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East Europe

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East Europe

JPRS-EER-91-087

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19 June 1991

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CZECHOSLOVAKIA

Nationalities Minister on Relations With Poland

91CH0573A Warsaw RZECZPOSPOLITA in Polish
19 Apr 91 p 6

[Interview with Jaroslav Szabata, Czech nationalities minister, by Barbara Sierszula; place and date not given: "Constant Stereotypes Are Decisive"]

[Text] [Sierszula] Minister Szabata, at the congress of Poles congress in Tesin [the Czech part of the border town Cieszyn], you, like a preceding speaker, Andrzej Stelmachowski, speaker of the Polish Senate, spoke in favor of recognizing the Polish minority in Czechoslovakia to promote and support a rapprochement between the two nations. Let us explain what the situation is between the Czechs and the Poles.

[Szabata] That we love each other or do not love each other? Is that what you are talking about?

[Sierszula] In cultural spheres it looks as though we love and understand each other, but at the lower levels, that is not so. There are many problems and a lot of hesitation.

[Szabata] I remember after Solidarity's defeat in 1981—we never recognized it or considered it to be a defeat—the foreign press had many articles about the prejudices that the Czechs and the Poles had about each other. These prejudices have their historical roots, and the communist regime both in your country and in ours did everything it could to deepen them. The fact is that there is some sort of lack of historical trust between us. I think that this is related to the fact that the development of Czech political life has been different from that of political life in Poland. Poles have always tended to resort to revolutionary solutions. The Polish road is pathetic and romantic. I feel this even here at the congress. The Slovaks are closer to us in this respect.

[Sierszula] But there was something romantic in Charter 77 and KOR [Workers Defense Committee] contacts, something common to both sides.

[Szabata] For us Czech dissidents, it was clear back during the 1970's that we should join up with the Polish dissidents. We met each other at the borders, and these contacts played a large role. Later, right after last year's meeting in Bratislava, the Hungarians came in. We are aware that Czechs and Slovaks must talk to each other, as well as to the Poles and Hungarians, if they want to build a new democracy in Europe, but contacts between the Poles and the Czechs are particularly significant, if only because their languages are similar.

[Sierszula] Daily practice refutes this. The border still divides us. The Czech mass media gives minimal coverage to our contacts. (There was not a single representative of the Czech press at the congress.) Opinions about Poles are based on marginal phenomena, such as business people.

[Szabata] As a member of Polish-Czechoslovak Solidarity, I am pained by the fact that we have put so little into correcting our mutual relations. In the spring, when people in the federal government were talking about borders, economic fears won the day. As everyone knows, no agreement was reached over our currency exchange rates. There are similar problems with the ruble and the koruna, but I do not see this problem as a tragic one. I doubt that this problem will still exist a few months from now.

[Sierszula] Let's go back to other Polish and Czech prejudices. What would you like to tell the Poles?

[Szabata] I think that most Poles who visit us are, as it were, in the grips of some sort of stereotype that associates Czechs with beer and dumplings and the notion that it is better not to trust them. I still find confirmation of this stereotype quite frequently in the Polish press. I would ask Poles to try to understand us. We must learn to trust each other. This is not just an emotional issue. We should demonstrate some self-reflection and goodwill to understand sometimes the broader context of certain decisions and events.

[Sierszula] Who is to do this?

[Szabata] This is the task of the intelligentsia, on both sides, especially those groups that have influence on the mass media. People at the bottom will not smash these prejudices and stereotypes. This is a problem of political culture, and in a way it starts at the other pole. Of course, we cannot say that all our political representatives can be aware of this. People often go to the old arsenals and pull out things that divide us and undermine our mutual trust.

[Sierszula] As a former dissident who is a minister today, do you meet with your old friends from Poland?

[Szabata] It's not just that we meet. More than that, we do not want to limit these contacts, no matter what. We are actually trying to expand these informal meetings between representatives of the various political directions in Poland, Czechoslovakia, and Hungary to include Austrians and Germans. We Czech dissidents were decidedly oriented towards Europe from the outset. In what is called the "Prague appeal" of 1985, we talked about the need for the unification of Europe, including Germany. This was one of the reasons that President Havel's first visit was to Germany. We know that the Poles took this as Czechoslovakia's turning its back on Poland. This just shows how complicated [things are] and how necessary continual explanations are in our relations [between our two countries]. Going back to my address at the congress in Cieszyn, I would like to mention Zbigniew Brzezinski's notion of confederation.

[Sierszula] But after all it was not accepted in Czechoslovakia.

[Szabata] That is true. It wasn't. But looking at it from a distance, this is the right road. The problem lies with

how to set out on that road. I recently read a comment by Zdenek Mlynarz that Czechoslovakia is to try for contacts with the Pentagon Group, with the Bavarians, the Saxons, and that the Poles must be drawn into the Pentagon. I think that this is a mistake. We should create in Central Europe a structure that will free us from the old problem of being dominated by any strong, great nation, regardless of whether it's the Germans or the Russians.

[Sierszula] Czechs are often afraid of Polish domination.

[Szabata] This is related to the lack of trust we were talking about at the beginning, and this element of our consciousness must be gradually reappraised. The vision of the European society to which we aspire and of which the European Community and the Council of Europe are concrete elements make it necessary for us to have a strategy that has been well thought out. The Bratislava meeting was the first slapdash effort in this direction. There was greater certainty in connection with the meeting in Visegrad. We consider our informal politicians' meetings to be part of this process. As everyone knows, at the instigation of Presidents Mitterand and Havel, in June, there will be a meeting devoted to the European confederation, and these same issues will be discussed at this meeting. After the two world wars and the end of the Cold War in Europe, we have to be thinking about how we should exploit our new possibilities and not concentrate on our old ideas.

[Sierszula] Such informal meetings between politicians are something new in a certain sense. The first was in Prague. Now preparations are under way for a meeting in Budapest. What sort of significance do they have for the course of events?

[Szabata] At the meetings there is an exchange of reflections and observations. I think that politicians must meet with one another. We do not want to close them off in any way. We welcome people from both wings of Solidarity, from both wings of the Civic Forum, the VPN [Public Against Violence], and Hungary's Free Democracy, as well as Austrians and Germans. We are interested in acquiring the inner conviction that we must enter onto the road to the integration of Europe. Poles, Czechs, and Slovaks have the obligation to walk that road for many reasons.

Minister on Bohemia's Environmental Challenges

91CH0616A Prague LITERARNI NOVINY in Czech
16 May 91 pp 1, 3

[Interview with Environment Minister Eng. Ivan Dejmal by Bohuslav Blazek; place and date not given: "Prague Is a Trap"—first paragraph is LITERARNI NOVINY introduction]

[Text] Eng. Ivan Dejmal, the new environment minister, can claim credit for a very long furrow in the unplowed field of ecological thinking. As every ecologist he views the city as an ecosystem set within a broader context.

[Blazek] For some decades people have thought of the city as a system. Here it unfortunately often ended up in the hands of officials who identified the city's system with its administrative structure. Tacked on to Prague were a number of new peripheries, just so building could go on without restraint on the green spaces. What is the ecologist's view of this?

[Dejmal] It isn't entirely true that the city has not been perceived as a system. It was not until industrial development that this perception was lost. In earlier times the city and its outskirts formed a single whole. Each city had its outskirts which provided it with food, and in return provided them with services.

[Blazek] So what you are saying is that before a system theory even existed the approach to the city was more system-oriented than when it was already born.

[Dejmal] Yes. Even the utopias tell us what problems people had with founding new cities: they knew that city growth had limits. Cities could not grow ad infinitum—at a certain point they had to separate as a daughter colony and withdraw. This is the process of colonization which operated from antiquity to the end of the Middle Ages. Each population center had its limits given by its function in the land. The Industrial Revolution which shortened distances broke up this system. A day's trip from the city now extended much farther with greater speed of transportation than at the time of horse-and-buggy. Thus the city could spread itself and the traditional links resulting not only from economic and time factors but in our moderate climatic zone also creating an ecologically stable cultural landscape, were interrupted. Consideration was given not to the city's size but solely to its economic impact. The system studies of the 1930's—for instance in regard to Greater London—already recognized the need to provide green spaces, but from a narrow interpretation of man's environment rather than consideration of the system and a balanced natural whole. The last one who viewed large green spaces in terms of a system was Thomayer, but the period of industrial growth no longer took it into account. It ceased to recognize that the city is bound up with its territory which extends beyond it and which the city exploits economically and turns into a landscape which gradually becomes uninhabitable.

There are only a few spots for outings Prague citizens can reach by city transport—the Sarka and Prokopy valleys, Zbraslav. The farther-out rural outskirts, for instance near Pocernice where the landscape has been turned into a manufacturing landscape, or the ring of cheerless housing developments around Prague and the semi-industrial areas of various warehouses and small factories—this is really a non-system because it no longer has a human dimension. Up to the 19th century the city did not exceed it because it was the portrait of a mediaeval town offering in its immediate vicinity all functions important to the city dweller's life. Today's city is not habitable—there are a few spots to which you can repair, but they could not accommodate all Prague citizens.

Prague was not built as a system; it merely grew in area and it is taken for granted that people simply leave it in their spare time. Statistics show that one of every four families leaves Prague on weekends for their own cottage. Camping has become widespread and there is also hidden recreation in nearby small-garden colonies. The architects charged with changing Prague will have to realize that what was once within reach must again become within reach. Because swollen Prague no longer has any environs, areas must be created which do not fit into zones as was once in prospect (that there would be residential, industrial and recreational zones). Man must live in an integrated area in which functions are mutually interlinked. The city can harbor only such production that does not do damage to it. There must be left enough open spaces with greenery—not just for reasons of hygiene but also habitability. When we look at a mediaeval town: in its built-up area how many did it have passageways, underpasses and churches open to people day and night.

[Blazek] Or the splendid invention—the arcade where one can stay and meet even in inclement weather. And the system of passageways which unfortunately is almost gone today.

[Dejmal] Prague is not a system even according to the notion of dividing the city into a residential, industrial and central zone, the last supposed to comprise administrative and shopping areas. In the central city little has been invested in residential housing construction. It was rather the projects built around Prague which became the residential housing machine. And all manufacturing has been concentrated into the industrial semicircle. I do not favor the theory of diluting noxious pollutants, but concentrating production facilities into one location has resulted in our worst environment.

A Prague stretched out into a 60-kilometer width will not ever again become a system. Perhaps it can be approached as a continuously urbanized area in which it will be necessary to create several natural centers drawing together the life of the environment. Linking together the city boroughs by subway does not make Prague a homogeneous city. This is the experience of all big cities: there remains a nucleus, and the suburbs carry on their own life. So Prague too must not be viewed as a single center but rather as several natural centers of urban life.

[Blazek] Do you incline toward a polycentric structure, or rather grouping together several communities?

[Dejmal] The polycentric structure. Prague cannot be a system of individual communities because all flows are greatly interlinked. As a large center Prague exercises major influence even over its rather distant environs. Take the Zelivka water reservoir, 100 kilometers from Prague, impacting on a tremendously large land area. In order to provide drinking water for Prague a sizable region had to change its entire water regime, the structure of its economy and its life. The volume of pumpage

from another water source, the Jizera River at Karany where water for Prague is pumped from wells, is now having an effect as far as the Jizera headwaters where it is proposed to build a retention reservoir at Vilemov which even after deforestation of the Krkonose Mountains would maintain a stable water flow in Jizera River. There must be a continual source of water supply for such a large city. We now have an agglomeration impacting negatively on a huge area where everything is drawn to a single point like in a region on the front line.

[Blazek] And this unfortunate structure is being duplicated in central villages.

[Dejmal] But there it's done deliberately while here it is spontaneous. And since we have mentioned the centrality concept, it had existed originally but in a different sense than it subsequently was reflected in the Government decree. A village which had attained certain economic growth and importance also had money to have a church. Thus it became a parish village. Villages unable to afford the expense and tied to the parish village for services were subordinate. But nothing prevented a subordinate village from rising up economically, building its own church and becoming a parish village. This system existed and developed continuously. The very location of a village often predetermined its gaining central importance. But this did not place any restriction on other villages—as distinct from today's central villages. We determined the central settlements to concentrate agricultural production not tied to the land as well as housing construction. All other villages lost their name, became mere parts of that large village, lost their economic and political independence and thus it was confirmed that even the worst administration is better than none.

The ruins of the village Dolni Vrtis near Plzen still bear the marks of its beautiful baroque foundation. Next to it is another village which was designated as central and which is disfigured with prefabricated housing blocks. This is now the home of people from that beautiful village which is now decaying because no construction was allowed there, nothing was done, its people destined for relocation. Just as in Romania here too the goal was to liquidate villages of a so-called non-central importance. It was a terrible intervention which will take us at least 20 years to correct.

[Blazek] On top of this there was the megalomania of enlarging the Unified Agricultural Cooperatives and state farms, as a result of which the cost of transporting people and materials was increasing.

[Dejmal] For this reason too people were leaving small villages as one had to walk three-quarters of an hour to work in the central village, from where a tractor carried him to the field on the other which took another half-hour. In farming it was always the rule that the field was within 10 minutes of walking.

[Blazek] Among the horror shows was the man parking a heavy tractor in front of his house, using it in the

morning to drive to work destroying any number of field borders and flattening some of the planted field on the way, to finally return home again by tractor. A complete loss of a sense of proportion.

[Dejmal] I would expect that a radical economic reform, settling ownership relations and restoring economic activity of smaller units will put a stop to this.

[Blazek] I am pleased to note that your ecological thinking combines the standard ecologist's view inseparably with economic thought, historical reflection, as well as consideration of technical and even legal ramifications. Actually this points to a pre-systemic concept of systems as we discussed it at the start. Do you believe that such an interlinked world can ever be restored?

[Dejmal] It's necessary because we must return the dimension of things to the human being. Most people when on a trip somewhere in a hotel want to be home the next day. People today have the wherewithals to do so. We must adjust the communication dimensions to serve this purpose. Not by running a highway underneath a museum, but we must recognize that roads were mapped out at a time of horse-drawn vehicles. The entire transportation structure served travel by horse, for a day's or half-day's trip. And between cities you had roadside inns where you could change horses or stay overnight. These important points were built into the transportation structure. Whatever we may think of the automobile it is here, and because of it we must create a corresponding structure of transportation. But of course placing this structure on a region which has been inhabited continually for at least 2,000 years amounts to an invasion. Since we haven't given sufficient recognition to this fact we built through roads instead, improved on the roads existing from the days of the Empire which were designed for horses, broke up the majority of settled areas by roadways. In the 1950's we created a totally unsuitable and non-functional structure serving solely the needs of the technical. We failed to see that the possibility of an extended daily reach of the human individual who travels away from his place of residence and to whom the automobile truly offers freedom requires a system.

[Blazek] You used the word "freedom." That's where the secret is. In America the highway net allows me to get to where I want and in a manner which suits me as the primary user. In contrast, our highway system was built in part for strategic reasons, and in part to serve mass transportation and heavy trucks, though these were more expensive, costlier to operate and caused greater pollution. That net was a totalitarian abstract and therefore could not be humanized.

[Dejmal] Just in the same way the villages have lost the dimension of their own work on the land and the needs of maintaining its settlement balance. People make a land area their own by settling on it. The balance between land and settlement density must not be disturbed under any circumstances because it would

alienate space previously thought of as one's own. The farmer who works a 500-hectare tract can have no relationship to it. He can have no local memory. The farmer who walked behind his plow knew that there past the bush he had to press harder on the plow because the subsoil is harder there and the plow would kick back. And when sowing he knew that in this spot he had to sow more thickly because the soil is poorer there, the wheat would spread less and there must be no fallow stretch. A huge tract does not permit the farmer even as much as self-control over his own work and identifying his work with the place.

[Blazek] You said that included with Prague should be also its rural complement. Couldn't one say that until this complement is repaired Prague cannot be repaired either? Prague's revival will actually begin with a revival of the countryside.

[Dejmal] We must return to the principle, not to the past with all that it entails. And the principle was that man must live somewhere. In his home man lived, worked and spent his spare time. He had no separate zones for that. People in the countryside spent their entire lives in the same place. They moved away from their place of residence at a quarter-hour distance at the most. The town dweller lived in his home where he worked at his trade, or in his shop where he carried on business; he met with neighbors around his town and when he left the town it was for a day's trip.

[Blazek] One could say that in time the model for man was provided by the exceptions, that is, the itinerant comedians, rootless people.

[Dejmal] Man essentially wants to live in one single space. At that time people did not perceive space as something tripartite, it was us who broke it up into work, residential and recreational space. People lived in only one time, did not have work and spare time. For us this broke down and we feel that it should be made whole again.

[Blazek] That time and space were not divided meant at the same time it was infused with meaning—one can also say that it was sacred. When it occupied the central place it concentrated sacredness in it.

[Dejmal] Sacral and purely profane edifices were closely connected. Holy places right next to "production enterprises."

[Blazek] Especially monasteries and estates.

[Dejmal] That is a narrow connection, but a looser connection also existed in the countryside. Spiritual life and work left traces on the landscape—small religious structures as well as small technical objects. Man gave life to space, was tied to it by memories. There he always felt well, hence a sacred place came into being because here he sensed Divine presence much more strongly. Conversely, there were some places where man was seized with fear. Our forebearers talked of sacred places

and cursed places. At each sacred place there was at least a tree. Even in those cursed, God-forsaken places one could find at least some brush. It was always connected with greenery and place identification. Through the order of his activity man left traces on the landscape which in turn returned him to this order. Farm activity was connected with the liturgical year which was linked to the macrodimension of changing seasons, thus placing man into an overall context and meaning. Everyday routine and the ritual of work bound man to a place and the "universal" matters such as feasts and the liturgical year united him with a large whole. And all this that formed the structure of a place was in fact broken up. Everything was fitted into appropriate distances and time, as the stations during a procession. This time structure encompassed also something the people did not realize at the time: when they reached a point after a half day's travel they needed an inn there—and when none existed, someone built it.

Life by "mononeeds"—we get this from here and that from there—no longer constitutes a universality as before but creates disharmony between the city and its hinterland. That hinterland has stretched across the entire republic—water from here, coal from there. Here is coal so here energy will be produced. And the entire North Bohemian kraj is exposed to such an environmental damage that people there are dying to provide comfort for the entire rest of the republic.

When searching for a way out we must define what is the natural structure of man's life and how it is changed by the technology we use. Some technologies are deadly and we ought to abandon them; some can be utilized and our life adapted to them.

[Blazek] Ivan Illich has the idea of convivial instruments and according to him the optimum one for man in transportation is the bicycle.

[Dejmal] I agree with it absolutely but I am a realist—this idea will not be readily accepted by humanity. At least two more generations will live with the automobile—maybe the second will be already the last one.

[Blazek] So what faces us is a special job of building some sort of a transitional quasi-naturalness.

[Dejmal] Everything points out that the road of a technological civilization is a blind alley along which one possibility after another is tested and each throws us somewhere deeper and deeper into devastating nature, alienating man, exceeding all limits. That some limits must not be exceeded was pointed out by Schumacher in his book "Small Is Beautiful."

We have become frighteningly dependent on technology. Such a huge city like Prague is a trap, because the moment the material and energy flows are interrupted, one and a half million people here will be left with absolutely nothing.

[Blazek] It occurs to me that we in Bohemia have a certain consolation in having in addition to Schumacher who was greatly inspired by the Orient, also a domestic teacher in the shape of a baroque understanding of the landscape. For our longitudes and latitudes the baroque found an optimum measure of living off the land.

[Dejmal] With this I agree but it is a road to which we will return later. This is a time of transition—until it dawns upon all those calling loudly for utilization of technology and scientific progress and putting economics on the royal throne. With a certain degree of rationalization and great political luck this road may bring the fruit it promises—prosperity and wealth. Today we already know for certain the price that has to be paid for it, and that the coming generations will once and for all refuse to pay it. It may not even be possible any more.

But to return to Prague once more: We ought to return life to the old quarters and turn them into a polycentric city. The question are the prefabricated housing developments in regard to which, to be perfectly honest, I see no way other than abolishing them. No one can find a true home there.

[Blazek] Parkinson once said that a city always grew around some kind of a heart, be it a church, university, medicinal spring, or a gold mine. And housing developments are cities without a heart.

Celebration of International Spy Day Proposed

*91CH0625B Prague LIDOVE NOVINY in Czech
15 May 91 p 16*

[Article by Jan Vodnansky: "International Spy Day"]

[Text] After long decades of an information drought quite a few citizens feel intoxicated by the daily geysers of information, even from areas until recently mythically wrapped up in impenetrable veils of secrecy. And so for many months now we have been witnessing an exciting duel between former and present top echelons of the Federal Ministry of the Interior [FMV]. The fight is carried on in the press, on the TV screen as well as in parliamentary chambers. I too am following the spirited discussion and was very much taken by the FMV leadership's idea to conclude gentleman's agreements with foreign intelligence services operating on our territory. It struck me that I too could contribute to a new atmosphere also in this exclusive area of human relations. It is my belief that we should regard operatives of foreign intelligence services as our national guests and do everything in our power so that they like working in our country and offer them optimum conditions for carrying on their difficult and responsible work. Let us admit that we know precious little about the private lives. Many of them surely are homesick for their distant countries and

quite possibly in their modest bachelor pads of safe-house villas they sometimes sing in their native languages—so quietly that no one would hear them, similarly as did Styrlitz-Isayev, the favorite hero of the Seventeen Stations of Spring.

In my civic initiative I would go ever further. I propose to radically cleanse the word "spy" of the emotional encrustations and deformations attached to them by propagandists of the former regime.

We must recognize once and for all that spying is one of the oldest and most honorable professions. Unknown and highly skilled espionage operatives for long decades ensured, persistently and at the highest personal risk, that the superpowers were informed about each other in the condition of an Iron Curtain which did not let information pass through. Their work deserves recognition for helping to avert the cold war from sliding into a hot one; it is only to them we owe thanks for the happy decades of peace.

Therefore I have decided, together with a group of friends sharing a similar view, to begin the tradition of an International Day of Spies. It will be observed for the first time this year by a meeting in the Prague Supraklub on Sunday, 16 June. The event will be reported live by radio.

You too, dear readers, are invited to meet our national guests. Come all, whether you serve in intelligence, counterintelligence, or run your own private agencies. You will find entertainment, meet each other and perhaps you will leave the theater with a future life partner who will ease the burden of your loneliness for the long years of your mission. Come without fear. We will not film or photograph you, you won't have to tell us your cover names, much less your real ones. You will simply meet, learn to know each other, and then all disperse for a year to go after your duties.

HUNGARY

Government Decision on Expo Spurs More Debate

Capital Votes No

91CH0603A Budapest MAGYAR HIRLAP
in Hungarian 10 May 91 p 3

[Article by Janos L. Laszlo]

[Text] One did not even have to step into the new City Hall building to sense the tension that preceded yesterday's session of the Budapest General Assembly. Not unlike in the midst of an election campaign, building walls were covered by huge green posters proclaiming MDF [Hungarian Democratic Forum] and the IDF [abbreviation unknown] support of the Expo. Thus, it came as no surprise that in the opening minutes passions broke loose in the meeting room. Several MDF delegates

refused to accept Lord Mayor Gabor Demszky's announcement that he would be unable to chair the meeting during the first few hours because of a wreath laying ceremony he had to attend. After brief verbal exchange Aladar Kard, chairman of the ad hoc committee on the world exposition reported the committee's position. But even before doing so, he expressed his own view a matter many complained about. Kard stressed that the conditions established by a General Assembly resolution last year had not been fulfilled. The needed laws were not enacted, an appropriate financing plan did not exist, and the environmental impact study was unacceptable. The ad hoc committee resolved to recommend a position supportive of organizing a world exposition with certain strings attached, an exposition that was "realistic from the standpoint of size and content."

We were led to believe earlier that today would be a day of fundamental importance, but since then it has turned out that the government removed the Capital's decision-making authority, Demszky began his statement. On 18 April the cabinet committed itself to organize a world exposition. Simultaneously, a legislative proposal providing for the transfer of autonomous local government property saw the light of day. The government intends to use this as a vehicle to remove the area proclaimed as the world exposition zone, i.e., the management rights over a 417-hectare land area. A practically unindemnified expropriation like this cannot be reconciled with the sovereignty of autonomous governmental bodies, the mayor stressed. He emphasized the time factor. With regard to the world exposition's public support, he quoted a recent survey by Median Ltd. which showed that the 80-percent support expressed for the Expo declined to about 10 percent as soon as citizens were asked whether they would be willing to pay taxes for this purpose. In conclusion, Demszky said that the city would have to prepare itself to receive a growing number of guests even if the world exposition was held only in Vienna.

Budapest was facing a deep crisis and the Expo could also remedy unemployment flowing from industrial structural transformation, according to world exposition Government Commissioner Etele Barath. Barath felt that a political struggle has evolved regarding this issue between groups which sought to find their own identities. Thereafter, the various faction leaders in the General Assembly reported their respective parties' positions.

Speaking for the MDF, Mrs. Barsi, Etelka Pataky introduced a resolution which would permit organizing the exposition under certain conditions. Heated debate ensued when she asked that a secret vote be taken regarding her proposal. As it turned out, at the beginning of the session 23 representatives asked for the exact opposite: they wanted to ensure that votes were recorded. After suspending debate on this point of order, Klara Ungar expressed the opposing view held by the FIDESZ [Association of Young Democrats] and Ferenc

Salamon voiced the SZDSZ [Alliance of Free Democrats] opposition. Representatives of the MSZP [Hungarian Socialist Party] and the KDNP [Christian Democratic People's Party] supported the Expo. The next conflict arose when the General Assembly decided to hear from district mayors only after 26 General Assembly representatives seeking the floor expressed their views. The seven mayors present found this objectionable and called for a press conference in the adjacent room. Eighth-district Mayor Zoltan Koppany announced that a substantial majority of district general meetings expressed support for the world exposition. On the other hand they questioned the concept proposed by the Program Office. An alternate world exposition concept that became known as "The Live Expo" enjoyed the support of 17 district mayors, Koppany said. The essence of this concept was that the location of the exposition be expanded to cover the entire city. The mayor stressed that in implementing their plan the government, the districts and the Capital would be represented in equal proportions.

An increasing number of representatives left the meeting to attend the mayors' press conference. For this reason, Demszky decided to order a recess. During recess, the MDF invited journalists from various newspapers to attend its press conference where Mrs. Barsi criticized certain episodes of the general meeting. She felt that "The Live Expo" could have an impact and that the idea should not simply be disregarded. After recess Demszky announced that consistent with customs that evolved at the general meeting, invited persons could speak only after representatives had made their remarks, and termed the press conference called by the mayors as an unfriendly step. Discussions by the city fathers and mothers extended late into the afternoon, thereafter, a change in the order of voting was proposed. Previously, a decision had been made to tally the votes by machine so that results could be verified later. Resolutions proposed by the MDF, the KDNP, and the MSZP, as well as by the environmental protection committee, which would have established a series of stringent conditions, were rejected. At that point the meeting was told that several voting machines had failed. Yet another recess was ordered in response.

After press time a resolution introduced by FIDESZ and the SZDSZ carried the news that the General Assembly would not support the world exposition program.

VOSZ Chairman Voices Support

91CH0603B Budapest MAGYAR HIRLAP
in Hungarian 9 May 91 p 1

[Interview with Janos Palotas, National Association of Entrepreneurs chairman, on 8 May by H. A.; place not given: "A Decision May Be Expected Today at the Capital General Meeting; Palotas Likes the World Exposition"—first two paragraphs are MAGYAR HIRLAP introduction]

[Text] The capital general meeting will render a decision today concerning the world exposition. Developments thus far suggest that the proposal will be rejected, or will be delayed at best. On page 5 we present a compilation of details related to Expo organizing efforts. There you may read about the second agenda item of the general meeting: just what the FIDESZ [Association of Democratic Youth] City concept is all about.

At its yesterday's meeting the VOSZ [National Association of Entrepreneurs] board of directors once again discussed the world exposition. It was included as a special agenda item. We asked Chairman Janos Palotas to summarize the board's opinion.

[Palotas] We hold a positive view of the government's more firm than expected affirmative decision concerning the world exposition. At the same time, we do not know what to do with the negative attitude adopted by the SZDSZ [Alliance of Free Democrats] which claims to be the representative of liberal economic principles. We do not like a statement made by the government which holds that should the Expo take place, one could count on governmental support equal to the support provided by the capital and its individual districts.

The justification publicized thus far by the SZDSZ was devoid of specifics, its argumentation was unsuited for debate, and it disregarded the expectations of people involved in the economy, underestimating their abilities. In light of these views one cannot speak of a liberal economic philosophy, but only of crisis management under the direction of the government. Considering the SZDSZ' position regarding the Expo I can only conclude that this opposition party is not interested in supporting a program which holds out the promise of economic recovery.

Vice Chairman Peter Szirmai said at the meeting that VOSZ had been accused of having lied when it stated that entrepreneurs wanted to fill their pockets as a result of state contracts and at the taxpayers' expense. All this points in the direction of the source: Tamas Bauer's writing published in BESZELO.

[H. A.] What is your view of that?

[Palotas] I'm certain that Tamas Bauer was aware that his statement would not hold water insofar as state guarantees were concerned. State guarantees would not constitute supplemental payments by the state if entrepreneurs incurred losses. The only thing the state must guarantee with respect to the world exposition is that it organizes a world exposition. If one entrepreneur failed to perform his function the state would commission another entrepreneur. But the entrepreneurs must convey a concession or ownership, because without these no investment capital could be attracted. Present concerns within the banking system serve to caution entrepreneurs about the fact that entrepreneurial ventures with state majority ownership do not produce much profit for entrepreneurs.

[H. A.] Do taxpayers support the world exposition in your view?

[Palotas] We chartered a nationwide survey in this regard. The opinions expressed suggest rather favorable trends. Only five percent of the survey population was expressly opposed to organizing a world exposition.

[H. A.] What else was discussed at the board meeting?

[Palotas] Leaders of the OMFB [National Technical Development Committee] were guests at the meeting. Our purpose of inviting them was that contrary to the present situation, we want most of the resources generated by the OMFB to be allocated to the private sector rather than to the state sector. I have already discussed this matter several times with Academician Jeno Pungor, the chairman of the OMFB.

SZDSZ's Opposition

*91CH0603C Budapest MAGYAR HIRLAP
in Hungarian 6 May 91 p 3*

[Article by F.A.: "Free Democrats Do Not Support the Expo"]

[Text] In the SZDSZ [Alliance of Free Democrats] National Council's view insufficient guarantees exist for organizing the world exposition on an entrepreneurial basis, therefore, Budapest should withdraw from organizing the 1995 Expo.

SZDSZ National Council member Tamas Bauer said that this decision was reached at the Council's meeting after long debate. SZDSZ Capital General Assembly faction members took part at the meeting and so did SZDSZ district mayors. Bauer stressed that the SZDSZ was not by all means opposed to the world exposition and that it was aware of the possible advantages the Expo would provide. At the same time, however, aware of financial circumstances and of the burden the Expo would present to taxpayers, the SZDSZ fails to see a realistic chance for organizing the Expo on an entrepreneurial basis. Bauer pointed out that there was no guarantee whatsoever that the already heavy burden of 30 billion forints in budgetary support would remain within that limit. This in itself constitutes a high risk which justifies the negative response.

Bauer also said that the SZDSZ National Council's position was preceded by a decision rendered in the form of a Capital General Assembly faction resolution which recommended to the Capital City General Assembly not to support the organizing of the world exposition, because legal conditions for such an organizing effort on an entrepreneurial basis were lacking. Laws required for consummating cooperative agreements were not in force (capital city law, concessions law, land law, the law concerning autonomous local government property). The resolution brought by the faction also points to the fact that the financing plan discussed by the cabinet does

not deal with obligations related to the Capital's financial situation. Bauer also explained that properly streamlined foreign tourism and infrastructural development programs would enable part of the visitors who came to see the Vienna Expo to also visit Hungary. In conclusion Bauer said that the SZDSZ Council's resolution amounted to a recommendation, i.e. it was not binding with respect to SZDSZ representatives who served either in the Capital General Assembly or in the parliament.

FIDESZ's Objections

*91CH0603D Budapest MAGYAR HIRLAP
in Hungarian 8 May 91 pp 1, 7*

[Interview with Klara Ungar, FIDESZ Budapest General Assembly faction leader and parliamentary representative, by L. Z. S.; place and date not given: "FIDESZ Says No to Expo"—first paragraph is MAGYAR HIRLAP introduction]

[Text] The Budapest General Assembly is about to render its final decision concerning the 1995 Vienna-Budapest world exposition. FIDESZ [Association of Democratic Youth] is holding on two its negative view of the Expo which it has adhered to consistently for two years. Klara Ungar, parliamentary representative and FIDESZ Budapest General Assembly faction leader discussed this matter.

[L. Z. S.] What can be expected to happen at tomorrow's session of the Budapest General Assembly, how will the FIDESZ faction vote in regard to the world exposition?

[Ungar] We adopted a totally "unexpected" position. We will vote "no," just as we have continuously voted during the past two years. We cannot support the world exposition because no circumstance arose to suggest that it should be supported. To the contrary! We became even more frightened. The environmentalists claim that present project plans, i.e., the planned facilities and expenses, fail to consider environmental impacts, and do not include any needed environmental protection investments. No studies were even prepared to provide a basis for such environmental investments. Accordingly, no decent exploratory work has been done.

One of our experts claims that incorporation of environmental protection considerations would increase project costs by a minimum of 100 billion forints. Therefore, we not only must say no to this, but we must also scream very loud: after all, the Expo would produce terrible consequences insofar as Budapest was concerned.

[L. Z. S.] What would happen if by the vote of a majority the Budapest General Assembly rejected the idea of the Expo? What would happen? Could the cabinet or a majority vote in the parliament approve the world exposition?

[Ungar] The procedure is as follows: The Budapest General Assembly will render a decision on the 9th, and Mr. Barath will have to put another financing plan on the

cabinet's table by the 16th. Previously it seemed as if the cabinet had made a positive decision, but at the same time it also decided that it wanted to see a reassuring financing plan. The first such plan placed on the table by Mr. Barath was unacceptable according to the ASZ [State Accounting Office], the Finance Ministry, and the MNB [Hungarian National Bank]. So far, as I know the second Barath plan will be completed by the 10th, and the cabinet will discuss the matter with this plan in hand, and aware of the Budapest General Assembly's decision. It is conceivable that the new financial plan will differ somewhat from the first plan. According to the cabinet's decision, from under which one cannot escape, Mr. Barath is either able to present an appropriate plan....

[L. Z. S.] What would be an "appropriate" plan?

[Ungar] An appropriate plan would be one that states that the foreign offerors stipulated would not seek MNB guarantees for their investments, it would be a plan which offers money, not the recruitment of creditors or the capacity of creditors to perform. A plan which says that they come here and bring money along. In response to that one could specify the conditions under which creditors would bring along the money. Under concessions, for which a price would have to be paid. But this would already be a different matter.... But at least it would amount to something. The Expo cannot be supported short of an appropriate plan. By no coincidence, Finance Minister Mihaly Kupa responded in a Szekesfehervar television debate to the cabinet's recent ambiguous position claiming that the cabinet made a political, not an economic decision. True, the TV people cut this out of the footage that covered this debate. A person familiar with financial matters could not say anything else as long as he had a little decency, even if he was a member of the cabinet, if he was a minister. Thus, in summary, all I can say is that the matter has not yet been decided.

[L. Z. S.] However, in the end the cabinet will render a decision one way or another....

[Ungar] Yes, conceivably the new Barath plan will also be unacceptable from a financial standpoint, and then, supported by the votes of cabinet members not competent in this regard the government will take a positive view of the Expo.

[L. Z. S.] Then what?

[Ungar] The matter must be presented to parliament under any circumstance.

[L. Z. S.] After all, even the 1991 budget would have to be amended.

[Ungar] They claim that this would not be necessary. This would be funny, however, because if that were the case, it would be impossible to expropriate, or at least make use in a civilized fashion of the areas needed for the Expo. The only possible way would be to simply take

away the necessary areas from autonomous governmental bodies. They could say, "here you see it, there you don't...this belongs to the cabinet." Accordingly, it would be possible to use such uncivilized nevertheless cheap solutions in a given situation. The cabinet is moving in that direction. It will speak out asserting what belongs to it, and that it will belong to it. And thus, the 1991 budget will not have to be amended because of the Expo. But even then they must present this matter to parliament, because the Expo would also have drastic effects on the 1992, 1993, and 1994 budgets. Incidentally, this matter will involve the vote of a simple majority.

Interior Minister Declares Data Secret

*LD1206144891 Budapest Kossuth Radio Network
in Hungarian 1400 GMT 12 Jun 91*

[Text] The minister of the interior, as of today, has classified as state secret the data records of the former Department III/3 [Intelligence Department] and records concerning the network of activists until the parliament has made a decision on this matter.

State Secretary for Administration Interviewed

*91CH0606A Budapest MAGYAR HIRLAP
in Hungarian 4 May 91 pp 1, 4*

[Interview with Jozsef Kajdi, Office of the Prime Minister, state secretary for administration, by Agnes Marvanyi; place and date not given: "Is the State Secretary for Administration Also a Political Appointee?"—first paragraph is MAGYAR HIRLAP introduction]

[Text] How do you view the first year of the cabinet, what is the relationship between the old and new members of the administrative staff? Are administrative state secretaries committed to those presently in power? These were some of the questions we asked of Jozsef Kajdi, office of the prime minister, administrative state secretary.

[Marvanyi] Almost a year has passed since you were appointed as the administrative state secretary of the office of the prime minister, as part of establishing a new governmental structure. At that time we introduced you in the framework of an interview entitled "The State Secretary Learns How to Swim." Have you since then learned how to swim?

[Kajdi] I think I did. At that time, however, I did not think that it would be so difficult. At the beginning I managed only the way dogs do in the water, but things have gone better since certain functions acquired a routine character. I would not say of course that things could not be done better, but in this feverish legislative atmosphere this job was not cut out for one person only.

[Marvanyi] Are you satisfied with the cabinet's first year performance?

[Kajdi] Despite all of its negative aspects, I regard the functioning of the government as positive. The change in the legal order could not follow the system change at an appropriate pace, a number of pivotal laws have yet to be framed. But it became possible to follow the peaceful transition started at the time the Nemeth government was in power. Constitutional amendments established the basic pillars for a multiparty parliamentary democracy. Progress was made in legislation aiming for government reorganization, new organizations were established to perform new governmental functions. Development of the qualitatively new autonomous local government system is of tremendous significance. Progress has also been made in terms of economic legislation, relative to taxation, privatization, and the transformation of state enterprises. In the field of settling ownership conditions I regard the adoption of the indemnification law as a particularly big step forward. And although legislation is more spectacular than governmental work if viewed from the outside, governmental work also includes decisions made by the cabinet. Since its establishment the cabinet has issued 190 decrees and 119 determinations and 450 internal determinations for the distribution and assignment of functions.

[Marvanyi] The legislative process slows down every time a badly prepared legislative proposal is presented to the National Assembly, proposals to which representatives offer several hundreds of amendments. This indicates that decisions are not adequately prepared, that governmental work is stumbling. What is your inside view of these deficiencies?

[Kajdi] It would be an illusion to believe that just because the new government organization has come into being it would immediately function perfectly. In today's intensified pace of work the previous order of preparing for, and making decisions cannot be applied, while new ones must be developed by ourselves based on our own experience. Incidentally, the professional level at which legislative proposals are drafted has been improving nowadays. What is missing is a conceptual reconciliation between parties seated in the parliament. The six-party negotiation concept recommended by FIDESZ [Association of Young Democrats] could be the preparatory phase of legislative work. In the course of such negotiations conflicts of principle could be eliminated. It would be ideal if after appropriate preparation, the cabinet would have an opportunity to discuss new legislative proposals at the first reading stage; thereafter, the cabinet would instruct the Ministry that proposed the bill to reconcile the proposal with parties seated in the parliament. The proposal would be once again submitted to the cabinet only thereafter. In these days, however, the societal need for faster legislation is so great that there is no time for such a detailed reconciliation process. Having recognized a need for the professional preparation of legislative proposals, we instituted a weekly conference of administrative state secretaries in which the cabinet's agenda is regularly "discussed in advance."

The state secretaries' conference may remand proposals for further work and may assign certain materials for review by the economic cabinet. In other words: The conference makes all the professional preparations so that the cabinet can make only the political decisions.

[Marvanyi] In theory it would be the function of administrative state secretaries to ensure continuity in public administration. But ever since the new cabinet took office there has been rather great fluctuation in leadership positions. Is there a bonding between administrative state secretaries and those in power? Will this group of state secretaries remain unchanged in the name of continuity, or will they fall victim when the first cabinet crisis occurs?

