result of successful auctions, their overall value increased to Kcs449.39 million. We are monitoring these same parameters even in the Slovak Republic where, by 31 March, 693 facilities were registered for auction and entrepreneurs showed interest in buying 484 of them. The coefficient of success in Slovakia is 0.7. The total of the auction prices was Kcs119.025 million and the total of the final sales prices was Kcs214.247 million.

Looking at the attached graph, it can be seen that, in contrast to the Czech privatization commissions, all Slovak privatization commissions (except for one) created such conditions as to make it possible to knock down the first operating entities to their new owners right in the auction halls. As we found out from some Czech commissions, who were unable to organize a single auction by the end of March, the principal reason for the delay was the delay in appointing commission members until the month of January, or possible failure to complete the nominating process until then, as well as organizational problems, difficulties in solving the office problem, the frequently unclear ownership relations

involved in facilities to be auctioned, and in some cases even the long time required to approve the cards of operating facilities at the Ministry for the Administration of National Property and Its Privatization in the Czech Republic. Did this problem not exist in Slovakia?

(The graphs depict the number of operating units registered for auction and the number successfully auctioned by okres privatization commissions in the Czech Republic by 24 March, in the Slovak Republic by 31 March. Commissions which are not shown on the graph were unable to accomplish even one auction by the deadlines listed.)

A logical question arising in every discussion regarding small privatization is the quality of the operating units involved. And it is truly pitiful. In the majority of cases, liquidation action is limited to driving up prices for so-called rentals and not even the argument (although it is correct) that an installation is being auctioned can persuade me regarding the rationality of the conduct of the entities standing on both sides; those personified by the person of the liquidator and those presented as numbers players.

From the legal standpoint, doubts are being raised in the eyes of the public regarding the purely "Dutch auctions" where five or six interested parties record their interest in purchasing a facility at auction who, thanks to their number and most certainly as a result of prior agreement, will lower the "market" price to the obligatory 60 percent of the auction price.

In the Czech Republic, the inadequate functioning of a central recordkeeping facility for auctioned operating units and, primarily, for payments made by purchasers of auctioned property, is a chapter unto itself. As we found out, they do not have such problems at the Slovak ministry and, moreover, every week a perfect listing of facilities registered for auction and auctioned off is available. Also, the movement of deposited auction earnest money and paid as well as unpaid knock-down prices is monitored in a better manner.

Spring began recently; let us believe that swallows who day by day carry the burden represented by tens of operating unit cards, will flap their wings even more resolutely and will more rapidly overcome the distance which separates them from building a new, strong, and healthy nest from which they should help their first young fledge toward the end of summer.

Cooperatives Learning From Market Economy

*91CH0560D Prague HOSPODARSKE NOVINY
in Czech 3 Apr 91 p 1*

[Article by Alena Drabova: "Who Will Sell in the Countryside?"]

[Text] Why is the network of stores of the consumer cooperative Jednota falling apart when cooperative property is not part of small privatization? For an

answer to this question we went to visit the Union of Czech and Moravian Consumer Cooperatives.

With the start of economic reform even consumer cooperatives began to behave as if there were a market and began to eliminate inefficient operations, which has meant mainly mobile stores, restaurants, and small, unprofitable stores with one employee. We learned from Dr. Robert Sedlak, manager of the presidium secretariat, that of 9,000 restaurants more than one third will be returned to their original owners. The new owner does not then have to retain the look of the operation. If he wants to, he can take nonhousing space and turn it into a living unit. The remaining two thirds of the businesses will be offered by Jednota for rent, because all of them operate at a loss. The managers all operate their stores so that they do not shortchange themselves, a situation that cannot be supervised. Rental with the possibility of purchase will allow younger people and people with less property to start a business who do not have enough resources to buy a business or bid for one at an auction.

The reprivatization percentage for food stores and small department stores is significantly higher because many of the buildings were constructed in communities under the do it yourself program. Of a total of 16,000, some 15,000 are to be returned. The new owner must however keep the same food lines for two years. Some owners would continue to allow Jednota to occupy their buildings, but at substantially higher rentals. The cooperative cannot afford this, especially in locations where the operation functioned at a loss even at lower rents. On the other hand, communities also complain that Jednota demands excessively high rents.

In Bohemia and Moravia there are currently 73 consumer cooperatives holding a total of about eight million Czechoslovak korunas in operating loans and Kcs2 billion in investment loans. Each unit must therefore decide if this is efficient for them. A typical example of an inefficient activity is a mobile store, which Jednota has been using to supply about one million inhabitants of small villages, mainly in border regions. At the start of this year 600 villages were still being served. Now there are about 100 less, and soon this service will disappear completely from the cooperative repertoire. The reason? Jednota pays about Kcs130,000 each year to subsidize each mobile store, and travel costs and amortization are increasing (increasing prices of diesel fuel, spare parts, etc.).

After eliminating all subsidies the supply network for the countryside is truly threatened. Surcharges to the prices of the goods in the mobile stores will not solve anything because most of the inhabitants of these small villages are retirees with low, fixed incomes. Nor do private entrepreneurs have an interest in getting involved in a previously losing proposition. Some employees of the mobile stores have rented Skoda-Avias on a trial basis to see if they can maintain the current routes. These people plan to use the buses for other purposes as well, such as

selling refreshments at bathing beaches. The cooperatives are also offering leasing plans and sales of the buses with extended payment terms. A new Skoda-Avia costs Kcs650,000.

Because of high interest costs for inventory loans not even small stores with a single employee are profitable for the cooperatives. There are about 4,000 of these in the Czech Republic and they are being offered to private buyers who could run the store on a part time basis, tailoring the hours of operation to local conditions.

In line with trends elsewhere in the world, our consumer cooperatives want to concentrate operations in larger facilities and increase the percentage of their own food products for sale. Last year sales of their own food items accounted for only Kcs1 billion of a total of Kcs55 billion in sales, while in Switzerland cooperative products account for some 60 percent of the sales of consumer cooperatives.

Information provided by Dr. Sedlak indicates that the 16,000 cooperative stores in the CSFR generate roughly the same revenues as 2,000 stores in Austria. Comparative figures with other countries are similar, where the floor area of newly constructed cooperative stores in easily accessible suburban areas approaches 500 square meters. In contrast, cooperatives in Great Britain have seen declines in sales in recent years at least in part because their stores have been near the historical areas of towns where there are parking problems.

Jednota, then, in the transition to a market economy, is no longer interested in small, unprofitable operations, and would prefer to rent them out at favorable rates. It sees the future in large supermarkets with their own food production facilities.

Worker Participation in Management Viewed

91CH0594A Prague HOSPODARSKE NOVINY
in Czech 11 Apr 91 p 5

[Article by Prof. Dr. Igor Tomes: "Veto or Cooperation? Participation by Workers in Management Under Conditions of the Market Mechanism"]

[Text] Efforts to have the amendment of the labor code put an end to the existing declarative authority on the part of the trade union organization to intervene in management of an enterprise recently gave rise to passionate discussions. It will, therefore, be useful to return to the essence of the problem and to clarify the importance of modern democratic institutions of worker participation in management under conditions of a market economy, using examples from this country as well as from abroad.

Theory lists four "classic" areas in which participation in management is asserted:

1. the technical aspects of work, its organization and management, work procedures, and execution of work;

2. employment and personnel questions;

3. economic and fiscal policy of the enterprise, including the allocation of investments, the creation and distribution of profits;

4. general decisions regarding policies of an enterprise, including the appointment of directors, the partial shut-down or complete closing of portions of or entire enterprises, structural changes, etc.

The highest forms of direct participation and joint decisionmaking in management are criticized not only by employee organizations for restricting the freedom of entrepreneurial maneuvering, but also by trade union organizations for their overly close ties between employee interests and employer interests and the resulting increased coresponsibility for the economic results of enterprises. And so, the simplified notion of the growing importance of trade union organizations as a result of their direct participation in administrative and oversight councils is gradually being abandoned in Europe in favor of collective bargaining.

As a rule, the content of participation is connected with the form of participation in management. In one enterprise, the forms can be augmented, for example, where areas 1 and 2 become the subject of collective agreements, whereas areas 3 or possibly 4 (but more likely only as an exception) become the content of cooperation with self-governing employee organs.

The Czechoslovak Tradition

Czechoslovakia ranks among the first countries in Europe as a result of its 1920 introduction of enterprise and district councils in the mining industry, followed one year later by the introduction of plant committees.

Plant councils in the mining industry were established for each independent mining plant which employed at least 20 miners. The tasks of the enterprise councils were as follows:

- To act jointly in overseeing adherence to and implementation of measures to protect the workers, measures designed to assure the hygiene of operations, and the implementation of the labor code.
- Submit proposals for improving operations.
- Supervise the implementation of and adherence to wage and salary agreements.
- Act jointly in maintaining work discipline.
- Be a facilitator in the event of employee grievances; engage in joint action in the event of worker dismissals, administer or coadminister benevolent social facilities for workers.
- Examine the annual financial statement or balance sheet of the enterprise.

The latter function is clearly connected with other important decrees passed in that year, which served to introduce worker participation in the administration of coal mines and introduced worker sharing in net profits.

According to Law No. 143 of 1920, employees were entitled to 10 percent of the net profit, which was to be shared among the owners of the mines. The enterprise council was a purely employee organization which was not permitted to intervene in the operations of the enterprise through independent regulations. Members of the enterprise council were elected through direct and secret ballot, in line with the principles of relative representation. An enterprise council was elected for a two-year period and serving on the council was an honorary position.

Enterprise councils in a closed mining district elected their district council for a period of two years. Among other things, the district councils decided disputes between the enterprise council and the enterprise administration, acted jointly in issuing a unified labor code for the entire district, acted jointly in concluding collective, wage, and labor agreements, acted jointly in facilitating work, in setting the price of the distributed coal, made decisions regarding the utilization of the share of net profits, and, at least once a year, reported on their actions and financial results of their management.

One year later, effective 1 January 1922, the National Assembly adopted Law No. 330 of 1921 dealing with enterprise committees. The law was inspired by adjustments for miners and established an enterprise committee for each independently earning enterprise which permanently employed at least 30 workers. The law was not applicable to mining enterprises and the railroads; different provisions were established for state and public employees. It was the task of enterprise committees to oversee adherence to wage and labor agreements and codes, to inspect wage and salary lists, to negotiate supplements to collective agreements, to oversee the implementation of the settlement of negotiated matters by settlement organizations, oversee adherence to legal measures to protect workers, health facilities in the enterprise, worker insurance, and other social protective measures, participate in maintaining discipline and order in the enterprise. Moreover, the committee was charged with impartially settling disputes and participating in the use of the consultation method during mass dismissals of workers as well as in cases of individual worker dismissals where workers had been employed for more than three years at the enterprise. The enterprise committees also administered employee benevolent facilities and submitted proposals for improving operations. They were not permitted to intervene in the administration of operations and members of enterprise councils were obligated to maintain complete secrecy regarding commercial and production secrets.