[Kajdi] Professional considerations played a primary role in selecting administrative state secretaries. Thus, quite a few professionals who already functioned under the Nemeth government were placed in these positions. No one expected political commitment from these people, but an expectation of loyalty to the cabinet did exist. In general, those unable to accept even the idea of loyalty removed themselves on their own. But presently, all participants are in the process of learning their respective roles. Administrative state secretaries must become accustomed to the duty of representing public service, they are the professional directors of the staff. But political leaders must also learn that professional direction is not their job. I believe that even though from a professional standpoint the present group of state secretaries could remain in place, the possibility that this group may fall victim to the first cabinet change raises concern. And this could happen not only because this group of people developed good personal relations with politicians. This could occur because a longer time was needed before everyone accepted the idea that the role of administrative state secretaries was to ensure permanence.

[Marvanyi] You mentioned that as a result of a division of functions, a certain confidential relationship must evolve between administrative and political leaders. Viewed from the outside, we do not see confidence, but rather a lack of confidence between the old and the new administrative staff. It seems as if a majority of those who retained their positions when the cabinet changed and agreed to be loyal, fell victim to this lack of confidence during the past year.

[Kajdi] One could not deny that at the beginning some kind of prejudice existed on both sides. The new ones were suspicious of members of the old staff because the old staff members also served in the previous system. The old staff members viewed the new staff members in a condescending manner. They had no practice whatsoever in public administration, how could they have a say in these matters? These tensions based on prejudices slowly dissolved in the course of joint work. And wherever it was still not possible to establish that indispensable relationship of confidence between administrative

and political leaders, the natural consequence of personnel changes occurred. After all, a minister has an unquestionable right to choose the members of his most immediate circle of professional. I think that it will take a year and a half or two years before personal relations in public administration become fully stabilized.

[Marvanyi] The relationships between the cabinet, the National Assembly and the president of the Republic were not always unclouded during the past year. Were political tensions also felt in the course of official cooperation?

[Kajdi] Relationships between the various staffs are clearly good, differences between the leaders' political views never interfered with cooperation.

MSZP Charged With Shredding Documents

91CH0602B Budapest UJ MAGYARORSZAG
in Hungarian 18 Apr 91 p 11

[Article by archivist Dr. Vilma Alföldi: "Destruction or Publicity Campaign? A Member of the Control Committee Remembers"]

[Text] In the 7 March 1991 issue of NEPSZABADSAG, MSZP [Hungarian Socialist Party] presidium member Andras Toth rejected the following statement made by MDF [Hungarian Democratic Forum] Deputy Istvan Balas in the latter's speech at the 5 March session of parliament:

"In the basement of MSZP's headquarters documents are constantly being destroyed. To his knowledge, presently they are in the process of destroying the financial records of the district party committees."

In a State of Delusion

To discredit the above assertion, spokesman Andras Toth insisted that the people dispatched by the Ministry of Culture and Education to conduct an official audit must have been in a state of delusion for a day to suspect that there was systematic and continuous shredding of MSZMP [Hungarian Socialist Workers' Party] financial and employment records going on. The next day, on 22 February, the spokesman, hoping to start with a clean slate, changed his party's position and signed the report of findings according to which "the stacks of papers found in the boiler room consisted of unnecessary documents, newspapers and the usual office trash generated in the course of daily work."

What really happened here?

At the request of the Ministry of Culture and Education we conducted a follow-up inspection, in the course of which our task was to inspect the storage, organization, and condition of MSZMP's documents, focusing especially on documents produced between 1984-89.

Already at the beginning the audit we encountered a few surprising, and from the professional point of view unacceptable problems.

We learned that pursuant to a telephonic request from the MSZP presidium, the archives of the Political History Institute, where the MSZMP documents have been stored have shipped, what in the opinion of the warehouse people separating the papers was a truck-load full of county and district documents, without a receipt of transfer, to MSZP's headquarters on Koztarsasag Square. The institute's archivists were only recalling a passenger car full of documents.

Documents in the Boiler Room

On 21 February, we inspected the repository located in the basement of the Koztarsasag Square headquarters. At the end of our inspection we happened to look through an inadvertently unlocked door opening to the entry way of the boiler room where we observed large quantities of about 80-100 linear meters stack of materials packed in paper bags.

Having walked through the door and opened the bags we found them to contain materials pertaining mostly to the MSZMP's financial affairs, including invoices, rental records, manifest papers, business transaction documents and employment records, dating back to the 1970's and 1980's.

When asked, Janos Fuzig, the person working in the room at the time (whose name has already been made public by Andras Toth), told us that the documents had come in part from the Alkotmany Street archives of the Political History Institute, and in part from the former district MSZMP committee offices.

The Shredder Could Not Handle It

To the question as to what these documents were doing there in such disarray, he informed us that the reason why they were still there was because the shredding machine had broken down (I wonder what had caused it to become so worn out?). In other words this material could not be shredded but, he added, many times that amount, "about 18 times as much," had been shredded already.

Even the Political History Institute's representative escorting us seemed shocked listening to this account.

When we asked Fuzig who had given him the instructions to do the job, he named the economic department.

The head of the economic department and his two coworkers denied having any knowledge about the materials.

The only person who could answer our question, they said, was party spokesman Andras Toth.

Andras Toth was unable to talk to us the same day, due to other commitments.

On Andras Toth's request, the next day we returned to the boiler room to look at the documents stored there.

The explanation offered by Mr. Toth was one which both we and all of the archivists had predicted to hear. The documents piled on top of each other in the boiler room, as he put it, were waiting to be "processed." When I asked him who, which organizational unit was in charge of processing, Mr. Toth replied that it was the economic department's job. After we told him that interestingly the economic department had denied having anything to do with the document, he asked us whom we had talked to. When we told him he told us that there were three economic departments working in the building, and naturally we did not talk to the one in charge.

When we confronted him with the account we had received the day before from the gentleman working in the boiler room, we got this startling response: "I told the boiler man that I knew nothing about boilers so I did not talk about boilers; and since he knew nothing about documents, he should not talk about documents either."

Rejected Explanation

Andras Toth's comments are matters of "record" which contains Mr. Toth's version. By putting their signature on the record the members of the committee did not indicate agreement with its content; they merely certified that "the statements included therein, had indeed been made."

Unfortunately neither the above mentioned record, nor Andras Toth's verbal explanations helped to dispel the strong suspicion of document destruction.

So it is rather strange that Mr. Toth should try to use us to support his explanation which I most unequivocally reject.

Smallholders Chief Nagy Interviewed

91CH0602C Budapest UJ MAGYARORSZAG
in Hungarian 25 Apr 91 p 5

[Interview with Jozsef Ferenc Nagy, minister without portfolio and chairman of the Independent Smallholders and Citizens Party, by Imre Krajczar; place and date not given: "Truth and Morality Are the Most Important"]

[Text] As part of our ministerial interview series, this time we bring you Minister without portfolio Jozsef Ferenc Nagy, whose responsibilities in the government include representation of agricultural interests, the rights of domestic minorities and especially of nationalities. Our conversation with the chairman of the Independent Smallholders and Citizens Party and parliamentary deputy of the Siklos electoral district we also touched on other issues, including the problems of privatization.

[Krajczar] You are a minister without portfolio. What does this position mean within the present government structure?

[Nagy] As minister without portfolio I deal with issues pertaining to the reorganization of agriculture, and particularly to smallholder ownership, and also with such related matters as privatization and interest representation.

[Krajczar] What is your sphere of authority as minister? What decisions can you make without portfolio?

[Nagy] We certainly cannot talk about a broad jurisdiction. My apparatus is extremely modest. I have only five employees, including the secretary and the office attendant. Of the people actually working with these issues, one is monitoring the model of western farming operations and production units. Another colleague looks at the legal aspect of issues that come before the ministry. The third one is a farm economist and financial expert who looks into problems related to farm credits and agricultural subsidies so that we can provide our villages with precise and reliable information.

Tolerance Is Number One

[Krajczar] On a different subject, what kinds of minority-rights related issues have you been dealing with?

[Nagy] So far I have not had to deal minority-related matters. The prime minister, also as a member of the Reformed Synod, has instructed me to serve as a liaison between the government and the Reformed Church. I do this semi-officially, as the government already has a state secretary in charge of church affairs.

[Krajczar] In your opinion to what extent can we consider the minority issue to be resolved in our country? How much validity is there to accusations from the neighboring countries, charging us with reciprocity, for example? Is the situation of the nationalities satisfactory in our country?

[Nagy] We cannot talk about a satisfactory situation. Compared with the neighboring countries, in my judgement, we have a better record. This does not mean, of course, that we do not have any problems waiting to be resolved. Only recently I received a petition signed by several members of the Federation of Germans in which they were protesting against the compensation law, or draft proposal, currently under consideration. We have already sent our reply, pointing out that we intend to proceed in the spirit of the law in effect since 8 June 1949, in other words going back to 1945. It is in the spirit of this same law that we intend to act in addressing the Jewish question. Perhaps I have a little better understanding of these types of matters since I come from Baranya, a region of nationalities. They have Germans, Croats, Slavonians, and Gypsies living there. I know their problems very well. We are planning to call a meeting between minority representatives and the prime minister. This is what I am working on right now.

[Krajczar] What is the most important thing you think we need to right now?

[Nagy] National and ethnic tolerance.

Auction at the Pannonvin

[Krajczar] You have mentioned your experiences in Pannonvin. What is your opinion about the privatization of agriculture in Baranya?

[Nagy] Baranya can be considered a conservative county, certainly less "radical" than Hajdu-Bihar or Szabolcs-Szatmar. In my estimation there will be fewer private farmers in Baranya. The good agricultural cooperatives will survive.

[Krajczar] Specifically, how do you feel about the privatization of Pannonvin?

[Nagy] It is a bad example. I condemn what happened there. They claim that the wine production combine had become dilapidated and bankrupt. So what did we find at Pannonvin? That the state has been defrauded. Entire areas have been sold off for peanuts. We have recently launched an investigation into the matter. We are definitely going to demand an explanation from those economic experts responsible for having managed the privatization of the region in question.

Let us take Grepcusza, for example. It is a place I know intimately well. It spans 300 hectares and houses a huge building complex. There used to be a girls' camp there, the residents of which would pick apricots and help cultivate the vineyards during school vacation. They also had dormitories, a well-equipped kitchen, etc. And the whole thing was privatized for a mere 7 million. Something that was worth at least 40-50 million. We will demand an explanation for this. We also know that in the lower part of the county they have privatized the plough lands of the Siklos state farm. We want the whole country to see how some people interpret the concept of privatization. Defrauding the state, while collecting positively huge profits. I have some very bad examples to cite about privatization in Baranya.

Those Who Came on Time, Came Late

[Krajczar] Mr. Minister, earlier you mentioned that you were looking into the Pannonvin affair. I am sure that you also have other cases to investigate around the country. Will you or the Ministry of Agriculture have the power to institute changes, or perhaps impose sanctions?

[Nagy] We have the opportunity, together with the minister of agriculture, to place the findings of our investigation before the government. We will present the complete data and let the facts speak for themselves. At that point we will have to decide what the fitting consequences should be, for what happened here was nothing short of embezzlement of state property. Motivated perhaps by individual gain and personal connections.

This would have to be made clear even if the person managing the farm turned out to be a close friend of mine. Regardless of who he may be, I could not show any

understanding in this case. Truth and morality must be placed above all. These actions should all have been announced. The auctions, I mean. And from what I hear, by the time the people who wanted to buy arrived they were told that everything had been sold and delivered the day before. They did inform those arriving at the officially announced time that they were already "too late."

Reaping the Profits

[Krajczar] Staying with the Baranya example, we should also mention that they already have certain established monopolies. Rumor has it that Pannonvin has joined up with some large agricultural concerns. The private producers had and continue to have serious problems selling wine. This large enterprise cooperation has led to essentially cartel-like price setting practices. My question is this: how does the existing legal system and body of laws view these kinds of cartel attempts?

[Nagy] The agricultural leadership is determined to put an end to such monopolies. It is true, to take a concrete example, that the meat industry trust has been broken up into directories, these new entities have remained intertwined. The same can be found in grain production and the wine industry.

[Krajczar] We know that the meat industry does not even like to procure directly these days. It leaves that step to the limited partnerships. This way it makes little difference whether the state sets the wholesale price at 64 or 66 forints, for the limited partnerships will take their 10 to 15-forint cut, thereby arbitrarily depressing wholesale prices. I ask you, would a Western democracy tolerate such practices?

[Nagy] I do not believe so. Although prices are uncontrolled, I remember from my days at the Ministry of Agriculture that we did determine a protective price of 64 forints. Theoretically, no one is allowed to procure at a lower price. Now, as you said, the meat industry is setting up limited partnerships that are certain to maintain their ties with the industry, reaping the differences in the form of profits. In these uncertain, transitional times, many such wildings can be seen growing. Many things will need to be trimmed.

I Serve My Electorate

[Krajczar] What poses the greatest challenge and test for you in your new post?

[Nagy] The feeling of helplessness presents the greatest problem for me.

[Krajczar] Tell us something about your work as a deputy.

[Nagy] I go home every two weeks. I hold regular office hours. I respond to people's requests, and answer the concerns they forward to me. If possible I try to solve everything. Whatever I can, I take care of, and I inform

those concerned of the result. It is my duty to serve my constituents, regardless of their party affiliation.

But I would like to get back to Siklos. The town has an enormous transient traffic. Every day, 300-400 rock-laden trucks go through it. Because of the heavy burden exerted on overcrowded Main Street, even the public buildings have begun to dilapidate. In this case, I feel, I have succeeded in agreeing with Minister Csaba Siklos on a long-term concept that now includes construction of a four and a half kilometer long detour route.

Cooperating With the Local Government

[Krajczar] Do you, Mr. Deputy, have some kind of a secretarial staff, or are letters written to deputies automatically forwarded to the ministries.

[Nagy] As do all other deputies, I also keep a representative in Siklos. He works closely with the local government, including the mayor. My constituents can send their letters to several places: to Kisharsany and my Budapest address, the Szoboszlo street Smallholders Party headquarters, but also here, to the ministry. And when I am at home, my apartment is filled with acquaintances and clients. Some discuss local developments, others will immediately start talking about business partnerships, but export-related topics, privatization issues and a wide variety of other matters also come up.

[Krajczar] How old are you, Mr. Minister?

[Nagy] I will be 68.

[Krajczar] Those who more intimately know you find it hard to believe.

[Nagy] In any case, one cannot deny his age. I have lived through most of the miseries of my generation, and they have left their permanent mark on me.

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

Smallholders' Parties Prepared To Merge

*AU1206121191 Budapest MAGYAR HIRLAP
in Hungarian 11 Jun 91 p 5*

[Article by "U.K.": "National Smallholders' Party Willing To Join Independent Smallholders' Party"]

[Text] At a news conference held yesterday [10 June] by the National Smallholders' and Citizens Party, the leadership of the party outlined its main economic policy guidelines, and it assessed Hungary's current domestic policy situation.

In answer to a MAGYAR HIRLAP question, Imre Boross, general secretary of the party, informed us that his party currently has 1,500 members, but that several members of the FKgP [Independent Smallholders' Party] want to switch to Boross's party, either individually or in groups. Assessing Hungary's domestic policy, Boross stressed that the government's and the parliamentary parties' legitimacy had dropped to a minimum,

and that the opposition parties were not providing any Christian-national policy alternatives, either.

The general secretary declared that there was a risk of this latter concept being discredited by Hungary's governing parties. In answer to another MAGYAR HIRLAP question, Boross confirmed that if the two parties expressed the wish to merge, the national smallholders would not exclude such a move. However, the two parties continue to have diverging opinions. One of the most serious problems is that the national smallholders do not think that the FKgP takes a firm enough stance on the reprivatization issue. Unlike the guidelines that they worked out, their program still only focuses on the land, Zsolt Lanyi, chairman of the Budapest branch, told MAGYAR HIRLAP.

We asked Imre Boross whether the members of his party also wanted to have their past "scrutinized" by the prime minister. Boross replied that they would do this in the near future, particularly since the party believed that agent lists should be made completely public. The general secretary announced that until these lists are published, all adult Hungarian citizens will be under suspicion.

KDNP Official Terezia Csaszar on Party Program

*AU1206144391 Budapest UJ MAGYARORSZAG
in Hungarian 11 Jun 91 p 7*

[Interview with Terezia Csaszar, deputy chairman of the Christian Democratic People's Party, by Laszlo Doczy; place and date not given: "The Government Is Better Than Its Reputation"—first paragraph is UJ MAGYARORSZAG introduction]

[Text] [Doczy] When we evaluate the activity of our government, we generally discuss the MDF [Hungarian Democratic Forum] or the FKgP [Independent Smallholders' Party], and very rarely the KDNP [Christian Democratic People's Party], because they represent the smallest proportion within the coalition and because their program is relatively close to that of the MDF. To what extent is the KDNP program a specific one and how do they evaluate the government's first year in office? We interviewed Terezia Csaszar about these issues.

[Csaszar] We regard the MDF as a natural ally and, thus, it is understandable that our basic programs are similar. However, our social policy and economic policy slightly differ from those of the MDF. Similar to other government parties, we would also like to create a market economy in Hungary, but we stress its social character. The KDNP is treating the creation of a welfare network and the assertion of moral viewpoints as major issues.

Taking the Social Outcast People by Hand

[Doczy] To what extent are the church's moral values incorporated into your party's economic policy? To what extent did you rely on these values in formulating your program?

[Csaszar] According to our concept, we must establish a capitalist production system that also includes moral requirements, in accordance with the social teachings of the church, from Pope Leo XIII's *Rerum Novarum* to Pope John Paul's *Centesimum Annus* Encyclical. The implementation of these requirements is a worthy task for all those who base themselves on the spirit of Christianity. Therefore, the KDNP is taking particular care of people forced to the periphery of our society. At the same time, we also think that it is desirable to create a market economy as soon as possible and to accelerate privatization. The current capitalist countries do not represent a model for us.

[Doczy] How do you intend to guarantee a more efficient welfare network than the current one? This requires a lot of money.

[Csaszar] Enterprises enjoying a monopolistic situation have unrealistic power. In the entrepreneurial sphere of our economy, we should encourage greater achievements by only imposing the absolutely necessary taxation, because the state can increase its budget income from the profit made by these entrepreneurs and from the increased exports. In this critical situation, it is essential for us to find a balance that will preserve the desire to engage in economic ventures. In addition, we would like to use the funds deriving from the privatization of state enterprises and from the cutting of bureaucracy for this. We still have reserves here.

[Doczy] I suppose that there are parts of the government program which were formulated by the KDNP. Which parts?

[Csaszar] Our minister is in charge of the Welfare Ministry and, therefore, it is understandable that primarily our relevant concepts have been incorporated in the government program, namely our concepts referring to health, education, welfare policy, and the compensation law; we also formulated the environmental protection bill.

Tasks Without Means

[Doczy] Obviously, your party attributes particular attention to the issue of restoring church property.

[Csaszar] The Nemeth government already declared that, in addition to religious life, the church has social, welfare, charity, educational, and cultural functions. However, no means were provided for all this. Naturally, we support the demand that the church should receive the basic funds necessary for the implementation of their tasks.

[Doczy] The KDNP generally refers to the Catholic Church, while you are speaking generally about the church. To what extent does your party represent the other denominations?

[Csaszar] We represent all denominations. However, if we set ourselves the task of representing morality, faith,

and patience, in fact we formulate by this the Christian ideas. Our party's nature is in line with this: "We want to gain political power in a way to serve the interests of the community, on the basis of the people's will." In its actions, our party does not serve its own ends, but is striving to serve the public at large. It propagates justice and thus it becomes the defender of the poorest and of the people at the periphery of our society.

[Doczy] Will the church have enough money to be able to efficiently operate their restored property?

[Csaszar] I am convinced that the church can fulfill its task. At the same time, we stress the need for a social consensus. This will require the common efforts of the church, the local self-governing bodies, and the government. For example, a denominational school must receive the same amount of state subsidy as a similarly large state school.

More Attention to Our Daily Problems

[Doczy] How do you assess the last year of the government's activity?

[Csaszar] In my opinion, the government's policy is much better than it is said to be. The government undertook an historical mission whose results cannot be achieved within a short span of time. I must make it clear that the political situation is stable in Hungary today. On the other hand, I do not think the opposition is constructive enough, barring a few. I must admit, the government's information policy is not very effective. They do not pay enough attention to the daily problems while they are preparing the long-term concepts. The government does not manage them properly, does not react to them quickly enough, and this leads to dissatisfaction. They should act with more social awareness. They should make the citizens understand better what kind of difficulties and burdens they must face and for how long in the process of long-term development. In other words, we would need a greater openness and the establishment of a more direct contact between the government and the citizens. To achieve this, we would need the media to be a correct and objective partner. However, I refute the claim that the KDNP is a grey and quiet organization. It is very true that our party is not characterized by "loud" manifestations, like personal remarks and accusations. However, our parliamentary work is much more serious than the way the press tries to present it. The change in our political system has not really ended yet. We can say the same about the change of regime. Our final aim is to establish a welfare state in a civic society. The other government parties and even the opposition advocate something similar. Our differences mainly appear on the question of how to achieve this. The opposition's way of fast transition by market forces would mainly favor the interests of one social group, namely the entrepreneurs. However, the prevailing government is also responsible for the strata of society which are unable to start ventures and are even unsuitable for work. We also suggested including a passage according to which the amount of

compensation could also be used for life-annuity or purchasing apartments, and that all those people who had not had land but have been working for cooperatives for a longer period should also be entitled to compensation. They "added" their own labor to the given piece of land. To conclude, our aspirations are similar to the aspirations of the MDF and the FKgP; we would like to achieve more or less the same things as they would, but always with an increased attention to social justice and the common good.

Workers Voice Bitterness Over Impact of Changes

*91CH0602A Budapest UJ MAGYARORSZAG
in Hungarian 11 Apr 91 p 1*

[Letter by 14 signatories: "No Peace in Bekes"]

[Text] Dear Mr. Csúrka:

A year ago we had strong faith in the impending system change, and we voted for you with full confidence.

Unfortunately, the past year has not brought with it the kind of changes we had hoped for. At the same time our enterprise, the Bekes FONTEX, has broken up into a holding center and six limited partnerships.

Interestingly, every "former comrade" has managed to become part owner in these partnerships while we, the workers, including me, a seamstress, have ended up becoming their employees.

We have found that our "new masters" are far more systematic and aggressive in exploiting us today than they were in the past. Our wages, for example, never exceed 3,000-4,000 forints, even though month after month we have been working at a forced pace. So we are lucky if we end up making 50 percent of the national minimum wage.

When we complain, they just "shut us off" with an analysis of the national situation, adding that those of us who don't like it are free to leave. They know very well that those who quit on their own are not even eligible for unemployment benefits, so they make it clear that they will not lay off anyone. Moreover, they have predicted that in time we would become so fed up with making 50 forints a day, that we would choose to quit ourselves. In other words, they are not laying anyone off, but nor are they willing to pay.

What we find completely baffling, however, is that if the situation is really so bad, how could the president of the holding company, who incidentally is also part owner in two other businesses from which he receives income, afford to give himself a 7,000 forint raise? It is also incomprehensible to us, how in such a dire economic situation the holding company was able to buy two Renault passenger vans.

What we are seeing is that our bosses, the former comrades, are doing much better than ever, while we, their employees, cannot even make ends meet.

We, the workers, have no organization to represent our interests; we have no one to turn to with our complaints. Who is there to protect us?

We implore you, Mr. Deputy, to help us in any way you can; give us advice about whom we can turn to, what we can do.

If nothing else, at least let the public know what the peaceful system change is like in Bekes county.

We await your prompt response.

Bekes, 28 March 1991

[14 signatures]

County Commissioner's Authority Discussed

*91CH0604A Budapest MAGYAR HIRLAP
in Hungarian 6 May 91 p 6*

[Interview with County Commissioner Dr. Tamas Hegedus by Antal Andrassy in Veszprem; date not given: "The Files Need Not Travel"—first paragraph is MAGYAR HIRLAP introduction]

[Text] Dr. Tamas Hegedus, county commissioner and titular state secretary, was born in Zalaegerszeg in 1956. He received a law degree from the University of Sciences at Pecs then worked for the Veszprem City Council. For seven years he performed public management tasks, thereafter he became a legal counsel at a Veszprem enterprise. He has been a MDF [Hungarian Democratic Forum] member since 1988. He is married, and his wife is also a lawyer.

[Andrassy] As a public official you are active in three counties: Fejer, Veszprem, and Zala. Did you experience any problem by having to work in two additional counties?

[Hegedus] This has caused a variety of difficulties and continues to do so. Fortunately I have ties which enable me overcome these concerns. My past links me to all three of these counties, it has armed me with some professional knowledge and practice. I must travel a lot in the other two counties of course, I spend as much time as possible in the field. Even more so because I profess that files need not travel, instead public officials must, and they must make responsible decisions on the scene, fully aware of circumstances.

[Andrassy] What do you regard as the county commissioner's most important task?

[Hegedus] I regard the oversight of legality of action as most important. I believe that abiding by the law and giving consideration to the just interests of others are vital elements of a democracy. It is our function to ensure that this takes place. In other words, it is our duty to see to it that the Constitution and the laws of the Hungarian Republic, the decrees of a legitimate Hungarian Government and the decisions made by freely

elected autonomous local governmental bodies are obeyed. All this has to be accomplished by respecting the autonomy of local governmental bodies to a maximum extent, and by helping and supporting their work.

[Andrassy] And yet it seems that local governments are not happy with the county commissioner system.

[Hegedus] My experience does not confirm this view. I visited with very many local governments, and in most places I found a willingness to cooperate. They seek our views and advice, they know that we are not above them but instead are their partners and that we serve and support the efficient workings of autonomous local governmental bodies. The latter may be seen perhaps in the fact that the least number of comments and initiatives as to legality of action had to be made in our region.

[Andrassy] How many professionals are employed in county commissioners' offices covering three counties?

[Hegedus] Eight of us, including myself make up the core staff here in Veszprem, and in each regional office we have 30 professionals. Contrary to general belief, the number of employees at county commissioners' offices and in the newly established or planned central offices is far smaller than the number of persons employed by the former county councils. For example, in 1988 the Veszprem County Council employed about 300 persons, but within the institutions I just mentioned, including the staffs of county local government associations, the number of employees barely reached the 150 level.

[Andrassy] What are the characteristic issues in this region which require you to comment on the legality of action?

[Hegedus] Our comments are primarily centered around organizational and operating rules, decisions reached by joint bodies and the election of officers. In most instances the persons involved in these issues accept our views.

[Andrassy] Was there a case of nationwide significance?

[Hegedus] Yes. One such case arose in Tihany where they announced a competition to fill the position of a school principal who has been elected for a definite term of office. Such announcements are not authorized by law, except when incumbent's wrongdoing is subject to disciplinary action, one that would result in his dismissal, or if the body of teachers withdrew its confidence. In Tihany they announced a competition even though none of these situations prevailed. We regarded the announcement as a violation of law, and since no remedial action was taken, we took the matter to court. Meanwhile, however, the local representative body reviewed the decision and withdrew the announcement.

[Andrassy] Competitive announcements are frequently issued nowadays for jobs held by incumbents. This is done with reference to the system change.

[Hegedus] This is understandable from a political standpoint, but no law authorizes this kind of thing. No competitive announcement should be issued unless a job is vacant, unless the incumbent may be expected to move for some reason. This case whipped up quite a storm. The situation was similar in another case from Badacsony where the local government shut down a tavern. But they made several procedural mistakes. Therefore, we held that the municipal ordinance stood in violation of laws. This case had a special feature: The tavern keeper was inside the tavern when it was shut down. For this reason, he instituted a civil suit against the local government. At this time we are encouraging a mutual agreement between the entrepreneur and the local government regarding the tavern's operating conditions.

[Andrassy] The chances of a mutual agreement were not too good with respect to the establishment of a Catholic school in Veszprem. It is known that the local government returned a state school to the Church, and the body of teachers and some of the parents strongly objected to this. Did this case come before you?

[Hegedus] It did. At first we received the minutes pertaining to the local government decision and found those to be in good order. Subsequently the school principal and a German citizen announced that in their view a law has been violated. After investigating the case we determined that nothing took place in violation of laws. The decision reached by the local government was legitimate, because it discontinued one of its institutions by transferring the functions of that institution to another institution.

[Andrassy] Do citizens frequently come to your office?

[Hegedus] On occasion. Just the other day several persons from Alsóors came to our office protesting the planned assessment of construction taxes. Owners of recreational facilities find this tax particularly onerous, because it is ten times(!) the amount of taxes assessed last year, and because they were otherwise disadvantaged thus far in terms of infrastructural development.

[Andrassy] And how did you react to this announcement?

[Hegedus] Lower and upper limits exist for assessing local taxes. We would not comment as to the legality of action if local governments followed these rules. It is another matter, of course that local governments and owners of recreational facilities should find a way to approach each other for the sake of their own future.

[Andrassy] So far as I know, some settlements in recreational areas also intend to become independent as a result of taxes.

[Hegedus] Such initiatives exist indeed in this region. Five requests have been received thus far. One each from Zala and Fejér counties, and three settlements in Veszprem County want to become independent.

Thus far, only one settlement, Lakhegy, near Egervar was granted an independent status. The other requests are being processed. I personally do not regard as fortunate a further increase in the number of independent settlements and autonomous local governments. There can be, and there are other ways in which the interests of a community can be represented.

Growing Debate Over Returning Church Properties

*91CH0604B Budapest MAGYAR HIRLAP
in Hungarian 4 May 91 p 3*

[Article by Attila Farkas: "Call for Help To Preserve the Bibó Specialized College"]

[Text] The future of the István Bibó Specialized College on Menesi Road would have been the topic of discussion at the Thursday meeting held at the college, but in the end, in conjunction with the lawyers' specialized college, some deeper issues concerning the settlement of church property and the relationship between Church and state were discussed. Some National Assembly representatives also took part in the conversation. The legal representative of the Sisters Named After God the Redeemer, and Sister Rita, the provincial of the religious order who want the college building returned were also invited to the meeting, but they declined to participate claiming other preoccupation and the late hour of the meeting.

College Director Tamas Csapody summarized the situation in a nutshell as follows: The congregation of the Sisters Named after God the Redeemer, whose monastery would be located in Sopron, would like to have the building on Menesi Road returned as of September in order to operate it as a girl's school. The building belonged to the sisterhood and functioned as a girl's school beginning in the 1930's until 1948. The sisterhood is composed of about 400 nuns, ten of whom teach at Menesi Road. Negotiations were held by the sisterhood's legal representative and the 11th District autonomous local government, but no agreement was reached. The failure to reach an agreement may also be attributed to the fact that the Loránd Eötvös University of Sciences would like to retain the specialized college. This intent was expressed earlier in a written statement by the faculty council. Their position was reinforced by a position adopted 29 April by the university council. The council's approval was unanimous except for one abstention. Noted literary historian Erzsébet Vezér speaking for the supporters of the college recited her writing entitled "Rescue the Bibó College," and recalled that the building on Menesi Road was the citadel of Hungarian progression both in the early part of the Century and in the 1980's. József Madzsar and his wife Alice Jaszi, and virtually every eminent person of the turn of the century ranging from Ervin Szabo to Endre Ady were residents of, or frequent guests in the building. During the past decade this building provided a platform for the first time to György Bence, philosopher Mihály Vajda, and to the new Pulitzer prize winner János Kenedi, as well as

from among the foreign notables of Hungarian intellectual life to György Schopflin and Peter Kende. The social science journal SZAZADVEG which had such great impact was also launched from this building.

As it turned out during the evening the fate of the Bibó Specialized College was only a "drop in the bucket." As stated by the lady deputy mayor of the 11th District, it was the College's fate that drew their attention to problems involved in reclaiming real property that formerly belonged to the Church. Many pieces of real estate will be the subjects of negotiation in the District, moreover, at this time already, prior to the enactment of a law that would settle issues concerning former Church property, autonomous local governmental bodies received a large number of requests and demands for the return of real property owned by the churches. In the end, debate among parliamentary representatives focused on the upcoming law, particularly as a result of an announcement by Ivan Peto who arrived from a meeting of the parliament's Committee on the House. The legislative proposal will be presented to the parliament on Tuesday, even though no consensus has evolved in this regard within the Committee on the House. Representatives present agreed that the real issue pertained to ways in which justice could be done for losses suffered by the churches, and as to how their capacity to function could be ensured.

At the same time SZDSZ [Alliance of Free Democrats] and FIDESZ [Association of Young Democrats] representatives made no secret of their belief that the present legislative proposal would hardly be suited to accomplish this goal, because in kind indemnification could trigger additional disputes because of the huge volume of real estate involved and because most of this real estate is used for basic service provisions. SZDSZ representative Peter Tolgyessy believes that it is in the interest of churches to reclaim all of their property, and claims that the legislative proposal stipulates such return in the course of a 10-year period. A decisive majority of voters agree in principle that churches and religions should have their properties returned, but conflicts arise as soon as it turns out that at present, these properties serve public purposes, Tolgyessy said. The SZDSZ representative pointed out yet another source of tension, the fact that government intends to indemnify churches by using local government resources, and not those of the republic. In his view churches should acquire property in the course of privatizing public property. Smallholders Representative Miklós Omolnár said that Tolgyessy's arguments deserved far-reaching consideration, nevertheless he added that the proposal raised a number of questions. According to the Smallholders politician this subject should be discussed among the six parties. Balint Magyar also called attention to the fact that autonomous local governmental bodies delivered basic services in the real property they received. Magyar suggested a solution by which property to be returned to the churches would be limited to property related to religious life. It would be appropriate to leave real properties which serve

educational, health care and other purposes under local government ownership, and within these the churches could also provide educational and health care services. Thus, the future use of these buildings consistent with their respective purposes would be guaranteed. As far as the churches' ability to function was concerned he regarded as conceivable a solution by which taxpayers would pay a certain part of their personal income taxes for the benefit of foundations, churches, etc., Akos Gali of the Hungarian Democratic Forum, who reiterated a number of times during the evening that he was unable to convey the government's view, said that differences between representatives of the various parties were not as great as they thought they would be. He recognized that the practical implementation of the legislative proposal would involve many problems, nevertheless regarded "restoration of property in some form" as necessary with respect to churches. Jozsef Szajer expressed his greatest concern about the fact that as exemplified in the Bibó College case, the return of Church property could destroy existing communities because of presumed new communities. A situation like this must not be regarded merely as a damaging effect of transformation, and "we cannot sign our name" to the annihilation of existing institutions "either as citizens or as legislators," the FIDESZ representative stressed. He also called attention to the serious political struggle in the background that was motivated by the fact that many organizations and parties did not have secure bases of operation, and that the intent of forcing the adoption of certain laws had the establishment of such bases of operation as its purpose. Szajer added that the indemnification law served this purpose with respect to the Smallholders Party, and that by placing on the agenda the legislative proposal to settle church property the KDNP [Christian Democratic People's Party] would receive concessions. He also added that improperly drafted legislative proposals could serve as grounds for creating political hysteria and for confrontations between believers and nonbelievers. Using the same vantage point, Peter Hack expressed concern that in the present phase of system change, ideologies and institutions have become more important than people.

Jews Urged To Participate in Nation's Renewal

*91CH0549A Budapest HITEL in Hungarian 17 Apr 91
pp 44-47*

[Article by Tamas Zala: "Reflections on Jewish Inner Awareness"]

[Excerpt] [passage omitted] There is only one thing that cannot, may not be done. It is to make the impression that, from the viewpoint of the world's Jews, pagan communist dictatorship was better than the budding democracy that is uninitiated but nevertheless tolerant toward religion and the minorities.

Thus, we should not turn into ourselves, nor should we cut ourselves off from Hungarian society around us. If we have surpassed what Tamas Kobor wrote only as

advice around the turn of the century, then we must not go back there, not even in our inner selves. Our presence in Hungarian intellectual life, just as in Hungarian public life, is critically important and indispensable.

We are citizens of a self-reviving country, we can be, together with others, beneficiaries of the country's revival, and should be part of the democratic occupation of the land and the democracy that occupies the land. We are trying to revive the institutional life of the Jews in this society that is changing for and by us, we are looking for new people who can start with a clean slate as leaders of our religious communities, properly representing Hungarian Jews both at home and abroad. We are doing this not only in the interest of our own future but also for being able to follow our great ancestors in being part of those who bring Hungary to the world's forefront, earn its fame and reputation in the world, and bring glory to its culture, bank affairs, and economy through everlasting works of art, inventions and products.

There were free elections in Hungary; a legitimate parliament legislates laws, a legitimate government is leading the country. Local elections were held, the new bodies of representation are slowly forming both in the cities and towns, and the political change of regime is being completed, not perfectly, not even successfully for the time being, but completely in its extent. The church and the state have been constitutionally separated, state supervision of churches, including the Jewish religious communities, as well as the supervision of the authorities, police harassment, and intimidation have come to an end. The country is beginning to breathe freely and is beginning to free itself from its nightmares. But does this changing Hungary promise us, Hungarian Jews, a peaceful sleep? Does it guarantee us peaceful daytimes free of anxiety, fear, and humiliations?

I could also put this in a way that is similar to the usual question of people from abroad and to the question we also ask ourselves: Well, what is the situation regarding anti-Semitism? This question is not spurious, staged, or unjustified. It is more a cliché than a true answer that anti-Jewish feelings exist wherever Jews live. Our inventive century was even able to accomplish the absurdity of creating anti-Semitism even in places where there are no Jews.

It is often heard that what is in the making in Hungary is the Christian course and *mutatis mutandis* a revival of things that the country, its society and its Jews have already lived through once before, during the decades between the two world wars. Some people say that history repeats itself in a ghastly and sinister manner. These alarmists say, look what is going on at Budapest's Ferihegy airport, think of the daily gruesome scenes, of the exodus of exhausted Russian Jews fleeing by the thousands, by tens of thousands. Always have these pictures in front of your eyes, always remember and recall the *numerus clausus*, the Jewish acts, the yellow star, the forced marches, people being shot in the back of the head, people being gassed. *Memento mori*, and then

answer Marai's question. Well, what should we say to this? Can we say that yes, there indeed is a power that he has not seen, and if there is, can we then say that it will bring peace to the hearts in which he could not then believe? Can we state that we live in complete security? Can we state that we will never again be subjected to hostility and hatred and injurious intentions, that we will not be subjects of insults and injuries in the future?

It is a simple thing to raise a question; it is much more difficult to find an answer. But the least we can, and must, say is that Central Europe at the end of the millennium is different from what it was during the first third of the century. We can, and we do say, that there is no civilized, self-respecting and significant country in the world today in which an official policy that was against, or antagonistic toward, Jews would find any support. Hungary, in this respect, too, is supposedly part of the civilized world. True, people do paint swastikas on the walls of houses in Hungary and send insulting messages in anonymous letters, and inciting fliers do appear occasionally. And yes, there are other places besides the Carpentras where graves are violated and Jewish cemeteries are profaned and, unfortunately, Hungary is no exception to this either. Anti-Semites do exist, and we can say of ours, just like the French can say of theirs, that perhaps only the volume of their voice, not their number, has increased.

But we do not get alarmed by this. There is something we can trust. The state of Israel exists, and international Jewish organizations exist. And, equally important, even though the number of Hungarian Jews has dramatically decreased, they gained much experience. If the statement that there are many signs in many places in Hungary that suggest a kind of Jewish revival makes any sense, then this means that we are aware not only of our value but also of our strength. And coupling this strength with the seriousness of the efforts to revive society, we can play a part in the development of a constitutional state and in the demolition of the stale world of artificial discrimination. This is why we say to those who leave: "God be with you on your way." But we also dare say to those who stay: "There is hope." Because the time may come when there will be culture and affluence. And there can be peace in the tortured human hearts even if it is absent at present. [passage omitted]

POLAND

Silesians Debate Autonomy, Region's Future

91EP0508A Warsaw *PRAWO I ZYCIE* in Polish
No 18, 4 May 91 pp 8-9

[Article by Halina Kowalik: "Short Cut"]

[Text] At the half-way mark in the debates, it was already certain that they were voting for autonomy. At that time, a member of the presidium of the regional self-government council commented, "Here is the answer to nearly fifty years of subjugation by the authorities in

Warsaw. But why are the press and the television cameras not here where our deputies are?!"

I looked around. In the observers' gallery there sat three persons: a journalist from a Katowice newspaper, an American of Polish extraction who was in Upper Silesia looking for addresses for businessmen across the Big Pond, and me.

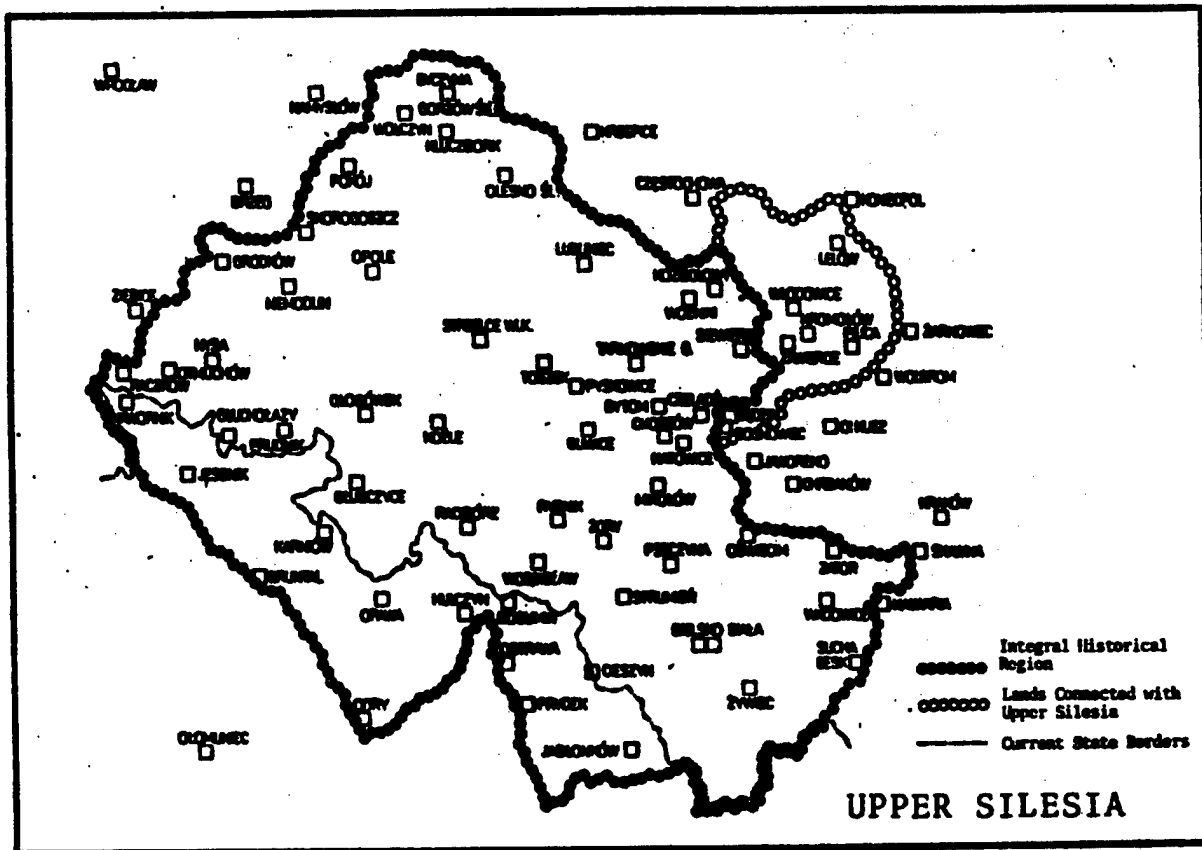
Preparations for this debate had been underway since autumn of last year. The initiative came from below, from the city council of Piekary Slaskie. But by then autonomy was renowned in Rybnik as well. In April, the delegates of all the national councils in the Katowice Voivodship gathered in the historic chamber of the Silesian Sejm, where from 1920 until the outbreak of the war the most important decisions concerning Upper Silesia had been made. They were to have their say as to whether they supported the Piekary conception. The amphitheater (which, in July 1920, witnessed the euphoria of Wojciech Korfanty at the news that the Sejm of the Republic had granted autonomy to the Silesian voivodship) had barely been filled, when it became apparent that there was no unity. The longer the delegates debated, the more obvious became the divisions between Silesians and immigrants.

"Only autonomy," the representative of the local government in Piekary Slaskie argued ardently, "will allow us to solve our own economic and ecological problems. When we passed the resolution on Upper Silesia's self-reliance last year, the word 'independence' was found in the text. The city council had in mind budgetary and economic independence. Autonomy is something more than self-rule, which exercises only executive power. We are fighting for legislative power—like we had before the war."

The delegates listened, but at the same time skimmed Professor Jozef Ciagla's pamphlet entitled "Silesian Autonomy 1922-39" which was being sold in the corridors.

One gathered that the granting of autonomy to Silesia in 1920 had been a political decision: the Polish government wanted to go one up on the Germans before the approaching plebiscite. This comment was received with a rustle of displeasure which went through almost the entire hall. However, the delegate from Piekary took up the challenge. "The political situation is different today," he agreed, "and therefore we cannot allow ourselves to be taken in as easily as our ancestors. We were and are a semicolony of the Republic. Today, every fourth zloty that goes into the Central Budget comes from the Katowice Voivodship. And how much do we get in return? A fraction of a percent. And disrespect for our work as well. In the day of the loafer, vandals were destroying Warsaw's Old Town, while the Silesian worker paid for its rebuilding." ("Demagoguery," shouted someone in the hall.)

"Legislative rights are indispensable to us," continued the delegate from Piekary. "Currently, of the income



that our town earns in the course of a year, the president can set aside just one and a half percent in the coffers. The remaining part of the budget is subsidies and donations. Before the war, the Republic's treasury got 55 percent of the income of the Silesian Voivodship. If the Polish state lacked money, it borrowed from the Silesian bank. Why could we not return to those times?" The hall reacted with silent approval.

"Other regions will protest," the delegate from Tarnowskie Gory predicted. "But we must endure. Behind us stands Wielkopolska, which aspires to the same. When everyone understands that there is no retreat from autonomy, they will get busy with their own lands."

For the delegate from Raciborz, the town through which the Polish-German border ran before the war, the autonomy of Upper Silesia was not at all so obvious as the local government officials from Piekary represented. "They will try to trip up this bill on Wiejska Street [location of Polish parliament]," he predicted. "And in the best case, to put off its consideration as long as possible."

("The deputies of this term do not count any more," the cry went up from the back benches.)

"There will be local resistance also," the representative of the local government in Raciborz continued. "The bill from Piekary Slaskie speaks of the Silesian people's aspiration to self-determination. This means that exiles were excluded, right? In Raciborz, half of the inhabitants are not even related to Silesians. Therefore, the Citizens Committee is opposed to autonomy. But the German minority has declared itself in favor of full independence and in fact secession from Poland. The text of the resolution should be rewritten so that it does not irritate anyone. First of all, the unfortunate expression 'the people of Upper Silesia' should be thrown out."

Piekary reacted with indignation: "We did not divide the inhabitants into 'hanysy' [slang for native Silesians] and 'goroli' [slang for postwar Polish settlers]. It is you, gentlemen, who are looking for reasons for disruption and divisions. For us, everyone who lives in this land is a Silesian."

"Everyone?" the delegate from Olkusz pondered aloud. "Then that includes those of us who joined the Katowice Voivodship in 1975, although no one asked us for our consent. In that case, listen to how it really is."

Conversations quieted down. Cigarette lovers returned from the corridors. The delegate spoke calmly: only the trembling of her hands on the lectern betrayed her

emotions. "For centuries, we were united with the Krakow Voivodship. After the new administrative division, we will probably return there. We will enter Malopolska like poor relations. The sixteen years in Katowice [Voivodship] are completely lost. We were treated poorly. No investment, not even a water sewage system, has been completed in our area. Also, telecommunications for Upper Silesia are being disconnected in Sosnowiec. The case of environmental monitoring is similar, although our area has more lead contamination than any other.

"After the resolution of the Piekary city council was announced to the mayor of our town, a map was drawn up, on which, as the legend states, the 'integral, historic area of Upper Silesia' was separated by a black line. The area includes the voivodships of Katowice (not all of it), Opole, Bielsko-Biala, and even a considerable part of Czechoslovakia. But Olkusz is outside this border. Our area was not even included in the remaining regions connected to Upper Silesia, because such regions were marked there. And yet, Olkusz has been made into a bedroom for the Katowice Steelworks."

I waited for one of the mayors—and they were almost all contemporaries of the young woman from Olkusz—to disassociate himself from the mistakes of the previous group; after all, all of them had risen because of their critical attitude toward the communist groups. But they were silent.

Only after the break was it possible to hear conciliatory voices. "When we were starting up self-governing organs, our concern was to see that promises would be fulfilled," explained a delegate from Gliwice. "And independence had been promised at that time. However, further propositions not to make any sudden movements that could be wrongly understood in central Poland, but rather to join in the work of the government on the administrative reform of the country, were received by the majority with shouts of distinct disapproval."

Piekary Slaskie pulled out its next argument. Autonomy was taken from Silesia by a decision of the KRN [National People's Council] in 1946. Inasmuch as today the president himself is questioning the legal acts of the first postwar government and is announcing the return of palaces, apartment houses, and factories which were socialized by the Council, the return of autonomy to Silesia should be obvious.

"If we had autonomy," argued the delegate from Gieraltowice, "we could rebuild the Silesian work ethic and restore the order which the local people have in their blood. The German Laender have autonomy, and thanks to that they are rich. But here—look at how the market in Katowice looks. This peddling on the streets, dirt—these are the customs of the East. ('No, no—political excursions,' the representatives of the cities where repatriated persons were settled after the war said menacingly.)

"And it will be even worse," continued the unflustered delegate of Silesia, "because the highest unemployment in Europe awaits our voivodship."

The exiles still did not give up; they tried to denigrate the economic power of Silesia, saying that it is a colossus, if one counts the smokestacks, but that in reality it stands on feet of clay. In contact with the West, it may crumble, just as happened in the GDR. Silesia was a power, but before the war.

The dispute moved into the corridors where many of the delegates went in order to talk among themselves in the language of technicians. When the chamber filled again, a miner from Ruda Slaska—a descendant of an insurgent—spoke. "My grandfather," he said, speaking from the heart, "fought for the annexation of Silesia to the motherland. My Polishness was written on a Solidarity standard. I do not want to be a turncoat today. But I also do not agree that Warsaw should continue to manipulate us. We are not enjoying the fruits of the victory that we fought to win. The new authorities continue to deride Silesians. Is it fair to publish all over Poland that additional payments have to be made to miners? If we had our own people in the government and in the Sejm, they would explain where the financial collapse in the mines comes from."

They contended and argued with one another in this way for six hours. And suddenly, like a jack-in-the-box, a new proposal for the content of the resolution sprang up. It was raised by the representative of Wodzislaw Slaski, a town which is in large part inhabited by people from distant corners of Poland who were recruited for the mines.

The stylistics of the perfunctorily prepared resolution turned out to be so tangled that even its author got lost reading it. But the intentions were legible. Wodzislaw wanted to eliminate the word autonomy from the text. The self-government council in Katowice was to declare support for the concept of regionalism of the central powers.

The delegates reached for methods seen on the broadcasts of the debates on Wiejska Street. Consequently, there were noisy calls from the floor, a walkout during the voting, and bewildering, incessant reference to the regulations until even the council's chairman got lost. Suddenly, the Silesians became aware that in spite of themselves they had voted to reject the bill from Piekary at the beginning. The temperature of the conversations in the corridors rose. Now and again someone shouted, "Treason, scandal." The chairman repented contritely and voting began anew. By evening, the concept of autonomy had passed. Only now will it be revealed how the Sejm in Warsaw will react.

In the Boiling Silesian Crucible

The Silesians are reacting to many years of being mistaken—from the heights of Warsaw—for Zaglebian, and they are reacting to being treated as labor. The new

people in power (the majority under thirty) are affected by the complex of their fathers from the summer of 1980 when Silesia pretended that it did not see the requests for aid in the spirit of solidarity that were written on empty coal cars returning from the coast. To Solidarity activists in Silesia it still seems that Poland remembers that both workers and the intelligentsia received the shootings of the shipyard workers in 1970 with silence. It also seems to them that Poland remembers the insults with which the press and the government team pelted the striking workers of Ursus and Radom. This complex was not effaced by internment during martial law, which was quite substantial (1,500 people), or even by the tragedy in the Wujek mine. During the debates in the regional self-government council, one of the mayors recalled the words of Stanislaw Stomma from the beginning of 1980, who sensed that a "movement of civil courage" was being created.

"Today," the young man said, "we are creating such a movement in opposition to Warsaw's attempts at centralization. Because of us, Europe will be closer."

Silesians do not hide the fact that they want to be situated in Western Europe without looking back at the rest of Poland. Everything that is happening on the other side of the Oder is for them near, understandable, and acceptable. They see the territorial division of Poland according to the concept of Laender in the FRG. It would be a simplification to explain this nostalgia only in terms of an appetite for a wealthier life. There are centuries-old ties of culture and civilization which have been strengthened in the last decade by family sentiments.

Thanks to the Germans who are courting them, the Silesians have been feeling valued at last. That is why their subordinate role with respect to governing Warsaw weighs on them so heavily. Wishing to liberate themselves from this hegemony, they emphasize their separateness in a conspicuous manner. This manifests itself in different ways: in a return to dialect in offices, in accentuation of close ties with the church, and finally in an eruption of regional groupings and associations.

It is more and more difficult to count these groups. Among the most important are the following: the Union of Upper Silesians (to which may belong, according to its declaration, everyone "who feels united with Upper Silesia and treats this region as a place of its own and for its children."); the Upper Silesian Union, which has a similar program, but different leaders; the Movement for the Autonomy of Silesia in Rybnik (which states in its platform: "In recognition of the fact that within the state system's existing structural forms it is not possible for Silesia and its inhabitants to be granted the place in the social life of the country that is their due because of their strong economic potential, it is necessary to win rights of self-determination over the fate of Silesia. In the first stage, autonomy in the form that prevailed before the war in the Polish part of Silesia must be won, and in the second stage—as the ultimate goal—full autonomy").

There are also two Social-Cultural Societies of the German Minority; the Chief Council of the Germans of Upper Silesia, which wants "to conduct a policy of cocreating the principles for the gradual transformation of Upper Silesia into a modern Euroregion;" the Union of Gminas of Upper Silesia; and also the just-organized Union of the Gmina of Zaglebie.

[Harmut] Koschyk [of the League of Expellees], who very often comes to Slask Opolski and Katowice, is promoting a plan to conduct a referendum and establish in Silesia "a new European territory governed by Silesians, Germans, and Poles." Radicals are talking of a plebiscite. Another idea is to create a Silesian province on the territory of the former GDR which, along with Lower and Upper Silesia, would constitute a homogeneous unit; or—this is the idea of the Society of the German Minority—to make "a fully autonomous land-bridge linking Poland with Europe" out of Upper and Lower Silesia.

The Politicians Are Supported by the Economists

During the second Silesian economic forum, which was in session on April 5 and 6, fears were expressed that the Polish government might make the privatization of state enterprises in this region more difficult, because about 20 percent of the budgetary income comes from dividends collected from Silesia. In the end it was ascertained that the goal of the forum should therefore be to defend the region's interests from the appetites of the center and to work out several methods of "tapping" the authorities in Warsaw for money.

The new mayors and presidents in Upper Silesia are determined in their search for access to Europe. When at the end of March the Europe Society, which is active in Gliwice, organized an international seminar on regional politics in our part of the world with the participation of deputies of the European Parliament and representatives of the Union of Christian-Democratic Parties, the entire local leadership of the Katowice Voivodship dedicated its weekend to instruction.

The Europe [Society], which is worth remembering, is an elite society in the best meaning of the word. It is made up of just a few people. Education distinguishes them: from a philosophical education at KUL [Lublin Catholic University] through mining technical school and affiliation with several parties and groupings of Solidarity lineage. During martial law, when they were active in the underground, they were more united. Now they are learning mutual respect for their views and also European tolerance. Rafal Budnik, who joined underground Solidarity when he was 17 years old, is a Christian democrat. Andrzej Potocki sits in the leadership of ROAD [Citizens Movement-Democratic Action]. Mr. and Mrs. Mazurkiewicz in Gliwice, well known for organizing lectures in church during martial law (conspiring intellectuals came from Warsaw), are leaning toward the Democratic Union. Marek Kempski, a miner

and a member of the administration of the Slasko-Dabrowski Region went, along with his trade unionists, to the Center [Accord party]. And of course they are remaining on friendly terms, and they are planning many more meetings of integrationist residents of Upper Silesia under the sign of Europe.

I asked the organizers of the seminar in Gliwice whether the pragmatism of the presidents and mayors offends them. For it was obvious that the lecture on the organizational structures of the European Parliament was of little interest to them; they came in order to make a deal for their own gminas. Most often a deputy from a wealthy country signed onto the membership list some foundation that had just been invented. (The president of Piekary Slaskie who prudently brought along a foreign-language folder about his town, which is famous for pilgrimages, succeeded in this.)

"It is not offensive," Rafal Budnik attested. "Pragmatism is a trait of the Silesians; why would we have to put on a false skin? The Europe Society fills a service role. The decision whether or not to take advantage of what it offers belongs to the seminar's participants. And moreover, is it so strange that the eyes of the new young leaders in Upper Silesia shine when a deputy from Strasbourg shows them a European passport, ardently arguing that Poles, too, will gain the right to it—one just has to want it very much."

I think the impression that our Silesians made on the delegation from the European Parliament was not the worst. Even if they were asking their guests questions to which the deputies had one answer: helplessly outstretched hands (a request for advice on how to fill the empty gmina coffers belonged to this set). Just once, during dinner, some people's eyebrows lightly twitched when they noticed the broad, ostentatious sign of the cross that the presidents of Piekary Slaskie and Tarnowskie Gory made before reaching for the soup bowl.

Bujak on Social-Democratic Movement's Program

91EP0500A Krakow TYGODNIK POWSZECHNY
in Polish No 18, 5 May 91 pp 1, 8

[Interview with Zbigniew Bujak, leader of the Social-Democratic Movement by Krzysztof Burnetko; place and date not given: "Limits of Promises"]

[Text] [Burnetko] No more than half a year ago you spoke very highly of Mazowiecki's government and Balcerowicz's economic plan. You maintained that the greatest threat to Poland would be to discontinue that team's reforms. After the presidential elections, you started claiming that not only was Mazowiecki's economic program erroneous, but also badly implemented. It is normal for a politician to change views, but can he do it so radically? Won't such moves of politicians with your authority undermine a general trust to democracy?

[Bujak] Mazowiecki's policies were not fully accepted by ROAD [Citizens Movement-Democratic Action] before

the presidential elections. We noted our reservations as to some points of the program even in official documents. It was not possible to publicly criticize these points because of the presidential campaign, since such criticism would seriously jeopardize the chances of our candidate. In this respect I have not made any spectacular changes. It is not true that before the elections we fully supported him, and afterwards we totally rejected him. To give you an example, from the beginning we criticized operational conditions of enterprises created by the government. Right now they are not at all better, they are getting progressively worse. We have, therefore, additional reasons for criticism.

Nor is it true that we are now started rejecting Balcerowicz's policy. The overall framework for our economy as established by him, the direction of our reforms towards a free market system, the principle of privatization, etc. remain untouchable. We will, however, propose other ways to achieve these aims. The strategic goals are clear and noncontroversial. The differences are in the tactics.

There are, as you see, no radical dogmatic changes here. On the contrary, there is a stubborn consistency in pursuing a goal. As far as Tadeusz Mazowiecki himself is concerned, I still believe that he was the best candidate for the Presidency. I am not denying that. I am prepared to defend our position in this respect.

[Burnetko] Let's talk about specifics then. Last summer, in an interview for POLITYKA, you said: "Agriculture employs 36 percent of people, while six to eight percent would be enough.... The class of heavy industry workers is exiting the stage. If they do not understand this, they cannot count on us." You said that you, being yourself a representative of this class, have to bring it home to them. "It would be the greatest dishonesty on my part if I hid anything in order to win votes," you added. Right now you want to address the electorate of workers and farmers. Don't you believe any more that the role of the working class and the peasants is finished?

[Bujak] The political role of these social groups is coming to an end. We have to think, however, of their future, of where their place will be in this new economic system that is being created. In the meantime, neither in the economic plan, nor in the industrial reconstruction program, nor in the social policy, is there a shadow of a consideration for what is to become of the heavy industry working class. Any moment now it may happen that they will be doomed to stay home and wait for salvation. Such a policy cannot be continued because it does not create any future for these people. They are being told that they are leaving the stage, that they are not needed in the economy, while they are not shown any future, any hopes. I am not surprised therefore that they are disturbed by the government's policies and the economic situation. They cannot accept such policies.

[Burnetko] You once had some solutions regarding unemployment: retraining of employees, preferences for small business. Now you are talking about the principle

of full employment.... We know full employment does not exist in any free market country!

[Bujak] That is why I would prefer to speak of a high employment principle.

[Burnetko] That means...

[Bujak] Let's ask the question whether we can afford a great, spectacular restructuring of industry, the type that leads to modernization, automation, etc. Well, if we look at the example of East Germany, we can see that such a chance exists. We can also see how much money is needed for this purpose. East Germans are guaranteed 500 billion German marks in the span of five to seven years. We cannot even dream of such sums. We have to forget, therefore, a quick restructuring and modernization of our industry. In this case, the only way to achieve production growth is through traditional methods. Economic growth will probably be based on human labor. I still maintain, naturally, that restructuring, retraining and finding jobs in new vocations constitute solutions for employee groups. First, however, such possibilities have to have a chance to emerge, which means that first there has to be economic growth. As for now, we have a reverse process: shrinking economy and decreasing production. There is some growth in trade but it does not create economic growth yet. In this situation, speaking of retraining, of developing small business is useless. Small business develops only if the whole economy is growing, not when it is shrinking.

[Burnetko] You have touched here upon the matter of recession. What do you see as ways of charging the economy? Do you share the opinion that the "popiwek" [tax on excess wage growth] is an inhibiting factor and should be abolished in order to curb recession?

[Bujak] When we have a policy of economic growth, we will be able to calmly do away with "popiwek" without the danger of raising inflation. In our proposal of an alternative economic program there will be no "popiwek." Naturally, there must be an initial impulse to economic growth. I believe it should be housing construction. It can relatively quickly give impetus to the whole economy and, at the same time, have a positive social effect. In a situation in which all employees—workers, farmers, administrative personnel—are threatened from all sides by low income, by lack of social security, and by a breakdown of health services, there must be at least one point of support for them. People have to have at least one thing in life to be sure of, a place to feel secure in. In our policy this will be an apartment, which will be guaranteed, which no one will ever take away from them and which will be their asylum.

No policy will be successful in which there are no guaranteed areas of security, in which everything may be lost: a job, a salary, medical care, and even the apartment. Such a policy will make people reject any reforms.

[Burnetko] How, specifically, would this mechanism of charging economy by housing construction work?

[Bujak] We will present our plan the moment the campaign starts. I do not exclude the possibility of attracting the government's interest in it. I trust many elements of Bielecki's policy and if Minister Glapinski would buy our idea and would wish to implement it, giving credit to our authorship of course, we would gladly introduce it earlier.

[Burnetko] Another matter that we have mentioned is privatization. Previously, you maintained that it was one of the primary problems to solve, precisely because it was directly connected with the disintegration of the heavy industry working class. Privatization was to speed up the growth of the middle class. Now you claim that privatization cannot be quickly carried out and it is necessary to consider improvement of state enterprises.

[Bujak] One of the most important factors in this improvement should be changing the present privatization policy. We do not renounce the policy of privatization as such, but the present one has lost social trust and support. This was to be expected, of course, since it did not contain guarantees of security or concrete benefits. That is why we will propose a different policy which will be truly appealing to various employee groups, not only to certain specific enterprises. It will be a policy with a view to building economic guarantees for the future. Privatization will be an element in creating a certain economic backing for employees.

[Burnetko] Which means....

[Bujak] We will postulate, among other things, concrete legislative changes. It is unacceptable to have legislation which, on the one hand, allows the creation of trust funds, and, on the other, limits them by the requirement of 500 million [zlotys] of initial capital. This type of sum is practically unattainable by employee groups. It blocks, therefore, their possibility of creating such a fund and, in consequence, makes it impossible for them to have any real benefits from privatization. Another problem: there is a law allowing employees to buy 25 percent of the stock, but there are no financing or banking mechanisms to make it possible for them. This way we have another empty declaration. Such mechanisms have to be created.

[Burnetko] You are proposing a credit system to give employees a chance to buy stock. It is a well known fact, however, that the state budget is stretched to its limits and, on top of it, part of its revenues is to come from privatization. You, on the other hand, want the state to pay for privatization instead of earning revenues from it. All this means a collapse of the budgetary balance and, in turn, an end to aid from the International Monetary Fund and to debt reduction, etc.

[Bujak] Fortunately, the budget relies basically on taxes from state enterprises. It is exactly this source of revenues that has been threatened by the privatization doctrine because it has caused a breakdown in production. In economic development, it is not only money and capital that matters, but also the psychological situation in an enterprise and in the state. If a certain level of trust

in an enterprise is destroyed, it goes under. Mistakes have been made in this respect and that is why the budget is in trouble. Furthermore, credit money does not have to come directly from the budget. There are many tested systems in the world for crediting of stock buying by employees.

[Burnetko] Can you give an example?

[Bujak] One example would be buying stocks by using funds created by rising prices of stocks deposited in a bank. These are rather complex mechanisms, but they can be explained to people on the condition that these systems are being used in practice and that a general policy is being conducted that favors a rise in stock prices on the market. At present such a possibility does not look too good, among other reasons because privatization is, admittedly, being implemented without a parallel policy of reforming the enterprises.

[Burnetko] One of the important points of the Movement's program is a critical attitude to the church. What are your objections?

[Bujak] The church's influence in all the spheres of life is rising. It is visible in the work of the parliament, at least in matters concerning the antiabortion law. It is noticeable in the work of the government; here the terms of introducing religion classes in schools may be an example. It shows in cities and in gminas, where there is growing influence of the local hierarchy on self-government and administrative organs. Finally, it is felt by each citizen when he hears about the radicalization of requirements concerning family life, private life. Naturally, the church should deal with this sphere, but such a sudden radicalization is an enormous and, therefore, dangerous shock. It is dangerous for the church itself, and I am watching this with awe, since I am a Catholic myself and the church's fate is dear to me.

[Burnetko] During the election campaign you often attacked the use of populism in politics. At that time, you referred to the Center Accord. This time, the Movement's proclamations may be taken as populist, for instance those in which you affirm the need for "greater participation in government of women and youth".

[Bujak] It is a matter of interpretation. If you conclude from this statement that young people are given license to do anything and to take charge through demonstrations and anarchy, then it could be truly dangerous. For us, for our party, it means only one very concrete thing: in preparing our parliamentary representation we will guarantee a high level of participation of women and young people. That's all. Even now it is mainly young people who are working on the shape of our economic and social policy, on finding solutions in education, culture, science. Such are also my closest coworkers: Wojciech Borowik and Krzysztof Sieminski. For us it is not a slogan, it is the reality of everyday work.

[Burnetko] At the same time, you also make demands for a greater participation of farmers in government. We

know, however, what their attitude is.... For instance, one of their basic postulates is the introduction of barrier duty taxes, which would lead to a rise in inflation, then, probably, a reciprocal introduction of identical duty taxes by western countries, which would mean lowering of Polish food exports, etc.

[Bujak] Not only do we demand farmers' greater say in government, but we will also try to guarantee quite a number of seats for them in our parliamentary representation, so that they could have a real opportunity to formulate an agrarian policy. It is a difficult policy. The barrier duty taxes are only a watchword. Farmers want a farm to be a specific type of a production enterprise. At present it is really in trouble: farmers' income has dropped dramatically. Annual income from many farms is lower than unemployment benefits, and nobody seems to want to notice this. Furthermore, farmers did not see, either during the former government's term of office or the present one, any actions undertaken with a view to increasing profits in agriculture. Fortunately, something has started to move recently. There is talk of raising profitability of farms by increasing their share in profits from food processing. It is a pity, though, that it is happening so late and that no market institutions have been created yet to help farmers in this process. Again the issue of privatization comes in; it should have secured the farmers the possibility of buying stocks in food processing firms.

[Burnetko] I am sure there are people who say that your parting with the Democratic Union was only a tactical move on the part of the 'catholeft' in order to widen the circle of voters, and after the elections you will join again. To what extent is your separation final?

[Bujak] Our estimates of the tactical situation are different. I do not believe in the permanency of the Union. We are witnessing right now the development of formations with very clear programs and ideological profiles. Peasant parties are uniting, organizations of a catholic character and social-democratic groups in the western understanding of the word, not postcommunist meaning. Liberals are consolidating. We know that the Union is composed of people with very different orientations. I am almost sure that its activists will go their different ways to follow those political formations which suit them more ideologically. Leaders of the Forum of the Democratic Right will have closer ties with liberals who, in addition, are claiming victories thanks to Bielecki. And so forth.

In the future, however, in the parliament, where we will be able to work out a common stand, a coalition and common proposals will be possible.

[Burnetko] This means you do not see any chances for the parliament to have two strong groups? You expect many?

[Bujak] Not as many as we were afraid of until recently. There will be a few big blocs which may easily create, by association, a parliamentary majority.

[Burnetko] How many seats in the parliament does the Democratic-Social Movement count on?

[Bujak] If we have enough time and opportunity to present our program, I am counting on winning a parliamentary majority.

[Burnetko] You speak against the idea of the Pact for Poland. The same stand is shared by representatives of the Center Accord and the Christian-National Union. There are also points in the Movement's program that are close to OPZZ [All-Polish Trade Unions Agreement], for instance the above-mentioned principle of high employment. Don't you wonder about this similarity of stands between former opponents?

[Bujak] I do not know OPZZ's program. OPZZ is an important element of the Polish political scene and most probably will remain as such. I cannot imagine implementing an economic policy without consulting trade unions about its outline. In turn, if trade unions want to play a significant role, they have to get used to the idea of having to work out a common stand on various issues. OPZZ is a much greater problem, therefore, to Solidarity than it is to the Movement.

As regards the Pact itself, I do not believe it is a good idea. People are afraid that the Pact will lead to politicians agreeing among themselves on essential issues of this country above the heads of citizens and beyond their control, and to their disadvantage. It is a bad idea also because of competing economic interests of various social groups. As long as these groups quarrel publicly, everything is all right. It is possible, then, to understand how one social group loses against another. But one cannot understand nor forgive the fact that no one stands up to defend my interests, because they "agreed" because they made a pact. That is why in the politics of a democratic state such ideas do not function. The place to come to an agreement and have a pact is simply the parliament. Why create some other, artificial organs?

[Burnetko] You denounce the Pact because it may create an impression among people that politicians want power only and are ready to come to an agreement for its sake, disregarding citizens' opinions. In the same way people may also say that Bujak wants power only. As soon as he realized that Walesa and Tyminski came on top in the presidential campaign thanks to promises, he did an about-face and started proclaiming catchy slogans. Where are the limits for campaign promises?

[Bujak] Where there is a possibility for their implementation. This is very clear in Poland today. People are learning that Lech promised settling accounts with the 'nomenklatura' and he has done nothing in this matter. He promised improving safety in the streets and nothing has changed. As a consequence Lech is paying a terrible price for this—loss of authority. A certain aggression against him is developing, which obviously worries me, because the president's office is the highest and should be the most revered. It should not be threatened by loss of authority. That is why in our program we limit

ourselves to these slogans which can absolutely be implemented. We know that those who do not keep promises given to voters have to pay for that sooner or later.

Kaczynski's Center Accord Goals Delineated

91EP0494A Warsaw ZYCIE WARSZAWY in Polish
7 May 91 p 3

[Article by Piotr Skwiecinski: "Kaczynski and His Party"]

[Text] Center Accord is Kaczynski's Party. It is linked to the personality of its leader even to a greater degree than Democratic Union is being built around former Prime Minister Tadeusz Mazowiecki who, while a symbol of his movement, plays a limited role in creating it. In contrast, Kaczynski is the founder of Center Accord and his standing as its leader is unquestioned.

The Chairman

Kaczynski has no followers. There is no extatic train of admirers and groupies following him. His associates seem not so much to obey him blindly as to bet on his success. He is a bachelor, who, until recently, was a careless dresser, but has lately donned a dark suit, the proclaimed image of a politician representing Center Accord as a trustworthy party of grave men. He owns a notorious cap of which his chauffeur says that he would be embarrassed to even place near a trash can—a cap suspected of serving as a bed for one of Kaczynski's six cats.

Kaczynski is a politician with statesmanlike views. His intelligence and competence are appreciated even by his adversaries.

Kaczynski stirs greater emotions than any other politician deriving from Solidarity, and as a rule they are not positive emotions.

In the opinion of Bronislaw Geremek, in 1989 Kaczynski could not become the speaker of the Senate because the members of that chamber are "persons of more sedate age and dignity." And to many supporters of the former Mazowiecki camp Kaczynski is a devil, a satan who has tempted the vain but basically honest Walesa. This view is supported by many authoritative persons. "I and Lech, we are like an old married couple," Michnik wrote. "Sometimes we quarrel, but we always make up, and then—woe to those who tried to come between us!" This all too intelligible warning pertains to Kaczynski.

The leader of Center Accord is aware that he arouses hostility that is not as much political as personal.

"I disturbed," Kaczynski said, "a very strong interest group. My adversaries had sincerely believed that their times will come once communism is overthrown, for at least several if not more years. They believed it to be indisputable. But the outcome was different, thanks in some part to my influence. That is why to this day I am considered a villain."

The most frequent accusation hurled against Kaczynski by the propagandists of the opposing side is careerism. His perception of the ROAD [Citizens Movement-Democratic Action] as leftist was viewed as "setting up a straw man," and they suggested, and still often continue to suggest, that the Christian-democratic orientation of the leader of Center Accord is insincere.

This does not correspond to truth. Kaczynski is a genuine believer (though distant from clericalism). Even when he was involved in the KOR [Workers' Defense Committee] in the 1970's, already then he greatly differed from the ideological orientation of that grouping.

According to Kaczynski, the division into the left and the right does not apply solely in the economic plane. In his opinion, categories of leftism and rightism are linked to customs and mores—to either a conservative or a progressive vision of the society, to the attitude toward the authority of the Catholic Church. In Kaczynski's opinion such criteria for division are more clearly implanted in the realities of the present-day world, in which all the significant political forces have, to a greater or lesser degree, accepted the market system.

Kaczynski's unpopularity is not just limited to the groupings dislodged from the political Olympus. The leader of Center Accord appears to be rather disliked by the general public. A major role in this has undoubtedly been played by the sharp propaganda campaign directed against him. But this is not a complete explanation. The "war at the top," to which Kaczynski is linked in the public mind, takes its toll on him. True, the public's feelings were against Mazowiecki, but it is Kaczynski who is shouldering the odium of having broken up the national consensus. Bearers of news that may be true but is bad are liable to be disliked by the addressees. This phenomenon is well known to psychologists. Reactions of this kind are particularly common in Poland, where concord and tranquility are prized very highly.

The leader of Center Accord is also unpopular for another reason. Like his brother, he may command respect and even trust, but he is not a charismatic leader. He can hardly be criticized for being too detached. A kind of chill emanates from him. When he mixes with strangers, they instinctively feel toward him respect combined with slight anxiety. Of course, this is not a trait that renders it impossible to lead a party or even the country, but its importance cannot be underestimated in the era of television politicking.

Their closest associates claim that in their company the Kaczynskis are charming, witty, and extremely likable individuals. If that is true, it must be admitted that the brothers are highly talented actors.

The political duumvirate of the Kaczynskis is unique. A close associate of one of the brothers said that they talk with one another not face to face but somewhat sideways, as if displaying a subconscious desire to support one another. It is said that they communicate with one

another almost telepathically. Even those closest to them cannot tell which brother plays the leading role intellectually.

The Party

The party they founded has scored many successes. Many observers had even expected that Center Accord will consolidate its post-Solidarity role and become the most important political party in this country. In the last few months, however, Center Accord has been downsliding and recent polls indicate that its electoral chances are not too good. According to Jaroslaw Kaczynski, these polls point to the weakness of all new political parties. Surely there is some truth to this, but Center Accord is now distinctly less popular than the not so long ago politically bankrupt Mazowiecki's party.

Kaczynski's grouping is now paying for having been formed as a kind of alliance of the rejected, a response to the sociopolitical exclusivism of the constituencies which had supported the Mazowiecki administration. To some extent this determines the nature of Center Accord, and to a much greater extent it determines the public's response. In Poland it does not pay to disclose political ambitions too openly.

The first spectacular failure of Center Accord was the fiasco over [the nomination of] attorney Olszewski as prime minister. Center Accord, a party whose leader is considered the most effective Polish politician, found itself in the situation of Mickiewicz's fox who, "already in the farmyard, already ogling the goose," had the bird snatched from its jaws.

The congress held by Center Accord resulted in consolidating its structure as well as its unequivocally Christian-Democratic orientation. At the same time, however, it became the arena of a camouflaged but brutal factional struggle linked to the attempt to eliminate one of the major groupings instrumental in forming Center Accord (the so-called unionist grouping). By taking resolute decisions of a personal nature, Kaczynski saved the party from the crisis threatening it. This strengthened his standing and made him a kind of arbiter acceptable to the quarreling factions. But the whole affair weakened Center Accord and recently other, less significant but equally brutal conflicts have been breaking out in local party chapters.

The congress of Center Accord was accompanied by spectacular expressions of support of this party by Western Christian-Democratic parties. At the same time, however, minor Polish Christian-Democratic groupings have succeeded in surviving, and one of them (the Party of Christian Democrats) has gained a position of significant strength in several Polish regions. These groupings are going to form a confederation and convene a joint Congress of Christian Democracy, and it appears that some Western Christian-Democratic parties intend to acknowledge that congress as an equal partner of Center Accord, which means that the latter has lost its

monopoly on Christian democracy and thus that its ideological identity has become greatly complicated.

Center Accord has lost the battle for the spring elections. A discreet but tangible process of mutual distancing between Center Accord and President Walesa is taking place. This is confusing the potential electorate for Center Accord, that is, those who had, during the first round of elections, voted for Walesa.

Lastly, the surviving remnants of NSZZ [Independent Self-Governing Trade Union] Solidarity and the movement of citizens committees refuse to be crammed into the electoral meat grinder of Center accord. Kaczynski is opposed to a coalition with the ZChN [Christian-National Union], which is viewed as an extreme rightist grouping. Presumably, another reason for his unwillingness is the excessive independence of the ZChN, an organization with a distinct program of action which is certain to refuse being conceptually dominated by Center Accord. As for the National Citizens Committee, on the other hand, it is leaning in the direction of creating a "grand" electoral coalition that would include, in addition to the committee, Center Accord, and Solidarity, small rightist parties and—precisely—the ZChN. This idea is advocated by Professor Kurowski and attorney Jan Olszewski. The recent candidate for prime minister of a Center Accord government is playing a game of his own which may result in another crisis for his party. Any eventual trial of strength is certain to be won by Kaczynski, for his authority within Center Accord is tremendous, but at the same time this would mean weakening the party.

In contrast, Marian Krzaklewski, who beat the brother of the leader of Center Accord to the position of head of NSZZ Solidarity, is clearly wooing the Democratic Union and refuses to let any one political grouping appropriate for itself the Solidarity banner. This places under a question mark the standing of Center Accord as the sole, correct political successor of Solidarity.

* * *

Kaczynski's troubles gratify, for obvious reasons, his political adversaries. It seems, however, that other, more rational thinking is beginning to predominate over last year's feelings of hurt. In the foreseeable future the post-Solidarity camp (of which Center Accord is a significant part) seems to be the sole political force that can keep Poland on the road of reforms. It is in the interest of Center Accord as part of that camp not to eliminate any of the groupings belonging to it, for that would mean enfeebling the whole, since discrete Solidarity groupings may win the support of discrete segments of the electorate. Polls taken so far indicate that, taken as a whole, these groupings have the support of some 50 percent of the voters. Should any one of these groupings sustain too strong a defeat, that would nullify the hopes for forming a cabinet continuing the basic line of the reforms so far.

PC Wants Glapinski To Replace Balcerowicz

LD1006222191 Warsaw PAP in English 1730 GMT
10 Jun 91

[Text] Warsaw, June 10—Leaders of the Center Accord [party] (PC) on Monday said that the present government must change the formula of its operation and win broader public support through reaching agreement with their party, Solidarity, a section of the peasant movement, and getting the support of the church.

"We do not attack the government but want to strengthen it. We cannot wait until the elections, for the situation in the country is very tense," said Jaroslaw Kaczynski, the PC leader who is also head of the president's office.

"The president also perceives this situation and wants to oppose it. As a political party we agree with the president," Kaczynski told a press conference in Warsaw.

Leaders of the Center Accord claimed the current economic situation cannot be continued and therefore corrections anticipating the emerging crisis must be made.

According to Adam Glapinski, deputy chairman of the party and at the same time construction minister in the present cabinet, "it is necessary to depart from strictly monetary policies pursued by Deputy Prime Minister Leszek Balcerowicz and develop mechanisms boosting the demand."

Glapinski also advocated a gradual departure from the much criticised excessive wage tax to be orchestrated with privatization and stronger management in enterprises.

The PC leader denied his party wants broader representation in the government, but said it would propose Adam Glapinski to replace Leszek Balcerowicz should the prime minister be willing to accept the offer.

Asked to comment on the statements made by the Center Accord on the government, spokesman for the president Andrzej Drzycimski said the president's support for the government of Jan Krzysztof Bielecki has not changed but said he did not know the PC statements.

Commenting on the press conference of the Center Accord leaders, government spokesman Andrzej Zarebski said: "The government follows with attention words of criticism and proposals of new solutions including those voiced by the Center Accord whose two representatives in the rank of ministers participate in policy making."