On the other hand, the enterprise administration was obligated to turn over to the chairman of the enterprise committee copies of labor agreements and codes, notify him with respect to commission actions or of the arrival of a supervisory organ or, at least once every quarter, report on the commercial and administrative status of the enterprise in a meeting. Membership in the enterprise committee was an honorary function and the

enterprise administration was not permitted to hinder an employee in the conduct of his voting rights and in his activities as a member of the enterprise committee.

The same law established arbitration commissions. Arbitration commissions handled grievances between groups of workers and between workers and the enterprise committee on the one side and the entrepreneur on the other side, arising for constitutional reasons or reasons of activity, or disputes based on the compensation of costs of the enterprise committee, and particularly disputes involving the scope of duties and rights of members of the enterprise committee. Arbitration commissions had six members, were presided over by a professional judge, one assessor was an expert-specialist, appointed by the okres political administration, and the four other assessors were appointed (in pairs) by employer organizations and employee organizations. The findings of arbitration commissions, which were granted executive power by the political institution, were judicially enforceable.

Development After 1945

In 1945, the president of the republic, through Decree No. 104, continued this tradition of enterprise committees and established enterprise and plant committees wherever there were at least 20 employees. Where there were fewer than 20 employees, but more than three, plant trustees were established. If several enterprises banded together into an economic unit, an enterprise council could be established for the enterprise by decrees issued by the various plant councils. According to Section 20 of the subject decree, plant councils were authorized to protect and stimulate economic and social, health and cultural interests among the workers of a plant, to see whether the economic activities of the plant were being carried out in harmony with the general economic interest in such a way that the interests of workers at the plant were justly satisfied, while observing the principles of general prosperity and while observing valid regulations; the plant councils were authorized to participate in the plant administration through proposals and advice and to engage in joint action according to regulations in implementing economic and sociopolitical public administration functions. They were not entitled to intervene in the administrative and operational affairs of the plant through their own management actions. From the entire context, it is clear that plant councils had similar functions, a similar standing, and similar tasks as did the plant committees of 1921.

Even the duty of the plant administration to contribute at least 10 percent of the net profits of the enterprise to the plant council for its activities, and for the social needs of the workers, remained intact. However, the plant councils of 1945 had far greater rights with respect to the plant; for example, they could participate in compiling the commercial and production plan, they could formulate remarks and suggestions pertaining to these plans, oversee the implementation of the plan,

including the investment program, and oversee the operations and administration of the plant or enterprise and make full use of the information thus acquired in its activities. To the extent to which proposals made by the plant council failed to meet the success at the plant administration level, the plant council could turn to the public administration apparatus to effect rectification. It is noteworthy that plant councils were established only at entrepreneurial organizations and not at special-purpose organizations, irrespective of whether these were political, trade union, church, or scientific and artistic organizations, or facilities operated by consumer cooperatives and economic associations. These facilities were subject to different, but essentially narrower provisions.

The 1945 presidential decree was conceived in a very modern manner. In Section 27, it assigned the plant administration the duty of providing information, and consulting [with the plant councils] on all questions within their jurisdiction. In other words, we may say that this decree introduced almost all presently used forms of worker participation in management and decision-making at enterprises as early as 1945, with the exception of direct participation in administrative and oversight councils. However, these provisions were rescinded by the totalitarian communist regime in 1950 and the plant committees of trade union organizations remained as the only representatives in the administration of enterprises. This resulted in a substantial restriction of the democratic nature of worker or employee self-administration.

Conclusions

A modification of the law which will replace the existing administrative-legal veto exercised by the trade union organization (Law No. 37/1959 Sb. and the Labor Code, Law No. 65/1965 as amended) with the following democratic institutions will be meaningful:

1. collective bargaining;
2. worker self-administration;
3. participation by elected worker representatives in administrative and oversight councils, but not in the management of the enterprise (board of directors).

The type of collective bargaining which has hitherto been entrusted to trade union organizations must be considered as the fundamental form of worker participation in the management of an enterprise (organization). The European experience indicates that agreement between the parties can result in modifying an entire area of mutual information and obligatory consultations (participation). In this country, this is already adjusted legally. The question arises as to whether trade union organizations or the employee self-administration apparatus should conclude collective agreements. In the majority of European countries and in the United States, this right is vested in trade unionists, who represent the association of workers vis-a-vis entrepreneurial entities and are, therefore, not dependent on these entities.

From the standpoint of our tradition, a pressing need arises for the creation of legislative room for the origin of a system of employee trustees (small private enterprises) and employee councils (medium and large private joint stock companies and state enterprises) which would be elected by direct and secret ballot by all employees. Representatives of trade union organizations could campaign for the votes of all voters. This would put a definitive end to the undesirable manifestation of the political monopoly on the part of trade union organizations and trade union activities would be subject to democratic control.

In conjunction with the decision by the Council of Europe in 1980, worker councils should have the right to information and prior consultation on questions involving changes in working conditions, methods and organization of work, and in determining the labor code which contains the rules for recruiting and hiring workers, unilateral changes in work contracts and rescinding of such contracts, as well as on questions regarding restructuring, mass dismissals, limiting production, and measures designed to solve the social consequences of such measures. By doing so, these councils would essentially be taking over the existing rights of trade union organizations, listed in the labor code. Such a measure would also have a stabilizing effect, because the excesses of anarchosyndicalistic demagoguery would be subject to broader judgment by all employees.

In countries having a market economy, the pressure for obligatory direct participation by worker representatives in administrative or oversight councils has been declining in recent years. In Belgium, France, Italy, and Great Britain, there are even trade union organizations which are opposed to this institution. That is why no recommendation for expanding this institution was adopted at the level of the European Economic Community. Its introduction in Germany, Austria, and the Scandinavian countries is an expression of the social democratic traditions in those countries and of the legacy of social democratic governments. Under the conditions of our transitional period, it is not clearly demonstrable whether obligatory participation on the part of the workers will always be of benefit where the dynamics of the times may call for very flexible maneuvering and adaptation of enterprises to the rapidly changing rules and conditions of the domestic as well as foreign market.

Therefore, the law in the CSFR should provide the possibility for worker representation in administrative and oversight councils, but, with the exception of state enterprises, should not make it obligatory, but rather an object of mutual agreement while retaining several fundamental rules. For example, a worker representation organization should not be numerically stronger than a stockholder or owner representation; because the owner should not be deprived of the right to make decisions regarding his ownership.

The rules for worker representation in administrative organs of state joint stock organizations could be temporarily promulgated in more detail. Other than that, this should be a matter between employers and employees.

Pragoinvest Facing Bankruptcy Proceedings

*91CH0560C Prague HOSPODARSKE NOVINY
in Czech 2 Apr 91 p 1*

[Unattributed article: "Adieu, Pragoinvest"]

[Text] The first company to be liquidated in the CSFR is Pragoinvest, Inc. The final decision was made at a Friday session of the general stockholders meeting. Stockholders include FINOP (an organization under the Federal Ministry of Foreign Trade [FMZO] for establishing corporations, with 51 percent of the shares), Prague Ceskomoravska-Kolben-Danek [CKD] (33 percent), and the Prerov Machine Works (16 percent).

The well known reasons for the decision to liquidate Pragoinvest (HOSPODARSKE NOVINY issues of 13 and 18 February) were again summarized by the general director, Dr. Milous Cervenc. The first is the disintegration of the eastern market, the second is uncollectible foreign receivables, and the third is the credit policies of our banks. The result is a debt of 1.8 billion Czechoslovak korunas [Kcs] to the banks, and Kcs3.5 billion of uncollectible (or very long term) receivables abroad.

In addition to the financial crisis at Pragoinvest, there is also an internal personnel crisis. Of the original 630 employees, 230 have already left and another 150 plan to leave the sinking ship by 1 April. Most of those leaving are highly trained and it is probable that without these people Pragoinvest would not be able to exist in any event.

The liquidator will also have personnel problems. The transfer of certain obligations and agreements to the stockholders will be difficult without the original Pragoinvest employees. In addition, currently it is impossible to estimate how long the liquidation will last and how it will be conducted, because some foreign loans are payable through 1999. It is not clear whether the liquidator will sell the Pragoinvest receivables abroad or domestically (if a bank will honor them), or whether the government will pay them off out of its own budget. The extent to which reality will correspond to this prediction of the chairman of the board of Pragoinvest, Eng. Ladislav Siska of the Prerov Machine Works, remains to be seen, because first of all no liquidator has yet been named, and secondly there is still no bankruptcy law. Only the liquidation of inventories will proceed without any problems, because they will be bought up by the sister holding company Prague Ceskomoravska-Kolben-Danek or other Pragoinvest partners.

Also of interest is the information that the Prerov Machine Works wants to handle the foreign trade operations itself. It has formed a special division for this purpose where, by the way, many former Pragoinvest

employees found work. Eng. Jan Havelka, general director of Prague CKD, told us that his firm as well is hiring people from Pragoinvest, but that CKD is certainly not turning down cooperation with other businesses. These firms though must be structured differently so that they only broker the business deals.

Brno Machine Tool To Form Joint Venture

*91CH0595B Prague HOSPODARSKE NOVINY
in Czech 22 Apr 91 p 1*

[Article by Marcela Doleckova, Vienna: "Another Marriage on the Horizon—First Brno Machine Tool in Privatization"]

[Text] Perhaps by the end of the year the First Brno Machine Tool Inc. (10,000 employees, anticipated sales this year 3.6 billion Czech korunas [Kcs]) will conclude an agreement regarding a joint venture with a foreign partner, assisted by the Austrian banking house of Girozentrale (overall assets of 208 billion Austrian schillings). Who will it be?

As a result of narrower selection, there are only three remaining giants out of the original eight applicants—the German Siemens Corporation, the Swiss-German Asea Brown-Boveri Company, and the American General Electric Corporation. This was indicated at a press conference in Vienna by both the management of the First Brno enterprise, as well as by the advisory team of the Girozentrale.

First Brno had taken the first step toward privatization last year in December by becoming denationalized—it had converted itself to a joint stock company, made the transition to a foreign exchange structure, and, this month, decided on the second step: It concluded a so-called mandate agreement with the Austrian Girozentrale regarding advisory services. The Austrian banking house itself had won out in a competition with other advisory firms; its offer not only suited the founder of the First Brno enterprise (the Ministry of Industry of the Czech Republic) as well as the First Brno enterprise itself, but was also acceptable to the potential partners whose requirements also included a proviso that the advisory firm not be from the country of a potential partner.

According to today's notions, the foreign partner will buy into First Brno through investments, the magnitude of which is still being discussed for the time being, but they will represent a minority share, in the beginning. Additional investments will, however, be used to raise the partner's share to an above-half majority. First Brno will handle the final stage of privatization: It will pass that portion of the enterprise which will be held by the state into private hands in the form of securities. It seems that a portion of the shares will remain to be held by employees (including managerial shares).