The spokesman opined that press conferences did not seem, however, to be the best form for partnerlike political dialogue.

Andrzej Zarebski also recalled the constitutional obligation of individual ministers to responsibility for the policy of the government as a whole.

Police Refuse To Identify Arms Cache Group

AU1206114391 Warsaw GAZETA WYBORCZA
in Polish 10 Jun 91 p 1

[Article by 'fed': "Criminal Commandos"]

[Text] Warsaw, June 9—Last Thursday the Warsaw police detained a group of people armed with exceptionally dangerous weapons and high-quality communications and surveillance equipment during a wide-range security operation connected with the pope's visit to Warsaw. On Sunday we learned from unofficial sources that the group probably consists of five people—four Soviet citizens and a German. The police refuse to say whether this group is connected with the pope's visit to Poland. The chief of the Office for the Protection of the State [UOP] says that it is a group of criminals.

The group's arsenal comprised a Scorpio automatic pistol and three revolvers (a Smith and Wesson, a Ruger-Police and a special two-barrel revolver). It also included a garrote, a bayonet, handcuffs, a rope ladder, professional communications equipment, and binoculars. The group also used two cars—a Mercedes and a Lada.

Wlodzimierz Bartnicki, acting spokesman for the Warsaw police headquarters, told GAZETA that the criminals were discovered thanks to a very rapid and efficient police raid during which not a single shot was fired.

Asked whether it is true that the detainees are Soviet and German citizens, Bartnicki said: "For the sake of the investigations, we cannot reveal their nationality."

Asked by GAZETA to comment, UOP chief Andrzej Milczanowski confirmed the police information. "The investigations so far have confirmed the criminal character of this group. The UOP is in close touch with the Warsaw police headquarters, which is conducting the investigations. Right now there is no reason why the UOP itself should conduct them."

ROMANIA

Minority Deputy Views RMDSZ's Weaknesses

91BA0654A Bucharest ROMANIAI MAGYAR SZO
in Hungarian 3 May 91 p 1

[Article by Laszlo Zsigmond, deputy of the Democratic Association of Hungarians in Romania: "Viewpoint: How (Not) To Continue"]

[Text] The secret of the power structure's success in retaining power so far can be attributed to a number of factors. Perhaps the most important factor among them is that civil society's interest-representing organizations and the political parties wishing to assert civil society's

values are still in their embryonic form, whereas the power structure has the services of a functioning administration.

Without an administration that is able to function, the slogan "Strength in Unity" is mere demagoguery, because functioning models of the state's structure are based on systems of institutions. The political parties, including the RMDSZ [Democratic Association of Hungarians in Romania], are a part of a system of institutions.

The illness with which the RMDSZ is afflicted is lack of administration. Its symptoms are as follows:

1. The parliamentary faction:

- Does not prepare minutes of its meetings, which would be edifying at least to posterity.
- Does not have an information data base.
- Does not make adequate use of its technical equipment, and the related functions have not been clearly defined.

The harmful effect is that information is transmitted orally, time is wasted, and often the right hand does not know what the left one is doing.

2. The committee:

- Occasionally becomes a forum for reporting personal experience.
- Sometimes confuses the RMDSZ with the party-state, due to the absence of functioning mechanisms ("...let the RMDSZ exert its influence...").
- Is relatively incapable of making decisions.

The harmful effect is that members become increasingly indifferent, and the money spent on committee meetings is wasted.

3. Functions and responsibilities are in utter confusion.

The harmful effects are the same as in the case of the two preceding groups of symptoms. Moreover, external and internal relations are improvised; and the statistical and other data are lacking, on the basis of which the situation of the ethnic Hungarians in Romania could be compared with the program of the RMDSZ.

There are other symptoms as well. What I wished to emphasize, putting it perhaps more sharply in focus, is that it is a waste of effort to keep a car moving uphill without an engine. At the congress, therefore, it will be necessary to think also in terms of persons who could build that engine.

The pragmatic observations made so far are also suitable for drawing further conclusions.

A multiparty system is one of the most important institutional systems in the administration of a state's structure. But today the realization is already gaining ground that a multiparty system does not mean the

division of the citizens' unity of some sort; to the contrary, national unity needs that system of institutions.

Some people consider this idea as heresy, or even outright dangerous. But there is a new situation that raises a question with several alternatives, and does so now:

The coming Constitution will allow only political parties to compete for parliamentary seats. (The organizations of minorities will each be allotted one seat, *ex officio*.)

Therefore, the alternatives are as follows:

1. The RMDSZ transforms itself into a political party;
2. The RMDSZ forms a new party (the same way that Vatra formed the Romanian Unity Alliance; or
3. Running a joint list, the coalition of the (already existing) parties of the ethnic Hungarians in Romania concludes an election agreement with the RMDSZ. In accordance with their ideologies, the candidates that can come into consideration represent the parties on the joint list, without necessarily being party members. The parties will share in the state grants that the next legislature is expected to approve, and they will use their shares to finance the operation of the RMDSZ's administration.

YUGOSLAVIA

Attitudes of Scandinavian Nations Toward Slovenia

91BA0795A Ljubljana DELO in Slovene 3 Jun 91 p 4

[Article by Darijan Kosir: "D. Rupel: Norway and Denmark Most Favorably Inclined Toward Slovenia"—first paragraph is DELO introduction]

[Text] In connection with his Scandinavian tour, the Slovene foreign minister said that some of them were prepared to accept an independent Slovenia.

Ljubljana, 2 Jun—After returning from his Scandinavian tour, Slovene Foreign Minister Dimitrije Rupel, at a press conference on Saturday, summed up his impressions approximately as follows: the visit contributed to informing foreign countries about events in Slovenia and Yugoslavia, and through it, Slovene policy scored some new points abroad, with Norway and Denmark being most favorably inclined toward Slovenia, whereas Sweden is slightly restrained.

All three visits together, however, indicated that there was no serious opposition to Slovene independence. During talks with Danish Foreign Minister Uffe Ellemann Jansen (which was the visit at the highest official level during the entire tour), president of the Danish parliament H. P. Clausen, State Secretary in the Norwegian Foreign Ministry Helgo Hernes (the second-ranking official in the Foreign Ministry), and Icelandic Ambassador Snaevar, who covers Yugoslavia from Sweden

(Slovenia's first official contact with Iceland), it was shown that these countries would accept the Slovene reality emerging after 26 June, although they would perhaps not consider this an ideal solution, or—in their opinion—an absolutely effective one. In this regard, the support from Denmark and Iceland should also be considered as support in principle for peoples' right to self-determination, something that applies both to Slovenia and Croatia, and also to the Baltic states, with which Denmark and Iceland have had good relations for some time. With respect to Norway's position—in addition to the meeting with Hernes, there were also important meetings with vice president of the parliament Kirsti Kolle Groendahl, president of the Norwegian central bank Einar Magnussen, and representatives of the labor, conservative, liberal, and agrarian parties—Dr. Rupel was most satisfied of all, saying that "Norway still understood Slovenia best." In this regard he emphasized that the representatives of all their main parties were prepared to come visit Slovenia, and that the Norwegian central bank was prepared to assist and advise a group of Slovene experts in establishing monetary independence. In fact, during this century Norwegians have already adopted their own currency twice.

In Sweden, as was stated, somewhat more restraint could be sensed on the part of the hosts, which is understandable because of the tens of thousands of Yugoslav workers in that country. In spite of this, during a meeting with the under secretary in the Swedish Foreign Ministry, Oswald, it was demonstrated that otherwise Sweden was not opposed to Slovenia's independence, but that it just had to be achieved peacefully and democratically, "in accordance with the constitution" (i.e., legally, lawfully, and not "by revolution"), and, if possible, through negotiations; in that case international recognition of Slovenia would also be less questionable.

Finally, Dr. Rupel could not—again—bypass the actions of representatives of the Federal Secretariat for Foreign Affairs [ZSZZ] during his visit (ambassadors Kikic in Sweden and Radovanovic in Norway were mentioned, while Ambassador Filipoviceva in Denmark was not mentioned), since through their positions they always act in direct opposition to the most fundamental interests of Slovenia and limit the opportunities to promote it abroad; for this reason Dr. Rupel also has less and less hope in the possibility of a beneficial restructuring of the ZSZZ during the transitional period.

Montenegro Seen Getting Its Own Army

91BA0795B Ljubljana DELO in Slovene 30 May 91 p 3

[Article by Branko Jovic: "Will Montenegro Get Its Own Army Now?"—first paragraph is DELO introduction]

[Text] The president of the Democratic Party says that Montenegro is arming itself in a hurry; Cetnik "orgies"—from our correspondent

Titograd, 29 May—Although two days ago Momir Bulatovic firmly denied a statement by Slobodan Vujosevic, president of the Democratic Party, that Montenegro was arming itself, the latter repeated his claim yesterday and even expanded upon it:

"I still claim that Montenegro is buying weapons, and I think that the Council for National Defense has not denied it either. Mobilization is under way in Montenegro, and it cannot be understood merely as a form of 'routine defensive preparations,' particularly not in the situation that exists in our state. The Montenegrin authorities are concealing the purchase because of the extremely poor economic situation and the fact that more than 80 percent of the funds they have available come from the federation. The arms purchase could jeopardize the receipt of funds, which has already become more difficult. How many of us have to die so the authorities will learn that we have a right to know how they are playing with weapons and the Army, and to oversee that game by democratic means?"

The central topic in Montenegro these days is the arms build-up, especially the smuggling into eastern Bosnia-Herzegovina, which was discovered a few days ago in the vicinity of Bileca. The court in Niksic declared itself to be the only one with jurisdiction over this case, saying that it had happened in its district. The statements by the participants in this smuggling affair, however, are different every day. The contradictory Dusan Kozic, one of the three members of the "crew" of the captured truck, claims in his latest version that they took possession of the boxes from an unknown Albanian somewhere in the vicinity of Niksic. At first he had said that they reloaded the weapons on the road from a certain "big limousine," and later said that they reloaded them from another truck in some woods. In response to a question about whether they knew what was in the boxes and why they were carrying them, he answered that the unknown person had paid the drivers 2,000 [German] marks, and that they thought that the boxes contained whiskey. Later on, when they wanted to try it, they found out that they were transporting rifles, and they reported this to their people in the SDS [Serbian Democratic Party].

The events in Niksic concerning this affair have caused considerable awkwardness here. About 300 people from Trebinje demanded security in Niksic for those arrested, and boasted rather strangely in front of their fellow Montenegrins. Under the leadership of the robust and combative mayor of Trebinje, Bozidar Vucurovic, they sang about Milosevic and the well-known Cetnik Montenegrin, General Pavle Djuriscic: "Slobodan, mountain spirit, your lineage is Montenegrin," and "Djuriscic, young major, commandant of Montenegro." The linkage between the "leader" and the Cetnik general was welcomed by some people, and last night Momir Bulatovic said on local television that he understood the Serbs in Herzegovina (and thus justified their demands for weapons), but that the conduct of the Trebinje group in Niksic was an expression of low political culture.

Goals of Kosovo Albanian Christian Democrats

91BA0761A Zagreb VJESNIK in Serbo-Croatian
18 May 91 p 6

[Interview with Ramush Tahiri, secretary of Albanian Christian Democratic Party, by Nadira Avdic-Vllasi; place and date not given: "Serbs and Albanians: Either War or Talks"—first two paragraphs are VJESNIK introduction]

[Text] Albanians are not destroying Yugoslavia—if it is to be a confederation, they want their own republic, and if it breaks up, they do not want to be left in its "residue"; rather, they are planning for a union with Albania, says the secretary of the party that, although Christian democratic in name, also includes Albanian Muslims.

Pristina—The ever larger and more influential Albanian Christian Democratic Party [ADKS], which already has 130,000 members, is still not registered in Kosovo. We talked about this, as well as about current political events, with Ramush Tahiri, secretary of the ADKS. This 30-year old was one of the most prominent journalists with RILINDJA, and completed his studies at the Department of Political Sciences in Zagreb. He says that he felt it necessary to be active in politics while options and party programs were being formulated, but that in the coming period, when we are facing concrete action, he would prefer to see himself as an independent intellectual. For the time being, he will not be a candidate for the ADKS again in the elections that are scheduled for the end of June.

[Avdic-Vllasi] The Albanian Christian Democratic Party has yet to be legalized, because the Federal Secretariat for Justice has refused to enter it in its registry. Why?

[Tahiri] In the justification, it is alleged that our program is in conflict with Article 2 of the Law on Political Organizations Established on the Territory of the SFRY. It is said that we are declaring the Albanian nationality in Yugoslavia to be a nation that has a right to self-determination, which also includes a right to secede, and that for that reason we cannot be registered. We were informed of this on 28 November 1990. We brought suit against the secretariat before the federal court last year, but thus far we have not received any response. Albanians in Yugoslavia are part of the Albanian nation, regardless of how they are classified constitutionally and legally, and they have an inalienable right as citizens and as a national collective to decide on their own fate and on the fate of the territory in which they live. No one in Yugoslavia can reach decisions in the name of the three million Albanians, nor are they some dowry to be awarded someone in the event of a new division and a new agreement, or in the event of the disintegration of Yugoslavia.

[Avdic-Vllasi] Do you regard the Albanians as a nation?

[Tahiri] The ADKS believes that there are not, nor have there ever been, two Albanian nations. The Albanian nation is one, regardless of which states it lives in. We are the party of the Albanian nation, with our headquarters in Pristina. We will create branches and organizations in all parts of the world where Albanians, as well as others who want to be members, live. Naturally this means in Albania as well.

[Avdic-Vllasi] You do not often appear in public, but nevertheless you have a relatively large number of members and you are more and more active. What sort of activities do you engage in?

[Tahiri] Under these conditions in Kosovo, there is not a single political party that can act completely legally. If we were registered, we would probably do more concrete work, organizing various public speeches, meetings, protests, demonstrations, sending official letters and requesting a response from state institutions, organizing the people for various actions, etc. The Albanians are asking for nothing more and nothing less than the other nations in Yugoslavia and are organizing themselves just like other nations have done. If Yugoslavia becomes a confederation, then we want a republic. Whether it is to be a Kosovo republic within the present-day borders or a Kosovo republic within the historical borders depends on how other nations act. If it comes to the disintegration of Yugoslavia, we will then move towards unification with Albania, respecting the ethnic principle in defining the borders. We will not live in the residue of Yugoslavia.

[Avdic-Vllasi] But how do you plan to achieve this?

[Tahiri] Through political and democratic means, whereby we have indicated in our program that we will defend subjectivity and sovereignty with all means recognized by international norms.

[Avdic-Vllasi] There are seven political parties in Kosovo that comprise Albanians. What sort of mutual cooperation do they have?

[Tahiri] We must fill up the entire spectrum of the national program, and it is good that we have all the parties of the left, center, and right, as the corresponding political force for all possible options and variations. Despite all their specific features, the parties are cooperating, and it is expected that a democratic union of Albanians or a council will be founded (this would include all Albanian bodies—parties, the labor union, and several prominent people).

[Avdic-Vllasi] What are the basic political options?

[Tahiri] Right now, as you have noticed, there is more and more talk about the unification of Albanians, i.e., a union with Albania, and this option has been publicly expressed by all Albanian political parties in Kosovo....

[Avdic-Vllasi] But isn't that too risky? Is that not in conflict with the Helsinki declaration, and won't this mean that you will lose the international support that you currently enjoy?

[Tahiri] This is the option in the event of the disintegration of Yugoslavia, when there are no international guarantees for preserving its territorial integrity and collectiveness. We are not destroying Yugoslavia, but neither will we defend it if it falls apart. In that case, we will found an Albanian state within its ethnic borders, which other nations will probably do as well....

[Avdic-Vllasi] It is usually said that this is an attempt to create a Greater Albania.

[Tahiri] Not a Greater Albania, but rather a normal Albania, which will not extend even one inch into foreign territory. Now that you bring it up, we can talk even today about a Greater Serbia, which includes Kosovo, with a 90 percent Albanian population.

Moreover, the Serbs talk about Kosovo as the cradle of the Serbian nation, as the heart and soul of the Serbian nation, they say that the deed to Serbian Kosovo is in heaven, in the hands of St. Sava, and that the Kosovo Albanians will never be able to get at it.... The historical facts are entirely different: Prior to the 11th century, there were no Slavs in Kosovo, the medieval Serbian state lasted for a very short time and extended as far as the territory of present-day Albania, while the Albanians, as the descendants of the Illyrians, have an uninterrupted history of living in these regions, all the way up to the present day.

[Avdic-Vllasi] What about the Serbian monasteries?

[Tahiri] There were plenty of Catholic and Uniate churches here before them, the ones from the days before the split in the church. The Albanians accepted Christianity back in the first century. We know of a church organization in Dardani, the Dardani bishops who participated in the first general synods. Essentially, there were plenty of churches in this region prior to the arrival of the Slavs. There are indications that some of the Serbian churches and monasteries that have been preserved to this day were built on their foundations. Even the Slavic Serbian kings were Catholics, and there is plenty of documentation supporting this.

[Avdic-Vllasi] That is information that is not well known. But let's get back to the present day. Is armed conflict between Serbs and Albanians likely?

[Tahiri] Albanians and Serbs will either have to talk about Kosovo or wage war over it. We are in favor of talks, and we have demonstrated this over the course of all these years, especially during the terror carried out against us in recent years. We have not responded violently to murder, nor to injuries, mistreatment, the poisoning of schoolchildren, mass arrests, isolation, the loss of Albanian jobs, the closing of schools....

[Avdic-Vllasi] What is the role of Albania here?

[Tahiri] It is certain that in the event of widespread conflict in Kosovo, Albania will have to intervene and that any government in Albania will have to reach a decision about this, primarily because of pressure from the masses, as well as because every "solution" to the Kosovo mess through violence and the annihilation of the population, of Albanians in Kosovo, is also a threat to Albania as a state, and to the Albanian people in general. Indeed, the Albania factor makes the Albanians secure, because in the event of war getting arms will be no problem whatsoever. If the conflict escalates and Albania intervenes, then this will not be a conflict in Kosovo, but rather on the entire territory of Serbia.

[Avdic-Vllasi] How will the Kosovo question be solved then?

[Tahiri] The problem is not, nor has it ever been, the question of whether or not Kosovo will be a republic. The problem is the resolution of the Albanian question in Yugoslavia—completely, in the same way that this problem is resolved for other nations. This does not have to be through, say, a territorial state arrangement; it could also be resolved with the help of some sort of national charter, some document in which national rights and their realization would be accentuated on the level of the country, which would be valid for all nationalities according to the same principle. This would also mean a different arrangement for the political and legal system, in addition to a completely different system for the military and police and a different arrangement of the economic system. The Albanian question in Yugoslavia emerged with the setting of the borders of Albania in 1913, when more than half of the Albanian nation was left living outside its state borders.

[Avdic-Vllasi] What about joining a united Europe?

[Tahiri] This is similar to what I expounded on a little earlier. However, I do not believe that we will be able to join Europe in the initial phase.

[Avdic-Vllasi] So what would be the concrete activity of political parties right now?

[Tahiri] The main task is to see to it that we not go to war, that we apply all means to the struggle against war and conflict. We must enter into talks. This clearly does not mean that those who have committed criminal acts will not be held accountable. Perhaps it will be necessary to establish some sort of Wiesenthal-type institution, so that those who have killed, injured, mistreated, poisoned, plundered, fired workers, taken over their jobs and factories, etc. will not be able to sleep peacefully.

[Avdic-Vllasi] In closing, why are there Muslims in the Christian Democratic Party? Some people say that this is mimicry. Or is this something completely different?

[Tahiri] There are Albanians of the Muslim, Catholic, and Orthodox faith. But never in their history have Albanians waged war based on religion. The Albanian nation respects its religion and has a profound belief in God. Christianity is spoken of as the "old religion." More than 80 percent of the members of the Albanian Christian Democratic Party are of the Muslim faith. In contrast to Catholic institutions, which are founded under the patronage of the church, Christianity is so comprehensive that it is possible to find everyone in it, regardless of what faith they were. We were told this by a high-ranking Catholic dignitary who granted an audience to a delegation from our party immediately after its founding. We support all the principles that we outlined in the party's program, be they political, economic, or spiritual in nature. For example, I, as a Muslim, feel just as comfortable in a mosque as in a church, and I have been in nearly every Catholic church in Kosovo. What is unacceptable to others in connection with religious coexistence is a completely normal phenomenon to us Albanians. This, among other things, shows that we are a people with a future and that we will fit in with trends of European civilization very easily.

HUNGARY

Defense Minister on Military's 'Serious' Plight

91CH0570A Budapest HETI VILAGGAZDASAG
in Hungarian 20 Apr 91 pp 79-82

[Interview with Minister of Defense Lajos Fur by Akos Tomory; place and date not given: "Endless Cycle"—first paragraph is HETI VILAGGAZDASAG introduction]

[Text] The subject of the Hungarian Army is stirring up heated emotions; while the leadership of the Defense Ministry has been trying to downplay the significance of the debate that has come to surround the role of the commander of the army, treating it as a technical matter open to constitutional interpretation, last week's disturbance in Torokbalint has once again made the army the focus of attention. What will or can the ministry do to change the present situation? This was the question we have put to Minister of Defense Lajos Fur.

[Tomory] Constitutional uncertainties, the cutting of several thousands of officers, and the news of the recent disturbances all seem to support those who are talking about a deepening crisis plaguing our armed forces.

[Fur] There are no plans to cut thousands of officers, nor are we facing a crisis; it is a fact, however, that the military is facing a serious situation. Budgetary constraints and the modernization of the military have given rise to rumors even among our professional soldiers about when and how many people the army intends to let go. And, as evidenced by the events in Torokbalint, uncertainties among the officer corps also influence the rank and file.

[Tomory] But it was you who started the whole landslide by talking about dual leadership, having a disproportionately large commanding staff, and legal uncertainties. According to other experts, however, the roles are perfectly clear: In peace time, the ministry controls the army, using budgetary means and statutory provisions with all other decisions belonging to the commander-in-chief.

[Fur] The financial and legislative roles are indeed clear, as is the fact that the use and command of the army are not ministerial functions. Still we must have a precise conceptual definition of controls if we are to have a clear idea about the ministry's scope of responsibilities.

[Tomory] The constitutional amendment defining the role of the president of the republic as commander in chief has been in effect for a year and a half already, and several months have elapsed since the passing of the last amendment to the defense law. How is it that you have only now taken notice of this unresolved legal issue?

[Fur] The reason why this issue has come to the forefront now is because the dissolution of the Warsaw Pact and our economic necessities have made it imperative to

create an effective and modern military structure and to precisely define who is responsible for what.

[Tomory] From what you have said one could conclude that the ministry would like to gain greater influence over the army so that in situations such as the taxi drivers' blockade, for example, the military could also be employed to maintain domestic order.

[Fur] Such assertions are completely groundless. We fully subscribe to the time-tested European practice of leaving the decision over the potential use of the armed forces in the hands of the chief of state and parliament. We would merely like to see a reduction in the number of levels of leadership, and the elimination of duplicate functions among the ministry, the general staff and the army high command. I am a civilian minister, working with a civilian state secretary; what do I know about commanding an army? Precious little. And I hope that my successor, and all future appointees to this post will be civilians.

[Tomory] But as defined today, the responsibilities of the general staff are not the same as those of the high command of the Hungarian Army. Their relationship could be best compared to the relationship between the regimental commander and the chief of staff. Like the regimental chief of staff in a regiment, the general staff, in addition to its coordinating function, also commands combat support units, and is in a coordinate relationship with the main directorates of the other combat arms.

[Fur] Your example is to the point, but the organizational structure is more complex than that. In some cases the relationship between the general staff and the main directorates is indeed coordinate, but there are also instances of subordinate and superordinate relations. The combat arms and branches of service of most European countries are commanded by general staffs, held together by a joint chiefs of staff, the chief of which is also the commander of the Army.

[Tomory] Even if the post of commander of the armed forces were eliminated, this would lead to a loss of not more than four or five people from the current force levels, yet according to some sources, several thousand professional military are about to be cut. In any case, how can we even talk about a reduction in force and restructuring when the country does not even have an accepted military doctrine yet?

[Fur] It is not our intention to send a single professional officer away, only perhaps to reassign him to a different garrison or position. The number of professional military personnel is expected to remain around the current 25,000 level, and in fact that number may even increase. Only among the rank and file will there be significant cuts.

Our defense concept, or at least its draft version, is already in place. The government has already debated a part of it, and has testified before the defense committee of the parliament. Last Monday, the ministerial college

held another meeting attended by the affected top commanders of the army as well as by selected members of the general corps, to discuss the entire draft, including such issues as the relative size and command structure of the various branches of service, positioning of troops, and technical supplies. The draft is scheduled to be taken up again by the government and the defense committee, and it will be the essence of their discussions that will be presented to parliament in May or June. It will be vital, in my opinion, to establish a military organization and structure that later, hopefully within two, three, or perhaps in four years, will enable us to begin the transition toward equipping our forces with modern technology.

What we would like to see in this area, on the one hand, is greater reliance on our domestic industries in augmenting imports from the East, and to the extent it is possible, the introduction into the Hungarian Army of certain Western technologies. As we had never had a weapons industry as such, only factories and plants that also filled military orders, some up to 90 percent of their total production, others only up to 10-20 percent. The collapse of the CEMA markets did not spare these industries either, as evidenced by the example of Videoton which had produced mostly for Soviet export. Another serious problem is that with the shift of Soviet imports to a dollar-cleared basis, we are paying two to three times as much for them this year than we did the year before.

[Tomory] All of this means additional expenditures. Moreover, cutting the rank and file will in itself aggravate costs, in that a professional soldier costs the army more to retain than a rank and file recruit.

[Fur] If today's troop levels can be reduced from 110,000 to 90,000 with cuts in rank and file personnel, according to estimates this will yield a savings of several billions of forints. The moneys thus saved we will then be able to reinvest in the modernization of our forces.

POLAND

Closure of Soviet Army Testing Ground Announced

LD0706195891 Warsaw PAP in English 1819 GMT
7 Jun 91

[Text] Warsaw, June 7—Maciej Nowicki, Polish minister for environment protection, natural resources and forestry has decided to temporarily close-down the Trzebień testing ground, running through Jelenia Góra and Legnica provinces, used by the Soviet Army.

The decision came after the Soviet Army ignored a number of injunctions presented after numerous inspections of the testing ground, especially dealing with fire protection measures, spokesman for the government plenipotentiary for the stationing of Soviet troops in Poland, Colonel Stefan Golebiowski has said.

Over one thousand hectares of forest went in flames in Trzebień last year causing damages worth 28 billion zlotys (about \$2.5 million), while the most recent fire, on June 6, destroyed over 200 hectares of forest, added the spokesman.

Lack of Candidates for Military Schools

91EP0506B Warsaw POLSKA ZBROJNA in Polish
22 Apr 91 p 1

[Interview with Brigadier General J. Ryszard Muszynski, chief of combat training for the Polish Armed Forces, by Stanislaw Lukaszewski; place and date not given: "The Situation Is Far From the Best: Why the Shortage of Applicants for Military Schools?"]

[Text] [Lukaszewski] General, sir, why is there a shortage of applicants for officer and warrant-officer schools?

[Muszynski] This is a complex problem in which social, political, sociological, and economic factors play a role. Viewed differently, there are two aspects to this problem: civilian and military. The civilian factors are rooted in a public climate and conditions discouraging young people from opting for military service. The other aspect is the specific nature of the military itself.

[Lukaszewski] This sounds strange considering that, according to the CBOS [Public Opinion Survey Center], the nation trusts the Armed Forces most, more than it trusts the Catholic Church and Solidarity. Yet we have a shortage of career officer candidates. How do you explain it?

[Muszynski] How the military is viewed is not the same thing as serving in it. Young people are practical; they prefer to avoid the hassle of career service in the military, while at the same time respecting the Army highly. Hence the high social prestige of the military combined with the shortage of officer candidates. Young people do not want to limit their civil liberties by donning the uniform; they do not want to experience the restrictions imposed by military regulations. They associate military service with obedience and punishments. Who would nowadays be willing to accept such obligations? Only those who are genuinely in love with the military profession or have no other, better way out.

[Lukaszewski] Young Polish people are queuing up for passports [as published] in front of foreign embassies. In traveling to the West the young surely are not thinking of the career of a Polish officer. How can they be attracted to the military? How [are we] to encourage them and make them interested?

[Muszynski] You see, I prefer not to judge these young people. In this country housing and jobs are scarce, let alone well-paid jobs. I myself would not try to attract these young people to career military service. It is too late for that. Besides, we are more interested in volunteers. Here, too, two issues have to be distinguished: the material status of the officer and social acceptance. The

latter ensues from the former. Nowadays who can respect a person who receives a low salary, has to wait several years for housing, and commutes to work (to the barracks) on foot?

[Lukaszewski] Who is actually responsible for personnel policy? Who is carrying it out in practice?

[Muszynski] I believe that recruitment policy is not our forte. Actually, no single individual is in charge of it. I personally dislike the words recruitment and selection. But I am digressing. The General Staff of the Polish Army is responsible for recruitment, whereas actually it is the Military Education Section of the Main Administration for Combat Training that should be formulating recruitment policy.

[Lukaszewski] In your opinion, how should that policy be changed?

[Muszynski] Higher officer schools should advertise themselves. Here the strategy should be altered.

[Lukaszewski] The commanding officers of these schools are reluctant to advertise them "too brazenly." Warrant cadets and officer cadets serving as recruiters are made to feel like intruders in their encounters with school youth. At many schools principals close their doors to them. What are you doing about this problem?

[Muszynski] We should advertise ourselves not through recruitment drives but solely by the high level of our curriculums. If officer cadets serving as recruiters are made to feel intruders when visiting secondary schools, that may be a reflection of their own image. And as for the principals of secondary schools, they should be more patriotic. It should also matter to them that not only the most disadvantaged students should apply for admission to higher officer schools. We cannot burden the military alone with responsibility for national defense.

[Lukaszewski] Let me now ask you, sir, about the controversial issue of the comparability of officer-school diplomas to the diplomas granted by civilian institutions of higher education. Do you still believe that a junior artillery lieutenant should have an M.A. degree in geodetic engineering?

[Muszynski] Please, I do not understand this controversy, because I do not see why a junior artillery lieutenant absolutely must also have an M.A. in geodetic engineering, but I do know and firmly believe that such a degree would be useful to him in his life, and in the Army too. True, I aspire toward that comparability of diplomas, but it is not art for art's sake to me. Beyond any doubt I believe that an officer should have a broad background—I repeat, a broad background, not just an educational background.

[Lukaszewski] Some people complain that you are trying too hard and too much in these matters. Actually, a junior lieutenant in the artillery should above all be knowledgeable about artillery. He should know how to train his subordinates. Any departure from professional

training for the sake of some civilian discipline of science would cause that lieutenant to spread himself thin. Don't you agree?

[Muszynski] Then tell me why is it that examiners at the Academy of National Defense complain that our young officers are deficient in, say, the Polish language. They are poorly educated. Their general level of knowledge is insufficient for the level of studies offered at the Academy of National Defense. From this it can be inferred that officers are trained but not educated. Just consider, a "parallel" diploma from a civilian institution of higher education has never harmed any officer. Such a diploma is proof of knowledge gained, a crown of years-long studies. Comparability of diplomas serves to strengthen the professional function of the officer, the military specialist, by providing him with broader and more general knowledge.

[Lukaszewski] Is this how you want to attract the flower of our youth?

[Muszynski] I have no intention of attracting anyone by making spectacular gestures. On the other hand, I am aware that much depends on the attractiveness of our military studies. I am therefore focusing on improving the attractiveness of the curricula. Much yet remains to be done before higher officer schools can attract the flower of our youth. Curriculums and facilities should be upgraded, but the system of selecting faculty at these schools and creating a model of their training also should be improved.

[Lukaszewski] What can you promise young people who are largely undecided on what to do with their lives?

[Muszynski] I can promise them a curriculum and a level of instruction that are getting substantively upgraded all the time. I can also promise them an improved organization and scheduling of life in military schools. That is all for the time being, nothing more. But I also would like to tell the young that an interesting life in an interesting and changing military is awaiting them. A life without the handicaps with which we in the military used to be hobbled. In such a new military service will not be easy either, and there will be much to be done, but it will be a source of great pleasure and bring personal satisfaction.

[Lukaszewski] But, "back to earth," could you describe the situation as regards recruitment to higher officer schools at present? At which of these schools is enrollment the highest and at which the lowest?

[Muszynski] The situation does not look good. The recruitment drive is indeed continuing. But a comparison of the number of vacancies and that of applicants points to a picture that is worse than a year ago. According to the statistics on various military schools as of 10 May 1991 only the commanding officer of the quartermaster school can feel satisfied: in that school there are 171 applicants for 90 vacancies. At the Torun Higher Officers School of Missile Troops and Artillery there are only 20 applicants for 135 vacancies; at the

Koszalin Air Defense Officers School, 15 applicants for 75 vacancies; and at the Wroclaw School of Military Engineering, 48 applicants for 160 vacancies.

At the other military schools also, the ratio of applicants to vacancies is not too good: at the WSOWZ [Higher Mechanized Troop Officers School] there are 200 applicants for 250 vacancies; at the WSOWL [Higher Signal Officers School], 60 applicants for 200 vacancies; and at the Deblin WOSL [Higher Air Force Officers School], 20 applicants for 100 vacancies.

Overall, while the number of vacancies at higher officer schools is 1,160, the number of applicants has totaled 672 at present. And please consider that we have reformed several officer schools, namely: the WOSS [Higher Officers Automotive School], the WSOWPanc [Higher Officers School of the Armored Forces], the WSOWCh [Higher Chemical Warfare Officers School], and the WOP.

[Lukaszewski] What is your opinion of military high schools? And what do you think about the issue of forming a cadet corps?

[Muszynski] I support military high schools—professional ones, as exemplified by the Air Force High School in Deblin. As for the others, my feelings are

ambivalent: there is the conflict between my liking of youth and the dictates of common sense and practicality. I am not sure whether, given the current difficult economic situation in this country and the Army, military high schools might not cost us too much. As for the cadet corps, I myself come from it. I do not view, however, a return to this tradition as greatly warranted: after all, we live in a completely different situation.

[Lukaszewski] What then will the future be like as regards the issue of recruitment? Do you believe that public regard will help in creating conditions favoring the influx of the flower of our youth to military schools?

[Muszynski] I firmly believe that we shall live to see this happen. Then recruitment will be a purely administrative matter. What are the grounds for my optimism? The recent changes in the military have been proceeding in a good direction. And although we will have yet to wait for the economy's influence to become positive, the sympathy of the public for the military cannot remain purely verbal. This sympathy and that liking are bound to give birth to the desire to serve in the military. You will see, a little time will pass and it will no longer be easy to become an officer. At the same time, it will be an honor to be an officer.

[Lukaszewski] Thank you for the interview.

CZECHOSLOVAKIA

Economic Situation, Federal Policy Examined

91CH0560A Prague HOSPODARSKE NOVINY
in Czech 11 Apr 91 pp 9-13

[Unattributed article: "Report on the Economic Situation in the CSFR and Federal Government Economic Policy"]

[Excerpts]

I. Introduction

The first months of the year 1991 have passed and, with them, the first months in which the economy started to function under the new systemic form. Even if this system has not yet become fully established, the main steps of the economic reform on which it is based have already been carried out. The allocation function is gradually shifting to the market and its participants just like in the other developed countries.

It is not likely that anyone has expected it to be an easy job or that the Federal Government has been keeping it a secret. The purpose of the economic reform is not an end in itself through the imposition of hardship on the simple people, on the contrary, it represents the only known method to break off the long-lasting and well camouflaged fall into the chasm of economic rout, backwardness, and poverty; it is the only way to restore the capability of the economy to create real value added. After the long years of the totalitarian experience, the large part of the population realizes this fact intuitively. To the extent that the current period brings about a drop in living standards and social welfare, it is a temporary phenomena—but it is necessary to make it through in order to pay the debts of the past and prevent mortgaging the future generations with a debt overload. [passage omitted]

II. Characteristics of the Current CSFR Economic Situation

1. Main Factors Influencing the Current Situation

In 1990 the CSFR economy was influenced more than ever before by changes elsewhere in the world, primarily in our immediate vicinity. The introduction of economic reform in Poland, the accelerated unification of Germany, the Persian Gulf conflict and, primarily, the worsening economic situation in the USSR, combined to cause not only a loss of significant, established markets, but also to restrict deliveries of basic types of raw materials. For example, instead of the originally contracted 16.6 million tons of crude oil, the USSR delivered 13.3 million tons, 1.3 million tons of which had to be paid for in hard currency. Deliveries of nonferrous metals were 10 percent to 40 percent lower than contracted, depending on the metal in question. The disintegration of the CEMA market also meant the termination of many cooperative relationships with foreign

partners. All of this significantly restructured both the production and export opportunities for Czechoslovak industry, especially its chemical and machine building sectors. Shortfalls in crude oil deliveries and in coal extraction resulted in an estimated loss of 14 billion Czechoslovak korunas [Kcs] in output. Of greater importance for the future of the Czechoslovak economy, though, is the loss of markets. The Federal Government has recognized the need for enterprises to have some time to adapt their production programs to the needs of other markets, and therefore permitted in 1990 additional exports on credit to the USSR. Utilizing the resources tied up in the USSR is problematic, and the Federal Government therefore cannot continue to make loans to cover deliveries to the USSR. Enterprises also did not react fast enough to the loss of markets in the newly unified FRG and in Poland, nor were imports from these two countries restricted. Many regions of the world experienced a decline in economic activity and increased interest rates, which made it more difficult to sell our products on these markets.

Recent months have seen declining sales opportunities for enterprises manufacturing armaments and capital equipment. The Federal Government warned that this would happen on more than one occasion, yet many firms still devoted more attention in the past year to turning their monetary resources into inventories, rather than rethinking their production programs and finding new markets.

The Federal Government is not denying its joint responsibility for the drafting and implementing of economic reform, or for the current state of the Czechoslovak economy. It is exercising its responsibility under conditions that are more complex than anticipated, due to the depth of our internal problems as well as international developments. In a number of instances, though, we have made things more difficult for ourselves through our own actions.

The Federal Government, along with the Republic Governments, has planned and begun to implement economic reform in a situation in which its executive authority over economic processes has been gradually diminishing. Authority has been gradually transferred to the republics, and accountability has been changing because of a continuous restructuring of bureaucracies. This has an impact on the ability of the Federal and Republic Governments to take action. It complicates and slows down decisionmaking processes. At the same time the political aspects of reform demand the attainment of a daily consensus, and the rethinking on the fly of strategy and tactics for influencing the behavior of businesses in markets that are in the process of forming. Arguments about the organization of the nation, about authority, changes in the order in which new laws are implemented, drawn out discussions on new laws, delays in the implementation plan, the fragmentation of managerial structures, the expanding struggle for personal political position and group advantages in the economy, the intensive and growing trend in the press to increase

tensions, to dramatize individual events, to evoke shock and nervousness at any price, all are combining to retard the development of a creative political and economic environment without which further productive work will not be possible at any management level.

The above problems are the more serious because they are occurring while we are in the midst of initiating economic reform involving a transformation process unprecedented in the history of our country.

2. 1990 Performance

Preliminary figures indicate that 1990 economic performance was as follows:

a) Net national income declined by 3.1 percent, while consumed national income increased by 2.2 percent. This imbalance between formation and use was accounted for by increases in inventories as well as in personal and public consumption (a 1.1 percent increase). The decline in national income formation resulted from lower output. Gross industrial production declined by 3.7 percent, construction work by 6.6 percent, freight transportation by 10.9 percent, and gross agricultural output by 3.4 percent.

b) The average level of consumer prices was 10 percent higher in 1990 than in 1989, even though increases in food prices were moderated by a government compensatory allowance beginning on 9 July 1990. In the fourth quarter, which reflects all the price changes implemented in 1990, the overall price level was 18.4 percent higher than the same period in 1989. Increased living costs in 1990 caused a decline of 5.6 percent in the real wages of workers. When the government allowance of Kcs140 is included, real wages in 1990 declined by 3.1 percent. Increases in social and other incomes caused the actual real incomes of the general public to decline by only 1.1 percent.

c) Employment in the government and cooperative sectors declined throughout the year. In comparison with 1989 the number of workers (converted to full time positions) declined by 203,000, or 2.7 percent. Layoffs of excess workers lagged somewhat behind reductions in production, but had begun nevertheless. The number of individual entrepreneurs registered under Law No. 105/1990 increased by 149,000 in the last quarter of the year, to a total of 488,000 as of 31 December 1990. Estimates indicate, however, that only about 25 percent of this number have entrepreneurial activities as their main occupation. The majority of entrepreneurs registered last year did not start any kind of business. The number of unemployed (looking for work) increased rapidly throughout 1990, to a total of 77,000 as of 31 December 1990 (39,400 in the CR and 37,600 in the SR).

d) Imports exceeded exports in constant prices for 1990 by Kcs36.2 billion, which was reflected by a decline of \$1.6 billion in the foreign currency position of the CSFR. This occurred in spite of a devaluation of the koruna that heavily favored exporters (meaning an increase of 36

percent in their profits from foreign trade activity). Marketing difficulties, which were evident in foreign trade deficits and a decline in the foreign currency position of the CSFR do not, however, pose any significant threat to the balance of payments. At year end the gross national debt in hard currency was about \$8.1 billion and about Kcs28 billion in other currencies. Compared with the start of 1990 debt increased by \$0.2 billion and by Kcs3.3 billion in other currencies.

Public budget management for the CSFR as of 31 December 1990 (including additions and surpluses) ended with a treasury surplus of Kcs1.2 billion, a figure that is Kcs10.5 billion higher than in 1989.

The above budgetary management result is not final. It will be refined in the near future to account for other income and expenditures related mainly to the settling of financial arrangements between organizations and the national budgets. It is reasonable to assume that we will come close to the planned target of a surplus of Kcs5.4 billion, which will mean meeting financial policy objectives for 1990.

The currency policy of the central bank was planned to be in accord with financial policy. The increase in bank credits was successfully maintained at a restrictive level. Loans to businesses increased by only Kcs2.4 billion (Kcs1.5 billion in operating loans and Kcs 0.9 billion in investment loans). Businesses used mainly their bank deposits to fund the significant increase in inventories and capital investment, but also forced credits from their customers. Organizations resorted to these measures in part because it was difficult to get loans from banks, and in part due to restrictive financial policy.

The budget objective of a four percent decline in subsidies to businesses from 1989 levels was not met. Subsidy levels were lower than in 1989, however, despite the fact that subsidies were again introduced to allocated resources in the transportation sector (Kcs1 billion) and that resources were given to heavy industry to help convert the arms industry (Kcs1.2 billion).

Our 1990 results are more favorable than those of other countries making the transition to a market economy in a democratic, pluralistic society. Compared with Poland and Hungary the CSFR experienced the least decline in national income and industrial production, has the lowest unemployment rate, and the lowest level of decline of real wages. Both of these countries, to be sure, exported more than they imported, but their gross debt per capita in convertible currencies is much greater.

3. Development in the First Months of 1990

Almost three months have passed since we began to implement fundamental reform measures. On the one hand this is too short a period to be able to draw any detailed conclusions, but on the other hand the initial results are confirming our estimates of the probable evolution of basic national economic figures and the course of the market transformation.

The gradual equilibration of supply and demand is a positive occurrence. While in the past there was a chronic excess of demand over supply, this year shows signs of reversing this situation.

In line with the anticipated impact of growth factors and the expected decline in demand, output has been declining since the start of the year. This is evident mainly in a decline in industrial and construction output and in procurement from agriculture. In January 1991 industry saw a decline in goods production compared with 1990 of 4.3 percent, adjusted for the impact of prices. For January and February the decline compared to the same period last year was 5.8 percent. In construction there was a decline of 23.6 percent for January and a cumulative decline for January and February of 33.1 percent.

Another expected characteristic of the first months of the year has been price increases. After the first shock in January in food prices and then in February for industrial goods, increases have stabilized and some products are even experiencing a moderate decline in price. The prices of some foods have started to decline and price declines are just starting for industrial goods. Compared with December 1990 retail prices increased by 25.8 percent in January and by a total of 34.6 percent in the January/February period. This means that February saw price increases of only 7.0 percent over January levels. Wholesale prices in January rose 24 percent compared with December, then 19.3 percent in February compared with January.

Unemployment has been increasing since the beginning of the year. As of the end of February there were 152,000 registered job applicants, or roughly two percent of the eligible work force. There were 45,500 job openings as of early April. The number of unemployed is double the figure for December. Still, the number of unemployed increased at a slower rate in February than in January. The situation is also much worse in Slovakia than in the Czech Republic. There are twice as many unemployed and fewer available jobs than people unemployed. The number of factories announcing forced vacations or reduced work hours is increasing.

As of mid-March the balance of payments deficit is evolving about the same way as in the previous year. Last year, though, we did not have to pay for crude oil imports in convertible currency, so the developments this year may be considered favorable. As of 15 March the balance of payments deficit was about \$250 million which is a much better figure than we expected. This indicates that we are succeeding in implementing the system of internal koruna convertibility.

The impact of the disintegration of the CEMA market is being felt much more sharply this year than in 1990, largely because of the transition to accounting in hard currencies and at world prices. This has contributed to shortfalls in our exports of an estimated 80 percent for January and February. This is especially evident in

relation to the USSR where we had placed no goods at all for hard currency as of 15 February. The loss of most of our CEMA markets was not offset by finding markets for our goods elsewhere.

In conjunction with price increases and harsh budgetary restrictions domestic demand has declined significantly since the beginning of the year. This is evident especially on the consumer goods market. The physical volume of retail sales for January and February declined by 33.3 percent compared with the same time last year. This decline has occurred because the population has reacted to the uncertain new situation with restrained consumption. There is also a gradual change in the monetary behavior of the man on the street. People are showing greater preferences for investing their money in both real investments (such as privatization) and financial instruments (bonds and other securities, investment funds).

In addition to the demand of the general public there has also been a decline in demand for investment and a shrinking in public sector demand.

The marketing barrier and slow adaptation of enterprises to changing conditions are the main reasons for their insolvency, which at the end of February stood at about Kcs78 billion. The existence of some insolvency can be considered a natural part of the transformation of the economy and as a signal that the reform has begun to have some impact. On the other hand serious business cash flow problems serve to damp economic activity. The government is closely following the situation and has already taken some measures.

Part of the financial problems facing enterprise have been dealt with by the founding of the Consolidation Bank which is assuming loans amounting to Kcs120 billion (30 percent of all operating loans). Businesses will pay below market interest on these loans, and the repayment period in the loans will be stretched out.

The economic development of two and a half months is reflected in public budgets. Since the beginning of the year these have been under severe pressure to allow additional expenditures. The greatest pressure has been on the federal budget, which had to spend an additional Kcs5.6 billion by early March to subsidize prices of coal, gas, and heat after the deadline for increasing their prices was extended. This fact severely complicates both overall objectives in the area of a restrictive financial policy and the attainment of the target budgetary surplus. The overall position of all three budgets in the banking sector were projected to show at the end of the first quarter an improvement of Kcs11 billion over the figures for 31 December 1990. Current developments make clear that we will accomplish this only by implementing extraordinary regulatory measures, some of which have already been instituted.

In addition to price deregulation the most significant step in our reform strategy was the transition to internal koruna convertibility. Results so far have been promising, and show that the initial koruna exchange rate was

set appropriately. Foreign currency reserves are staying at an acceptable level, our debt is increasing within acceptable limits, debt service payments are not threatened, all of which are promising developments for the future.

After 1 January 1991 so-called small privatization was begun. On the entire territory of the CSFR so far roughly 600 businesses have been auctioned. The gross revenues from these sales has been Kcs300 million. The number of auctions is increasing every week. In the near future, both republics have gotten ready for sale several thousand businesses with asking prices of about Kcs2 billion. Based on current developments we can expect that the actual gross revenues from these sales in the next few weeks will be many times higher than this.

The public is devoting much attention to the entry of foreign capital into our economy. The Federal Government is therefore devoting considerable attention to the codification of regulations governing the participation of foreign capital. These regulations apply mainly to firms with foreign capital participation. On 21 March 1991 the Government decided to deregulate fully the formation of these enterprises, provided that the Czechoslovak participant is a private entrepreneurial entity.

The accelerating growth in the number of firms with foreign capital participation is shown by the fact that on 31 December 1989 there were 55 enterprises with foreign capital participation, while one year later there were 1,200. Today, roughly three months later, the number has roughly doubled, to 2,500. For the entire economy of course the most important of these firms are those with base capital of more than Kcs10 million (there are 70 of these). There are already 12 firms with foreign capital participation with more than Kcs100 million of base capital, and three of these firms have base capital in excess of Kcs1 billion. The total base capital of all the new firms with foreign capital participation is roughly Kcs16 billion, half of which is foreign capital.

Our current economic problems are more profoundly evident in Slovakia. This is clear from the unemployment figures, which are almost an entire percentage point higher than nationwide figures. The industrial production price index, which is some 11 percentage points higher in Slovakia, reflects the structure of Slovak industry, its weaker competitiveness, and its relatively poorer revenue picture. Differences in agricultural policies are reflected in procurement price indexes, which are 13 points higher in Slovakia than in the Czech Republic. Slovak industry is also being more heavily affected by the conversion of the arms industry, which was concentrated in this region.

An overall evaluation of developments early this year indicated that economic reform is proceeding basically according to expectations and that none of the critical areas for the market transformation is experiencing uncontrolled or unmanageable development.

In fact, we are already seeing, in addition to the necessary negative aspects of a market transformation expected by economic policy, certain positive developments. These include:

- The successful introduction and functioning of the system of internal koruna convertibility.
- A reduction in the excess of demand over supply.
- An increasing role for the consumer in the market.
- An expanded spectrum of services for the general public.
- Some change in the behavior of enterprises in the direction of improved reaction to market demand and adaptation to competitive costs and pricing.
- An increased role of banks, including the application of market criteria when allocating resources.

III. Federal Government Activities

1. Short Term Government Reform Strategy

As already stated, the government sees no reason to alter its reform strategy, no reason to deviate from the main pillars of radical economic reform, which is evolving in line with the election platforms of the main coalition partners, with government program announcements, and with the economic reform scenario. This overall policy has been developed and refined in subsequent documents which include the national budget for 1991 and major economic laws such as the small and large privatization law, the restitution law, the land law, the price law, the antimonopoly law, the foreign currency law, etc. These documents taken together lay out the space within which we can operate in the near future. The foundations of the government economic reform program remain:

- The rapid and extensive privatization of the Czechoslovak economy based on the effective combination of standard and nonstandard privatization techniques.
- The ongoing deregulation of prices with limited price regulation in necessary instances.
- The accelerated opening of the Czechoslovak economy to the world by expanding the degree of convertibility of the Czechoslovak koruna and by gradually reducing the remaining limitations on the free exchange of goods across our borders.

The role of the government will be to organize these processes, while developing the basic conditions for the activity of independent businesses by completing the passage of essential legislation, building institutions that are still lacking for a market economy, and by implementing a rational macroeconomic regulation policy based on financial and monetary policy.

The government will continue to pursue a policy of limited intervention using appropriately chosen government expenditures to support selected, very limited economic activities. Extensive government intervention: individual "planning" or the control of entire branches or enterprises, the formulation of development or

damping strategies, subsidies or subventions for clearly inefficient products or products with no assured market; are all irrevocably things of the past. The government is not interested in pursuing such policies, and indeed cannot return to them. Unjustified and unrealistic waiting by enterprises for some kind of global resolution to their financial problems are a mistake and will inevitably lead to further economic complications.

Within this clearly and firmly outlined reform program there is clearly opportunity for a wide range of short or medium term maneuvers in economic policy. These would take the form of necessary government reaction to rapidly changing parameters of the economic situation. The Government will be flexible in changing (and currently changes regularly):

- The degree of price regulation, and the products covered by the regulations.
- The level of import surcharges and the goods to which they are applied.
- The inclusion of specific products in one of the four basic sales tax rate categories, based on the market situation and the status of the government budget.
- The availability of subsidies, financial assistance and government guarantees for bank loans, etc..

In this regard the flexibility of economic policy is essential. This does not mean though that there has been any change in the reform strategy or the basic principles of economic policy.

The objectives of the transformation of the economic system remain the same: introducing a market economy based on privatization, price deregulation, and opening the economy. Also still valid are the objectives of medium and long range policy, which remain:

- Stopping current inflation rapidly.
- Minimizing the decline in national product.
- Minimizing unemployment.
- Moderating increases in external indebtedness.

This all implies that it is impossible to change anything in the restrictive character of monetary and financial (budgetary) policy, because only the policy as currently conceived can assure the attainment of economic stability and social calm. The success of this restrictive policy, however, depends on wage and pension policies because excessive growth in wages (and other incomes) would mean that:

- Either we would abandon the restrictive policy and a rapid expansion of the money supply would further worsen inflation.
- Or restrictive policy would be retained at a price of rapidly increasing unemployment.

To the extent that the primary and most serious problem of the current Czechoslovak economy is a deep sales crisis, the government has the responsibility to use its policy to create opportunities for sales of our products and labor all over the world. The government will

continue with a series of treaties on mutual protection and support for investment, strive to win advantageous conditions of access to international markets (tariff conditions, quantity restrictions, etc.), sign additional treaties to prevent double taxation, in short, anything that will help provide normal conditions for the access of Czechoslovak products to international markets. In conjunction with this the Government must take care of creating the necessary infrastructure for export development by offering guarantees, and expanding the systems for insurance and finance.

The Federal Government took the initiative all last year in making contacts at the government level and made a concerted effort to retain effective economic relations with the USSR. The only way to fix things is to continue to talk at all levels (the center, republic, and enterprise), but mainly to restructure industry to be as independent as possible from production that cannot be sold anywhere but in the USSR.

The way out of the current situation is to strengthen the new systemic environment, mainly by having an economic policy that supports adaptation efforts. These efforts must be focused on two main areas. The first is the provision of real assistance to the large enterprises with trademarks known throughout the world and which are the core of Czechoslovak industry. Secondly we need to bring up to the necessary level the performance of small and mid-size businesses that regularly cooperate with the larger firms. These are precisely the firms that in the past created the image of Czechoslovak industry as the producer of technically sophisticated products.

The policy of government support for industrial firms in this stage cannot be too demanding of central resources because some of these resources have already been exhausted. The assistance must be consistent with market mechanisms and cannot replace the allocation function of markets.

We must understand that in contrast to centrally planned economies the government is now not a supervisory entity but one of four relatively independent entities influencing economic development. The other three are the issuing bank, commercial banks, and enterprises. The current division of authority also makes it essential for all Federal Government measures to be negotiated beforehand and coordinated with the Republic Governments. In addition, the CSFR Government is bound by agreements with its partners in the Council for Economic and Social Agreement. The primary principle observed by the government when implementing economic reform and therefore national industrial policy is the principle of cooperation and the exchange of information among all the partners.

In its work, the government will continue to emphasize the formation of a legislative context for economic reform. The passage of certain critical laws by the Federal Assembly has far from exhausted the legislation needed to support the further transformation of the

Czechoslovak economy. The basis for preparing additional reform steps is shifting to the comprehensive restructuring of the Czechoslovak tax system which should be implemented on 1 January 1993. It is assumed that standardizing the conditions for doing business will make it possible to publish a new, uniform commercial code to replace and update the current fragmented legal standards that exist in this area. Of exceptional importance for reform is the passage of laws on community property, a law concerning a business code of conduct, a law on economic failure, laws codifying the functioning of financial markets (concerning banks, savings institutions, the Czechoslovak National Bank, exchanges), etc. These steps by the Federal Government have been prepared in conjunction with the legislative program of the Federal Assembly.

Recently some unclarified points have arisen regarding our relationship with the International Monetary Fund [IMF]. We must remind ourselves of the importance and character of our relations with the IMF. The IMF occupies a role in the world economy that is unique, conditioned by history, the number of member countries, and the role that it plays. It acts in the world like a catalyst, an advocate of a pragmatic approach to solving economic problems of individual countries. Its role is much greater than the amount of the stabilization loans it provides to certain countries. The activity of other international government and supra-governmental institutions, as well as of private banks is heavily influenced by the positions taken by the IMF. It is therefore in our interest to maintain the best possible contacts with this organization.

The relationship of Czechoslovakia to the IMF is one of partnership. The economic policy of the CSFR is in the hands of the Czechoslovak government, with the IMF serving in a strictly advisory role. If the government does not make an attempt to implement any kind of stabilization program, the IMF stands aside and once each year evaluates the economic policy of the country and makes recommendations. If however the government, based on its own economic program, requests a loan it must then commit itself to maintaining certain quantitative criteria that taken together indicate the course of the economic program. This is the case of Czechoslovakia.

In contrast to a number of countries for which the IMF more or less formulates the government program, then convinces the government it is in the best interest of the country, our case is different. The government approached the IMF with a clear program which was then modified during negotiations, with one side winning some points and the other side some points. The disputes were however strictly ones of quantity and quality. As long as the CSFR meets quarterly macroeconomic targets (the money supply in the economy, the relationship of the national budget to the banking system, the status of foreign currency reserves, and overall debt) the IMF will have no disagreement with us, even if we have differing views on certain specific issues. No specific issues related to any specific enterprises or

sectors are part of the agreement with the IMF. Cooperation with the IMF therefore remains an integral part of our economic policy.

2. Basic Areas of Economic Policy

a) Financial Policy

The basic short term financial policy strategy remains a consistent restrictive policy for the national budget, as approved by the Federal Assembly. The government categorically rejects the notion that increased budgetary expenditures is a cure for the various ills of our economy.

On the other hand, the government is anticipating helping to resolve certain financial problems related to economic development. The national budget of the federation contains a reserve of Kcs1.5 billion earmarked for expenditures related to the installation or startup of regulation equipment for heating systems and to deal with the consequences of the conversion of the arms industry. The government budget also participates in compensating for the damages caused by the embargo of Iraq and Kuwait. The consequences of the currency devaluation of last year on organizations involved in foreign trade also must be dealt with.

The government projected that a national budget reserve of Kcs4.5 billion would permit some operating room for the resolution of certain economic development issues in 1991. Unfortunately, the decision to postpone the decision on eliminating price subsidies for coal, gas, and heat not only liquidated this reserve, but caused subsequent tension in the federation budget, which was not planning on subsidizing these prices.

It will therefore be essential when analyzing the government budget in late April and early May to evaluate the extent to which recent developments in budgetary management correspond to the basic objectives of economic policy and make decisions if necessary concerning additional measures.

The government informed the Federal Assembly of the results of this analysis. The results will also be a topic for discussion with the IMF. The analysis, however, should in no sense be understood as the first step to a softening of financial policy. We cannot back off from a restrictive financial policy if we want to successfully reform the economy.

b) Price and Antimonopoly Policy

On 1 January 1991 a new price law took effect, which allowed us to move from a system of centrally established prices to one in which the basic principle of price formation is agreement between seller and buyer. In the context of implementing a system based on deregulated prices the role of price regulation has remained fairly important. This represents an attempt (at least for now) to simulate those functions that operate automatically in a mature market economy. This strategy is based on the principle that it is necessary for the time being to

regulate prices, especially in primary production (metallurgy, agriculture, domestic mining industry), as well as to limit price increases in the area of the basic necessities (a social consideration). In other areas, which occupy the space between primary output and final production, and for domestic prices of imported goods and raw materials, greater latitude is allowed for price movement. The price law in this area restricts excessive price increases mainly for those producers and suppliers who enjoy a monopoly position.

Despite many dissenting views, criticism, and even protests addressed to the Ministry of Finance as the implementor of price policy the current status of price deregulation can be said to be basically in line with anticipated trends. This confirms the correctness of the approach, which did not postpone price deregulation until after the completion of economic privatization, i.e. until fairly far into the future. At the same time its impact on a number of areas in the behavior of economic entities, mainly consumers, appears to be effective. Just as importantly, there has also been a shift in the behavior of producers, especially small businesses. Deregulated prices have also stimulated trade and the process of so-called small privatization.

A fundamental objective of price regulation was to moderate the impact of the first price shock resulting from the transformation of foreign prices (especially of raw materials and fuels) to domestic prices using exchange rates. Regulation is also designed to deal with a possible lack of ability by suppliers to react to the new price formation environment. The final reason was clear in the initial weeks of this year, especially in the behavior of business, where price regulation reacted fairly flexibly to the fact that business markups were regulated, especially for socially sensitive products. On the whole one can state that the originally established regulation limits fulfilled their purpose. Currently, in order to strengthen or reduce price regulations some modifications are being made in the original range of products, which included the list of goods with regulated prices.

Now, as prices on the domestic market begin to stabilize, it is necessary to gradually implement a number of measures to reinforce the so-called systemic adjustments to prices that began during 1990. At the same time another stage in pricing policy begins.

In retail prices the problem remains of introducing higher prices for fuels (gas, coal) and heat supplied to the population. Subsidies in this area have to be eliminated. These subsidies have an annual impact on expenditures by the population of Kcs18 billion. Eliminating the subsidies amounts to increasing retail prices by 4.7 percent. This price shock will be moderated by compensatory allowances. Consideration is also being given to keeping the subsidies for heat generated by plants burning enriched fuels. The adjusted prices are to be put in place as of 1 May 1991.

Over the longer term plans call for reevaluating pricing policy for power resources. Over the short term we have to proceed very carefully though to avoid price increases for energy inputs that might threaten operations for some enterprises, while starting an undesirable inflation spiral. For this reason plans call for increasing wholesale electricity prices by 80 percent as of 1 April 1991 and solid fuel prices by 25 percent as of 1 June 1991.

A fundamental short term objective of pricing policy is to moderate inflationary pressures, thereby supporting restrictive financial and monetary policies. It is therefore essential that price regulations be applied uniformly throughout the country so that conflicting regulations are not issued on either a republic or local level.

In view of the overall market situation and the gradual opening up of the apartment market, the government is beginning to implement the first phase of a rental adjustment program.

The impact of the antimonopoly policy has been affected by the passage by the Federal Assembly of a law protecting economic competition on 30 January 1991, after a six month delay. Only after this law was passed could offices for economic competition begin to function. These include the Federal Office for Economic Competition and the Slovak Antimonopoly Office, which was set up in October 1990 by the Slovak National Council. No Czech Office for Economic Competition has yet been established.

The role of office to protect economic competition in countries with a mature market economy is to prevent the formation of cartels, collusive arrangements, and cases of monopoly and dominant market positions. Given the conditions of the Czechoslovak economy, which has been built on the principle of a monopoly position for government enterprises, these offices will take a combined approach, namely on the one hand evaluating existing cartels, collusive situations, and monopoly and dominant positions in terms of the goals of the passed law.

Currently the Federal Office for Economic Competition, among other issues, is studying the approach of the Barum firm to the market as well as the relationships between Skoda Mlada Boleslav and its subcontractors, and the impact of the position of these organizations on price levels.

In Section 21 of the law to protect economic competition the responsibility is placed on business entities to report instances to which the law is related (cartels, collusion, monopolies and dominant positions) within three months of the passage of the law (by 31 May 1991). The penalty for failure to fulfill these responsibilities can be a fine up to five percent of sales revenues for the last fiscal year, levied by the Office for Economic Competition.

c) Tax Policy

The CSFR Government is currently drafting an important economic reform step, a reform of the tax system. The objective is to create a tax system for a market economy, one comparable to the one of the European Community. The system was outlined by the government last year, with the objective of implementing the new system by 1 January 1993. Resolving the specific issues of the new system is very complicated even though it makes liberal use of foreign experiences. The current status of work on the proposed principle for the tax law indicate that this may be possible, even though work has been slowed by authority issues stemming mainly from a proposal of SR officials that would limit the direct impact of the tax laws passed by the Federal Assembly on taxpayers. This cannot be allowed for basic taxes, because not only would they not comply with Article 12, Paragraph 2 of the constitutional law on the Czechoslovak Federation, they would also not meet the need for uniformity in the basic laws for direct taxation of the incomes of enterprises, organizations, and individuals or indirect taxation, i.e. sales taxes. An acceptable consensus on this issue is being sought, and for this reason work is being held up to some extent. Nevertheless plans call for the gradual submission of the proposed tax laws to the Federal Government as early as 30 April 1991, under a plan for legislative work by the CSFR Government. The Ministries of Finance of the republics have drafted proposed taxation principles for each republic. Delays have developed in drafting national council legal principles for tax administration and the administration of taxation and payment matters essential for a tax administration.

Regarding the structure of taxes, the draft laws reflect the tax systems of economically developed countries. Plans call for a reduction in so-called tax level (the ratio of tax revenue to gross national product) by a minimum of 5 to 10 percentage points. The introduction of a value added tax on 1 January 1993 will be an important change.

Important measures implemented at the close of 1990 include the standardization of the transfer rates from profits to the government budget and income tax at 55 percent (the agricultural tax remains at 50 percent). We cannot afford to give in to pressure to further reduce the rates for transfers and taxes on profits in either 1991 or 1992, because any reduction in taxes will require additional restrictions on government budget expenditures. Until 1 January 1993, then, the government does not anticipate any major legal changes in current transfer and tax rates.

The Federal Government will place emphasis on maintaining the current approach to the implementation of tax reform, to allow sufficient time for its implementation. Experiences show that the implementation of such laws requires at least six months.

A flexible and effective tax administration is an essential condition for any future tax system and governing mechanism. The legal and organizational groundwork has been laid for this part of government administration. Based on a Czech National Council law, 218 financial offices and 8 financial directorates were set up in the Czech Republic, and 145 offices and 4 directorates were set up in the Slovak Republic based on a Slovak National Council Law. Currently these are only the foundations. They are not providing any improvement in tax administration. There are inadequate numbers of trained workers in these offices and they do not have enough computer equipment to meet their needs. A good tax administration strengthens and improves the legal consciousness of citizens. Citizens must feel that no one can steal from the government without being punished, including themselves. The government therefore considers it important to improve matters significantly in this sector right away. It is finding out that the establishment of these offices, which are intended to have an immediate impact, is proceeding too slowly in both republics. The government believes that it is winning support in this area from both bodies of the Federal Assembly, and that offices in both republics will take the necessary measures including the allocation of the necessary resources. The republic governments and ministries of finance should substantially speed up the startup of activities of new financial offices in regions and other places. The first task, which is the stress test, is the successful measurement and collection of income taxes from the population for 1990 and improved inspection of enterprises and organizations to monitor the payment of transfers and taxes in 1991.

d) Privatization Progress

The government is aware that institutional changes, including changes in and the precise measurement of ownership of capital assets, is one of the most important aspects of long term economic reform. Based on the restitution and privatization laws passed by the Federal Assembly, on 15 March 1991 the CSFR Financial Council discussed Federal Ministry of Finance materials covering the first version of the basic principles for implementing large privatization.

These principles combine the application of standard privatization techniques and so-called coupon privatization. Based on these principles, roughly 400-600 current government enterprises or corporations will be selected for privatization in well known ways that have proven successful elsewhere in the world, i.e. by direct sale or sale of the property participation by the Government. The offer will be made either through a public competition or public auction. Maximum use will be made of brokerage services by domestic and foreign advisory organizations.

Experiences with privatization elsewhere in the world have convinced the government that the entire volume of government property cannot be sold into private

ownership in a short enough time to allow the use of only standard privatization methods.

From its initial days, therefore, the government has been looking for ways to speed up the process. The FMF in conjunction with republic ministries for privatization and other government offices are preparing an extensive project to privatize large groups of government enterprises using investment coupons. The basic principles are already in place for using the coupons, as are ideas for the computer equipment needed, the costs involved and how they will be financed.

These discussions by the CSFR Financial Council served as the basis for the first work schedule, according to which the distribution and sale of the investment coupons should begin by September of this year. The sale of stock in the privatized corporations for investment coupons is planned for the January-February 1992 time frame.

The standard privatization process has already begun and is under the full control of republic offices.

The Federal Ministry of Finance, in cooperation with the appropriate republic offices, has already started the formation of four working groups to speed up the formulation of details concerning:

- Selection of enterprises and corporations appropriate for alternate forms of privatization, including privatization through investment coupons (administration has been entrusted to the Czech Ministry for Privatization).
- The definition of different types of investment coupons, especially with regard to their use for purposes of financial restitution under the law on extralegal rehabilitation (administration has been entrusted to the Slovak Ministry for Privatization).
- The issuing and use of investment coupons (administration has been entrusted to the Federal Ministry of Finance).
- Basic capital privatization funds, that will be used to fund the privatization effort (administration has been entrusted to the Federal Ministry of Finance and the National Bank).

The work of these four groups has already started and positive groundwork has been laid to allow us to meet the very strict deadlines contained in the laws on extralegal rehabilitation and on the transfer of government property to other individuals. The Government considers it especially positive, with regard to privatization, that both the Economic Council and Financial Council are successfully resolving all potential jurisdictional issues between the Federation and the Republics.

e) Currency and Banking Policy

The restrictive monetary policy of the central bank is an important part of the government economic reform program. The slowing of price increases and the overall smoothness of the implementation of internal koruna

convertibility indicates that policy in these areas was chosen correctly. The assumption at the same time is that the individual parameters in this policy are not fixed, and will be adjusted to optimize the impact of the policy, i.e. prevent an inflationary influx of money into the economy, while at the same time avoiding too severe an economic recession. If the situation in foreign currency and the price area continue along current lines we can consider some reduction in interest rates, and perhaps some relaxing of the payment conditions for imports.

The effectiveness of monetary policy depends to a large extent on how the banking sector converts the macroeconomic monetary guidelines into microeconomic conditions. Many measures have been prepared in this area with the objective of increasing competition in banking, increasing the supply of banking services, and eliminating inflexibility and obsolete ways of dealing with clients.

Relationships between the central bank and commercial banks are being improved. The main innovation is that access to liquidity is being improved by making available several types of refinancing credits. In March provisional daily accounting of daily bank positions was introduced at the Czechoslovak National Bank [SBCS]. This, in conjunction with the establishment of clearing centers, constitute the basic conditions for the development of an interbank money market.

The low level of competition in the Czechoslovak banking system is being resolved by the establishment of new domestic banks, by allowing foreign banks to gradually expand their operations here, and last but not least by deregulating the access of enterprises to foreign credits.

Six banks form the current foundation of Czechoslovak banking. These large banks account for most of our banking activity and the image of our banking system. The SBCS, in conjunction with the World Bank, is preparing an in depth audit of the management and efficiency of operations of these banks. This audit will be the starting point for a project to modernize our banking system. This program will include privatization, and will have as an objective bringing the critical banks as fast as possible to standard levels of European sophistication.

f) Ecology Policy

Serious ecological problems persist in a number of areas of our country. They are the result of serious disruption of all components of the environment in recent decades, significant economic inertia caused by the difficulty and costliness of necessary replacement of obsolete equipment and production programs, and frequently also the ongoing waste of raw materials and energy, profligate regional management and indifference to nature.

The basis of the Federal Government ecology program is an effort to integrate ecological considerations into the overall social development strategy. First, we are

building as fast as possible a basic legal framework governing the interaction of all entities with the environment, in conjunction with the standards in place in the European Community. In the near future we plan to submit Federal Assembly draft laws on waste, air quality, and the environment. For the first time in history we are building, along with the governments of both republics, a comprehensive system of institutions concerned with the environment. We are also jointly developing a national program of environmental protection which is aimed not only at eliminating current pollution sources, but mainly at preventive measures related to the installation of low waste, recyclable, and other ecologically responsible technologies, the production of products with improved ecological properties, and ecologically more appropriate forms of management. We are supporting the development of ecological training and education, as well as volunteer organizations working to protect the environment. Ecological viewpoints are taken into account when drafting additional economic reform steps and especially in the new tax system and credit policies.

g) Structural Policy

Under current conditions of market formation structural policy at the federal level is focused on dealing with selected problems of power generation and raw materials policy, supporting infrastructure development, implementing pro-export measures and supporting the conversion of the arms industry.

The government is proceeding based on the necessity for a uniform resolution of critical tasks in the energy policy for the entire CSFR in close cooperation with the republic governments. Therefore the document "Principles of a CSFR Energy Policy" is being drafted in close consultation with the republic governments. This document is intended formulate policy for reducing energy consumption in all areas of the economy and for integrating the power grid with the EC countries and other nations.

To support the proposed price measures in the area of fuels and power, the government has approved the document "Principles of Government Participation in the Reduction of Fuel and Power Consumption in Residential Buildings and Apartments", and allocated Kcs500 million from federal resources to support related conservation programs in the republics.

Responsibility for the predetermined formation of federally important structural programs are currently concentrated in the area of arms industry conversion. After evaluating the marketing activities in the area of arms production and estimating the costs of a conversion to civilian products, the Federal Government will establish the level of its participation in the conversion process at the republic level. Generally, plans call for the financial covering of the costs of conversion from special purpose reserves of the federal budget.

In the near future the government will determine how much of the capacity of the Czechoslovak arms industry must be retained to defend the country. Once this is established an independent fund for special equipment will be augmented with Kcs500 million from the federal budget. The government has no objection if some of the equipment included in this special fund is exported to politically acceptable countries.

In the interest of supporting businesses and moderating the impact of extraordinary losses from ongoing business involvements committed to in the context of credit based export trade, the government is considering the support of selected exports, in the form of compensating exporters for interest rate differences to a total amount of Kcs500 million allocated from federal budget reserves.

Taken together these activities will allocate special purpose budget reserves of the federal government to structural changes in these areas:

- Kcs500 million to implement the principles of government participation in reducing fuel and energy consumption in residential buildings and apartments.
- Kcs500 million to subsidize an independent fund for special equipment in the context of "Measures to Retain Capacity of the Czechoslovak Arms Industry Adequate To Maintain National Defense."
- Kcs500 million to support pro-export measures under "Basic Conditions For the Maintenance and Further Development of Exports."
- Maximum of Kcs1.5 billion to support structural projects related to arms industry conversion.

In agriculture the Federal Government, even after passing jurisdiction over critical areas to the republics, continues to deal with a large number of problems, such as guaranteed prices for selected agricultural products, the functioning of the market regulation fund, the restructuring of livestock raising, including issues of the overvaluation of the base herd at the expense of base capital, etc.

In the formulation and application of government industrial policy, the Federal Government, in conjunction with the republic governments expects that:

- Individual enterprises and cooperatives will develop their own programs based mainly on stopping the production of items for which no market exists, increasing the production of items for which there is a ready market, proposing credit worthy projects that can be submitted for funding to domestic or foreign commercial banks, developing internal plans to reduce cash flow problems and debt, and negotiating the participation of foreign capital in operations.
- The new possibilities offered by the availability of stocks, bonds, letters of credit, and banker's acceptances will be used to deal with the financial difficulties of enterprises.

- Enterprises will approach the appropriate sectors when they have identified foreign partners and wish, along with government representatives to complete preparations for contracts regarding the entry of foreign capital into the enterprise, or when they want to obtain government support for their program (for example in the form of government guarantees for credits granted by monetary institutions).

A strategy for the accelerated development of communications is ready for discussion in the republic governments and then by the Federal Government. The strategy is presented in the context of improving national information systems and government communications policy. Programs for structural changes have been developed in the area of the digitalization of the telecommunications network, the development of a public data network and radiotelephones. A postal bank opens for business on 1 April 1991.

In railway transportation the government has signed a contract with the CSD for 1991 that incorporates fundamentally new approaches to railway transportation management. One of the most important measures is the separation of the infrastructure from operations, a principle formulated in the proposed principles of government transportation management. This basic material will be discussed in the near future in the CSFR Government.

The government is developing support for small and mid-size business in the form of tax advantages, accelerated depreciation of capital assets, deregulation of foreign trade activities, simplified regulations on wage growth, etc. This process will be further helped by legislative measures such as the proposed business council, commercial code, updated civil code, a civil criminal code, as well as the initiation of activities by antimonopoly, business, and financial offices. Along with support for private enterprise the government is also moving to limit speculation with existing material and intellectual property (information) belonging to enterprises.

The profile of structural changes is also being strongly influenced by foreign assistance. These are programs, funds, and special purpose credits over which federal offices assume coordination duties.

The PHARE is an EC program of assistance to East European countries. It involves mainly technical assistance in the form of graduate fellowships, consulting services, design studies, seminars, and the like. For 1991 these programs are valued at about 100 million European Currency Units [ECU].

The U.S. Government has assisted the CSFR private sector by establishing the American Entrepreneurial Fund in the amount of about \$60 million, earmarked to support the development of small and mid-size businesses. It is expected that some \$5 million from this fund will be used in 1991.

Discussions with the World Bank are focusing on three forms of economic assistance:

- Financial and technical help for the privatization process and restructuring of the national economy. This involves the financing of structural and privatization studies and projects, paying for expert assistance, graduate fellowships, demonstration projects, etc. So far, about \$60 million will be available for these efforts.
- Support for economic reform especially in terms of external equilibrium (internal convertibility, balance of payments, koruna exchange rate), in the amount of some \$200-250 million.
- Financing of capital projects in the areas of power generation and the environment, in the amount of \$500 million for 1991 (this is conditional on the adoption of certain measures in domestic energy prices).

In addition discussions are proceeding on economic and financial assistance from European banks for economic cooperation, and with other multinational institutions, as well as with government and nongovernment institutions abroad on a bilateral basis. Already in place and active in this area are operations financed by the British Know How fund.

h) Foreign Trade

Pressure from business to continue trading with the USSR, efforts to maintain employment, and the erroneous assumption that Soviet problems will be only temporary resulted in the granting by the former government in 1989 of a credit to the Soviets of two billion convertible rubles. The scope of Czechoslovak exports, reduction in Soviet imports, declining fuel prices in 1989 and 1990 not only exhausted this credit, but created a balance of an additional 1.8 billion convertible rubles on the Czechoslovak side. Clearly, Czechoslovak exports to the USSR in recent years have been maintained at a level requested by production firms only by providing credits. The state of our economy clearly does not allow us to continue with this kind of credit policy.

Because it was clear that the shift to payment in hard currency would cause a significant drop in trade mainly because Soviet firms do not have, and will not have in the near future access to enough hard currency resources, during 1990 we signed with the USSR an intergovernmental agreement concerning the transition to the new business conditions. This agreement:

- Announces the transition to hard currency payments, world prices, and worldwide terms of trade.
- Enables mutual accounting for selected lists of goods.
- Confirms the possibility for barter transactions among firms.
- Allows and supports the possibility of similar agreements between the CSFR and individual Union Republics of the USSR, as well as between the CR, SR, and individual Union Republics or regions.

In addition, a 1991 trade agreement was signed with the USSR, which included mutually binding lists of goods representing about 30 percent of 1990 trade volume. A

payments agreement was also signed at the federal level that resolved among other things the way the Czechoslovak positive balance will be calculated in the USSR and how it will be accounted for. The Soviet side, however, refused to include in the goods list a number of machine tools and consumer goods that it needs for its domestic market.

This shows that the top priority of the USSR is to improve its own balance of payments in hard currencies even at the price of causing domestic economic difficulties and abrogating prior agreements. This is also clearly the reason that the Soviet side, despite extraordinary pressure from us, refused to include in the list mutually binding components to complete deliveries under existing contracts for turnkey capital projects with long delivery schedules. Negotiations are continuing on these matters.

For this reason the Federal Ministry of Foreign Trade and the Federal Economics Ministry, along with appropriate ministries of the CR and SR Governments, have opened discussions with critical union republics. The appropriate business agreements with the republics are currently for the most part ready to be signed. Significant delays have resulted from uncertainties related to the actual jurisdiction of these republics over their raw material resources and therefore whether they can assure their counter deliveries.

New intergovernmental agreements have been signed regarding trade and payments in hard currency beginning in 1991 with all the East European countries except Romania. Trade under these new conditions, however, is not developing well because of a lack of foreign currency, internal financial resources, and guarantees of payment.

The FMZO is trying to arrange for alternative forms of accounting for trade (barter, compensation, etc.) to accelerate improvements in the current situation. These alternative forms would coexist with deals in hard currency especially in the initial stages of the transition.

The Federal Government is devoting considerable attention to the formation of conditions for penetrating new markets for our exports that would allow us to replace the substantially reduced exports to CEMA countries in addition to substantially increasing exports.

Europe will remain our critical market in the future. Therefore the Association Agreement with the EC is especially important for us, and especially its provisions for the establishment of free trade zones. The gradual elimination of obstacles to trade in the customs area, in quantity restrictions on our manufacturers, and various administrative barriers will allow our businessmen to find additional opportunities for sales of their products, provided they can compete economically and in terms of quality in the new market.

The FMZO is involved in intensive negotiations with the European Free Trade Association [ESVO] concerning

the creation of free trade zones based on the so-called Goteberg declaration between the ESVO and the CSFR in June 1990.

In bilateral and multilateral discussions with EC countries we have succeeded in negotiating a general system of preferences, applicable as of 1 January 1991 that will allow the duty free access of most Czechoslovak goods to that market. The government is paying just as much attention, because of the fundamental change in political ties with that country, to the opening of one of the largest markets for our exports and imports. On 17 November of last year a new trade agreement with the United States took effect. It includes most favored nation status for the CSFR, meaning a significant reduction in tariff rates on Czechoslovak imports and improved conditions for Czechoslovak exporters. We have also requested the US Government to include the CSFR in the system of customs preferences, the GSP [expansion unknown] that will mean a further reduction in tariff rates and more export opportunities.

Our main interest in third world countries is concentrated in India, Iran, Pakistan, and Indonesia, where the potential exists, based on ongoing negotiations, for exports of machine tools, provided we can obtain smooth payment for these exports with needed raw materials. Similar possibilities exist for trade with Algeria, Egypt, and Turkey.