The director general of First Brno, R. Kuba, has stated that the selection of a single foreign partner who is

technically and financially strong will prevent possible conflicts which could arise in the event that various foreign enterprises were to enter the individual divisions of First Brno. A partner of the type represented by the present applicants guarantees the technical as well as managerial modernization in such a way as to permit First Brno to become expressly competitive, at least on the European scale.

The representative of the founder, M. Roubicek, of the Czech Ministry of Industry, indicated that the Czech Government is attempting to direct foreign capital into areas of interest to energy: First Brno is focusing on energy engineering. As instruments to assist this development, the government is prepared to utilize subsidies or customs duty maneuvers.

The consulting firm will be paid according to the magnitude of foreign investments achieved. W. Schuster of Girozentrale states that First Brno's sales chances will be considerable, not only in the domestic market, but also in the foreign market.

Czechoslovak Companies To Build in Israel

AU0306123891 Prague CTK in English 1117 GMT
30 May 91

[Text] Prague 30 May (CTK)—The Czechoslovak Government is seeking new markets for Czechoslovak products after the collapse of the markets in former member states of the Council for Mutual Economic Assistance (COMECON), said Czechoslovak Deputy Premier Vaclav Vales when meeting Israeli banking, industrial, and business leaders here today.

Vales said the government encourages the participation of foreign firms in the privatization process in Czechoslovakia as its enterprises need capital, sophisticated technologies, and marketing experiences to modernize themselves and step up their competing ability. The Israeli guests were interested in the legislative conditions for foreign investments in Czechoslovakia.

At a seminar at the Czech Ministry of Industry, Israeli business representatives said they were interested in cooperation mainly in industrial textiles production, farming technology, computers, food industry technologies, and banking.

[Prague HOSPODARSKE NOVINY in Czech on 31 May on page 1 carries an 800-word Marcela Doleckova report on the "first ever official visit by a delegation of Israeli industrialists" to Czechoslovakia. According to the report, the Israeli "Exclureps" company and a consortium of Czech and Slovak firms concluded a \$32-million contract for the construction of 1,000 apartments in Israel. About 220 Czechoslovak citizens will be working in Israel on the project. Exclureps President D. Kellermann is quoted as having told HOSPODARSKE NOVINY that an additional 10 building contracts worth a total of \$300 million are under negotiation.]

Lovosice Construction Transport To Be Auctioned

91CH0579C Prague ZEMEDELSKE NOVINY
in Czech 11 Apr 91 p 1

[Article by Hana Kovandova: "They Wanted Independence, Not Bankruptcy—Construction Transport State Enterprise at Lovosice To Be Auctioned"]

[Text] Of the 120 employees of the Construction Transport State Enterprise at Lovosice, which came into being in July of last year by being broken out of the Above-Ground Construction Enterprise at Litomerice, only seven remain. The others were dismissed. Thus, the large local yard with rows of cargo trucks for which there is no work fell silent. The State Transportation Enterprise at Lovosice is the first state enterprise in Czechoslovakia to go bankrupt.

Based on a decision by the Ministry of Industry of the Czech Republic, the Construction Transport Enterprise was disestablished halfway through February of this year and was placed into liquidation. Only a group headed by Eng. Pavel Hlavaty remained, charged by the Ministry of Industry for the Czech Republic with the liquidation of the enterprise. "To this day, we do not have a law on bankruptcy; the liquidation of the enterprise is controlled by the economic law," he informed us. "The enterprise began its existence with a consolidation credit of 2.3 million Czech korunas [Kcs], which it was to repay by the end of this year. There was an investment credit of virtually the same magnitude on which the enterprise was drawing. All of this made the situation of the enterprise more difficult because it was, thus, burdened by interest payments. Only two months were profitable; however, in succeeding weeks the situation in the enterprise deteriorated further. The demand for the services of drivers declined rapidly, the volume of construction activity dropped. The former employer of the drivers—the Above-Ground Construction Enterprise—was looking for cheaper transportation and turned to private individuals. Competition was stronger."

It was therefore not surprising that at the end of last year there was no more money to meet the payroll, the bank did not provide additional credits. In mid-February, the liquidator acquainted the employees with the unpleasant facts—the enterprise will be disestablished and, by the end of the month, the employees will be given notice. At the same time, they were offered five months of wages as separation pay. They received the money by the end of February and the money came, in part, from the sale of the transport media.

However, some had a difficult time leaving, particularly those who had worked here for more than 30 years. The majority left the enterprise; a small number of original employees remained in three centers which they rented to support earthwork and, mainly, transportation.

The Construction Transport State Enterprise, which acquired an infamous primacy as a result of its bankruptcy, is now, as a result of a decision by the okres

privatization commission, listed among those operating units which are scheduled for auction, which is to take place on 20 April in Lovosice. The auction price of the area it occupies is in excess of Kcs14.5 million, with the overall space occupied, including the buildings, representing 10,000 m². Interested potential customers will be able to select from among a rich offering of transport media, including mobile tractors or highway vehicles, whose auction prices begin at Kcs21,000.

"The principal duty of the liquidator is to convert the property to cash as rapidly and as economically as possible and to meet the obligations to employees, the state, and to suppliers," Engineer Hlavaty reminded us. "Because the proceeds of the auction are transferred to the account of the Ministry for Privatization, this ministry will also handle the compensation of the obligations of the enterprise."

Unused, Obsolete Rail Rolling Stock

91CH0560F Prague HOSPODARSKE NOVINY
in Czech 2 Apr 91 p 4

[Article by Eng. Josef Beran, Prague: "A More Critical View of the Railways"]

[Text] I read with great interest the interview with the Minister of Transportation, Eng. Jiri Nezval, in the 19 March article entitled "Railways at a Dead End". This article prompted me to consider the issue from another point of view.

The firm known currently as the "Government Organization Czechoslovak State Railways [CSD]" encompasses not only profitable self managing units but also a number of units whose mission is to provide different levels of operational and service activities. Many of these activities, elsewhere in the world, are customarily provided by independent contractors that are not a part of the railway administration and can therefore provide the services more effectively and less expensively. Moreover, the facilities of the CSD organizations providing these services are much too large. They were built at a time when the Czechoslovak economy was clearly dominated by the "market" of the supplier. Now, as the introduction of market elements is resulting in the opposite "market of the customer", many of these costly facilities are dispensable for the CSD. One can assume that once they are privatized these operations will achieve better performance than when they were under the CSD.

Throughout 1990 and at the beginning of this year the prevalent view at the CSD and the Federal Ministry of Transportation [FMD] was that these now superfluous organizations had to be kept under the control of the CSD. Similarly, there is still only talk about the sale or retirement of excess rolling stock. Currently there are more than 30,000 excess pieces of rolling stock on the CSD network that are getting in the way of operations, and keep the CSD repair and maintenance budgets at a high level. Similarly there are 630 electric locomotives

on the network with a zero salvage value, for which the CSD must manufacture all kinds of spare parts that are no longer available. These cars and locomotives are repaired and maintained despite the fact that last year 200 were held in reserve because there was no work for them. The situation is worse for diesel locomotives, with 600 locomotives standing idle in 1990. Lots of money is spent maintaining and repairing these locomotives. In many instances the CSD fabricates needed spare parts. A significant portion of this equipment is already fully depreciated, which for many of the "economists" at the CSD is evidence of their economic benefit.

Despite the fact that freight traffic has been declining since 1988, and that declines could have been anticipated in 1989, 1990, and 1991, the static technique for planning loads continually overestimated (projecting growth in 1989 and only moderate declines in 1990 and 1991) the scope of projected traffic, and then used these unrealistic estimates to estimate the revenue position of the CSD for the next year. Poor estimates of reality and the resultant consequences are then described as due to external or objective factors.

Another example of poor management on a large scale is the ongoing investment project in obsolete buildings to house railway repair and machine shops. This project is worth several hundred million korunas, despite the obvious fact that the CSD will not need the facilities in the near future. Similarly it would be possible to privatize certain services, such as the management of restaurant cars and sleeping cars. This would lower costs for the CSD and improve the level of services provided.

In comparison with these losses many of which were noted in an investigation of the FMD last year, the savings from stoppage of service on certain peripheral CSD lines are truly negligible. Even though its predictive capacity is not sufficiently accurate, the current CSD information system calculates the savings from terminated service on all 141 lines (23 percent of the CSD network) to be 1.2-1.4 billion Czechoslovak korunas [Kcs] annually. Savings from an organizational dividing up of facilities that provide service directly can be estimated on the order of several billion korunas annually. This depends of course on the severity and thoroughness with which they will be implemented. The current system of loans and subsidies from the government budget, as is the case with enterprises, only postpones the radical resolution of the problem, and therefore actually prolongs the agony of the CSD. The same is true of the illusion that selling or renting CSD property will improve the CSD revenue situation like waving a magic wand.

In this regard the problem of "social fares" is interesting. For 1991 revenues from transportation of people on worker fares is estimated at Kcs190 million and revenues from student fares at Kcs20 million. The costs for these trips on the other hand have been calculated at Kcs1.74 billion for the worker trips and Kcs620 million for the student trips. Comparing this with the subsidies of

Kcs3.172 billion and Kcs0.1 billion that were mentioned in the above conversation it is clear that the concept of "social fares" suits the CSD, especially since it allows it to hide an overall profligacy of management.

High Rental Costs in Prague Decried

91CH0560E Prague HOSPODARSKE NOVINY
in Czech 3 Apr 91 p 1

[Unattributed article: "Prague Prices Are Horrendous"]

[Text] Almost 1,500 foreign firms have decided in the past year to open offices in Czechoslovakia, with more than half selecting Prague as the office location. To support this influx, however, we will need 113,000 square meters of office space, based on a study by the firm European Property Development [EPD] which studies real estate transactions.

EPD surveyed 300 foreign firms interested in doing business with us. It asked about their needs, and what they like about doing business with us and what they do not like. Roughly 52 percent of the respondents are convinced that the economic situation in Czechoslovakia will improve in the next five years and that, of all the countries of the East block, we have the best conditions for making a rapid transition to a market economy. The most frequent complaint is that there is still no real estate market in our country, that we have too little space suitable for offices, that existing spaces are too poorly equipped with phones and faxes, and that legal and property uncertainties are major obstacles.

Most firms require 50 to 300 square meters of office space, but only about 10 percent have been able to find space this large. Rooms that meet international standards can be found only in the larger hotels. The same is true of warehouses.

At the same time the prices charged for a square meter of space in Prague was thought by most respondents to be quite inflated. In the historical center of Prague rents fluctuate in the vicinity of 140 German marks [DM] per square meter monthly in international hotels. The lowest rents are about DM20 per month, outside the center in houses that need significant rebuilding to be suitable. Foreign firms consider rents of DM100-140 per month to be reasonable for space that meets international standards.

A comparison of conditions and the attractiveness of individual European cities indicates that a feasible rental rate for Prague would be about DM70 per month. Businessmen are willing to pay the most for offices in Moscow (because of the size of the potential market): DM150 monthly. London is the second most attractive, at DM130 monthly, and Paris is third at DM125 per month. Realistic rental costs in Warsaw run DM80 per month. Budapest is equivalent to Prague at DM70, while in Vienna businessmen are willing to pay only DM50 per month.

Nuclear Waste Storage in Dukovany Opposed

AU0306141391

[Editorial Report] Prague MLADA FRONTA DNES in Czech on 28 May on page 2, under the headline "Against Nuclear Waste," publishes a 500-word "bod"-signed report on the population's protests against establishing an interim disposal site for the burned nuclear fuel on the premises of the Dukovany power plant. According to the report, local government representatives complain that they were not invited when the construction of the interim nuclear waste storage was discussed. The report also reiterates the stand taken by the plant representation claiming that "the storage does not effect the safety of the plant and vice versa." The conclusion of the report is that safety will have to be checked into quickly, and a decision must be made, for "we cannot do without the energy from the Dukovany power plant."

HUNGARY

Kadar on International Economic Relations

91CH0517A Budapest MAGYAR FORUM
in Hungarian 14 Mar 91 p 3

[Interview with Bela Kadar, minister of international economic relations, by Imre Krajczar; place and date not given: "From Eastern to Western Markets: Hungary Received the Highest Marks; Conversation With Minister Bela Kadar"]

[Text] Nowadays, people who worry about Hungary's future tend to focus on the country's economic activities abroad. Can we survive, can we be successful in this sphere of activities where we have to overcome external competition as well as our own tendency to procrastinate? Can we gain a foothold, even though for about half a century our self-confidence and our faith in ourselves were drained? What are our chances? We discussed these points at the Ministry of International Economic Relations with the minister, Bela Kadar.

[Krajczar] Is this ministry in effect identical to the former Ministry of External Trade, or is it something entirely different?

[Kadar] Our ministry is not identical to the old one you have mentioned. On the one hand, its sphere of activities is smaller; however, it has also grown by incorporating the former Secretariat for International Economic Cooperation, the former Deputy Prime Minister's apparatus dealing with international economic ties. We have also taken over the CMEA-related affairs. When it comes to cooperation within the CMEA, I represent the Hungarian Government. In another sphere of tasks, we have assumed several of the National Planning Bureau's tasks that have to do with international economic cooperation, as well as the responsibilities in coordinating the defense industry and foreign trade. The third great area of challenges is what we refer to as stimulating investment and developing commerce. A separate agency was

set up within the ministry to deal with these tasks. And finally it is also up to this ministry to control the foreign trade in modern technologies.

Capital Accumulation and Model Transformation

In other words, this ministry has plenty of new tasks that did not even exist previously. For example, we must promote the inflow of capital from abroad; in part by providing information, certain services and advice, and to a certain extent, with some very modest amounts of money, to support the investments and infrastructure development costs of foreign firms, primarily those that pursue productive activities. The ministry provides some support for the development of missing infrastructure and the network of public works. The entire budget of the agency dealing with these activities is \$1.5 million, that is, 20 million forints. If it is in the country's interest to have Hungarian proprietors or property shares appear as part of an enterprise, we use this budget to augment the resources.

In this regard the ministry has changed. As for the size of the staff, by last year we have reduced the eight hundred employees that used to work for the former ministries of foreign trade, or commerce, to 440, and further cuts will be effected in the coming weeks. The manpower pool will be stabilized at around 400.

[Krajczar] Does this reduction have anything to do with the systemic transformation that was considered so necessary at the ministry?

[Kadar] It has to do with the transformation of model, not one of system. Individuals are judged and evaluated on the bases of their professional knowledge. There were a few individual moves that could be connected with political changes. However, the reduction in personnel is connected primarily with the transformation of the economic model. For one thing we are liberalizing foreign trade.

As of this year, about 90 percent of Hungary's imports are liberalized. Two years ago, this category included only 41 percent, and last year it increased to 70 percent. What this means that the activities connected to foreign trade permits and procedures have been greatly cut. This liberated some of the workforce. A great many people in Hungary worked on CMEA cooperative projects, not only at this ministry but elsewhere. In the 1960's, 70 percent of Hungary's foreign trade activities were confined to CMEA cooperation. In the 1980's this was reduced to 52 percent, and in 1990 it was under 30 percent.

Contacts Yesterday and Today

[Krajczar] How successful were we in switching from Eastern to Western markets?

[Kadar] Commercial life in the East was compelled to follow in the tracks of postwar European trade relations

system, and this was the framework in which the economic life of East Europe, as defined by the Yalta Agreement, was forced to operate. For about a third of a century, this cooperation was what influenced Hungarian foreign trade contacts, and thus also the general processes of economic, social and political development. Reducing the share of Hungary's Eastern trade is not a short range tendency, and it can be attributed to economic as well as political factors. In fact, the economic factors appeared much earlier. The cooperation of East European countries was an inward-turning one that strived to achieve regional self-sufficiency, which was hardly able to accommodate the technological-structural changes that appeared with increasing acceleration in global economy after the 1970's. In effect, it had a conserving influence on each of the economies involved. As a result, the individual economies were unable to provide each other with modern technologies or with high quality goods demanded by the populace; at best, they delivered mediocre technologies, raw material, semiprocessed goods and so-called inexpensive industrial or agricultural mass products.

Uncertainty in the CMEA

Naturally, this cooperation has a function, but in a changing and developing world that function becomes less and less important. The CMEA cooperation went through a period when it was quantitatively growing at a dynamic rate, but this came to a halt around the late 1970's. After this, the stagnation began. While commerce in the West grew, this stagnation turned into a severe deterioration during the past year. In that period, our Eastern export fell by 28 percent, and our import by 18 percent. In the course of making the transition to a dollar-based accountability, it came to light that the East European countries show great weaknesses when it comes to ability or willingness to pay; thus, a problem also developed with the receiving markets.

Uncertainty is rampant. The situation is difficult to survey, and sales opportunities have deteriorated greatly. For example, as part of the Hungarian-Soviet trade agreement signed late last year, Hungary's exports include \$1.7 billion worth of commodities which would have entailed the release of sufficient hard currency by the Soviet partner, if the agreements were made between enterprises. Hungarian firms have already last year signed private agreements with their Soviet partners in the value of \$700 million; yet, as of yesterday, only \$42 million worth of credit accounts were opened.

This may illustrate the worries connected to sales, as well as the broader economic, social and regional tensions that enterprises may experience. All the while, commercial life in the West is developing at an extraordinary rate of speed, and this involves those regions of our country, those professions and enterprises which are most closely tied in with partners abroad or even beyond the ocean. Last year the so-called dollar export increased by 18 percent. This is a tremendous achievement. We accumulated nearly one billion dollars in trade surplus.

The growth of dollar export has a great up-lifting force. This compensates (in part) for the revenues we have lost on the Eastern markets.

Internal Disputes, External Losses

[Krajczar] What influence do Hungary's domestic politics have on the country's position in international economy? I am referring to stability, the struggle of parties, and the ideologically inspired attacks that take place abroad and at home. These tend to be like smoke, and fill the sphere of politics.

[Kadar] I have said many times that the country is seriously harmed by these debates that have their roots in domestic politics. In other countries, the parties are able to exhibit mature, responsible behavior, and can distinguish between the interests of the country and those of the parties. Unfortunately, this ability has not yet been fully developed in Hungary, where political democracy is new and not quite mature. Feeling their interests injured, the various forces, be they political organizations or business groups, express their criticism very forcefully and unfortunately, sometimes without sufficient cause. Of course, there is no shortage of criticism in East Central Europe. However, the loudest criticism seems to come from inside Hungary. As a result, there are countries, especially those in which our critics have good contacts, where the image of Hungary has deteriorated in recent times. And it takes an exceptional businessman not to be shaken by views which castigate the actions taken by the Hungarian Government.

By the way, I feel that it reflects reasonably well on this country that about half of the capital invested in East Europe during the past year ended up in Hungary.

Because, foreign capital still comes into Hungary, after all. There are those who complain or gripe; and, indeed, this does not help our image among certain residential strata. Still, foreign businessmen who come here and know us, especially if they can compare us with others in the region, recognize without hesitation Hungary's achievements and its attractiveness as a partner.

Let me mention here the global economic summit meeting held at Davos. Hungary presented its own concept and outlined its situation at the summit, and based on that information Hungary received the highest marks. That situation has not changed.

Will There Be a World's Fair?

[Krajczar] How much Western capital is flowing into Hungary? There are many people saying that it is not enough, and claiming that the reason for the insufficient influx can be found in the policies of Hungary's Government.

[Kadar] Foreign capital has been able to invest in Hungary since 1972. Between 1972 and 1988, in 16 years, the total of \$300 million worth of foreign operating capital

found its way into Hungary. With investors sensing the coming liberalization and transformation in 1989, there was nearly \$300 million worth of foreign investment in one year. In 1990, when we could interpret foreign investment as the sign of confidence in the new government, \$500 million came in.

[Krajczar] What is the situation with the Soviet market? Can we give up on it?

[Kadar] I have not heard of any responsible economist saying that one can give up on the Soviet market. Perhaps not without limits, but we need the Soviet Union's receiving market, its raw materials and its energy resources.

[Krajczar] In your own personal opinion, will there be a World's Fair?

[Kadar] Hungary has a number of definite needs: Social mobilization, the modernization of the country, and integration into the global economy. Hungary needs to be made better known in global economic life, it needs the continuing inflow of foreign capital, it must improve its infrastructure and its tourist facilities. In other words, the country needs to undergo a renaissance, so that we can use the labor force displaced by the loss of East European markets, so that we can do something new for providing mobility for Hungarian entrepreneurs, and so that we can accelerate the process of privatization. Without the World's Fair, these goals are lacking in foundation. That is why I hope that this country will have enough energy and desire for improvement to recognize that we must go beyond the domestic disputes. Unfortunately, there are those who feel that Hungary's rise, resulting from a successful World's Fair, would amount to a triumph for the present government, which obliges them to oppose the plans for a fair. The success of the World's Fair will mean success for the country. The forces that cannot recognize the country's interests should not be upset if they are criticized for this.

[Krajczar] How friendly is the ministry to enterprise?

[Kadar] This ministry cannot be anything else but friendly to enterprise.

[Krajczar] Mr. Minister, thank you for the conversation.

Agriculture Minister Gergatz Voices Optimism

91CH0517B Budapest MAGYAR FORUM
in Hungarian 7 Mar 91 p 3

[Interview with Dr. Elemer Gergatz, minister of agriculture, by Attila Vodros; place and date not given: "I Have Not Taken an Oath on Spectacular Answers; Our Guest: Dr. Elemer Gergatz, Minister of Agriculture"]

[Text] The mood in Hungarian villages is nowhere near as hopeless as some people present it to be. To be sure, there is uncertainty, which is part and parcel of the transformation. The minister of agriculture, Dr. Elemer Gergatz, has faith in the sobriety and patriotism of rural

folks. During our conversation, it came to light that the problems faced by the ministry can be those of attitude as well those of economics. During the past decades, the peasantry was not one of the "leading" classes, only "an associate." Yet, even under the changed circumstances, they do not want to gain undeserved prerogatives; on the other hand, they demand what is rightfully theirs. As for the property relations, the minister hopes that within a few years agriculture will be much more colorful than it is today, and newly organized private manors and cooperatives will come into being.