A new trade agreement was concluded with South Korea in October 1990, and agreements are awaiting signatures with Israel, the United Arab Emirates, and mainly Saudi Arabia, which can become the largest market on the Arabian peninsula. New possibilities have been opened by FMZO talks with Venezuela, Brazil, and Argentina. Finally, negotiations with the South African Republic have been successful. A trade agreement has been negotiated and this market opened to CSFR business representation. The South African Republic can provide almost all raw materials that we have in short supply and is interested in most of the products we have to offer.

The deregulation of foreign trade is an important part of our economic reform, because a truly competitive environment is an essential precondition for optimizing sales and supply routes with foreign customers based on market criteria and developing business activity.

On the other hand it is clear that a transition from a monopoly by a small number of government foreign trade enterprises controlled from the center by directives, i.e. the Ministry of Foreign Trade, to a deregulated market environment with a large number of independent businesses cannot be implemented immediately with a single legal act.

Therefore, during 1990 a number of steps were taken aimed at introducing competitive relations between previously monopolistic foreign trade enterprises, and mainly to deregulate access by Czechoslovak businesses

to foreign trade opportunities. The result was a significant increase in the number of businesses and businessmen that obtained permission for these activities from 400 in early 1990 to more than 5,000 in early 1991.

As of 1 February 1991, based on FMZO Decree No. 27/1991 all Czechoslovak businesses entered in the enterprise register are automatically allowed to conduct foreign trade. The only exceptions, for which permission will still have to be granted, is a limited number of goods specified in Government Ordinance No. 256/1990. A new law on foreign trade which has been drafted and is now before the republic Governments, will represent another deregulation step.

In conjunction with steps leading to the opening of our economy to the world and increasing travel, essential changes have been made in the structure of the customs service to both speed up customs checks (new entries, preparations for changing to the ES uniform customs form, agreements with foreign customs services, "green" and "red" stripes), as well as necessary safeguards against fraud and smuggling (customs presence at "green" boundaries).

It appears that the objective of completely deregulating Czechoslovak foreign trade by the middle of this year will be accomplished. The Government will assert national interests in this area as well mainly on the basis of generally applicable laws, economic regulations, and a system to support exports.

Summary

The government has attempted to present a realistic report on the state of the economy and progress of its economic reforms. Despite all the unfavorable factors and risks, the Federal Government is convinced that the situation can be handled successfully even in this complicated transitional phase. We are also convinced that over the next two years we can expect an improvement in economic performance, an improving standard of living, and the gradual inclusion of the republics into the development stream of the mature sectors of the world economy.

The first condition for meeting these projections is not to waver in the continuation of economic reform, in both its systemic steps and macroeconomic measures. We could make no more serious mistake than to submit to the illusion that the problematic temporary softening of conditions and postponements is better than consistent pressure to return amongst the developed economies, to true systemic and performance improvements.

The second condition is flexibility in economic policy. If on the one hand the Federal government cannot afford to back away from the main systemic steps needed to build a modern, open, market economy, it also must react flexibly in individual economic decisions to the development of performance and equilibrium in our economy. We have done this so far. In this regard we must state openly that in the interest of maintaining

economic stability we consider it necessary to again voice our support for the General Agreement With Social Partners.

For the Federal Government to be able to act flexibly it requires the effective cooperation of everyone involved either directly or indirectly in the formation of economic policy. In a democratic society economic policy formation is not easy because it must be based on dialog. It can come out of conflict, but it is much better if it comes out of consensus. In any event its foundation is a mutual understanding of the partners who are aware of all aspects of the related problems and their potential solutions. The very structure of a central government and its method of working allows it to see interrelationships between problems more easily than any other entity. This also implies that it bears a greater responsibility for doing so. The responsibility of the other partners in economic policy negotiations is to comprehend the wider picture and build on it rapidly and systematically. Nor in this regard should we overlook the positive experiences from negotiations of certain measures in the Economics Council, the Financial Council, and the Council for Economic and Social Agreement.

It should be stated openly that the current system of executive power in the CSFR is not appropriate for conducting flexible policy, and frequently divides the conceptual level from the implementation level. It sets up at the same time a rigid decisionmaking mechanism which we are trying to overcome frequently through informal cooperation along vertical lines. The Federal Government, however, which must take the lead responsibility for the operation of a uniform economy and for the implementation of reform, consistently limits possibilities for the rapid practical implementation of this reform. To complicate matters, the drawn out building of this system of responsibility at a critical period for the preparation of reforms in recent months has been the priority activity of the republic governments. This has to a large extent distracted the attention of the Federal Government from vitally important national economic issues.

We consider it necessary to remind people that the current codification of authority has been discussed and passed by legislative bodies that bear joint responsibility for the concurrent vitality of economic policy and the feasibility of the reform strategy. An awareness of this shared responsibility for the day to day operation of our society should be present constantly during all work on legal matters at the Federal Assembly.

We must constantly keep in mind that the transition to a democratic society involves a radical change in the roles of the main government offices and the representatives of interest groups in the society. The greater the actual content of the new identity of these offices, the greater the joint responsibility connected with them. In the final analysis the issue is always the political and moral joint

responsibility, and the magnitude of this responsibility at this critical juncture in our modern history is exceptionally large.

Anomalies of Privatization Discussed

*91CH0634B Prague HOSPODARSKE NOVINY
in Czech 8 May 91 p 1*

[Article by Aram Simonian: "Morituri Abundant—The Unthought-Through Ending of State Businesses"—first paragraph is HOSPODARSKE NOVINY introduction]

[Text] Without decontrolling prices, it was not possible to fight against all deformations in our economy and to turn on the market mechanism to eliminate them. In an organizationally unprepared business establishment on the threshold of small privatization, however, price liberalization brought about a curious situation. As our headline indicates, state enterprises sentenced to go into oblivion are getting richer. Let us look for a solution!

As far as making the accomplishments of recent years in commerce more transparent, the free formation of commercial margins immediately proved that:

1. In a decimated commercial network, a monopoly business can afford disproportionately high discounts;

2. Large commercial organizations are not even capable of individualizing appropriate discounts for their numerous and incongruous units. A trio of our ministries of finance would have had to react to the initially excessive increase in discounts which are, however, superficial from the commercial standpoint. With respect to several basic types of goods, the ministries used pricing measures to gradually limit the surcharges which commerce added to bulk-buying prices. In a given situation, this restriction proved to be beneficial, even though it ran counter to the spirit of liberalization. The measures definitely helped to slow the inflationary growth of retail prices in February and March. But they have their faults.

The first is based on the deceptive nature of the percentage indicators which continue to be so popular in our country. Regulation by limiting the percentage of commercial surcharge permissible to be applied to purchase prices tends to indirectly challenge commerce to select goods which have higher purchase prices.

The second fault is more serious. The stipulated regulation is general, it has equal impact on state and cooperative business, as well as on private businesses. But in view of the specific situation of state business, it is precisely its universality which is the fault. While beginning private entrepreneurs need to accumulate capital and are capable of flexibly adjusting their discounts in accordance with the reaction of customers, state business enterprises virtually do not require a profit because they are preordained to go out of business by the law on small privatization.

Their standing in terms of retail turnover in the CSFR, in which they continue to account for more than 30 percent of the volume, is truly curious. On the one hand, local monopoly makes it possible for them to earn relatively high profits (regulation of discounts impacts only a small segment of basic types of goods), which unnecessarily increase retail prices; on the other hand, their managers were not given any kind of prospects for existing. Moreover, in conflict with their interests they are charged with speeding up the process of small privatization. The premature departure of qualified employees and the disintegration of controlling enterprise systems are, therefore, evident. (It is already occurring.) Even supplies worth billions, held by these enterprises, are threatened.

I believe that even the recognition of this situation brought Minister Stepova to her conflict with Minister Jezek on the method of privatizing large-scale sales facilities. She is right when she says that the complete organizational fragmentation of the retail business will make its standing vis-a-vis production more difficult, will slow the rationalization of the sales network, and will make its services more expensive. However, her proposal to stipulate borders between large-scale and small privatization of operating units comes late and, moreover, is in conflict with the intent of the law on small privatization.

For purposes of creating competitive pressure upon prices for basic types of goods for the entire (clearly not brief) period of privatization of trade, I recommend the following.

Extract large units from the sales network which are suitable for self-service sales of the types of goods which enjoy rapid turnover, as well as wholesale warehouses to assure their supplies. On the basis of the law on prices, establish low limits for surcharges for this commercial network, surcharges which would be binding until rescinded and make these provisions applicable to any possible new acquirers (within the framework of privatization or restitution) of selected units. The price competition of this network will, moreover, make it possible to rescind the regulation covering commercial markups for the remainder of private commerce.

I am aware of the difficulty of the entire operation, but consider it to be necessary from the standpoint of protecting consumers, from the standpoint of the continuity of the sale of basic types of goods, as well as from the standpoint of clarifying the future prospects for a considerable number of employees in commercial ventures.

Budget as 'Enterprise Insurance' Rejected

*91CH0624C Prague HOSPODARSKE NOVINY
in Czech 2 May 91 pp 1-2*

[Article by Marcela Doleckova: "Will Demand Be Stimulated by Sales Tax Cut? State Budget Is Not the Enterprise Insurance Company"]

[Text] Effective today the indirect tax burden on the population is reduced by a cut in sales tax rates. Only the zero rate remains unchanged; others are reduced to 11 percent (from 12), 20 (from 22) and 29 (from 32). For the federal budget this means an annual revenue drop of as much as 7 billion korunas [Kcs].

Insofar as the government has decided on this step it suggests a relatively favorable state of federal finances at the present moment. Stefan Bazant, director of the budget section of the Federal Ministry of Finance, told HOSPODARSKE NOVINY that in the first quarter the budget surplus amounted to Kcs15.2 billion, which may seem quite high especially in comparison with a projected annual surplus of some Kcs8 billion. But the first quarter is almost always atypical because many outflow channels open up only in the course of the year. This is the case for instance with sums allocated in the budget for structural changes. That they are not being disbursed does have a favorable momentary effect on the budget balance but on the other hand indicates that no structural changes are under way.

In the first quarter the federal budget benefited also from growing enterprise profits which was reflected in their higher tax payments. But in some cases the increased profits may not have meant more than a mere overvaluation of inventories. And it still remains an open question whether the rise in the prices of goods will take hold in the market. Incidentally it was also to give at least some impetus to demand that the Federal Ministry of Finance reduced the sales tax. According to preliminary estimates this could cut the price of a Favorit [auto] by as much as Kcs7,000, but the impact will often be quite insignificant for goods taxed lower and generally for lower-priced items.

But in the first quarter the federal budget carried a significant burden in the form of continuing subsidies to small consumers for heat and heating energy. Yet even after raising the retail prices (effective 1 May) the subsidy will not disappear completely; according to Director Bazant even these prices will still be subsidized by about one-third.

And so our conversation turned to subsidies in general and to the oft-repeated view of our readers who ask bitterly where all the millions had gone which formerly subsidized everything under the sky. That former practice of subsidies was merely one giant redistribution mechanism in which by way of the State budget the more successful kept alive also those unable to survive. In a market economy the redistribution role of the State budget is being restricted: for instance revenues from tax on profits declined from last year's 65 percent to 55 this year, representing a revenue shortfall of Kcs12 billion for the federal budget. Because there was a 10 percent reduction already in 1990, within a mere two years the state treasury reduced its income by Kcs24 billion. By this the government of course gave weight to its philosophy that it is the enterprises which are responsible for

prosperity and that the State budget can no longer be their "insurance company" protecting against economic failure.

The government reduced its revenues by another Kcs4 billion by consolidating nearly 2,000 sales tax rates into only four categories. Even though this eliminated also the negative rates, for which read subsidies, the overall effect for the state treasury was negative.

Of course the government does not totally cast aside subsidies as a policy; some will continue to be granted in the years to come. None will be or should be granted to inefficient enterprises but there will be continued subsidization of the farm sector, transport and in the next few years possibly also of production cutbacks.

In view of the continuing tension on the Slovak political scene and the apparent decision of Slovak political forces to modify in some form the approved scenario of economic reform, it cannot be ruled out that the Slovak Republic's budget will end without the planned surplus. Commenting on this so far only theoretical possibility of budget deficits on the republican level, Director Bazant said that the federal budget would evidently have to come to the rescue. Looking farther ahead, however, budget deficits on both the federal and republican levels ought to be addressed by issuing government bonds. But in this transitional period it is necessary to proceed cautiously in this direction, to avoid stimulating inflationary impulses.

State Enterprise Incorporation Irregularities

91CH0634D Prague HOSPODARSKE NOVINY
in Czech 8 May 91 p 4

[Text] By adopting Law No. 92/1991 on the conditions governing the transfer of state property to other persons, the Czechoslovak economy stands face to face with a major transformation process, the end of which should see a strong private sector. The fact that the path of the so-called large-scale privatization will not be easy at all is attested to by materials published on this page and on half of the adjoining page. Everything began with an open letter by Ludmila Kolarova, doctor of jurisprudence, who is head of the kraj State Arbitration Office at Hradec Kralove, which was dated 5 April 1991 and was addressed to Eng. Jan Vrba, minister of industry of the Czech Republic, and to Bohumil Kubat, doctor of veterinary medicine, minister of agriculture of the Czech Republic, in which Dr. Kolarova draws attention to the incorrect procedure adopted in transforming an entire series of state enterprises into joint stock companies. At the same time, the author sent a letter to be published in our newspaper and attached a contribution by her colleague—Josef Seifert, doctor of jurisprudence, state arbiter—together with other pertinent material.

We believe that these are such serious facts that it is necessary to familiarize the broader economic public with them. Surely, they will not only become a stimulus for responses by the appropriate ministers, but also an

impetus for discussion. HOSPODARSKE NOVINY has prepared sufficient space for both of these contingencies on its pages.

[Letter from L. Kolarova] Honored Ministers,

When Law No. 111/1990 on state enterprises entrusted your ministries with exercising the function of founder in regard to state enterprises, this function was connected with a certain important justification which was limited in time. According to Section 32 of the above law, it was possible, until 31 December 1990, to accomplish certain restructuralization steps and, within the same time limit, accomplish the transfer of parts of national property, that is to say, the physical property of disestablished enterprises, to the ownership of other legal or physical entities in accordance with Paragraph 3 of the provision, with the prior approval of the appropriate government, in accordance with Paragraph 4.

This provision of Section 32, Paragraph 3, was not applied by any of the founders correctly over the entire period for which it was effective. It is because the founders perceived it as a further expansion of the founder authorization and, in view of the provisions of Section 15 of Law No. 104/1990, proceeded to establish joint stock companies using the property of disestablished state enterprises by themselves. This procedure would have been realizable only in the event the Government of the CSFR made use of its legislative authorization in accordance with Section 91 of Law No. 104/1990, and stipulated rules of procedure involved in a one-time establishment of companies and in transforming state enterprises into companies where the shares would be owned by the state or by state enterprises—something that unfortunately did not occur. The absence of these rules, although the authorization to establish joint stock companies definitely is not based on the provisions of Section 32, Paragraph 3, of Law No. 111/1990, did not prevent your ministries or other founders from establishing so-called "state" joint stock companies on a massive scale and these actions were frequently quite aptly referred to as a repainting of companies. Joint stock companies which were established on the basis of this incorrect method, however, nevertheless came into being and as independent legal entities continue to exist, because they were entered into the register of enterprises. The time for establishing "state" joint stock companies, using Section 32, Paragraph 3, has irrevocably passed and the employees and officials of founders and otherwise potential and present officials of boards of directors and oversight councils of joint stock companies were clearly making efforts to search for another acceptable and would-be legal way to endeavor to save the old organizational and personnel structures and to avoid having to use the unpleasant and labor-intensive procedures outlined in Law No. 92/1991 on the conditions for transferring state property to other ownership.

Their goal is clearly the timely and safe tidying up and transfer of parts of the national property to the ownership of other legal entities in such a way that they would not be subject to the law on the so-called large-scale privatization. Law No. 92/1991 could, if this operation were to succeed, be applied only to the securities of established companies provided they were held by the state, and not to the property of these companies.

The feverish activity on the part of the ministries following 1 January 1991 was concentrated essentially on two procedural steps. First, immediately prior to its rescission, use was made of the benefits contained in Legal Provision No. 364/1990 of the Federal Assembly and the founders, particularly your ministries, made use of Section 1, Paragraph 2, of this legal provision to permit exemptions from Section 1 of the above provision and gave their approval to some state enterprises—approximately 70 in the Czech Republic—to make use of 100,000 Czech korunas [Kcs] to establish joint stock companies. These joint stock companies were established in accordance with Law No. 104/1990 in a one-time establishment by a single founder, a legal entity, and came into being by being registered in the enterprise register. From the standpoint of the valid legal arrangement, this step cannot be criticized; the only thing that is piquant about it is the fact that, in the majority of cases, it took place after 20 March 1991 and, understandably, prior to 1 April 1991. However, it was in preparation for the second step which was not realized in all cases because of the pressure of time. In many cases, however, this second step was accomplished.

In recent months, specifically in March of this year, your ministries, honored ministers, issued decisions over your signatures which were identified as decisions issued in conjunction with Section 22 b, and Section 15, Paragraph 3, of the law on state enterprises and, in conjunction with appropriate provisions of Law No. 104/1990 on joint stock companies, which first served to disestablish state enterprises without liquidation and, secondly, promulgated provisions governing all property, rights, and obligations of the disestablished state enterprise. The measure involves the transfer of stocks at nominal values of Kcs100,000—in other words, the only stocks of a joint stock company established by a state enterprise a few days earlier or one day earlier to the ownership of the Czech Republic (these stock certificates were in the hands of the state even as the joint stock company was being created and the appropriate state enterprise was given the right to handle them in accordance with Section 6, Paragraph 1, of the law on state enterprises and, using the provisions of Law No. 92/1991, these securities would have to have passed to the Fund of National Property of the Czech Republic, rather than to the Ministry of Industry of the Czech Republic or to the Ministry of Agriculture of the Czech Republic).

Moreover, the measure deposits the remaining property of the disestablished state enterprise into the previously established joint stock company in the form of basic capital, without having it properly appraised, at least

with regard to the provisions of Section 18 of Law No. 104/1990, because for purposes of determining the magnitude of a nonmonetary deposit use is made of the results of the annual balance sheet which does not include the value of the invested land parcels.

Surprisingly, this procedure would be in compliance with the no longer usable provisions of Section 32, Paragraph 3, of the law on state enterprises, but after 31 December 1990 is not usable. The reason for this conclusion, in addition to what has already been stated, is primarily the fact that the provisions of the law on state enterprises, specifically Section 15, Paragraph 3, and especially Paragraph 22 b, may not be used for transfers or transitions involving state property to the ownership of other legal entities while simultaneously applying the provisions of the Economic Code, the law on joint stock companies, and the legal provisions of the Federal Assembly and, moreover, using these provisions after the approval of and immediately prior to the effectiveness of Law No. 92/1991. The above-cited provisions may, under these conditions of legal arrangement, be used solely for purposes of transferring and transmitting parts of property within the sphere of state ownership (in other words, between state enterprises) and not outside of it—something which was exceptionally and for a short duration made possible by Section 32, Paragraph 3, of the law on state enterprises, which has been referred to several times.

The legal arrangement for each branch of industry and sector must be interpreted and applied in the overall context and within total guidelines, rather than picking out the individual raisins from the regulations, as one would pick raisins from a cake, for special application. To the extent to which these methods were proposed by employees of the Office of the Government of the Czech Republic, as I have been informed, then these individuals were using precisely this incorrect method.

Provisions governing property which were made in this manner are legally ineffective for reasons listed above. Moreover, even if such a thing were possible, it cannot be overlooked that property is essentially forced upon another legal entity, an independent legal entity by way of a one-sided gift and that, in order to realize a gift, let alone a venal transfer, it takes two individuals: one who donates and the other who accepts the gift.

The provision of the parties to the transfer of all rights and obligations, accomplished in the decision with further reference to Section 15, Paragraph 3, of the law on state enterprises, is legally ineffective in view of what has been stated above and particularly in view of the fact that it fails to take into account the cogent provisions of Section 128 of the Economic Code! Moreover, to the extent to which the transfer—which I judge to be invalid and ineffective—involves only the transferred property and does not impact on the rights and obligations of all—for example, obligations in the area of labor law or invoices from abroad, nonmaterial rights, etc., then this is sufficient reason, in and of itself, for the liquidation of state enterprises.

From the above it is clear that established and existing joint stock companies having a basic capital of Kcs100,000 are not the legal successors of disestablished state enterprises, nor are they owners of the property of disestablished state enterprises. I consider this fact to be so serious that I am forced to draw your attention to it through this open letter, which I have requested HOSPODARSKE NOVINY to print. [end letter]

Some Joint Stock Companies Established on the Basis of State Enterprises Which Were Disestablished on 31 March 1991

Cutisin Joint Stock Company	Cutisin State Enterprise (Jilem-nice)
Zetes Joint Stock Company	Agricultural Construction State Enterprise at Plzen
Radegast Brewery Joint Stock Company	Radegast State Enterprise (Nosovice)
Michle Bakeries Joint Stock Company	Michle Bakeries State Enterprise (Prague 4)
Brilliant—Nova Joint Stock Company	Fruta Mochov State Enterprise
Milcom Joint Stock Company	Milcom State Enterprise (Prague 10)
Prostejov Commercial Malt Plants Joint Stock Company	Prostejov Commercial Malt Plants State Enterprise
Plzen-Bozkov Liquor Distilleries Joint Stock Company	Plzen-Bozkov Liquor Distilleries State Enterprise
Labena Joint Stock Company	Usti nad Labem Canneries and Yeast Factory State Enterprise
Rakona Joint Stock Company	Rakona State Enterprise (Rakovnik)
South Bohemia Dairies Joint Stock Company	Ceske Budejovice Dairy Industry State Enterprise
Xaverov Joint Stock Company	BTOS Poultry Industry State Enterprise (Prague 1)
Prague Sugar Company Joint Stock Company	Prague Sugar Refineries State Enterprise
Cukrprojekt Joint Stock Company	Planning Institute of the Sugar Refinery Industry State Enterprise (Prague 2)
Moravian-Silesian Breweries Joint Stock Company	Prerov Breweries State Enterprise
Tabak Joint Stock Company	Kutna Hora Czechoslovak Tobacco Industry Plant State Enterprise
Dairy Industry Plant Joint Stock Company	Hradec Kralove Dairy Industry Facilities State Enterprise
Rekord Joint Stock Company	Fruta Ceske Budejovice State Enterprise
Moravian Foodstuffs Engineering Plant Joint Stock Company	Olomouc Engineering Plant of the Foodstuffs Industry State Enterprise
Agrodat Joint Stock Company	Agrodat State Enterprise (Prague 1)
Pacov Engineering Plants Joint Stock Company	Pacov Engineering Plants State Enterprise
Cukrspol Prague-Modrany Joint Stock Company	PVTOS Sugar Refining Industry State Enterprise (Prague 2)

[Box, p 4]

**Facsimile of One Decision Regarding the Origin of a
"Kcs100,000" Joint Stock Company**

Ministry of Agriculture of the Czech Republic
File No. 2025/91-550 Prague, 27 March 1991
DECISION

In conjunction with the provisions of Section 22 b, and Section 15, Paragraph 2, of Law No. 111/1990 on state enterprises, and in reference to the appropriate provisions of Law No. 104/1990 on joint stock companies,

I. The Dairy Industry State Enterprise at Hradec Kralove with headquarters at Hradec Kralove (hereinafter referred to only as the "disestablished state enterprise") is disestablished effective 31 March 1991 without liquidation.

II. All property (including parcels of land), rights, and obligations of the disestablished state enterprise shall be transferred as follows by 31 March 1991:

1. One share of the Dairy Industry Joint Stock Company of Hradec Kralove with a nominal value of Kcs100,000, which was owned by the disestablished state enterprise, is transferred to the Czech Republic, represented by the minister of agriculture of the Czech Republic.

The transfer of this share signifies the transference to the Ministry of Agriculture of the Czech Republic of all obligations and rights of the shareholder;

2. The remaining property of the disestablished state enterprise, the value of which amounts to Kcs688.494 million, is deposited in the Dairy Industry Joint Stock Company of Hradec Kralove.

Together with this property, the joint stock company shall acquire ownership of those plots of land which the disestablished state enterprise had the right to manage.

Shares valued at Kcs688.494 million remain in the hands of the Czech Republic, represented by the minister of agriculture of the Czech Republic;

3. Together with all properties, all rights and obligations of the disestablished state enterprise resulting from labor law relationships, economic legal relationships, civil rights relationships, and administrative relationships, including the right to use trademarks, commercial designations, industrial samples, patents, and inventions, shall pass to the joint stock company.

III. Based on the implementation of the functions of the general assembly of the joint stock company, whose rights are executed by the state, represented by the minister of agriculture of the Czech Republic:

1. The statutes of the joint stock company are amended in a manner commensurate with the attachment to this decision;

2. The basic capital of the joint stock company is increased by depositing all property of the disestablished state enterprise in it.

IV. The board of directors of the joint stock company shall undertake all actions in its relationship with the appropriate registry court which are connected with increasing its basic capital, including the issuance of a corresponding number of shares made out in name.

The owner of these shares is the Czech Republic, represented by the minister of agriculture of the Czech Republic.

An inseparable portion of this decision is Supplement No. 1 to the statutes of the Dairy Industry Joint Stock Company of Hradec Kralove, dated 27 March 1991, file No. 2028/91-550.

Minister: Bohumil Kubat, Doctor of Veterinary Medicine [signed]

HUNGARY

Hopes Pinned on World Expo Called Unfounded

91CH0569A Budapest HETI VILAGGAZDASAG
in Hungarian 27 Apr 91 pp 83-84

[Article by Ibolya Jakus: "World Expo—Vanity Fair"]

[Text] The favorable position taken by the government last week may literally be considered by organizers to be money in the bank. With a unanimous yes, the ministers have not only given their approval to hosting the event, but contrary to all previous declarations, have also agreed to make a sizable budgetary contribution to cover 20-25 percent of the total cost.

You can safely wager your life now on the fact that there will be a world exposition in Budapest. Although the referendum in Vienna on the Expo is still two weeks away, at its session last Thursday, the Hungarian Government took a unanimous stand in support of hosting the event. Although the parliament has the final word, there can hardly be any doubt about how they will decide. Not even the fact that to date none of the conditions set earlier by the capital city have been fulfilled can be expected to jeopardize the outcome. The most that can be expected of the capital city, which despite pledges to the contrary has been completely left out of the decisionmaking process, is resigned acquiescence.

Yet, apart from the fact that it will be held, virtually nothing is clear about the Expo. The venue has yet to be determined; the organizational hierarchy has not been worked out; the theme of the world trade exposition remains to be decided, and the issue of financing has not

been resolved. Actually, at its last meeting the Bureau of International Expositions (BIE) did conclude that the financing of the expo was resolved, with the Hungarian Government guaranteeing payment in case private efforts to organize the event for profit ran into problems.

It appears that the government has already begun to make good on its "guarantee." Without a single complaint, it has agreed to make available, even under optimal circumstances, 27-30 billion forints from the so-called highway fund paid for by the populace in fuel surcharges, toward the 130 billion forints needed as a minimum to finance construction of the planned venue and the modest infrastructure that goes with it. The authors of the ad hoc committee's plan, which has been accepted by the government, are hoping to collect another 23 billion forints in licensing fees and a total of 60 billion forints in "domestic and foreign operating capital to be obtained from real estate ventures." From other sources of foreign operating capital they expect to receive 7 billion, and from foreign contributions an additional 6 billion forints.

Even if all of this came true, there still would not be much cause for optimism. Licensing is the most costly form of investment possible, which will be paid for by the future users in the form of highway taxes, bridge tolls, and other charges. By some estimates, the user's fee of a freeway built under this kind of an arrangement, for example, would be 3 forints per kilometer at current prices, while a water purification plant built under license would mean a conduit fee of 40 forints per cubic meter.

According to experts, however, even this way it is doubtful that there will be any entrepreneurs who on top of agreeing to wait several years to earn a return on their money would be willing to accept additional risks stemming from the nonconvertibility of the forint, and the enormous uncertainties surrounding the exchange rates. Hence, there is a real danger that the infrastructure development required by the Expo will be left up to the budget in its entirety. In any case, when told that many were concerned about the possible need for significant amounts of additional money from the budget to cover costs, the finance manager of the ad hoc committee, Jozsef Thuma, laconically replied: "So am I." The president of the economic committee of the parliament, Ivan Szabo (Hungarian Democratic Forum), on the other hand, moved to "calm the fears" of those worried about the state treasury. Thirty billion forints is such a "petty" amount that it falls well within the acceptable margin of addition errors...

There also does not seem to be any basis for the high hopes attached to attracting foreign operating capital. As we recall, it was the Hungarian National Bank (HNB) that first sounded the alarm by making it public that most of the declarations of intent submitted in response to the World Exposition Program Bureau's call for bids were virtually impossible to evaluate financially (HETI VILAGGAZDASAG, 16 Mar 91). Although the HNB's

report has fallen on practically deaf ears in what since then has grown into an increasingly loud thunder of pro-Expo propaganda, hoping to discredit the HNB's assessment the program bureau has asked other bank experts, which itself considers independent, to evaluate the declarations of intent.

It seems, however, that the bureau does not have much luck with bankers. Not only did the report concerning the seriousness of the declarations of intent reinforce the original assessment of the HNB, but was far more merciless in its criticism. As Gyorgy Zdeborsky, director general of CIB (Central European Investment Bank) pointed out in his letter to Etele Barath, of the 80 declarations of intent he examined, only five met the conditions set forth by the HNB, namely that "the projects could under no circumstances be financed by credit, and the government could not guarantee repayment of any loans." Similar was the conclusion arrived at by Peter Felcsuti, director general of Unicbank: "It is unlikely that the large, several million U.S. dollars worth of investments projected in the declarations of intent would materialize, either by licensing arrangements, or on any other basis."

The two banking experts, incidentally, also added a few subjective comments to their letters. One of them, for example, told the commissioner that on the basis of past experiences it was his opinion that at least one of the applicants who had been judged to be a serious contender, could not be considered a reliable partner. The other expert, citing "first-hand" information, cautioned the commissioner that the Japanese bank identified as being the most promising prospect was actually the HNB's "house bank," which only out of loyalty decided to submit a very generally worded declaration of intent.

It appears, however, that the program bureau has not been a bit disturbed by these observations. Their only concern has been to carefully attach two more opinions, one rendered by IPOSZ [extension unknown], and one by the Budapest Chamber of Commerce and Industry (both organizations having a vested interest in staging the Expo which hardly makes them impartial), which naturally claim that on the basis of the declarations of intent we could expect to "attract" some \$5 to \$8 billion.

The program bureau, however, has gone even further. Ignoring the well-known fact that of all the world expositions held to date only one in ten has been moderately profitable, it promises a money-making Expo that will yield profits in excess of 200 billion forints. It bases its optimistic predictions on a study by the Financial Research, Inc., which, as Etele Barath put it, is finally talking about profits instead of complaining about problems. Experts have told us that the author of this study had simply taken the theory formulated by the famous American economist Samuelson around the so-called multiplier principle, and applied it to the Expo. According to that theory the world exposition will have a stimulating effect both on the real estate market and on

the enterprises affected by the investments, which the multiplier principle tells us, will have a ripple effect on the entire economy.

Critics of the study point out that while this may hold true for a functioning economy in which the various sectors are thoroughly intertwined, it cannot be applied with confidence to a country plagued by chaotic proprietary relations such as Hungary, which is still only imitating a market economy. One of the biggest problems with the theory, acknowledged even by Financial Research, Inc., which according to the critics no one has bothered to bring up so far, is that the multiplier effect can only be assessed after the fact; it cannot be calculated in advance.

Using the above study as his reference, Etele Barath, who is envisioning profits in the several hundred billion forints, keeps telling everyone that enterprises have the potential to appreciate in value already during the privatization process, and future increases in real estate values may be tapped now with the timely introduction of a value added tax. This, incidentally, is the only democratic way to finance development projects from public funds, according to the commissioner, for otherwise the minority who live in the affected areas, in this case along the Csepel ridge, in Lagymányos and on Karoly Robert boulevard, would gain unwarranted advantages...

While such debates can still be heard in the background, the pro-Expo vanguard, organized as the World Exposition Forum, is jubilantly celebrating. At one of their functions last week, Minister of Economy Bela Kadar referred to the participants simply as a "noble gathering," whose mission as "Hungary Company" would henceforth be to properly represent the country. Ivan Szabo also took the occasion to repeat his point about the 30 billion forint "addition error," emphatically adding that spending that amount was the same as if every Hungarian bought the budget a glass of beer. His comment suggests that despite the antiinflationary intent of the Kupa program, the president of the economic committee of parliament believes that by 1995, a glass of beer will cost 3,000 forints in Hungary.

First Quarter State Budget Report

91CH0600F Budapest FIGYELO in Hungarian
18 Apr 91 pp 1, 8

[Article by (Sebok): "The Budget Did Not Collapse"]

[Text] The budget has not crashed...not thus far! And hopes to avoid collapse are not illusory either. But the threat is real and must not be underestimated.

At the end of the first quarter the central budget's deficit amounted to 22.2 billion forints. This amount corresponds with the predicted total combined deficit. In viewing the details, however, one finds a number of conflicting fiscal processes on both sides of the balance sheet, both revenues and expenditures fell short of what has been budgeted for this period.

Revenues fell a bit more behind expectations than expenditures, but this alone should not cause problems. But the fact that net revenues derived from entrepreneurial profit taxes were substantially less than last year, and fell below the time proportionate amount scheduled for the first quarter should be highly alarming. The reason for this shortfall is the same as what caused last year's better than expected budget balance. In late 1990 entrepreneurs paid in more advance profit taxes than they should have, and after the year-end reconciliation they reclaimed 15 billion forints(!) in overpayments during February and March. No one expected refunds to amount to this much! And this significant amount will be missing from the budget through the year, even if advances on entrepreneurial profit taxes will be collected more evenly and in a more organized fashion this year. In contrast, the fact that paid contributions after state assets well exceed projected levels is a favorable phenomenon. This may be attributed to the slower than expected pace of privatization but this revenue source is not large enough to offset the missing entrepreneurial profit taxes. And viewed from a different vantage point, the slow pace of privatization causes revenues to fall behind expected levels: very little or nothing of the sequestered state assets have been sold thus far, including the high value Workers Guard real estate and the vacated Soviet airfields.

In summary then, the trends manifesting themselves on the revenue side should not cause alarm: the budget will not collapse as a result of the revenue processes unless East European exports turn out to be catastrophic. But the situation seems far more critical on the expenditure side if we attempt to total the items which cannot be added up: the newly reinforced avalanche of requests for supplemental subsidies filed by branches (ministries) and local governments. Requests not included in the budget reappear again, and new requests are made, mainly on part of autonomous local governments.

But the budget cannot be continuously revised in the course of the year! And the government would have no time left to do anything else for the rest of the year if it reviewed all the supplemental requirements. On the other hand, if the government yielded to pressure and "paid," it would come pretty close to a crisis situation. At the minimum it would have to prepare a supplemental budget and submit the same to parliament. This would mean that even the legislature would be bogged down with the supplemental budget law.

Accordingly, the situation is becoming tense. More money is sought for education, culture, environmental protection, sports, agriculture, etc.; specialized ministries would like to support the branches they oversee, mercantile exports, foreign capital investment, and so on. But the state budget law has only 7 billion forints for all these purposes, and that figure has been established by law. This amount may be spent at the government's discretion, but until such time that a report on 1991 budgetary processes is filed with the National Assembly (by 30 April at the latest), the government requires

special authorization from parliament before it can obligate any part of this general reserve fund.

Thus far, only 235 million forints were expended from this fund (to support the Hungarian Red Cross), but the government has already decided to spend an additional 2.8 billion forints. From this amount, a 1.3 billion forint request earmarked for the establishment of the administrative law court system has already been returned by the parliament for "reconsideration."

But according to the budget law the cabinet will have far more freedom in expending the reserve fund after 30 April. Those fighting for the allocation of supplemental subsidies from the reserve funds count on that date and on the so-called release of the reserve funds. Beginning on that day the government must seek National Assembly approval of using the reserve funds only in certain cases. Aware of the supplemental needs voiced by specialized ministries and of the spendthrift inclination of our local governments, parliament could spare itself and the country from its usual, restrictive package plan to be introduced during summer by amending the law. The rule should be extended to cover the entire year, reserve funds should be made available to the cabinet only on the basis of parliamentary approval!

One should also mention the case for local governments. Indeed, their situation cannot be compared to that of the traditional beneficiaries of budgeted funds. This is the first financially independent year for local governments, and the individual local governments began managing their own affairs under rather varied conditions. From now on local governments will receive only half the

personal income tax revenues, the other half has been added to become part of standard subsidies. This solution changed the allocation of resources as compared to previous allocations. The Budapest local government suffered most as a result of this new allocation system, because in Budapest per capita personal income taxes in 1989 were substantially more (17,000 forints) than in the countryside (7,000 forints). Yet, small settlements in the countryside, and in particular the old settlements in the countryside benefitted as a result of the new system.

But this is not the likely reason for the fact that some local governments find themselves in crisis situations. The budget law provides central funds to local governments in addition to the standard subsidies, e.g. 6.2 billion forints in specially earmarked funds, 3.6 billion for education, and 5 billion forints to preserve local government capacity to operate in places where they find themselves in disadvantaged financial situation of no fault of their own. And although this amount is less than 10 percent of the amount budgeted for local governments for the entire year, the lack of such funds could cause functional disturbances in several places. Supplemental subsidies may be obtained on the basis of competing requests. These requests have not yet been reviewed. The cabinet renders decisions concerning requirements which emerge in the course of the year on a case by case basis, and this is why this money is not available today. Accordingly, the financial pressure on local governments which will receive part of the reserve funds may be somewhat relieved. There is no other way: they must learn to manage their finances independently! And they must not follow the example of their "big brother," the state budget!

State Budget Balance as of 29 March 1991

Revenues	Millions of Forints	Percentage of Projected Amount	Expenditures	Millions of Forints	Percentage of Projected Amount
Profit taxes*	14,908	14.8	Subsidies to business organizations	8,721	28.6
Payments resulting from special situations	15,836	58.7	Agricultural and food industry subsidies	6,530	23.7
Customs and import duties	14,521	18.9	Consumer price supports	13,290	42.5
Contributions after state property	6,195	34.3	Accumulation expenditures	8,500	13.7
General sales taxes	34,801	22.0	Support of central budgeted organizations	67,892	24.3
Consumption taxes	31,412	20.5	Local government support	44,446	23.5
Personal income taxes	28,700	23.4	Segregated state funds	14,715	21.3
Profit taxes and dividends paid by financial institutions	12,370	23.3	Debt service	22,869	20.8
Other revenues	16,076	25.9	Other expenditures	10,089	19.4
TOTAL REVENUES	174,819	22.6	TOTAL EXPENDITURES	197,052	23.2
BALANCE	- 22,233	28.2			

*Not including financial institutions

Finance Minister Assesses Nation's Image Abroad

AU1106142391 Budapest NEPSZABADSAG
in Hungarian 6 Jun 91 pp 1, 3

[Interview with Finance Minister Mihaly Kupa by Miklos Merenyi in Budapest; date not given: "Kupa: Hungary's Image Has Not Changed"—first paragraph is NEPSZABADSAG introduction]

[Text] Mihaly Kupa attended the OECD countries' conference in Paris, and he met some of his European colleagues. Upon his return, we asked him at the airport if our country's image had changed following the announcement made by the chairman of the Deutsche Bank.

[Kupa] Hungary's image is excellent. What I actually find disheartening is that most people in Hungary little appreciate our achievements because they mainly face the problems. There is a huge difference between the way we are assessed at home and abroad.

[Merenyi] That is very encouraging, but we cannot avoid the question of how you react to a statement made by the chairman of the Deutsche Bank at a bankers' conference in Japan. According to him [Hilmar Kopper], it is too risky to give further loans to the East European region.

[Kupa] I should see the original text of his statement. I must say though, I do not understand this statement, because I have met the chairmen of all big German banks, including the Deutsche Bank in the last quarter. He did not use such sharp words then. East Europe is undoubtedly a risky area. However, it is a great mistake to believe that it was the excellent politics of the most developed countries that established democracy in East Europe. We did that for ourselves! Thus, we do not owe them any kind of moral compensation, and they do not have any basis to condemn us for our unstable situation. What should it be like!? What would make it good?

[Merenyi] Could you feel the effects of the chairman's statement in Paris?

[Kupa] On the contrary. Netherlands Finance Minister Wim Kok, who is also the current chairman of the OECD and the European Community, said in his closing speech on Tuesday, 4 June, that the CSFR, Poland, and Hungary are excellent countries, free trade should be pursued with them, and it is worthwhile to develop cooperation with these countries. In other words, they did not treat us as poor neighbors knocking on the door and asking for admittance. At last, we have to awaken people to the fact that we do not come here to beg. We performed very well in political affairs when we allowed East Germans to cross our borders; and we also performed very well in the economy because we remained solvent all the time.