[Vodros] Mr. Minister, how do you see the Hungarian village?

[Gergatz] I am saying, not for political reasons, but based on experience, that the Hungarian village is nowhere near as pessimistic as presented by some people. But why should it be pessimistic? If we look into the past, we see that people sowed even in the autumn of 1956, because they knew that otherwise there would be nothing to harvest. So, I do not understand why is it so fashionable to talk about panic in the villages, when there is no such thing. The facts bear this out: they planted the seeds, and the tracts look good. In other words, there are no great problems which some try, for one reason or another, to plant into the people's minds. The village is more thoughtful and mature than presented by certain individuals.

[Vodros] You are talking about the mood in the villages; I would like to know, however, if you consider the Hungarian village beautiful?

[Gergatz] I have come from there! I consider villages and village communities more important than anything else. To me, a village is as nice as a child to his parents, who see the future prince in him. And I have every reason to see the Hungarian village as the prince of the future; this is manifested in a desire to see strong stabilization, and helps me to form an image of the future rural Hungary. Of course, I could also enumerate the things I do not like. The block houses, for example, and other unnatural phenomena; but which one of us would not know the causes behind them? On the other hand, it is a fact that when I roamed the villages as a beginning veterinarian, I used a tin basin to wash my hands at the end of the day. Those wash basins have been replaced by bathrooms, and very nice ones, indeed! I like this, because that is the way things should be. People who put food on the nation's table should not be ignored when we plan for development.

Villages Are Very Important to Me

[Vodros] Mr. Minister, I have been told that you operate well in villages. May I commiserate with you, because you will have less time for rural visits.

[Gergatz] Far from it! I will always have time for visiting villages; even if I have to steal it from my leisure. But I will have time also because visits home are important to me. In this position, there is nothing more important

than being familiar with the problems and worries of those who cultivate greater or smaller pieces of land and discovering how these can be ameliorated or remedied, in order to benefit the nation.

[Vodros] Were people in Csorna, your hometown, happy to learn that Elemer Gergatz would be minister?

[Gergatz] My endurance comes from Csorna; from people who reveal this in their own way: They cry with one eye, and laugh with another. They laugh, because they feel that I am one of them, and they are confident that I will have the opportunity to develop a European image of the villages, a more developed agriculture. At the same time, they are also sad, because they are worried about one of their own.

Rural Interests

[Vodros] Will this prince (to use your expression), who was so frequently injured and robbed in the past, have sufficient weight in the government? After all, the Minister responsible for industry can also claim the throne.

[Gergatz] It is still difficult to emphasize rural interests, even though, in my opinion, peasants and workers have nearly identical interests. Even when they are not, they are not far from each other. The fundamental interests are the same. Problems are more likely due to the view promoted during the past 40 years, according to which there is, or was such a thing as a ruling stratum of workers. Ruling; leading role! So, it could be claimed that someone like myself, who stands up for agrarian interests, is taking on the role of opposition politician. Our task is difficult, because transforming the direct method of leadership is only one of our challenges. A more difficult, and perhaps more important, challenge is to change the way peasantry is viewed. I demand nothing more for rural folks than what they deserve; however, I fight for that in the National Assembly and in the government alike. I do not want to obtain more prestige for the branch than it deserves, but I cannot tolerate its being swept aside and demeaned.

[Vodros] The way I see it, repaying Hungary's debts will be accomplished, by and large, through the efforts of the agricultural sphere.

[Gergatz] While it is true that we have excellent capabilities in the agricultural sphere, I still feel that it is out of the question for us to solve such a great problem. We must keep reality in mind, and must not set our expectations that high. We must settle for being able to do everything in our power to ameliorate the nation's problems, but not all by ourselves.

[Vodros] You mentioned our excellent capacities, which have not yet been fully utilized. Thus, it is not beyond the possible for Hungarian agriculture and Western capital to make a joint appearance in the Soviet market, and later perhaps in that of the third world.

[Gergatz] Well, I would be more inclined to say that talking about Western support only serves to create an atmosphere. After all, the facts indicate that the greatest squabbles within the common market are in the sphere of agricultural products. That is to say, why would it be in their interest to support the development of Hungarian agriculture? We must acknowledge the fact that when it comes to Western markets, we may come into the picture as a factor to offer a broader selection. Our task, on the other hand, is to make sure that by the time we join the common market, we should have an agrarian sector that is equal to those of the other member nations. This will take time; after all, let us be honest, if we were hit with the market norms of West Europe today, we would not be able to meet them. It takes time to catch up. Of course, we are looking forward to the influx of capital, which would be most worthwhile to use in processing and commerce.

Fear of Land?

[Vodros] Mister Minister, you have a high regard for the Hungarian peasant. So have I! That is why we must, regretfully, admit that only a small percentage of them are suitable to manage independent farms....

[Gergatz] To be sure, the recent decades did not favor the system in which the craft and science of agrarian management were passed from father to son. We must acknowledge this, but the picture is not quite as dark as you made it appear. After all, let us not forget that there are great differences within this small country. The owner of a farm in the Alföld region thinks differently than his counterpart on the Kisalföld. The first one wants to work around his own plot of land, and we must support him in this; while the second may not necessarily want to work the land with his own family. I do not agree with the extreme views, according to which people are afraid of agriculture! And, of course, the opposite is also an exaggeration.

[Vodros] Obviously, those who talk about people's fear of the land are worried about their own existence. Perhaps unnecessarily, because you, as a committed smallholder, cannot be considered an implacable opponent of larger agrarian holdings.

[Gergatz] To be more precise, I am an implacable opponent of the kolkhoz, but not of naturally created cooperatives. But what I would really like to see is if landowners who are capable of thinking and working would organize their own lives. They should decide which is the manner in which they wish to manage their own holdings. In other words, I am not committed entirely either to small or large farms. Instead of saying either/or, I would prefer to see a broader choice. In the near future, there will be many varieties on the management scale. There will be holdings of 30-50 hectares, as well as manors managed by local administrative units, cooperatives, and of course, state farms.

[Vodros] Mr. Minister, in order to see agrarian management proceed along the lines you have just stated, what do we need most urgently?

[Gergatz] The settlement of property relations, a law on cooperatives and a satisfactory law on landed property. The minute these issues are settled, we can switch into higher gear. I am not using the word starting, because stopping is out of the question. There is a certain amount of uncertainty, which is part and parcel of systemic transformation.

The Role of Agroiintellectuals

[Vodros] What is your opinion of the agroiintellectuals? Is it conceivable that they will hinder the transformation?

[Gergatz] Impossible! Anywhere I went in the developed countries, I found that the entrepreneurs in this sphere are educated engineers; people who know what is happening in the world, and are able to express their own interests. There will be a great need for the agroiintellectuals, because we will have to have consultants and supervisors. On the other hand, most of them are striving to become owner-proprietors. All in all, I do not at all consider agroiintellectuals to be a factor hindering progress. I have confidence in them.

[Vodros] That is the way it should be; after all, not long ago you were one of their teachers. As an expert in agrarian training, what kind of schools would you favor?

[Gergatz] When it comes to transforming agrarian training, we are already behind schedule. I have great faith in the wisdom of the professors, but we cannot leave them to themselves. It is most likely that, having access to the larger picture, we will have to decide what kind, and how many, trained professionals we will need. Right now, for example, we need a great many small farm managers.

[Vodros] Ones decorated with the "Golden Sheaf?" [prewar agrarian distinction]

[Gergatz] No; there is more to know nowadays.... In my opinion, instead of the present five-year-long university training, we should institute three-year training for farmer-managers, but these three years should include everything from basic knowledge to computers and even midlevel familiarity with a foreign language. What we will need are entrepreneur farmers; some of these will study for another two years, because we will also need researchers and specialists. Such an entrepreneur farmer is not uncommon in the Western countries. Of course, the development of new training methods takes time; even if we are behind schedule.

Instead of Fodder Shortage, a Surplus?

[Vodros] On the other hand, we must very quickly create order in the marketing of meat, dairy and fodder.

[Gergatz] We probably could work in a more spectacular and demonstrative manner; however, I do not think we would achieve our goals without the necessary wisdom and objective knowledge. As a ministry, we must always act in the most effective and considerate manner. That is the only method that is likely, and will, have results. True, this type of action does not make as good headlines in the Hungarian mass media as certain scandalous affairs, such as the fluctuation in the price of fodder. But that is only because, even though no one proclaimed it loudly, there was a solution. As it turned out, there is a surplus of fodder, instead of a shortage! How did that happen? Certain people (regrettably, a number of cooperatives among them) concealed their reserves, so that they could screw up prices. Subsequently, they wanted to export the fodder, and they even wanted to obtain state subsidies for that... Well, that was when the ministry intervened, and did so in a way that the fodder trick will not be repeated! To sum things up, there must be quiet, thoughtful and considerate activity pursued in this dignified building. I have not taken an oath to produce spectacular repartee with my opponents.

Economic Processes, Legislative Void Analyzed

91CH0559E Budapest MAGYAR HIRLAP
in Hungarian 25 Mar 91 p 8

[Article by N.T.K.: "The Most Important Laws Were Not Enacted in the Squeeze of Contradictions: Economic Successes, Expectations Suspect of Bankruptcy"—first paragraph is MAGYAR HIRLAP introduction]

[Text] Even social transformation is bouncing in the absence of economic transformation. But it is difficult to change overnight what went to ruins in the course of 40 years. The following article endeavors to chart economic processes which may become the economic policy hallmarks of the past year.

In early 1990 financial indicators presented a favorable picture, while data based on the real economy was catastrophic. The fact that structural changes had begun in several branches of the economy could be viewed positively, in contrast, however, both inflation and unemployment had increased, and signs of recession had appeared in several branches. The new government played a modest role in managing these problems at the time. Bela Kadar said in his October press briefing that until the second half, the fall of 1990, its activities were based on the idea of noninterference, hoping that the already established market mechanisms would accelerate the economic changes.

After the first two months of the year, the current balance of payment showed only a \$27-million deficit, as compared to the \$330-million deficit of 1989, despite the fact that the latest International Monetary Fund standby loan had to be repaid as a matter of punishment for conveying false data concerning our indebtedness. This

favorable change in data may be credited largely to the way the convertible currency trade balance has evolved.

The current balance of payments continued to improve throughout the year. The estimated surplus after the first half of the year amounted to \$200 million. During the same period, convertible currency trade showed a surplus of about \$600 million. At that time, the ruble trade deficit amounted to about 50 million rubles.

In August, Hungarian National Bank Deputy President Frigyes Harshegyi announced that the between \$260 million and \$270 million current balance of payments surplus gave rise to assumptions that the country might be able to make interest payments due in the course of the year on its own, and that outside credit would have to be assumed only to pay for the borrowed principal.