[Merenyi] Some doubts emerge in connection with Hungary's ability to pay and to endure; can our budget stand the burden of compensation, estimated at 100 billion

forints, and the costs of the World Expo, the size of which is not yet known, but is also expected to be at 100 billion forints?

[Kupa] These two things will not coincide. In my opinion, the World Expo can be organized very well, all I ever worry about is how well we will do it. As for compensation, we should come to an agreement at last, because this issue is becoming outworn.

[Merenyi] In your opinion, is there no danger that these two enormous burdens will increase our country's debts?

[Kupa] The World Expo may increase them. Compensation could only increase them in the sense that nobody will invest in Hungary if they do not find secure ownership relations. This is where the great danger lies.

Holdings: Privatization Role Discussed

Ministry of Industry View

91CH0613A Budapest FIGYELO in Hungarian No 17,
25 Apr 91 pp 1, 3

[Interview with Gyorgy Wortmann, Ministry of Industry and Commerce Enterprise Privatization division chief, by Gabor Karsai; place and date not given: "Should We Call These Holding Corporations?"—first paragraph is FIGYELO introduction]

[Text] A number of privatization experts regarded the IKM [Ministry of Industry and Commerce] concept of state holding corporations as rather vague and dangerous. Gabor Karsai asked IKM Enterprise Privatization Chief Gyorgy Wortmann about the financial resources, interests and functions of holding corporations.

[Karsai] In recent weeks I saw at least three interpretations of state holding corporations in the press, including IKM statements. One interpretation applies to trusts which would remain under the state's majority ownership in the long term, the OKGT [National Crude Oil and Gas Trust], the MVMT [Hungarian Electrical Works Trust], and the MAT [Hungarian Aluminum Trust]. The second applies to the ownership of entire enterprises or parts of enterprises which remain state property temporarily until full privatization is accomplished. According to the third interpretation holding corporations would serve the purpose of upgrading enterprises prior to their actual privatization. The various statements failed to clarify whether they applied to various functions of the same holding corporations or if several holding corporations would be established for the performance of the

various tasks. The economic content of holding corporations also remained unclear. How does the IKM interpret the term "holding corporation"?

[Wortmann] I agree, the concept is totally unclear. My understanding of it is as follows: A holding corporation is a stock corporation which owns several stock corporations, which has an interest in realizing the best possible return on its property, and which endeavors to make the best possible investments irrespective of lines of business in order to accomplish this. In our proposals we use the terms "strict" or "loose" in regard to holding corporations, as well as holding corporations specialized by "trade" and "financial" holding corporations. We invented these words, but in view of the confusion I believe that we should refer to these as trusts or concerns operating as stock corporations instead of saying "strict" holding corporation under professional management.

[Karsai] I also read an article in which a holding corporation engaged in the upgrading of enterprises was called an investment company, even though the former designation implied narrow enterprise management functions, while the functions of the latter would be based purely on profit considerations.

[Wortmann] This is true. The three types of holding corporations you referred to in your first question designate entirely different types of organizations, and the three types would have to operate in parallel. It would not be beneficial to condense these functions under a single holding corporation because the actual functions of holding corporations are unclear as of today, and we do not know the magnitude of whatever these functions are. In addition, these state holding corporations will have to coexist with purely privately owned holding corporations which may come about as a result of organic development in the marketplace.

The concept of holding corporations emerged in the middle 1980's as an alternative to the autonomous management of enterprises. Since the predominance, if not the goal, of state property appeared as a realistic long term expectation in those days, the term was much more understood to mean a form of enterprise management than an ownership form. At this time, however, in addition to privatization, the operation of the remainder of state property, the embodiment of the state as an owner is also a function. It seems that this matter was not dealt with in the course of economic debate in Hungary.

Let us begin to clarify this by discussing holding corporations whose function it is to transform enterprises. It would be more appropriate to call these "transforming companies." The function of these would be to upgrade enterprises which hold out the prospect that full restructuring, including the market, technology, structure, leadership, etc., can be accomplished. The purpose of upgrading would be for the owner to sell the reborn company for a higher value than the value of the company was at the time of transfer.

[Karsai] Would it not be the function of the new future owner to develop a structure consistent with his own ideas? Would it not be naive to believe that a state, which for 40 years was unable to develop an appropriate enterprise structure, would suddenly be able to do so?

[Wortmann] Generally speaking this would be the function of the new owner of course. But we hope that in addition to our endeavors, some companies will emerge which perform this kind of transformation as a business. The scope of our endeavor may be seen from our plans. We would regard our efforts as successful if we upgraded six to eight enterprises within the next one or two years. This function of the state would amount to only a gesture.

[Karsai] But according to the IKM privatization strategy (FIGYELO No. 16, 1991), more or less structural transformation would be required in only 155 processing industry enterprises prior to privatization. Six or eight enterprises amount to virtually nothing compared to that number.

[Wortmann] Structural transformation is a multidirectional task in which state initiatives play a minority role.

[Karsai] How would an enterprise subject to upgrading be transferred to the state transforming company?

[Wortmann] The state transforming company will be just as much active in the market as an entrepreneur. The enterprise subject to transformation must be purchased, and the choice of the organization to effect the purchase would be made by the AVU [State Property Agency] board of directors. The state administration, the government would have no say in this regard.

[Karsai] But one of the deputy state secretaries is a member of the AVU board of directors. Accordingly, an opportunity to intervene exists.

[Wortmann] He is only one of 11 members.

[Karsai] Does the IKM have any idea as to which enterprises should be entrusted to transforming companies?

[Wortmann] Of course we have an idea concerning fields and enterprises where upgrading rather than the expected liquidation is preferred. But from the standpoint of considerations that guide us employment policy is of no less importance than industrial policy. I cannot give you a list of enterprises. The AVU will decide whether it intends to immediately sell a bankrupt enterprise even for a smaller amount of money, or if it tries to find bidders by issuing tender invitations. And whenever the AVU intervenes it will see to it that enterprises under state administrative supervision are sold in a way so as to prevent these enterprises from consuming their assets.

[Karsai] It appears from the Bod interview, published in FIGYELO No. 15, that based on its ownership, the IKM

wanted to transfer weak enterprises to holding corporations in order to enhance their structural renewal. How can you reconcile this with what you just said?

[Wortmann] The ministry can exert substantive influence only if it represents the Hungarian owner in the company that performs the upgrading.

[Karsai] From where will the transforming companies obtain capital to buy the enterprises?

[Wortmann] Since this was not budgeted, we would like to have a 10 million ECU allocation from the Phare assistance program. Funds were offered by the common market for privatization and structural transformation purposes. Phare officials support our program, a decision is expected early this summer. Accordingly, assistance funds would serve as collateral for the state's capital, in addition, the European Bank for Reconstruction and Development showed interests and we trust that private financial institutions will also join this effort.

[Karsai] Who will represent the state in the transforming company?

[Wortmann] AVU would not be fortunate choice, because if it were to represent the state it would act as both the seller and the buyer of the enterprise subject to transformation. This is why we propose that the IKM represent the state.

[Karsai] Haven't you heard of concerns that this could lead to the enforcement of traditional industry branch viewpoints and interests?

[Wortmann] Certainly we heard of such opinions. But the ministry will have no chance of enforcing alien viewpoints because private investors will be in the majority, we hope. On the other hand, when the established goal and requirement of transforming state enterprises into corporations is fulfilled, the role played by the ministry will irrevocably change, because it will be virtually fully divorced from managing branches of industry, except for a few strategic fields where it will exercise ownership rights. Under those conditions one need not be concerned about distorting the IKM's structural policy goals. Concerns should focus on the IKM having no means whatsoever to represent structural policy goals. Alternatively, if the Finance Ministry represented the state, one should be equally concerned about short term budgetary interests gaining the upper hand.

But the issue transcends the matter of the state's representation in transforming companies, because this is only one of several cases in which the state must be represented as the owner. The way I see it, a majority of the experts approve of the idea of placing ownership organizations under governmental authority, and regard some kind of parliamentary involvement justified only with respect to the accountability of these organizations. The decision affects the role played by AVU of course. Their function of protecting and privatizing property

would conflict with an ownership role. Last year's experience showed that the AVU was unable to act as a stockholder in enterprises transformed into companies and in commercial banks.

True, that presently the AVU wants to hand over to property managers the stock it holds, such action; however, will not amount to privatization in most instances. On top, at present property managers are asked to submit competitive bids not on the basis of the amount of dividends they will pay, but based on their professional background and the amount of capital they have. It is difficult to recognize this as a long term approach.

[Karsai] What other solution would you find as appropriate?

[Wortmann] Holding corporations consistent with the original meaning of that term should be established for the purpose of owning the stock of enterprises which, from a strategic standpoint, will not remain state property and which do not even require transformation, but which for the time being cannot be privatized in part or as a whole. These holding corporations would buy and sell stock, and their sole purpose would be to utilize the assets of these enterprises in the most profitable way, in the financial sense of that term. Enterprises should transform into corporations as fast as possible so as to enable the state as a stockholder to prevent the enterprises from consuming their assets. According to an assessment made by the Economic Research Institute, 70 percent of the enterprises has plans to transform, but the rest should also be encouraged, perhaps forced to do so. Enterprise property should be accounted for at book value prior to privatization, a realistic property appraisal gains significance only in the course of privatization.

[Karsai] How would the enterprises' stock be transferred to the holding corporations?

[Wortmann] At this point we are not certain whether there will be several holding corporations, even though I think that several holding corporations would be needed by all means. The method of stock distribution has not been clarified either. Dividing the clientele of commercial banks also involved a complex procedure, for example, the bank that agreed to manage the accounts of coal mines also received the OKGT as a client. The situation of the banks best illustrates the need for several holding corporations because the situation would be absurd if the ownership of competing banks was concentrated in a single organization while banks are partially privatized. This effort is likely to take several years. Most likely the stock of large enterprises should be divided among the several holding corporations, while the stock of smaller enterprises could be assigned for example on the basis of lottery drawings. Once this system of holding corporations works, they could also handle the "spontaneous" privatization of enterprises, under AVU control of course.

These holding corporations must function in an environment free of politics, and they must act exclusively on

the basis of profit considerations. We should avoid the mistakes made by the Austrian holding corporations where economic rationale was always countered by occupational and regional interests. As I mentioned before, no decision has been reached as of today concerning the ultimate owner of the holding corporations. In my view we should try to establish some neutral institution for this purpose.

[Karsai] The IKM plans to establish concerns in certain fields regarded as strategic by the ministry. These concerns would operate under majority state ownership. Why would this new system work more efficiently than the present system of state administrative supervision?

[Wortmann] The corporate form alone does not mean much. Once the stock exchange operates, the functioning of these enterprises may be controlled by the stock market; in addition, having a corporate form constitutes a precondition for receiving capital.

[Karsai] Would the IKM represent the state?

[Wortmann] Since these organizations must also be professionally managed, in our view it would be appropriate for the IKM to represent the state, although several other solutions would also be conceivable. If this kind of ownership prevailed in only a few, strategically important areas as a result of privatization, we could see at last a substantive separation between ownership and management along organizational lines. Under present conditions, the presidents of firms under state administrative control are directly controlled by the owner only on the basis of the existing employment relationship between the president and the enterprise. We could influence the enterprises quite differently if we held the majority of the stock. Quite naturally, the organization which exercises ownership rights would have to report to the National Assembly at least once a year concerning its plans and activities. There would be a great need for public control if the state owned these enterprises.

[Karsai] To what extent do the views you just presented coincide with the positions taken by the cabinet?

[Wortmann] Nothing has been decided, the Economic Cabinet has until the end of April to adopt a privatization strategy. FIGYELO Nos. 13 and 14 reported on that matter. Thereafter the cabinet may render a decision subject to approval by the National Assembly.

There is agreement concerning the need to accelerate the transformation of enterprises into corporations, and the state must have its own ownership organization or organizations which are not the same as the AVU. It is generally believed that concerns are needed in strategic fields, and that enterprises which temporarily remain state property should belong to holding corporations. The question of fields in which majority state ownership versus national ownership should be established as a condition is subject to debate. Just where the ultimate state ownership organization should be placed is an open

question. In my view, this organization should be under the cabinet, but under direct parliamentary control.

[Karsai] Bertalan Diczhazi, the secretary of the Ownership and Privatization Committee said in the 10 April issue of *MAGYAR NEMZET* that he regarded the IKM's and the Hungarian Democratic Forum's economic policy committee's holding corporation concept as dangerous because the government could become a super power as a result of owning these holding corporations. It could select people close to the political elite to head the holding corporations. In addition, the interest of such people would counter the interests of privatization, because they would lose their power if they sold the property. The privatization committee feels that majority state ownership is warranted with respect to far fewer enterprises than what the IKM thinks is appropriate, and is also opposed to the placement of long term state ownership shares with the IKM. Their position appears as logical to me. What is your view of the critique?

[Wortmann] This criticism is justified only if a super ownership organization is brought to life. Instead of such an organization we recommend a "mixed" organization with multiple poles. State or national majority ownership represents the intentions of the state as the seller. Based on our proposal somewhat more than 10 percent of the enterprises would be subject to this restriction.

FIDESZ, SZDSZ Critique

91CH0613B Budapest FIGYELO in Hungarian No 18, 2 May 91 p 15

[Interview with Laszlo Urban, Association of Young Democrats economic expert and member of the State Property Agency Board of Directors, and with Marton Tardos, Alliance of Free Democrats executive and parliamentary representative, by Gabor Karsai; place and date not given: "Holding Critique"—first paragraph is FIGYELO introduction]

[Text] How do professionals belonging to the opposition view the IKM [Ministry of Industry and Commerce] concept aiming for the establishment of state holding corporations, as reported in the previous issue of FIGYELO? Gabor Karsai interviewed SZDSZ [Alliance of Free Democrats] executive and parliamentary representative Marton Tardos, and FIDESZ [Association of Democratic Youth] economic expert and member of the AVU [State Property Agency] Board of Directors, Laszlo Urban.

Property Managers Are Quasi-Owners

[Karsai] The IKM concept suggests the establishment of three kinds of holding corporations: one for enterprises which remain state property in the long term, another one for temporary state ownership, and a third kind of holding corporation for enterprises in need of upgrading prior to privatization. Do you agree with this concept?

[Urban] The establishment of holding corporations is justified with respect to the few enterprises which remain state property in the long term, because in this respect the alternative would be to continue with state administrative supervision. But I do not believe that holding corporations are warranted in the other two situations.

Upgrading in advance of privatization could be resolved in two ways. One would involve a pure financial transaction, this took place for example when the Hungarian Credit Bank transformed its loans to Tungsram into capital stock, and this injection of capital could significantly increase the worth of a given enterprise. This method is also used by the AVU in the course of privatization, no holding corporation whatsoever is needed to accomplish this. But in the course of upgrading, and this is the second case, the goal may be to change the enterprise's strategy, perhaps exchanging the management of the enterprise. It would be inappropriate to establish a state-owned, or predominantly state-owned holding corporations even in this instance. This is so because it is not clear how the state could make better structural policy decisions today than it made during the previous decades, and on top, such state involvement would scare away private investors from becoming part of the upgrading. Upgrading would be inconceivable without an investment, after all. For this reason, I regard as the better solution if the AVU placed the stock of the enterprise subject to upgrading with a corporation whose other owner is a strongly capitalized restructuring firm which would also sell the enterprise as a whole after upgrading.

Parts of property that remain temporarily under state ownership should not be transferred to an artificially established state holding corporation, but instead to a property management organization under contract, the way AVU has developed plans for this. Initial calls for this kind of relationship have appeared already. I see a great potential in this, because with respect to property managers an interest that comes close to an ownership interest may be developed if the incremental worth achieved as a result of property management could be divided between the property manager and the AVU based on a certain ratio.

[Karsai] How would you measure the incremental worth?

[Urban] This is indeed the critical point in the concept. The situation is relatively simple with respect to so-called portfolio contracts. This enables property managers to sell the property they manage. This automatically defines the market price of the property. The situation is similar with respect to stock listed on the stock exchange.

[Karsai] But these are not typical cases.

[Urban] That's right. And in such cases there is no other solution than for the AVU and the property management organization to agree on selecting one or another property appraisal firm which performs property appraisals

at the beginning and at the end of the period based on fixed criteria, and the difference would represent the incremental worth, or the amount by which the worth of the property decreased.

[Karsai] This seems like a method which permits subjective manipulation.

[Urban] It is a fact that this method could give rise to many disputes, and perhaps it is also a bit artificial. But in my view, as a temporary measure it would be still better to place state property in the hands of property managers than transferring ownership of state property to holding corporations. The subjectivity of property appraisal cannot be avoided in the latter case either. At what price would I sell the property today to the holding corporation? And on top of this, this process would be impeded by the lack of capital. After all, state property can be sold only if the buyer has the needed capital. And if property were to be transferred to holding corporations free of charge, the results would hardly be better than those produced under state administrative supervision. In contrast, privately owned property management organizations will be strongly interested in increasing the value of property contractually entrusted to them.

[Karsai] But from where will all these property management firms suddenly emerge?

[Urban] They may evolve spontaneously from consulting firms, as investment firms operating as subsidiaries of Hungarian and foreign banks.

[Karsai] Have you received information from the organizations which responded to the invitation announced by AVU?

[Urban] No, because the deadline for response has not yet expired. Incidentally, as could be seen from what we said earlier, the property management contract is also suitable for the upgrading and privatization of enterprises. The latter is made possible by AVU with respect to minority property shares, in regard to stock representing majority control the task is much rather the upgrading of enterprises, including the exchange of management if that is necessary. In certain future cases preparations for introducing stock at the stock exchange could be part of this process.

I would have a hard time denying that this method could open the door to big disputes, moreover, to corruption. We must revise the entire property management structure if this turns out to be the case. But at this time I regard this as a much better solution than transferring state property to holding corporations under state majority control, which holds the same threat and on top does not even provide a perspective.

"...This Holding Is Not That Kind of Holding"

[Karsai] The first Hungarian holding corporation concept is tied to your name. You described it in KOZGAZDASAGI SZEMLE Nos. 7 and 8, 1972. How current is your proposal after almost 20 years?

[Tardos] I still claim that in the situation that prevailed at the time, when we had to accept the fact that state property could not be privatized but that a market economy could not function without a capital market, it was logical for me to recommend the establishment of mutually competing holding corporations for the organizing of distinct and multiple state property.

Today, however, we must perform a peculiar triple task. We must privatize the state property, but this cannot be accomplished all at once. Therefore, we must ensure that state assets in functioning enterprises be managed by an institution which focuses on the return on these assets and on increasing the value of property. This kind of institution does not exist today, and therefore, nothing stands in the way of a large part of enterprises to consume their assets. The second task is to have someone interested in the sale of state property at the highest possible price. This is a complicated task because a real or a well simulated private owner has as his only goal to maximize sales revenues, while the seller, representing the viewpoints of the national economy as a whole, must be primarily motivated to achieve different goals, such as the incremental national income that may be derived from privatizing the enterprise.

Holding corporations would emulate private owners, therefore, we could not expect them to perform the latter function. Yet another contradiction may be found in the fact that state holding corporations would naturally become interested in sustaining themselves. This may conflict with the privatization of state property which is their existential base. Thus, it should be of concern that these holding corporations will repeatedly invent new functions for themselves, for example, permanent upgrading prior to privatization, which could result in an extraordinary slowing down of the privatization process. The self-sustaining nature of holding corporations was an acceptable consequence 20 years ago. Today it is not.

[Karsai] Should I understand this to mean that in your view holding corporations are suitable owners of enterprises which remain state property in the long term?

[Tardos] Yes, although this holding corporation is no longer the kind of holding corporation I had in mind in those days. The essence of my concept included the idea that holding corporations would compete with each other, but in the case of property that remains state owned in the long term such competition would not be appropriate. These enterprises would not be privatized precisely because in addition to profit considerations some other important state or professional considerations must be recognized.

[Karsai] What should be done with enterprises awaiting privatization?

[Tardos] Since we must halt the erosion of state property, it would be useful to obligate the Ministry of Finance to have the enterprises account for their property. Along with that we should also encourage the rapid and rational privatization of enterprises. But the AVU is unable to

substantively deal with the huge volume of property that awaits privatization. For this reason, I recommended the privatization of privatization ever since privatization became a reality. In other words, the AVU, the government organ charged with privatization should enter into contract with private firms for the privatization of enterprises. Such private firms could use many methods, from auctioning to preparation for listing on the stock exchange, by which to sell state property. The fact that the income of those who privatize depends on the results produced by the performance of this diverse function should be specified in the contract. Sales revenues, jobs created by privatizers, the investment of the private firm's profits in Hungary could be considerations specified in the contract.

[Karsai] Your position resembles the ideology reflected in the AVU's ongoing invitation for property management bids.

[Tardos] Yes, the way I see it, the AVU's property management invitation adopts the "privatize privatization" concept. The rhetoric points in the right direction, but in practice the AVU retains for itself excessive decisionmaking authority.

[Karsai] And what is your view of the IKM holding corporation concept?

[Tardos] I comprehend that to an even lesser extent, and this in itself makes me suspicious. It is possible that the IKM wants to replace the old branch divisions with institutions of power. On the other hand the IKM's establishment of enterprises engaged in privatization and investment would be a clearly laudable effort. One of the big concerns is the lack of firms dealing with this, and particularly the lack of authentic private firms. Competent professionals are also lacking. Thus, at the moment we are witnessing the evolution of a peculiar oligopoly in the market of persons engaged in privatization, and on top this takes place under circumstances when demand is high and the supply is low. Since the market is unable to perform its controlling function under these circumstances, one should be concerned about these professionals often performing inferior work at a high price. For this reason, far greater efforts should be made to train these professionals and to see to it that new ventures are established in this field.

The other direction, inventing various methods of control leads nowhere. We must recognize that the value of capital is the present value of the profit that can be expected, and depending on the kind of owner who operates that property, these profits may vary greatly. Privatization in the former socialist countries does not have and cannot have a closed logic simply because of the huge dimensions and proportions. If we were to over regulate this process, such regulation would not discontinue the negative phenomena but would instead stop the evolution of positive phenomena.

Banking Problems, Reform Discussed

Budapest Events Criticized

91CH0614A Budapest FIGYELO in Hungarian No 17, 25 Apr 91 p 22

[Editorial by Dr. Ivan Wiesel: "The Budapest Bank General Meeting: A Bomb Exploded!"]

[Text] We have become accustomed to heated debate at the general meetings of banks. This comes as natural. Stockholders are as much interested in increasing a bank's assets and in the secure operation of a bank as they are in the size of dividends. But we hardly expected that stormy events at the BB [Budapest Bank] regular general meeting would challenge to the image projected by that financial institution.

The documents submitted to the BB's board of directors and supervisory committee had been accepted by the general meeting. The interview we published last week with BB chairman and president Oszkar Hegedus informed our readers of these facts.

Stockholders at the general meeting received a report from an international auditing firm which also regarded the bank's 1990 activities as successful. We should note here that the BB was not obligated to seek an audit based on international auditing standards, its sole duty was to present an auditor's report in advance.

The bomb exploded when government representative, AVU [State Property Agency] Director Lajos Csepi recognized the bank's accomplishments and accepted the financial statement issued by the bank at the general meeting, but objected to the fact that the leadership of the bank had failed to comply with the provisions of the banking law now being prepared and claimed that the bank's activities were not consistent with international standards. The bank's reserve capital was low as compared to the size of questionable loans it made. Csepi also mentioned that on two occasions the bank granted credit in violation of rules. Csepi went on to say that the owner—the state—was not satisfied with the business policies pursued by the bank and that this would also have personal consequences. For this reason, a new leadership should be elected at the earliest possible date.

Since the state's representative failed to announce to the board of directors eight days in advance that he intended to include in the general meeting agenda a point pertaining to personal changes, he expressed the desire to convene a special general meeting. Under optimum circumstances, such a meeting could be held only in 40-45 days following the receipt of AVU's request.

Csepi proposed that the distribution of net income be changed, and that instead of the planned payment of 10 percent in dividends and 10 percent in stock the percentages be reduced to 8 percent and 7 percent respectively. The general meeting agreed to this suggestion. Csepi also objected to the fact that the leadership of the bank has

failed to discuss in advance with AVU and the Social Security Directorate the dividend policies it intended to follow.

To put it mildly, it was incomprehensible to me why the representative of the state owner accepted at the general meeting the financial report if he regarded the business policies of this stock corporation as inappropriate. Equally, I fail to understand how anyone could be held responsible for failing to abide by the provisions of law not yet in force. As far as abiding by international standards is concerned, in a manner similar to other banks, the BB has made significant progress last year, just as it made similar advances in previous years. Recognition of last year's progress in this respect was implicit in the international auditor's report. But one cannot replenish reserve capital overnight.

As to the time when the BB president learned about the personal criticism leveled against him by Csepi, Hegedus told us that Csepi had phoned him a week before the general meeting and requested his and four board members' resignation. Except for one member of the board, the persons so asked were not willing to voluntarily comply, because they did nothing to be ashamed of since the establishment of the bank and because there was no reason for them to back out.

On the other hand, I asked Csepi whether the intent to change the BB leadership was only the start of a process affecting all banks, or if it was only an individual case. Csepi responded by saying that no such intention existed, and that from among the large banks the operations of the BB were found to be sufficiently objectionable to warrant personnel changes. The state as an owner would not initiate similar personnel changes in other banks.

I also asked the AVU chief about his perceptions concerning the privatization of large banks. Csepi said that presently the AVU had no intention of initiating privatization action with respect to large banks, and that such privatization could probably not be implemented within a short period of time. On the other hand he said that the privatization of small and medium-sized banks should begin. The issuance of stock to individuals played a role in this, and incidentally, the BB had plans to do so in the amount of 150 million forints.

The mood at the general meeting was determined by the multiple appearances of Csepi. These appearances excessively showed the strengthening of direct economic intervention by the state. This of course created a tense situation between the representative of the state owner of the bank and the rest of the stockholders.

FIGYELO will not dispute the right of every stockholder to control the head of a bank, and to recommend his relief if he failed to perform properly. But the steps taken by the state in its capacity as the owner at this general meeting were unusual. It is hoped that this proceeding will not last long. This kind of action is risky for several reasons. The Hungarian and international view of our

developing banking system will be adversely affected by actions which appear as professional improvisations.

Bank Problems Revealed

91CH0614B Budapest FIGYELO in Hungarian No 17,
25 Apr 91 p 22

[Article by Katalin Ferber: "Mistaken Banking Roles"]

[Text] At last week's general meeting of the Commerce Bank, Inc., the directorate's report spoke about stability, productive operations and moderate expansion. The events that transpired at the general meeting confirmed all this. Nevertheless, the general meeting revealed certain problems which transcend the operations of the Commerce Bank and shed light on contradictions within the operations of the Hungarian money market and the banking system.

Income and Expense Statement* as of 31 December 1990

Income	Millions of Forints	Expenses	Millions of Forints
Interest earned	31.720	Interest paid	24.200
Commissions earned	3.359	Of this: expenses related to fixed-term transactions	3.680
Foreign exchange management income	2.259	Commissions paid	2,386
Gains on banking transaction exchange rate differentials	3.718	Foreign exchange management expense	1.908
Other income	2.002	Other banking transaction expenses	2.281
		Operating expenses	2.570
		Other expenses and costs	1.695
		Profits	8.018
Total	43.058	Total	43.058

* Following the audit performed by Price Waterhouse, the general meeting accepted the bank's 1990 modified balance in the amount of 8.058 billion forints, based on the report of the auditor's chosen. The taxed balance amounted to 4.826 billion forints. The bank's final balance amounted to 191.600 billion forints.

The Hungarian commercial banking system evolved under economic and political circumstances which fell far behind the conditions that prevailed in real market economies, to put it mildly. True, the entire commercial banking system could not have come about without the attention and capital of the state and of state institutions (primarily because of the low potential of the economy to accumulate capital). We must add to all this that in those days the inflation rate was much lower than today and no one would have believed that it would spiral up to 35 percent in two or three years.

Accordingly, the founders of commercial banks had reason to hope. Along with the existing share of state ownership, the banks would gradually become independent. Small investor stock purchases appeared as rational actions under conditions that prevailed in Hungary those days, even though intentions expressed by enterprises and cooperatives to purchase stock were influenced periodically by the "convincing" force of the state.

As it turned out at the Commerce Bank, Inc. general meeting, everyone involved in the economy was disappointed these days. But the bigger problem is that along with a sense of disappointment there also exists a feeling of having been defrauded, and this does not improve the image of a commercial bank, nor does it increase confidence in the state. And it does not exert favorable effects

on those involved in the money market either. Thus, the important small investors with their small amounts of savings will soon turn away from investing in commercial banks. Of whom and of what will our banking system consist then?

As the above financial statement shows the Commerce Bank, Inc. closed a successful year. Despite this fact, the representative of state ownership followed the same strategy at this general meeting as he did at the BB's general meeting. He proposed the payment of moderate dividends, less than what was proposed by the directorate, the secure accumulation of reserves and an increase in capital stock.

It is natural for owners to enforce their perceptions in a stock corporation, except for the fact that the state's perceptions necessarily countered not only the considerations that guided a commercial bank, but also the interests of small stockholders. It would not be unreasonable to assume that all, or most upcoming commercial bank general meetings will be laden with conflicts, because one of the (lead) actors hopes to reconcile interests in a way that does not exist, and cannot exist in a functioning real market economy.

The state as an owner and as one of the directors is confused, and so is the commercial bank which

endeavors to streamline its policies with small stockholder interests on the one hand, while it must observe the interests of the bank on the other. But every small stockholder should also be confused, because presently, the Commerce Bank stock is not traded on the stock exchange, and therefore, along with the present inflation rate, the sole financial resource they have are dividends. How could these mistaken roles be resolved? The general meeting clearly showed that the Hungarian money market and the commercial banking system still constitute only a quasi market and a quasi banking system, and thus the conduct of those involved in the economy is determined by a number of "peculiar rationales," which are not characteristic of a market economy, and are dictated by domestic conditions. Is this bad? We feel that the recognition of this situation may lead us closer to understand that not everything that is called a market is actually a market.

MNB Chairman Interviewed

91CH0614C Budapest FIGYELO in Hungarian No 17, 25 Apr 91 p 23

[Interview with Banking Reform Committee Chairman Laszlo Komar by W.I.; place and date not given: "...Only a Fraction of the Questionable Loans Were Inherited"—first paragraph is FIGYELO introduction]

[Text] A few days ago the Council of Ministers discussed the proposed central bank legislation, and after press time it dealt with the banking law. We asked banker, and chairman of the Banking Reform Committee, Laszlo Komar whether the committee had any comment on the proposed laws. The committee provides professional support to the government.

[Komar] Of course it did, after all the authority granted to the committee by the prime minister extends to making such comments. Regarding the proposed central bank law we agreed with the idea that the central bank be overseen by the National Assembly. We also agreed that with its activities the central bank should at all times support the government's economic policy. In order to accomplish the latter we recommended that the most important monetary policy issues be decided by a body called the Central Bank Council. This Council should be composed of the president and deputy presidents of the MNB [Hungarian National Bank], as well as of three independent and professionally highly qualified experts appointed by the president of the republic.

The committee expressed the view that the commercial banks should be able to independently determine their interest rates, but whenever the central bank provides resources to the commercial banks, it should be able to influence the resultant interest rates.

We also called attention to the fact that the central bank's participation in profit oriented undertakings would be undesirable, particularly if the central bank took part in entrepreneurial ventures initiated by financial institution.

[W.I.] What is the committee's view of the banking law now being developed?

[Komar] Our committee endeavored to present all conditions which must be established by law in order to permit the banks to perform their functions appropriately and efficiently. I would point out a few of these requirements. We regarded as highly important that the banks comply with requirements established by the stock exchange, because such compliance would effectively enhance the ability of banks to acquire capital. In our view, the privatization of the banking sphere must be accomplished within the foreseeable future. We pointed out that the law should provide sufficient funds so that the institutional and regulatory systems governing banking activities be able to gradually approach international standards, and in particular the standards observed in the Common Market. As far as the role of foreign capital is concerned we stated that there should be no barriers, nevertheless, there should be appropriate state supervision.

Taken together, it is our view that the law appears to be "excessively regulatory" in character, because it deals with issues pertaining to the management of banking facilities and to supervisory techniques.

[W.I.] What relationship is there between the two laws?

[Komar] The relationship between the two laws is very close, because without such relationship the regulatory framework for the successful functioning of the banking sphere would be missing. But the regulatory fields must be separate and one must be able to follow these regulations clearly.

[W.I.] The most highly debated issue at the ongoing general meetings of banks pertains to the fact that the level of reserves is too low at present as compared to the credit risks these banks assume. What concept evolved within the committee concerning the purification of the total amount of credit granted by commercial banks, and about increasing the stability of banks?

[Komar] The committee sought a perhaps unusual response to this question. It adopted the view that only the banking sector could be burdened with "purifying" the outstanding commercial bank loans. This is contrary to endeavors which would resolve this problem at the expense of the budget. This decision was made because only a fraction of the loans viewed as questionable or uncertain was inherited. A larger part of these loans was a "creature" of the banks. Therefore one could not hold responsible the state for this larger part, and hand a bill to the state.

Nevertheless, the state made an initiative to resolve this issue, one cannot question the state's organizing role. But making the state pay is not the solution.

[W.I.] How can this duality be resolved technically, the state initiates and yet it does not pay?

[Komar] The committee is in the process of developing this technique. The essence of this may be defined in advance by saying that the uncertain loans and an identical amount of "good loans" would be removed from the banking sphere and placed in a separate fund. Thus, the banking sphere would be relieved of bad as well as of good loans, in exchange for compensation, of course, while within this fund the credits would mutually compensate for each other, but outside of the banking sphere.

[W.I.] Why did you invite several Hungarian compatriots who live abroad to be part of the committee?

[Komar] I must preface my answer by saying that I did not select the members of the committee. I must also indicate that a majority of the committee members are experts from Hungary. The "foreign" experts transfer their knowledge based on international experience which we then streamline with the concepts developed by the domestic experts.

[W.I.] You are generally known in the banking sphere as an international banker. Aware of the goals of the Banking Reform Committee, are these functions not alien to you?

[Komar] No, they are not alien. Anyone familiar with the banking sphere will know that one cannot pursue banking policies while unaware of the economic policy. I regard it as a challenge to be able to head up a committee in which people with various backgrounds—central bank, commercial bank, Hungarian and foreign economic experts—participate. It is my job to provide a common denominator for various ideas, and to formulate appropriate priorities. And this is an extremely exciting task.

Municipal Financial Image Brighter Than Expected

91CH0611C Budapest FIGYELO in Hungarian No 17, 25 Apr 91 pp 1, 8

[Article by Emilia Sebok: "Autonomous Local Governmental Bodies Waiting for Money"]

[Text]

Local Government Revenue Sources 1990/1991
(in percent)

Source	1990	1991
Local taxes	2	6
Other local revenues	14	12
Personal income tax share	26	13
Standard subsidies	29	45
Other state subsidies	11	6
Tb [abbreviation unknown] financing	16	17
Supplemental resources	2	1

Local governments complain even in rich countries. They claim that there is not enough money even though individual towns are able to afford things which in our eyes would be amazing luxuries. At the same time in Hungary we almost reached the point where the fact that the mostly opposition controlled local governments are just as poor as the central budget controlled by the "ruling party" is regarded as a matter of political retaliation. But soon the tight financial condition will be eased. The cabinet will discuss at its meeting this week the distribution of about 10 billion forints among local governments. In more precise terms, along with submitting the quarterly budget report, the cabinet will discuss the distribution of funds recommended by the Ministries of Finance and of the Interior to the National Assembly for earmarked subsidies and for the support of local governments which experience disadvantages of no fault of their own.

The financial conditions for local administration have already changed prior to the local elections, beginning on 1 January 1990 under the council system. The essence of the new management rules is that revenue orientation replaced the previous expense orientation. In other words, in earlier days, councils first viewed the purposes to be satisfied and the amount of money needed. "Crying" for the missing funds was never hopeless in the system of paternalistic bargaining mechanisms. In the new system, resources will be regulated mostly on the basis of economics and automatic funding provisions.

Accordingly, above all, local governments must first find out the amount of revenues they have access to, and must adjust their expenses accordingly. Changing over to this so-called revenue oriented management model would not be easy even if the previous, experienced council leaders would have to implement it. But autonomous governmental bodies which just began functioning and which lack experience are put to a particularly difficult test. In the past decades, we all became subconsciously accustomed to the luke warm environment of the "caring" power, and this certainly makes adjustment more difficult also for the autonomous local government leaders not accustomed to the old council model. One hears horror stories about closed nurseries and discontinued day care centers, all explained by the shortage of funds.

Provisions

In reality, however, organizations funded by the central budget will receive 31.3-percent more in state funds this year than they did last year, and local governments will be able to utilize 37.8-percent more centrally controlled funds, including local taxes as they did last year. Accordingly, from this point of view we are not dealing with an absolute or even a relative deterioration in the local government situation! Moreover, if we were to assume that local governments did not collect any local taxes at

all, but instead retained the traditional system of taxes collected under the council system, and that they surrendered the 21 billion forints in revenues that could flow from local taxes, they would still receive 31.9-percent more money in 1991 than they did in 1990.

Accordingly, an increment exists which definitely kept in step with the predicted inflation rate. (Even though it is true that in the framework of the local government cost structure price increases are higher than in the average, e.g., as a result of large increases in the cost of energy resources.) On the other hand, there is no doubt that the assessment of local taxes could substantially improve the financial situation and service deliveries in individual settlements. It is no coincidence that the new management system stimulates, or one could say constrains local governments to assess local taxes.

In general, statements which predict the inevitability of the bankruptcy of certain settlements within a few months, even though none have gone bankrupt thus far, amount to irresponsible scare stories. The order in which state subsidies are paid makes such bankruptcies virtually impossible, because local governments receive their funds on a monthly basis, in equal amounts. On the other hand, reserves must be set aside from the monthly allotments, or funds must be borrowed to pay for expenditures not payable evenly on a month by month basis.

Local governments receive in the form of even, monthly funding their share of personal property taxes (together with the personal property tax supplement). Earmarked investment funds for high cost development and reconstruction projects (amounting to 11.8 billion forints this year) are paid from the central budget upon completion of the various phases of these projects. At this time local governments are waiting for the distribution of supplemental funds for earmarked purposes and for the continued operation of local governments which found themselves at a disadvantage of no fault of their own.

Funds

According to the original schedule, the cabinet should have submitted a proposal to the National Assembly for the distribution of these funds by 31 March. This was not possible because local governments were unable to indicate their requirements on time. This is why this matter has been delayed for a month.

This is true, even though there are ample requirements. The Ministry of the Interior has received requests for 15.8 billion forints to finance 2,800 special purposes, yet the available funds for this overall purpose amount to only 6.21 billion forints. And although the large number of requests could have been expected, an appropriate distribution of the available funds will be difficult. Moreover, even before the issue of distribution can be dealt with, parliament should amend the related law. The local government law provides that all local governments which conform with the conditions specified are entitled to receive special purpose subsidies. But since the conditions specified by law were too weak, funds

provided for this purpose in the budget law do not permit fulfillment of all requests.

The ministry's proposal to be submitted to the cabinet recommends above all that ongoing investments and reconstructions be supported so as to complete these projects. But it also appears necessary to modify somewhat the distribution of funds according to individual special purposes as provided for in the budget law; changes are needed for example with respect to water resource management projects. Less than the planned amount of money is needed for the completion of ongoing investments, while newly started investment projects require more support. Most requests, representing a total amount far exceeding the available funds, are related to water resource management investment projects. This resulted from the fact that the local government law obligated local governments in settlements to provide healthy drinking water.

Thus far, 430 disadvantaged local governments applied for 9 billion forints at the Finance Ministry for payments to be made from the original 5-billion- forint fund, (of which 230 million forints have already been paid out to support previously joint municipalities which went independent). The hopeful beneficiaries of these funds are local governments which are unable to fully finance the basic public service institutions of no fault of their own. According to the ministry's calculations, however, 2.7 billion forints should suffice to finance shortcomings in basic services. For this reason, the ministry proposed that this fund be used to the extent of this amount only and that the remainder be held as a larger reserve fund to relieve tensions which arise in the course of the year. (The law requires a 25-percent reserve only.)

Equalizing

Deciding how to distribute these two funds will be at least as hard a test for the parliament as the adoption of the budget itself. The cabinet will make its recommendation and will present all the requests, thus leaving much room for the expression of local interests. It would be beneficial to discuss the individual items in committee and not at the plenary session.

The overall picture always shows averages and veils individual concerns of course. An expansion of the functions to be performed could offset the fact that local government revenues kept in step with inflation, and that municipal services were maintained at last year's levels. Operating the local government system appears to be particularly expensive this year because instead of the previous 1,600 councils there will 3,100 autonomous local governments. This increase resulted from the independence of municipalities previously managed by joint councils. Establishing separate offices is costly, but funding requirements are even further increased by the fact that the newly independent municipalities now want their own schools, clinics, etc., replacing the previous common institutions. It will take a few years before the

present, sensible cooperative efforts made voluntarily by municipalities evolve into a joint performance of various functions.