In October we heard warnings from the head of the NKGM [Ministry of International Economic Relations] concerning a shrinkage between the growth rate of exports and imports. Professionals expected a reduction in the \$900 million convertible currency trade surplus before the end of the year.

In the end, the current balance of payments closed with a \$130-million surplus. The surplus achieved in foreign trade and foreign tourism, as well as a surplus derived from services and current transfers jointly amounted to more than the \$1.4-billion net interest burden on indebtedness incurred in convertible currencies.

Moreover, the dynamics of the above mentioned favorable processes did not come to a halt in early 1991. According to some estimates, the current balance of payments showed a between \$200 million and \$300-million surplus as of the end of February 1991. However, one should note that the MNB [Hungarian National Bank] timed its loan assumptions so that a significant part of these could be received during the first quarter.

Along with improvements in the external financial situation, the fiscal and monetary policy followed by the central bank favorably influenced the 1990 financial processes. While credits granted to the governmental sphere expanded during the year by 2 percent as compared to 1989, the entrepreneurial sphere received between 22 and 23 percent more credit. The amount of outstanding loans taken out by small enterprises doubled. All this took place while the total amount of money in the economy did not increase by a larger degree than what the rate of increase of the nominal Gross Domestic Product was, i.e., 22-23 percent.

In addition, the country's foreign exchange reserves, which only rarely amounted to \$1 billion prior to the fall of 1990, stood at about \$1.8 billion as of the middle of March 1991. (Financial experts claim that only a \$2-billion reserve would give cause for real reassurance.)

Nevertheless, some threatening indications also mounted behind these successes. The deteriorating trend in the real economy which began in 1989 continued

during the first two months of 1990. In early 1990 the figures indicated a 7-8 percent decline in production, along with a 22-percent inflation, while projections counted on only a 19-percent price increase for the entire year.

These processes did not change as of the end of the year, after two years of stagnation, the GDP declined. Industrial production dropped by 4-5 percent, construction by 16 percent, and agriculture produced 6-7 percent less than in 1989.

By the end of the year the inflation rate stood at 29 percent. However, one should note that the inflation rate gradually increased, and that December price increases brought the inflation rate up to 33 percent. Financial professionals believe that external economic performance also had something to do with the sudden price increase, because the foreign trade and foreign tourism surplus resulted from revenues for which the corresponding goods were shipped out of the country.

Unemployment data also indicated an unfavorable trend. While as of the end of 1989, barely more than 12,000 people received unemployment compensation, and there were more than 130,000 unemployed persons as of late February 1991. East European trade is in the process of collapsing. And although the initial months of the year attest to successful exports, these successes are the results of last year's dynamics. At that time, several enterprises were able to compensate for the forced reduction of socialist exports by switching over to the Western markets, but this does not hold true with respect to all large exporters.

Although an intergovernmental agreement resulting in the so-called indicative list has been consummated, Hungarian exports to the Soviet Union have plummeted. Real economic foundations for a social systems change could be provided by laws which guarantee the undisturbed functioning of the economy.

Only a few economic laws were enacted during the past year, and no one denies the significance of these.

There is no privatization law. Still missing are the land and cooperative laws in the absence of which indemnification concepts and in general, the transformation of the ownership structure can only be one-sided, not to mention the banking law and accounting laws needed for undisturbed financial management. And although entrepreneurs will certainly play a lead role in the market economy, this is stated in every expression of governmental intent, an economic environment which stimulates enterprise is missing for the time being.

In this mismatched situation characterized by a "legislative void." It is really not surprising that certain hopes pinned to the economy proved to be exaggerated. The most noticeable example of this is last year's 5.5-billion-forint planned privatization revenues, of which only 600 million forints materialized.

Together with this, however, statements suggesting optimism are also understandable. The Hungarian economy remained solvent, it successfully weathered the political storms...do we need more than that?! We do, in the view of many. The "economic legal" foundations of the future must still wait....

Former Economic Chief Forms Privatization Group

Organization Described

*91CH0601A Budapest MAGYAR HIRLAP
in Hungarian 9 Apr 91 p 9*

[Article by R. Gy.: "So That We Avoid the Privatization Traps"]

[Text] Formed three months ago, the Privatization Research Institute has now announced itself to the public. The name of Director Gyorgy Matolcsy is not unfamiliar. Having worked for the Financial Research Institute he became the head of the office of the prime minister economic policy secretariat. He left that post voluntarily when the implementation of his economic program evoked excessively heated debate. He took with him five of his colleagues to the Institute. Ten people (soon to be increased to 15) are working there now.

The idea of establishing the Institute was initiated by the State Property Agency last September. Responding to a MAGYAR HIRLAP question Matolcsy told a press conference yesterday that AVU [State Property Agency] contributed 10 million forints to the 25-million-forint basic capital of the proprietary foundation, and that the National Commercial and Credit Bank, the Hungarian Credit Bank and the Postal Bank contributed the rest in equal proportions. The Institute is a nonprofit organization which seeks cost reimbursement only from its sponsors. These will include the prevailing cabinet at any given time, the AVU, the banks and individual institutions in the countries of the European Community. The Institute will be involved in an advisory capacity vis-a-vis its sponsors.

The most important tasks of the Institute include the establishment of a theoretical background for privatization. This will be accomplished on the basis of analyzing both the daily events and long-term scenarios of a strategic character. "We intend to develop an information system which encompasses the processes, which coordinates the work related to privatization between the AVU, local governmental bodies, banks and foreign institutions, and which endeavors to accelerate the transfer of assets into private hands," the director explained.

To accomplish this they established a privatization information center. It will gather data relevant to privatization. This effort will rely primarily on the press, and will be augmented by data obtained from the Central Statistical Office, the AVU and from the courts of

registry. The Institute will not become involved in analyzing individual enterprises, they will analyze trends in the framework of a macro information system. All this is needed because it is the function of the system to know what is going on, the director said.

Although today's privatization efforts reflect many shades of color, the directions are appropriate. Nevertheless one must clearly understand the processes. More information is needed to avoid the traps. Privatization appears to be slowing down these days. A smaller number of well functioning enterprises are privatized while privatization of the weaker ones has not yet started.

We may convey the sense of the functions the Institute will perform by mentioning a few research topics it will analyze. The daily activities of the AVU, at the request of the AVU it will try to make recommendations for linking privatization techniques with proprietary reform, it will analyze the relationship between the political structure and privatization, and will compare Hungarian, Czechoslovak, Polish, and East German privatization efforts. Various publications will be printed, including the small circulation PRIVATIZACIOS MONITOR to be published weekly, and the monthly MEDIAFIGYELO. In addition to these publications they also plan to publish books.

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The composition of the Institute's board of trustees is as follows. Economist Sandor Kopatsy is the chairman. Members are Gyorgy Matolcsy, (AVU Director) Lajos Csepi, (AVU Deputy Director) Andras Timar, (Hungarian Television President) Elemer Hankiss, (MHB President) Arpad Bartha, (OKHB President) Geza Lenk, (Postal Bank President) Gabor Princz, and (three members of the Office of the Prime Minister advisory body): Otto Hyeronimi, Gyorgy Osvath, and Pal Tar.

Comment on Economic Policy

91CH0601B Budapest FIGYELO in Hungarian No 16,
18 Apr 91 p 3

[Article by Privatization Research Institute Scientific Director Tamas Mellar: "Restricting Demand or Stimulating Supply"]

[Text] Two conflicting stabilization programs evolved in the minds of Hungarian economists recently. One is based on the idea of restricting demand, the other would stimulate supplies. The "Kupa program" does not take a firm position in this regard either. It appears that the program regards parts of both approaches as useful, but does not plan to use either of these exclusively, according to the scientific director of the Privatization Research Institute.

The basic idea behind policies which would restrict demand is that a large excess demand is the fundamental cause of growing inflation and of both the external and

internal indebtedness, and that therefore a stabilization program should reduce the elements of aggregate demand. The basic means by which this can be accomplished are the reduction of governmental expenditures including subsidies, welfare payments and administrative expenditures, increasing taxes, and the tightening of the money supply. In response to a reduced total demand the national product as well as the pace by which price levels increase will decrease.

But the process would not end here, according to those who advocate the theory of reducing demand. Breaking the inflationary process would exert a beneficial effect on production and would increase the aggregate supply. Increased aggregate supply would further reduce price levels and increase the real level of national production. And actually this is where a successful stabilization program would come to an end, because in response to restricting demand, the pace at which price levels increase would substantially slow down, and as a result of this the level of production would also be higher.

Too Good

However, this script is too good to be true, particularly in the context of the Hungarian economy. Although this would not be self-evident even in well functioning market economies, one could expect that in well functioning market economies restricting demand would not exert simultaneous effects on the demand side, i.e. that only the demand curve would move. This assumption cannot be made under any circumstances in the context of the Hungarian economy. In Hungary, the restriction of demand will certainly affect the aggregate supply, moreover, it will reduce the aggregate supply.

Fiscal restrictions reduce the purchasing power of individuals, public bodies and firms. Unless we are able to direct part of our capacities and products toward the West, the rate by which firms utilize their available capacities will substantially decrease, and as a result of that the per unit overhead expense, the cost and the selling price would increase. Reduced supplies may best be seen when subsidies are withdrawn and when business taxes are increased.

The situation is the same in the case of monetary restrictions. The reduction in funds available for lending will not squeeze out low efficiency enterprises from the market, instead it will slow down the turnover speed of merchandise and money. The mutual indebtedness of enterprises and the total amount of forced loans will increase to a greater extent than the rate by which available bank credits shrink, and this boosts inflation.

The above examples indicate that the effects of restricting demand must be considered not only on the demand side, but also on the supply side. Restrictions on demand are also likely to reduce the aggregate volume of supply. And if this is the case, price levels will increase and production will decrease in response to restrictive policies. This in turn would mean that stabilization was unsuccessful and that additional restrictions on demand

were needed in order to harness inflation. The ultimate effect of such added restrictions will be the same as the above described situation.

This Isn't Rosy Either

Let us take a look now at supply side policies! The basic idea behind this policy is that the main trouble of the economy is not that it is "overheated," it is not the large scale excess demand but the insufficiency of supply: the fact that a significant part of capacities is not used at all, or is not used at the appropriate level. Therefore, the goal should be to mobilize the "frozen" capacities. In other words, the aggregate excess demand must not be eliminated by reducing demand, but by increasing supplies. Policies based on stimulating supplies attempt to increase the aggregate demand by reducing taxes, maintaining governmental expenditures at level, or possibly by reducing such expenditures slightly, and by increasing the money supply. In response to such stimulating policies, as a result of increased supply, the pace at which price levels increase will be slower, and the level of production will be higher than at the starting point, i.e., the economy will move in the direction of stabilization.

But the situation is not that rosy under supply side conditions as they seem to be at first glance. This is because we cannot say with certainty whether stimulating supply will only exert a positive effect on the supply side. Chances of also increasing demand are pretty good. Let us think of tax reductions for example, which increase the disposable income; and through that consumption. But if this were the situation, the new balance based on the shifting of both demand and supply would not be as favorable as it was in the previously described situation: although production would increase, price levels would not decline but increase. Subsequently, as a result of inflationary expectations, this could reduce the aggregate supply which would mean higher price levels and lower production.

We have seen from what we said thus far that the effectiveness of policies which restrict demand alternatively stimulate supplies depends on the direction of, and extent to which aggregate demand and aggregate supply move.

Means of Stabilization

To simplify matters, let us assume that the government would only determine the size of taxes, government spending and the money supply as means by which it wants to accomplish stabilization. It is readily apparent that one could assume that governmental expenditures and the money supply would exert positive effects on both supply and demand, while increased taxes would have a negative effect. Using this as our foundation, we should find out what effects changes in governmental expenditures, taxes and in the money supply would have on price levels and on the real level of the national product.

It can be easily seen that an increase in governmental expenditures and in the money supply will increase price levels if these increments have a greater effect on aggregate demand than on aggregate supplies. This also holds true in the reverse. The pace by which price levels increase will be slower, if the effect of these increments was smaller on demand than on supply. Viewed from the opposite side, a reduction in governmental expenditures and in the real value of the volume of money will reduce the pace at which price levels increase if the effect exerted on aggregate demand is greater than that exerted on aggregate supply.

On the other hand, an increase in taxes will increase price levels only if the effect of the increment is greater on supply than on demand, and in the reverse, if tax increases exert a greater effect on demand, the rate of price level increases will decline. Governmental expenditures and the expansion of the money supply will increase the level at which national income is in balance, while tax increases reduce that level, irrespective of the extent to which the above factors directly affect changes in aggregate supply and demand.

With the help of the above described relationship let us once again review the two stabilization policies: one relying on restricting demand, the other on stimulating supply.

Short of having advance information as to the ratio in which changes in governmental spending, the money supply and in taxes will affect the aggregate demand and supply we find that the occurrence of all of the above described scenarios have equal chances. Considering this uncertainty, the government is likely to decide in favor of stabilizing by way of restricting demand only as long as the lowering of inflation enjoys a much higher priority among its objectives than the stabilization of production and employment, because in this case production will definitely decline, and the way price levels take shape will remain uncertain.

The situation is different if we possess certain information about the effects on supply and demand of government spending, taxes and the money supply. If these factors exerted a greater effect on the aggregate demand than on the aggregate supply, a policy restricting demand will reduce the growth rate of both production and price levels, while a policy which stimulates supply will increase both production and price levels. If we were to assume the contrary we would find the policy which restricted demand as ineffective. Price levels would increase and production would decrease. At the same time, a policy which stimulates supply would fully enforce all the goals of stabilization.

We would be able to see reality more closely if we examined the means of stabilization more closely. Using this vantage point, let us first take a look at governmental expenditures. It is apparent that changes in the various elements of governmental expenditures will affect aggregate supply and demand in different ways.

Reducing subsidies supportive of consumption and production will likely reduce supply more than demand in the short term. At the same time, however, a reduction in the administrative expenditures of organizations financed by the state budget would reduce demand more than it would reduce supply.

The situation is similar with respect to taxes: changes in the various types of taxes have different impacts on supply and demand. The same also applies to the volume of money. An expansion of the money supply will have one effect if the incremental volume of money represents supplemental loans for businesses, and another effect if the added money is used to finance the budget deficit.

If It Committed Itself

Based on the above we will not be able to evaluate in advance the effectiveness of a stabilization policy which relies on restricting demand, alternatively on stimulating supply. The efficacy of such programs greatly depends on the specific partial component elements of which the main elements of restriction or stimulation consist. On the other hand, once the cabinet commits itself to pursue a certain stabilization policy, the appropriate combination of means must be (should be) used. For example, if a policy based on restricting demand were to be used, the government would have to reduce budgeted expenses on a selective basis, increase taxes and reduce the volume of money so that these reductions and increases exert a greater influence on the aggregate demand than on the aggregate supply, because only this way will it achieve the desired stabilizing effect.

It is worth mentioning that the policy applied in the past which restricted demand was inappropriate from this standpoint, because it used elements whose effects were greater on supply than on demand. These included increased production taxes, reductions in the enterprises' ability to borrow, and no changes in administrative expenditures. The stagflation that resulted from these policies was no coincidence. On the other hand, in the framework of policies which stimulate supply the elements to be used are those which have a greater impact on supply than on demand (e.g., reduced production taxes, increased credits opportunities for enterprises.)

The government's tasks are apparent in light of these findings. First of all, based on experience the various stabilizing measures which might be used must be analyzed from the standpoint of their effects on supply and demand. Based on these findings a choice must be made from among the various stabilizing programs. Having made this choice, the partial elements most appropriate from the standpoint of the program must be selected and applied in the interest of stabilization.

Socialist Party Deputy on Economic Future

*AU3005094091 Budapest NEPSZABADSAG
in Hungarian 24 May 91 p 11*

[Interview with Socialist Party Deputy Laszlo Bekesi by Karoly Csaba; place and date not given: "Any Kind of Compensation Is a Mistake"—first paragraph is NEPSZABADSAG introduction]

[Text] The Hungarian Socialist Party has recently published a statement entitled "There Is a Better Way!" concerning some questions of how to handle the economic and social crisis this year. Our reporter asked Laszlo Bekesi to try to concentrate on those issues of the statement that seem most important.

[Csaba] You stand for mixed ownership in the economy, and stress that the state-owned sector, that will have a considerably smaller proportion than it has today, should be operated more efficiently in the future. How do you foresee this happening?

[Bekesi] First, I would like to stress that the discontinuation of the current, distorted ownership structure is primarily not a task for legislation. Nevertheless, the state will directly appoint new strata of owners in the course of compensation, returning former church properties, and privatizing the assets of state-owned companies. At the same time, we think that economic efficiency and intentions to invest should decide who the new owners should be. The parliament should only create the rules that clarify the methods of implementation and guarantee the inviolability of ownership. In this respect, we regard state-initiated privatization as equal to privatization initiated by a company or foreign investor.

[Csaba] While we are on the subject of compensation, you think it is necessary that the government coordinate the issuing of compensation tickets with privatization. What sort of scheduling would you find acceptable?

[Bekesi] We are firmly convinced that any kind of compensation is a mistake. Still, the provisions of the law have to be executed. Well, in our view, over and above an accelerated privatization, compensation should only be allowed on a very small scale. Inflationary pressure will be exceptionally high because people will probably want to turn their compensation tickets into cash immediately. A great supply of these tickets will have a downward pressure on their price and therefore, on the value of the state assets that they represent. In our estimation, each year, it would be expedient to use for compensation a maximum of 10 percent of state assets awaiting privatization.

[Csaba] You mention in your statement the possible ways to broaden the circle of Hungarian entrepreneurs and the ways to involve foreign working capital. What methods do you have in mind?

[Bekesi] To start with, the government could encourage new enterprises by preferential loans or nonrefundable state subsidies. Apart from that, the central budget

should exercise self-restraint in centralizing income from new enterprises, which would require a change in the current policy on taxes. Regarding the involvement of working capital, it is necessary to realistically evaluate the assets to be privatized. Still, the most important thing is the security of ownership. Serious investors will not come to Hungary until the ownership relations are finalized.

[Csaba] You suggest that the government should prepare and execute a debt-exchange program favorable for our country within the framework of the privatization of property. What chance does this program have?

[Bekesi] I think the debt-exchange has a very good chance, but we should start dealing with this problem. Part of Hungarian state assets could probably be sold for its full value, providing the appropriate consortia are willing to purchase them in exchange for our debts. Naturally, one of the conditions is that the interest paid on the debts must be higher than the returns from the given state asset. On the other hand, it is important that most of the state assets waiting to be privatized be kept, among other things, for this kind of debt-exchange and that it is not used for compensation. At the same time, it is out of the question that anyone in Hungary would request the rescheduling of debts from the international financial organizations. We have to solve all these problems through market forces.

[Csaba] The MSZP [Hungarian Socialist Party] statement deems it necessary to stabilize Soviet-Hungarian economic relations as soon as possible. Do you have any precise suggestions on how to achieve this?

[Bekesi] First of all, we will need to take active foreign economic and diplomatic measures. Obviously, the government would have to change its current practice to achieve this. We should not aim for long-term agreements; instead, it is reasonable for us to concentrate on short term economic decisions. At the moment, the most important issues are the following: how the Soviet Union will exchange the Hungarian surplus that has accumulated in recent years; how much we will have to pay for the vacated Soviet army barracks; what amount of raw materials and energy the Soviets will deliver; and for what amount of Hungarian export they will open a credit. Apart from these, the Hungarian Government will have to understand that it is impossible to achieve any results in the Soviet Union on the level of experts and ministers. We have to talk to Gorbachev, and then there will be some chance for agreement.

[Csaba] According to you, Hungary will have to try to preserve its position in the market of the East-Central European region during the fundamental overhaul of the forms of cooperation between the countries. What kind of integration would you find suitable?

[Bekesi] We have to remember that nothing will step into the place of the previous forms of relations after CEMA's termination. This is an impossible situation. Strictly bilateral relations do not provide as much opportunity

for the utilization of comparative advantages as multi-lateral relations do. We have to start from the premise that the East European countries are struggling with similar problems and the level of their demand is also more or less the same. Consequently, they can probably satisfy each other's demand of mass produced products, which is cheaper than buying these products on the expensive western markets. Integration with the EEC is not the only means of salvation. It is at least as important to find the ways to cooperate with the countries of the East-Central European region.

Cooperative Farm Land Redistribution Discussed

91CH0611A Budapest FIGYELO in Hungarian No 17,
25 Apr 91 pp 1, 13

[Article by Dr. Laszlo Jojart: "Modern Day Land Distribution"]

[Text] It is very easy to announce land distribution, but it is the more difficult to actually distribute the land.... Return of cooperative land is made difficult by a multitude of legal, technical and recording concerns, starting with the fact that previously well defined landed properties became aggregates of "conceptual shares" of land ownership.

In 1968, producer cooperatives were unable to claim as their own as little as one thousandth (5,169 hectares) of the land they cultivated. By now this ratio has increased to 62 percent or 3.5 million hectares. The remainder constitutes land owned by the state or privately owned by cooperative members.

These new types of cooperatives are at the foundation of considerations to transform cooperative ownership and to recognize the ownership rights and interests of members of cooperatives.

Transforming the ownership conditions of arable land in common use within cooperatives is a complicated task. The 3.5 million hectares of property cannot be defined in geographic terms. Tracts of land owned by cooperative members, by the cooperative and by the state cannot be distinguished on the basis of topographic designations. In earlier days it was possible to accurately define classic land ownership based on topography. In most instances such property was also separated naturally from other property (or at least it could have been separated at any time), was recorded under a distinct number and was real estate suitable for sale. In contrast, the ownership shares of members, the state and the cooperatives are not tied to specific land areas, but constitute conceptual proportions of the commonly used land. (When cooperative members own cooperative land the conceptual share of land also is also based on the Gold Crown value of the land at the time it was contributed to the cooperative, in addition to the area of such land.)

It is no coincidence that the communists used this system for land records: its purpose was to make individual ownership wither and to render individual property nameless. The independence of a cooperative member's property, his freedom to sell such property and the opportunity to individually cultivate land ceased as a result of contributing land to a cooperative. Ownership was transformed into a subjective claim for a fee to be paid for using the land. Some individuals suggest that one could reconstruct the original parcels at any time by using old maps. But doing so would by far not be simple because of peripheral roads and canals were reshaped to serve the needs of large scale farming, and because arable land of the size of an individual county has disappeared in the meantime. Similarly, cooperatives do not necessarily pursue their farming activities on the same land the members of these cooperatives contributed in those days for common use, or what the state once contributed to the cooperatives. Tracts of land were exchanged in a campaign like manner and land settlements altered the situation. These actions achieved the intended goals.

Distribution of Arable Land (in thousand of hectares)

State enterprises and organs included in the state budget	0.64
Cooperatives	3,590.0
Small production	0.41

The fact that old maps and records which show private ownership lost their validity when large plant farming evolved appears as a minor detail by now. They have no evidentiary value under today's conditions and are not credible as public documents. This is so even though not only the land law and the law on cooperatives, but also the Law on Transformation, the Compensation Law, and the new Cooperative Law now being prepared, and further, all of the interim laws required for the restructuring of functioning cooperatives were based on the idea of transferring existing cooperative land into private ownership. This means that based on existing law and on laws being prepared, the release of masses of land will become necessary.

To begin with, one should consider that there exist properties whose "collateral" may definitely be found in tracts of land under common use by the cooperative. This includes land owned by members and other private persons who may request the release of their land from under common use at any time.

This also includes state owned land, whose future fate has not been decided to this date in the framework of law. According to the proposed text of the Compensation Law state owned land could also be released in certain instances. The remainder of state owned land must be used as reserves.

The issue which surfaced in conjunction with the Compensation Law pertains to the fact that a 1.5 hectare land area must be set aside for each member of a cooperative, pursuant to the agreement reached by the three parties.

Accordingly, the process referred to as "conveying deeds" relative to land owned by cooperatives could mean two things: first, that deeds would be conveyed to the 1.5 hectares of land set aside for each cooperative member, and second, that deeds would be conveyed for land owned by cooperatives left over after the state's and the cooperative's members' shares were set aside, and after claims represented by indemnification vouchers were satisfied. The big question is this, of course: Will there be any land left at all for the latter purpose? If not, the cooperative membership may count on the distribution of only 1.5 hectares of land per person.

Since the quality, relief, accessibility, etc., of large tract, large scale farming land varies within individual cooperative, distribution of the tracts of land involves no small sense of responsibility. As the moment it seems that it would be virtually impossible to resolve this problem without local conflicts.

Similarly, no assignment has been made as to the person responsible for distributing the land. An independent committee would designate tracts of land to satisfy indemnification claims, according to the proposed law. But tracts of land cannot be designated to satisfy indemnification claims independent from the process of conveying deeds related to cooperative land.

Some believe that conveying deeds amounts to a mere administrative transaction. The aggregate land that remained cooperative property would become the undivided common property of all members. Under this concept the release of land to any cooperative member would require the consent of all members (several hundred people in some instances).

Other perceptions hold that "deeds" for land that remained cooperative property should be conveyed in the form of certificates evidencing a proportionate share of transferable ownership held by members of cooperatives. Advocates of this idea have failed to consider that proportionate share certificates could not serve as substitutes for land registry records, and for the definition of specific property.

As long as we want to make land owners out of members of cooperatives we must also realize that the time to play the "proportionate share" game has passed. Real landed property can be broken down into individual pieces of property, it can be defined by way of topographic numbers, and represents land of a certain Gold Crown value the amount of which is consistent with the natural condition of that land. It is yet another question whether despite the above described possibility, a given land could remain in common cooperative use, and whether the cooperative would pay a use fee after that land.

Accordingly, from a professional standpoint, it would be inconceivable to convey deeds related to cooperative land unless individual pieces of property were carved out of that land. Therefore, in the course of distributing tracts of land owned by cooperatives it will not suffice to enter the original Gold Crown value of these lands into

real property records. The Gold Crown value must be corrected to correspond with the natural state of the land. This would be followed by plotting the individual properties, to use a cartographic terms, and based on this the Gold Crown value must be established.

The owner need not take possession of the land, but recording the deed in the real estate register reflecting the prevailing size of land and the actual Gold Crown value of such land should take place. This process results in property of full value.

We are dealing with the distribution of almost 3.5 million hectares of property. It would be naive to believe that all this could be accomplished overnight.

Several alternative solutions exist for the release of land from a given tract of cooperative land. From among these alternatives the only one that must not be used is the one adopted as part of the law. This is so because according to existing provisions governing the release of cooperative land, the member of the cooperative and the cooperative agree on the specific tract of land to be released. The only criterion that exists is that the owner must receive land of a value equal to that of the land he once contributed to the cooperative.

But in the context of arable land owned by the cooperative to be distributed to the members of the cooperative (former members, persons entitled to land on the basis of indemnification vouchers) we must not regard the situation of members as an adjunct situation. The party which possesses the land, the cooperative, enjoys a more advantageous position. Consequently the designation of the land to be released must not be entrusted to an agreement reached between the cooperative and the indemnitee.

It would be more fortunate if legal provisions contained mandatory considerations with respect to the release of land. Parties to these transactions could deviate from these mandatory requirements only on the basis of mutual agreements.

In providing rules for the release of land, the release of original land should be dealt with separately from the conveyance of deeds to cooperative members related to the remaining land.

Whenever it becomes possible to release the original land it would be appropriate to mandate the release of the original land. This should be the cardinal rule. Thereafter, a determination should be made in what instances alternate land must and may be released (e.g., provided that the cooperative and the person entitled to the land mutually agree, or if the land has been released earlier to someone else in the form of indemnification, or to a member of the cooperative, or by the conveyance of a deed).

Should this principle be adopted, the release of land presently in common use by the cooperative members, and the conveyance of deeds relative to cooperative land

set aside for this purpose need not cease in the course of the indemnification process.

Simultaneous proceedings could be pursued based on the rule which holds that if a person received arable land under any one of the three grounds on which a claim may be established for the release of land, no one, not even the former owner would be able to establish a subsequent claim for the arable land thus released.

ROMANIA

High Cost, Shortage of Newsprint Criticized

91BA0707A Bucharest ROMANIA LIBERA
in Romanian 4 May 91 pp 1, 7

[Article by Anton Uncu: "Stop Beating on Us, Mr. Roman"]

[Text] We will not stop writing. It is true that at the current price of newsprint any newspaper that is not subsidized will not survive. I know that is what you're counting on. I know that in the counties the prefects dance to your tune and make the independent and opposition newspapers disappear. But, Mr. Roman, there are beginning to appear people who refuse to dance to the same tune. I know that you sent two groups of inspectors to ROMANIA LIBERA to find out what is the newsprint price limit beyond which we cannot survive. And you found out: 38,100 lei/ton; 42,000 lei/ton including handling and transportation. Yes, Mr. Roman, at that price we cannot survive unless we raise the price of the newspaper.

Which we cannot do. Not any more. Because in relation to the Romanian's average salary and the number of pages of a daily paper (I'm not talking of the quality of the print), a Romanian newspaper is at least ten times more expensive than in a civilized country. Nevertheless, people buy it. You don't understand this need the Romanian has for information. Or you don't want to understand. We received the bills from ROMHART-Bacau and saw your hand in them. No warning, no negotiations, and retroactive. It's fashionable! We laughed! Yes, we laughed. It's the kind of stupid merriment some people experience when everything is taken from them and they have nothing left to lose. The Romanian press, Mr. Prime Minister is going to be so merry that it will rattle the windows of governments, journalists' associations, and human rights organizations throughout the world. Because newspapers cannot survive at such newsprint prices. Perhaps only AZI, the FSN [National Salvation Front] organ, a party newspaper which overnight became a state newspaper with 111 million lei social fund, as if we didn't know how one makes millions in the press, or that the administrator of the state wealth is the government and the head of the government is the FSN national leader, Mr. Petre Roman.

Yes, Mr. Prime Minister, we won't survive... And you will bring us to strike... And bring us out into the streets... And beat us up as you did before. And the minister of the interior will keep his post as he has done until now. But until then, Mr. Roman, we will continue to write. Not only in our newspaper. We will write to world newspapers and press agencies, especially in countries where you are not known or where the public still has illusions about you. At least you will lose the only flag you paraded in the world: freedom of the press. I hope that our bankruptcy, which you directed, will also be the bankruptcy of the policy with which you try to fool the European Council. Until then, however, we will ask both Romanians and foreigners for financial help and we will write. As long as this newspaper, that you greatly love, still exists, we will write. And when it ceases to exist, we will write on walls and fences, and we will bring out clandestine leaflets and newspapers by stealing newsprint and lead and ink as we did before, because the crime of stealing newsprint and lead is infinitely less serious than the complicity to which you want to force us in the name of your endless thirst for power.

Are you angry at the Romanian press? Why, Mr. Roman? Because it does not agree with how you reshuffled the government? Then read the European press and be angry at it. If I'm not mistaken, you'll have to stay perpetually angry. It is to be assumed that some of your foreign friends advised you to form a coalition government in order to consolidate your credibility and motivate them to support you. It would have been nice if you had succeeded. It wouldn't have been just, but that's another matter. It is to be assumed that you endeavored to do it in all the good faith of which you are capable. What is certain is that you failed. You didn't have the strength to admit that you failed, so you pulled off the reshuffle bluff that even the FSN deputies rejected.

Because it was not a matter of two rejected ministers, Mr. Roman, but of a nonconfidence vote from your own party. And we will write this even if you don't like it and even if it makes you angry.

I know, Mr. Prime Minister, that you counted on this kind of reaction from us about the absurd and economically unjustified increase in the price of newsprint. You were hoping to make trouble between us and the workers in the timber and paper industries, who are rightly interested in selling the fruit of their labor at a higher price. I assure you, however, that in the end they will understand that by following the direction along which you're pushing them they will soon be delivering paper only to AZI and possibly ROMANIA MARE, as the "opposition newspaper" acceptable to your right judgment.

You also want to make trouble between us and the writers, making them believe that they don't have paper for books because of the enormous consumption of newsprint for papers. You did not tell them, Mr. Prime Minister, that alone since March 1990 to date the paper production in Romania dropped by 40 percent under your wise administration. We, too, want to protect the country's forests. Import paper! Import cellulose paste. Help us, the journalists, to develop a system of paper and textile scraps collection as an additive to cellulose paste. We will do it and it won't cost you anything but goodwill. Subsidize the price of newsprint from the budget to make us believe that you love books and that you don't resent the press.

And stop beating upon us one way or another, Mr. Prime Minister.

We will continue to write even when all we have left are the blank sections of the University Wall.