Similarly the endeavor to equalize the standard subsidies provided to individual settlements changed in different ways. This manifests itself in the introduction of standard subsidies and in the fact that instead of reverting to local governments the full amount of personal income taxes they will now receive only half of the income taxes. (The other half increased the amount of standard subsidies!) This change was made because returning the full amount of personal income taxes visibly increased the differences between individual municipalities, while standard subsidies act as stabilizers in municipal management. This is fair because by viewing all municipalities as equal, and by providing the same amount of money to every municipality the system enforces the equal opportunity principle.

This year's funds earmarked for the support of financially disadvantaged local governments is a transitional measure, according to those who prepared the budget. It is designed to help even the poorest settlement in its transition to the new municipal management system. Nevertheless, there will be disadvantaged as well as backward settlements also in the future. Their concerns should much rather be relieved through well planned regional development and employment policies.

Trade Union Talks Representative Appointed

LD1206082691 Budapest Kossuth Radio Network in Hungarian 1800 GMT 11 Jun 91

[Text] The prime minister appointed Laszlo Herzog, deputy secretary of state at the Labor Ministry, to represent the cabinet at the coordinating talks with the National Federation of Hungarian Trade Unions. The ministry press office also informed MTI that the government continues negotiations at the interests coordinating council or at the special committee of the council. In addition, the cabinet, in line with their original intentions, will sit down to have discussions tomorrow with representatives of the Democratic League of the Independent Trade Unions.

Western Consortium Buys Bankrupt State Farm

91CH0642B Budapest MAGYAR HIRLAP in Hungarian 9 May 91 p 8

[Unattributed article: "Joint Enterprise Replaces Nyirlugos State Farm"]

[Text] The Sussex (Great Britain) based EED [East European Development Ltd.] investment bank and consulting firm will organize a British-Swiss-Belgian-Hungarian joint enterprise in place of the bankrupt Nyirlugos State Farm as soon as an agreement is signed with the receiver, and as soon as the Hungarian Government grants a land and forest use, and a hunting permit, according to EED president and co-owner Peter

Tarnoy in London. The Western partners, including the EED, the Schweizerischer Bankverein and a Belgian entrepreneur have made a 250,000-pound deposit after the tender award, their total investment will be 2.8 million pounds. In the framework of the Danube Farm irrigation will be introduced, a cannery and a hotel will be built and the lumber mill will be reorganized. The new firm planned to be established in Nyirlugos will perform agricultural production, food industry, and foreign tourism service activities. The State Insurance Company will own 16 percent of the firm, and between 1 and 2 percent of the stock will be offered to employees, according to Tarnoy. Tarnoy, a businessman of Hungarian origin who settled in Great Britain in the early 1950's, has several undertakings in Hungary. In the spring of 1990 he formed the marble mining and stone carving enterprise of Siklos, Sutto and Tardos, and "Pannonia Marble" jointly between EED, the Hungarian Investment Company (an investment firm listed on the London stock exchange) and Centurion Mining, an English-Canadian mining firm. Fifty-one percent of the joint enterprise is owned by foreigners, and 49 percent by Hungarians. Tarnoy intends to introduce the joint enterprise's stock on the London stock exchange soon. Tarnoy's name is also linked to the establishment of the first Hungarian-New Zealand, and the first Hungarian-British joint enterprises. The latter was established in 1984 and is called the APV-Ungaro food industry machine works of Felsopakony. In those days Tarnoy was a co-owner of the British APV chemical and food industry machine manufacturing firm. APV-Ungaro's Hungarian partners are the Komplex and the Gepszev cooperatives. After surrendering several of his business ties Tarnoy organized the EED in the late 1980's. In addition to an English partner, the Schweizerischer Bankverein, one of the worlds AAA rated banks is also a partner. The EED functions as an investment bank, a business consulting firm as well as a firm which buys up enterprises (Mergers and Acquisitions House [as published]). It has subsidiaries in Budapest (European Trade Development Ltd.), and in Nyiregyhaza, Prague, and Pozsony [Bratislava].

Electricity Monopoly To Be Dismantled

91CH0636C Budapest MAGYAR HIRLAP in Hungarian 30 Apr 91 p 9

[Article by K. A. I.: "End of Electrical Trust Monopoly; Even Foreigners May Buy Hungarian Power Plants"]

[Text] The monopoly held by the MVMT [Hungarian Electrical Works Trust] will be discontinued beginning next year. From then on anyone in Hungary may produce electricity. Moreover, even foreign may purchase power plants in Hungary.

According to the Industry and Commerce Ministry spokeswoman, Mrs. Antal Kardos, at a briefing held yesterday, based on a government determination, the MVMT must transform itself into a system of business organizations by 1 January 1992. A plan detailing the

reorganization of the MVMT's ownership, plant management, pricing and price control systems must be prepared by the end of the third quarter. Based on Section 3 of the government determination a strategy must be developed for Hungary's integration with the European electrical energy system, for the development of this branch of industry and for the possible attraction of foreign capital. In response to questions the spokeswoman stressed that in the medium term the government endeavored to preserve state or national majority control in the electrical energy producing sector, but conceivably a few power plants could be transferred under foreign ownership.

Speaking of integrating with the West European network the spokeswoman said that such integration would not mean that electrical energy would continuously be imported from the West. The main question was the extent to which Hungary wanted, and was able to reduce risks stemming from imported electrical energy.

The spokeswoman noted that last fall, during the gasoline crisis, the Soviet Union was able to provide only one-sixth of the electrical energy it should have delivered, and that this was contrary to contractual provisions.

Budapest Technical University Professor and MVMT Supervisory Committee Chairman Gergely Buki also present at the briefing told journalists that power plants to become independent in the future would enter into contracts with the trust's successor organization. The essence of MVMT's transformation would be the dissolving of the monopoly on the one hand, and the development of a market on the other. As a result of these changes anyone in Hungary will be permitted to produce electricity. The successor organization to the trust will be obligated to accept such electricity under appropriate conditions. Thus, for example, natural gas firms will be able to use so-called waste gas for the production of electrical current.

Several questions pertained to the personnel implications of the decision: specifically whether Gyorgy Hatvani, the incumbent president would stay in his place. The spokeswoman said that the cabinet has not dealt with this issue, and that organizational rather than personnel issues constituted the center piece of transformation.

POLAND

World Bank Director Meets With Finance Minister

*LD0706142891 Warsaw PAP in English 1349 GMT
7 Jun 91*

[Text] Warsaw, June 7—In the wake of his meeting with the World Bank executive director, Rosario Bonavoglia, Polish Deputy Prime Minister and Finance Minister Leszek Balcerowicz said the \$2-billion in credits

extended by the World Bank would make it possible for Poland to put extra money in the food processing industry and export of industrial goods, and to modernize railway transport and telecommunication systems.

The Polish Government has earmarked another portion of the World Bank loan for development of the banking and finance system and for agriculture to support farmers' cooperative banks and the industry serving agriculture.

"The World Bank shall grant loans to Poland as long as Poland is implementing reforms," Balcerowicz said referring to his talk with Bonavoglia.

Contrary to the credits granted to this country by the World Bank in the 1970's, whose considerable part—without the implementing of reforms—was wasted, the current loans are seen as real support for the ongoing transformations. The distribution of credits is clear and will be implemented accordingly, the deputy prime minister said.

Director Bonavoglia was surprised by the fast progress of the economic reforms in Poland, especially when he compared it with his experiences from India and the Philippines. In his opinion, Poland is a rich country with well-educated society.

He however warned against turning too quickly from one economic system to the other as this might, in some cases, produce adverse phenomena, and added that it was important that the whole country understood well the changing political and economic conditions.

World Bank Approves \$100 Million Loan

*LD0706200791 Warsaw PAP in English 1909 GMT
7 Jun 91*

[Text] Washington, June 7—The World Bank board approved Friday a \$100 million loan for the development of Polish employment and social welfare services.

This is the first investment by this institution destined entirely for the needs of labor and employment in Eastern and Central Europe, a World Bank communique said.

Part of the loan will go for computerization of employment and social welfare offices, and another sum will be used for preparing programs of teaching jobless new skills and increasing the mobility on labor market.

One tenth of the loan will serve to create pilot programs meant to test the efficiency of various enterprise stimulating schemes in different local conditions.

Trade Trends With Great Britain Profiled

91EP0490A Warsaw RYNKI ZAGRANICZNE in Polish
No 49, 23 Apr 91 pp 3, 6

[Article by Teresa Radzimska: "Trade, but Not Only Trade"]

[Text] Great Britain, which was Poland's chief economic partner in the West until the early 1970's, currently occupies second place in our trade with countries having free market economies. Over the years the Federal Republic of Germany has outdistanced Great Britain—and decisively so. Recently, since the unification of the FRG and the GDR, the gap in the level has become even more evident. In this context it is difficult to overestimate the importance we attach to the successful development of economic contacts with England, because excessive dependence on one or two partners is not advantageous or safe in the long run. The troubles we are currently experiencing in trade with the Soviet Union and the large, negative influence that they have had on the developmental opportunities of our enterprises testify to this.

The stagnation in relations with Great Britain which prevailed in the early 1980's was overcome only in 1988. Since then, the turnover from bilateral trade has enlarged rapidly. However, only in 1990 did the value of exchange rise above the previous "peak" (almost \$1.32 billion) from 11 years ago. According to statistics compiled by the GUS [Central Office of Statistics], income from last year's exports amounted to \$961 million, and we spent \$479 million there for purchases.

These figures include so-called intermediate transactions, that is, trade with third countries through the intermediary of the British market. These transactions have a significant influence on the statistics, because last year we exported goods worth \$420.5 million through Great Britain, and we bought goods worth \$116.7 million. Consequently, actual trade with England, which evidences the degree of economic contact between our two countries, amounts to a sum of approximately \$900 million.

Exports on Top

The high dynamism of Polish-British trade in the last few years is above all the result of a significant increase in Polish exports. Our partner's market, thanks to its capacity and the large differentiation of its demand structure, is a very convenient place of sale. Also, the good juncture of the market on the British Isles at the end of the past decade and the lasting consumer boom at that time favored an increase in our sales. One cannot forget the significant efforts toward developing exports on the part of our foreign trade enterprises and, of late, on the part of direct producers as well.

Above all, we are selling raw materials, fuels, and semi-finished goods to Great Britain. We are also selling them through British product markets. The structure of these

exports indicates the weakness of our economy relative to this highly developed, industrialized partner. Certain noticeable changes in the share of Polish sales in particular product groups do not evidence a wider entry into the British market with highly processed goods.

In any case, the share of coal in our exports to the British Isles is falling markedly, because of difficulties in making deliveries. Last year we sold just \$51 million worth there. We have a seven percent share in the total British import of this fuel, and British Steel is invariably the main buyer of our coking coal. In connection with the changes planned in the structure of the British power industry, a chance exists, according to the estimates of the BRH [Office of Trade Counsel] in London, of a significant increase in deliveries of boiler coal, to the extent that the internal situation in our country will permit.

Trade Turnover
(in millions of U.S. dollars)

	Exports	Imports
1979	521	793
1981	396	331
1985	489	399
1987	524	404
1989	775	519
1990	961	480

The export of copper, however, developed well last year, bringing Poland income of \$174 million. But this is for the most part an indirect export realized by the company FLT Metals on the London metals market. The sale of aluminum, which was executed in this same way, rose fourfold. Silver sales, however, diminished by 40 percent as a result of lower prices for this ore on world markets.

Profitable results were noted in the sale of steel products (including hot-rolled goods, hematite pig iron, cold-rolled sheet metals, and forged products). This constitutes 90 percent of trade for two of our enterprises, Stalexport and Centrozap, which operate in the British market through the medium of the agency Daltrade. Due to the efforts of our authorities, the previously rigid British import regulations in this field in relation to our country were partially liberalized in the middle of last year. This made it possible to increase deliveries. The annual quota was raised to 75,000 tons of goods, but because of a lack in supply and the small rhythmicality of deliveries, we took advantage of just 80 percent of this quota.

In spite of a considerable drop in the export of sulphur, our enterprises managed to increase the sale of chemical products by 20 percent in the British market. Unexpectedly, synthetic fertilizers, deliveries of which increased fourfold last year, occupied the most important position in this product group. The export of plastics, synthetic

rubber, and pharmaceuticals also continued with fair results. However, there was a decline in sales of automobile tires.

Every Success Is Gratifying

As usually happens, misfortunes are interwoven with successes. And so, firms trading with Great Britain succeeded in almost completely making up for the 50 percent drop in lumber deliveries (which was related to limitations on exports from Poland) through the increased sale of boards, furniture, and cabinetwork. In the growing export of articles from the mineral industry, cement, as usual, dominated last year. However, it represented a diminished share; whereas a significant increase was achieved in the export of glass for construction. Two dynamic producer-exporters made their appearance in the British market: HSO Sandomierz and HS Szczakowa. At the same time, in spite of the abolition of quotas on ceramic products, Polish suppliers did not note greater successes.

On the list of goods exported to our British partner, we also find light-industry products. Diminishing demand on the domestic market mobilized producers from the textiles sector to look for help in foreign sales. Here, however, the quantitative limitations resulting from the Multilateral Textiles Agreement made the situation more difficult. But in the middle of the year the authorities in London suspended the so-called self-limitation of export of Polish footwear. As a consequence, shoe exports rose by as much as 33 percent. At the same time, the sale of furs on the London market almost completely collapsed as a result of changing fashions and the rise of domestic prices in Poland. Generally, according to Polish trade experts, the barrier to the effectiveness of exports in the case of some products of light industry became obvious due to growing costs of production.

Key Export Goods In 1990
(in millions of dollars)

Copper	174
Coal	51
Silver	39.3
Sugar	36
Cables	29
Footwear	28.6
Hot-rolled products	26.5
Aluminum	20.9
Furniture	15.1
Artificial fertilizers	13.5
Sulphur	12.8
Frozen fruits and vegetables	12.6

Among the numerous Polish brand-name products that are known on the British market, the canned meats of PEK invariably reign supreme. However, the majority of deliveries from the agricultural consumer goods group is

the so-called mass product upon which importers or distributors confer their own brand and apply their own individual packaging. The sale of these products developed exceptionally successfully last year. An 81-percent growth in income was achieved, and this group drew ahead to second place (after metallurgy) with respect to its share of total exports. Liquid sugar established the most important position on the London market. The sale of molasses increased nearly twofold, and potato products, eightfold. One can see from these large increases the great possibilities that the British market offers but which have so far not been exploited at all. Last year we trebled the sale of frozen fruits and doubled the sale of processed vegetables. Among fresh vegetables and fruits, the Polish onion, beloved in Great Britain, lead the way.

Finally we come to the export of items produced by the electrical machinery industry, which our economic authorities coddle: it brought us \$111 million from the British market last year, 10.5 percent less than in 1989. In connection with this, its share in global sales fell from 16 to 11.6 percent. This unprofitable evolution was caused by the almost complete disappearance of sales to Great Britain of automobiles produced by the FSO [automobile plant]. The state simply stopped making supplemental payments to this business. But cables and wires, Cegielski ship engines, light sources, bearings, bicycles, and mechanized home appliances maintained their positions on our export list. Appliances are doing worse and worse on the British market: the sale of vacuum cleaners is slowly crumbling, but freezers and refrigerators are saving our honor. On the whole, there are not too many reasons to be satisfied.

Paltry Imports

Our imports from Great Britain still do not equal the record level from the late 1970's (almost \$800 million). After several years of rather systematic growth, they fell by eight percent last year to \$479 million. As a result, we have currently developed a large trade surplus in turnover with England, approaching half a billion dollars.

At one time that country was a very important supplier of industrial goods, particularly machinery and equipment, for us. Today these goods have been pushed down to second place, and in the lead—in terms of value—have emerged purchases of petroleum and petroleum products. We also buy a good deal of chemicals in Great Britain. This is related to that country's strong position on the world markets. On the whole, CIECH [Import-Export Center for Chemicals and Chemical Equipment] makes as much as a third of our purchases on the British Isles.

Being in very poor financial condition, Polish enterprises reduced their equipment purchases in Great Britain last year by several million dollars. Imports were dominated by minor equipment, parts, and subassemblies for British machinery already in operation in our country. All of this was of course just a drop in the sea of needs that we have. Great Britain has much to offer. An

offer in the field of computer science and telecommunications, foundry and mining equipment, transport equipment, and machinery for light industry and many other sectors could be especially interesting to Polish industry. Its technology would be very useful to us in the fields of construction and environmental protection among others.

It is difficult to give an unequivocal answer to the question why Great Britain has dropped behind not only the FRG, but also Italy, for example. One must probably search for the causes in the British exporters' less "aggressive" and less effective operation in the Polish market. The situation is slowly beginning to change, however, and firms from England are opening more and more branch offices in Poland. There are now almost 50 of them.

**1990 Product Structure
in percent**

	Exports	Imports
Products of the electrical machinery industry	11.6	26.1
Fuels and energy	5.9	27.7
Metals and metallurgical products	38.6	9.5
Products of the chemical industry	9.2	14.9
Products of the mineral industry	2.1	2.1
Products of the wood and paper industry	6.0	0.5
Products of light industry	7.8	4.1
Consumer goods	16.2	10.3
Agricultural products	1.4	2.9
Miscellaneous	1.1	1.8

The rather "conservative" policies of the authorities in London have not significantly helped the development of export from Great Britain to Poland either. Since 1981, we have been practically deprived of governmental guarantees of purchases on long- and medium-term credit. Only recently has the decision been made to provide insurance through the Export Credit Guarantee Department, but this is only in relation to short-term credits (up to 180 days) allotted in principle for the financing of supply purchases. Similarly, private banks are pursuing cautious policies in relation to us. It is understandable that in this situation we are buying capital equipment in the countries which have already put forward governmental credit guarantees (for example, the FRG, France, and Italy) rather than in Great Britain.

In connection with the reduction of the Polish debt announced by the Paris Club and the improvement in

our financial standing that is expected to result from this reduction, it can be hoped that the British stance on governmental credit guarantees will soon become more flexible and our orders will again sail across the English Channel. COCOM's partial liberalization of controls on exports to Poland will have an effect on the growth of purchases in Great Britain and elsewhere of products that incorporate the latest technology.

Companies There...

Trade companies financed by Polish capital operating in Great Britain have played a very large role in the development of our trade with that country. The most venerable among them, Anglo-Dal, can boast a history of more than half a century. More than 70 percent of our exports to the British market pass through these companies. Moreover, the number of entities of this type continues to grow, and in the last several years has even doubled. There are currently in Great Britain 20 trade companies financed by Polish capital, and functioning alongside them are three service companies and three branch offices (Bank of Commerce, S.A.; LOT [Polish Airlines]; and Warta).

Operating in the vicinity of the British client, the Polish companies fulfill an essential marketing and promotional function, not to mention the fact that in the majority of cases they eliminate the local agents and intermediaries. Unfortunately, too many of them still do not step beyond the role of agent of the home offices engaged in foreign trade, thereby minimizing their own risk. In recent years, however, there has emerged a rather definite trend among the companies toward making purchases in Poland on their own account, often directly from producers. This is undoubtedly a more difficult solution, but it creates considerably greater freedom and opportunities for operation. Some of the companies, for example Ridpath Pek, have for years been trading not only Polish goods, but have also enriched their offerings with products from third countries. Similarly, Polorbis sells airline tickets of all carriers grouped in IATA [International Air Transport Association]. They also organize trips—and not just to Poland. Taking on more of a multilateral profile demands changes in the principles defining the companies' goals. Up until now, it was commonly believed that their main task was to increase Polish exports. Now the shareholders are gradually assigning the companies a larger field of maneuver in order to maximize profit.

Private Polish capital is also slowly beginning to participate in companies in Great Britain. This occurs without the knowledge of our institutions so often that there is a lack of more accurate data on this topic. British law is very liberal in this respect and one may create a company declaring an investment of 100 pounds. It is also fairly easy to buy existing companies for a sum several times greater.

Joint Ventures Here...

Information about Polish-British enterprises in Poland is easier to get hold of, because the consent of the Agency for Foreign Investment is still necessary to form them. According to data from the beginning of this year, this institution has given out about 150 such licenses (of the total number of nearly 3,000). This puts Great Britain in fifth place among foreign investors in our country. However, let's add that the number of these joint ventures is growing very rapidly: in 1990 this number increased nearly two and one half times.

The majority of British enterprises undertaking direct economic activity in Poland are small firms which do not have large amounts of capital at their disposal, and their owners are often of Polish origin. However, there are exceptions. One can undoubtedly count among them the following: Furnel, a company founded in 1987, with the participation of the electronics concern, JCL; Agrohändler, a company specializing in the production of special loaders for agriculture and supported by the technology of the English participant, the J. C. Bamford firm; Grawerco-Ryan which is reclaiming coal from mine heaps; the company Ferropol which intends to refashion scrap rails into reinforcement rods for construction; a joint venture involving the participation of Kodak which plans to create a network of photo labs; and the company Sugarpol, which is modernizing two sugar factories in the Torun voivodship in accordance with the technology of British Sugar. It is also worth mentioning the venture of Orbis and one of the largest British hotel chains, Trust-House Forte. It will modernize the Hotel Bristol in Warsaw and join it to the British partner's chain. The formation of a company by HSO Sandomierz and the Pilkington concern to engage in "float" production of glass is close to finalization. A letter of intent, in which the value of the initial capital was set at \$130 million, was already signed at the end of last year.

The economic reforms taking place in our country, and especially the privatizing processes, evoke great interest in Poland among British consulting and auditing-accounting firms. The larger of them are opening their own branch offices in Poland and entering into joint ventures, potentially operating through use of the Know-How Fund, which has been granted to Poland by the government in London. British consultants played a big role in the first, pilot privatization of five Polish state enterprises which was conducted last year.

Many other interesting topics from the sphere of Polish-British cooperation are in the discussion and negotiation phase. The progress of the talks will in large part depend on our laying the proper groundwork, on the tempo of privatization and on the further liberalization of the joint venture law among other things. We must also stop fearing foreign capital. In this sense, the British perhaps have a better starting position than our Western neighbors.

New Potential for Trade Development With China

91EP0475A Warsaw RYNKI ZAGRANICZNE in Polish 6 Apr 91 p 7

[Article by Zbigniew Mankiewicz: "Poland and the Chinese Peoples Republic: The Beginnings of a New Cooperation"]

[Text] The past year was not the best for Polish-Chinese trade. The value of this trade decreased by 35.3 percent, including our exports by 29.3 percent and imports by as much as 41 percent. Reciprocal trade closed at \$345.1 million which included our exports totalling \$192 million and import, \$162.1 million. A variety of factors caused the regression in bilateral trade. The most significant of these are: slowing of the dynamics of Chinese economic development, the economic recession in Poland, and transition to hard currency exchange as of 1 January 1991.

Last year's economic recession in Poland caused a decline in interest in imports on the part of almost all markets, including the Chinese Peoples Republic. Added to this were the difficulties connected with the currency change and the change in fiscal policy at the beginning of 1990. Imports from China realized on the basis of contracts negotiated and calculated in 1989 became very expensive under the new conditions and our market showed no demand for them.

Therefore it is not strange that Polish trade companies, having no other option, withdrew from import contracts in great numbers, even at the cost of high penalties stipulated in the agreements. Statistics shows that our companies unilaterally nullified contracts for a total of approximately 90 million Swiss francs. This was one of the main reasons for the setback in imports from China. To counteract this abnormal situation, a decision was made to decrease the turnover tax to five percent of the value of the goods imported from China and introduce a 20 percent disaggio to the Swiss franc exchange rate with respect to the zloty for paying obligations on imports from the Chinese Peoples Republic. The system of preferential tariffs for Chinese goods introduced on 14 January 1991 may stimulate purchases. As distinct from imports, our exports to the Chinese Peoples Republic have not met with greater difficulties and have been fully implemented for some time.

Also, the transition as of 1 January 1990 to hard currency accounting was responsible to some extent for a decrease in trade. The system of clearing accounts was retained only with respect to contracts concluded before 31 December 1989 within the framework of international trade protocols. This temporary retention of clearing was intended to prevent a sudden drop in the trade level. Last year's results are evidence, however, that this goal was not fully realized.

Toward the end of last year an additional balance of trade for Poland appeared in the clearing account. It amounted to 50,292 Swiss francs. In addition, accounts

apportioned for barter transactions showed a total surplus of 26.6 million Swiss francs. This balance—according to agreements—should have been paid by the Chinese with supplies of goods by 31 March 1991.

A basis for optimism is the fact that after a period of clear regression in joint trade, a certain increase in contracts for goods for cash is again evident. This is accompanied by increased interest in trade, manifested in increased promotional activity. It is characteristic that not only Polish, but also Chinese companies have become active. Sufficient to say, the enterprise, China National Light Industrial Products Import and Export Corporation, recently opened an office in Poland and three other companies expressed similar intentions.

The present level of economic relations is not equal to the real potentials and does not exploit all reserves of the economic potentials of both countries. / In conjunction with what has been said, it would be expedient for the National Chamber of Commerce and the Chinese Committee for Promotion of International Trade to engage in substantial discussions on the matter of creating a Polish-Chinese Chamber of Commerce and Industry perhaps—as the Chinese are presently proposing—by forming separate chambers in Poland and in China and then uniting them on the basis of that experience. The Polish plan for a statute on the chamber was transmitted to the Chinese in November 1990. The Chinese proposed that a Polish delegation, led by the president of the National Chamber of Commerce, come to Peking to discuss subjects of mutual interest with the Committee and other institutions supporting economic cooperation.

The concept of organizing means to promote trade in selected provinces and towns designated by the Chinese Peoples Republic where cooperation promises to be most advantageous for Poland is actually taking shape. The Office of the Trade Adviser in Peking proposes that these centers be opened in the Heilongjiang, Sichuan, Shandong, and Henan provinces. The advisability of opening such centers in the coastal zone provinces and special economic zones should also be considered. These areas have developed industry, foremost technologists and advanced technology.

Moreover, it would be worth reintroducing the suggestion presented during Session V of the Polish-Chinese Committee for Economic, Trade and Scientific-Technical Cooperation (January 1990) that a Polish-Chinese bank be created for servicing current trade and financing joint enterprises; this bank would serve a promotional-agent function at the same time. Mutual economic relations would be favorably influenced also by concluding interbank agreements that would regulate the hard currency system of payment for goods, mutual crediting and other related problems.

The Chinese consider linked transactions an important and supplementary part of foreign trade. Within the framework of this kind of transaction, the import of goods of lower priority is permitted, including

machinery and equipment linked to export of manufactured industrial products, especially products of light industry, textile, ceramic, and other industries. At the same time, the Chinese have decidedly eliminated exports of raw materials and goods that are easily sold for cash. A consideration of this element in Polish-Chinese trade and broader application of compensatory transactions would be a factor that would stimulate trade.

In this connection, it would be expedient to approach the Chinese with a proposal to devise at the ministry level of both countries a list of the kinds of goods which—in the opinion of both parties—might constitute trade items linking export with import. The appropriate institutions of both parties would be obliged to accept this kind of transaction in accordance with the law of each of the countries. According to the plan, Polish exports would include products of the electromachine industry and the food industry. Dominant in imports from China would be market goods such as wool and silk textiles, products of the electronic industry, agricultural food products, etc.

Also, the development of a list of basic raw materials, agreeable to both parties, is indispensable. We should remember that basic imports from China include: tungsten ore concentrates, molybdenum, tin, mercury, antimony, tung oil, wool, wool yarn, and possibly petroleum. In turn, exports would include, for example, products of black metallurgy, copper rod, cables and bare copper and aluminum conductors, calcined and caustic soda, and urea.

Among other matters, it would be worthwhile to review the protocol of the visit of the Chinese delegation to the Office of Scientific and Technical Progress and Implementation in the matter of implementing the Chinese plan, ISKRA, (a program for introducing industry into the Chinese village). What is concerned here is adapting its decisions to the real needs of Chinese agriculture and ensuring Polish participation in this program through supplying technology, a line of products and complete equipping of agricultural food industry installations. We must remember that the plans established in the protocol were of interest to elements in the Polish economy, which was expressed in the presentation of concrete technical trade proposals.

During negotiations in the course of the last three years, 23 plans were put forward for joint enterprises of the joint venture type. Many letters of intent were signed, substantial negotiations were initiated and, in several cases, contract drafts were prepared. Most advanced were negotiations of plans in the area of production and manufacture of boilers, mining and cutting of granite blocks, production of hydraulic excavators, titanium white, sugar products, and the creation of a joint service station for Fiat 126p cars. However, conditions proposed by the Chinese and the frequent changes in the proposals, difficult for Poles to accept, and the failure of the Chinese to observe the initial agreements form a basis for assumptions that the Chinese have not shown

any great interest during the past year in finalizing the negotiations that were started.

The fact is that many plans have fallen through. This state of affairs was also due partly to factors on the Polish side, specifically, the unwillingness to invest capital, the somewhat high risk and fear of possible losses. A real cause of the difficulty in realizing investment plans of the joint venture type between Polish and Chinese enterprises is the lack of available funds on both sides.

Nevertheless, promotional, informational, and initiating activity should be aimed at building lasting cooperative relations (various forms of joint ventures, joint scientific research enterprises and organizations) that would be a real factor intensifying economic cooperation in well-developed forms. A useful role in the process of a broadly conceived agent-informational activity might be implemented by the UNIDO office in Warsaw which would employ a representative of the China International Trust and Investment Corporation (Holdings) in Peking. In this activity, consideration should also be given to the special economic zones (SSE) and the national defense sector. The most preferential conditions in China regarding foreign investments are in effect in the SSE. These zones already have established and well developed economic contacts.

Possibilities of Trade With Hong Kong Examined

*91EP0471A Warsaw GAZETA BANKOWA in Polish
16-17 Apr 91 pp 16-17*

[Article by (MS): "Hong Kong and the Polish Situation"]

[Text] Hong Kong is an economic phenomenon. Its position at the intersection of the Chinese colossus and the British metropolis resulted in an unprecedented blossoming. The exports of Hong Kong, with its population of 5.5 million, are greater than the exports of China with its population of much more than a billion. Under these circumstances a unique type of entrepreneur has developed: exceptionally aggressive, flexible, and open to the whole world.

What interests can Poland and Hong Kong have in common? Certainly significant interests worth earnest effort. For Poles contacts with Hong Kong present the potential for accelerated mastery of the know-how of international business, and a gateway to the Chinese and other Asian markets. Moreover, relations with Hong Kong, an important international trade and financial center, open the possibilities for expanding into the whole world. Those entrepreneurs who emigrate from Hong Kong will carry on business elsewhere and contacts with them will not be lost.

For businessmen from Hong Kong, Poland is a large market in Europe, at present the largest in the former CEMA, and an eventual base for expansion into the Soviet market and into other neighboring countries.

Before 1 July 1990, Hong Kong was closed to citizens of the Warsaw Pact. Since that date, under pressure of the business world, visa restrictions were removed with respect to Poles, Czechslovaks, and Hungarians. In applying to the colony for a visa, however, one must give the name of a sponsor ready to receive a guest from Poland.

The first contact of a Polish entrepreneur with a Hong Kong sponsor may be the Hong Kong Trade Development Council (TDC) organized in 1966, an extragovernmental organization promoting Hong Kong trade with the world.

The first task of TDC is supplying technical information rapidly and without charge. Every year, this agency issues 2.4 million pieces of printed matter presenting practically all the goods and services offered for sale by Hong Kong companies. There are 33 technical catalogues, most of which appear monthly. In addition to these, a monthly comprehensive catalogue, HONG KONG ENTERPRISE, presents the latest offerings of Hong Kong companies with many branches.

Another task of TDC is giving potential clients direct assistance in locating a supplier and setting conditions of sale. Computer data banks provide immediate access to a list of 40,000 manufacturers divided according to lines of business. It is not necessary to go to the TDC headquarters on the island of Hong Kong and visit the Trade Services Department. The same information is available in any of the 30 TDC offices worldwide. Poland is served by offices in Frankfurt am Main and in Vienna. TDC fairs, seminars, and promotional demonstrations play a real role in connecting trade partners; approximately 200 events take place each year. TDC has its own fair center 409,000 square meters in area.

A third task of TDC is studying foreign markets, investigating their potentials and needs and providing comprehensive information to Hong Kong business on legal regulations, taxes and tariffs, and basic statistical data and expert opinion on any given market. TDC issues market reports in the form of bulletins and sells them at a relatively low price. A monthly, OVERSEAS MARKET NEWS, contains articles discussing the current situation in world markets, new trends, changes in regulations, a calendar of expos, etc.

The MARKET REPORT ON POLAND, issued in May 1990, discusses in detail the current economic situation in Poland, the prospects for development, the structure and organization of foreign trade and taxes and tariffs, and contains advice for businessmen interested in Poland. Among other things, it advises them to make contacts first with the centers for foreign trade, networks of stores of the Centrum, Pewex, Baltona, and Marcpol type, and to participate in fairs and exhibitions as the best form of making contacts, or to use as intermediaries Austrian, German, and Swiss companies that have a good understanding of the Polish market. Considering

the constantly murky legal and tax situation, it is recommended that offices be located in Vienna to be in a position to serve the whole West European market rather than in Poland itself.

Trade With Hong Kong Opens Potentials for Expansion Into the Whole World

In addition to the special report, Hong Kong businessmen can get information on Poland from several comprehensive studies of the whole West European region. All these materials are developed mainly by the Vienna and Frankfurt TDC offices whose representatives are in contact with our centers of foreign trade, visit the Poznan trade fairs, organize exhibitions in the Victoria Hotel, and promote sale of Hong Kong goods in the Centrum stores.

TDC representatives complain that obtaining materials about Poland is quite difficult since information provided by Polish government institutions is usually held up and not current, and is incomplete and frequently written only in Polish. Also, Polish regulations are constantly changing and scarcely anyone can keep current in beating through their thicket. Because of this, TDC takes advantage of West European sources, GATT, and expertise of Western banks.

The residents of Hong Kong get their current information on Poland from television and the newspapers. But the information is sparse and secondhand. Observations on Poland made by the local press are a rarity. Most of the time the local press uses reprints from world agencies and the image formed by the reporting of Reuters, AFP, AP, and UPI is fixed in the minds of Hong Kong residents. This image is of necessity simplified and not the image that we might wish for. For example, a very bad impression in Hong Kong was formed by the atmosphere of the presidential elections and the fall of the Mazowiecki government. The daily, SOUTH CHINA MORNING POST, which is most influential in forming public opinion, commented on these events as a sign of political destabilization in Poland and a threat to the process of economic reforms.

No less seriously than the TDC publications on Poland does the Hong Kong business world treat the published statements of Western bankers and entrepreneurs—Austrian, Swiss, German—who advise great caution with respect to a politically unstable Poland, and occasionally advise using firms that they represent as intermediaries that have much experience with Polish contacts.

The direct voice of Poland is practically nonexistent in Hong Kong. Much more active are Yugoslavia, Hungary, and Czechoslovakia, being there in numbers and promoting their markets themselves on site. Generally speaking, Poland is little known in Hong Kong, it is at once controversial and attractive as a potentially large and receptive market.

There is much material for thought in the statements of heads of Hong Kong enterprises on the subject of interests in Poland collected by Krzysztof Darewicz. In nearly all the statements the following elements are repeated: there is no promotion of the Polish market in Hong Kong, it is not known what Poland has to sell. In spite of inducements from higher authorities, prospective investors in Poland meet with a wall of incompetence and indifference on the part of bureaucrats at the lower level who require a collection of 50 stamped documents with a month and a half waiting period for each; and the lack of a framework and guarantees for investors that the rest of the world accepts persists. Hungary and recently Czechoslovakia offer better conditions.

Robert Li, owner of RJP Electronics and chairman of the Association of Electronics Manufacturers, would like to invest in Poland, but at the moment he does not see adequate guarantees. In his opinion, if Poles were to become active, they could export to China and other ASEAN countries through Hong Kong, and, conversely, Poland could serve as a base for Hong Kong's expansion into the Soviet and East European market. Initial market studies indicate that the most advantageous conditions are offered by Hungary and RJP will open its first East European office in Budapest.

Eddie Lu, chairman of the Association of Manufacturers and Exporters of Knit Goods and owner of the powerful Afasia Knitting Factory, would like to buy a whole factory in Lodz, but no one in Poland can give him a price. He believes that the Polish textile industry has a future if it is radically restructured and its economic mechanisms generally "debureaucratized." He also stated that the position of trade unions in Poland is somewhat too strong. Mr. Lu will open his first store in Eastern Europe in Hungary.

Warren Kuok, secretary general of the Association of Toy Manufacturers, said that they do not want to treat Poland exclusively as a buyer of Hong Kong goods and would readily undertake different forms of cooperation. If Poland actually demonstrates that it is the most open of all East European countries, then his branch will want to use our country as a base for expansion to Eastern and Western markets.

Promotion of the Polish Market in Hong Kong Is Nonexistent in Contrast With the Hungarian and Czechoslovak Markets

Toy manufacturers plan to build a base in Poland to expand into the Eastern and Western markets if Poland shows itself to be the most open in Western Europe.

Charles Chapman, the chief of the Association of Manufacturers of Electronic Appliances, also recognizes a need for transition to a higher level of cooperation since the existing easy sales will end when the Polish market is saturated. Local investments are essential. For starting this process, Chapman suggests the creation of a government agency that would free foreign investors of the

bother of going from Polish office to Polish office to satisfy all the formalities. This is how it is done in Thailand.

The first contacts of Hong Kong business with Poland are frequently discouraging and sometimes humiliating. For example, a certain travel bureau approached LOT [Polish Airlines] with a bid to transport a group of 80 businessmen to Warsaw, accommodate them at the Marriott Hotel (LOT is half-owner), and provide a tour of the capital. The travel bureau was certain that LOT would propose a reduced rate, treating this as an excellent opportunity for promoting its services, providing entry into a difficult market, and free advertising. But our state monopolist behaved like a small bazaar profiteer who sensed a one-time opportunity to line his pockets: he offered not the lowest, but the highest fare and could not guarantee hotel accommodations. As a result, the Hong Kong millionaires flew on Austrian lines which gave them significant discounts and transit accommodations in a comfortable Viennese hotel. The Austrians profited from this excursion, the travel bureau will forget about the existence of LOT, and the businessmen from Hong Kong will have a fixed impression of Poland as a backward country to which excursions can be made from Vienna or Berlin.

Farming Official on Japanese, Taiwanese Visits

AU0806130791 Warsaw RZECZPOSPOLITA (ECONOMY AND LAW supplement) in Polish 4 Jun 91 p I

[Interview with Mieczyslaw Stelmach, deputy minister of agriculture and food industries, by Malgorzata Ksiazek and Edmund Szot; place and date not given: "An Interesting Offer From Japan and Taiwan"]

[Excerpts] [RZECZPOSPOLITA] Polish agriculture or, more accurately, the Polish food industry is beginning to attract interest from increasingly exotic partners....

[Stelmach] That is true. Last week we played host to two deputy ministers: a deputy minister of agriculture from Japan and a deputy minister of foreign economic cooperation from Taiwan. Both deputy ministers were accompanied by teams of experts, and they were both interested in the possibility of expanding cooperation with Poland. Current cooperation is on a ridiculously low scale. Our agricultural exports to Japan, which is a great economic power, barely amount to \$1.5 million.

[RZECZPOSPOLITA] So what are the Japanese proposing?

[Stelmach] They want to acquaint themselves with opportunities for investing in the processing of agricultural produce with a view to importing our products at a later date, but, in addition to that, they are also considering the possibility of sales to other European countries and the USSR. The injection of capital and technology offered by them would be very substantial. Thanks to it, Polish products would become competitive on foreign

markets. Over the next few days we will prepare a concrete offer covering the individual areas in food processing. We also provided them with a list of agricultural produce and foodstuffs that we could already sell them now. [passage omitted]

[RZECZPOSPOLITA] Did you receive similar offers from the Taiwanese delegation?

[Stelmach] The Taiwanese would demonstrate the vitality of their economy to us, an economy that is almost based entirely around small and medium-sized enterprises. They would acquaint us with their technology and ways of converting production, because small enterprises are able to rapidly respond to market needs. In view of the absence of diplomatic relations between Poland and Taiwan, we would have to find some alternative ways of maintaining contacts. They have proposed setting up a bureau for promotion purposes in Warsaw. It would serve as a kind of mailbox where domestic investors could leave offers and questions. They envisage the possibility of establishing a similar bureau in Taipei. [passage omitted]

Iranian Industry Delegation, Trade Potential

AU0706182291 Warsaw RZECZPOSPOLITA (ECONOMY AND LAW supplement) in Polish 4 Jun 91 p II

[Article by Danuta Walewska: "From the Soviet Market to the Iranian Market"]

[Text] There is a possibility that some of the enterprises that were "welded" to the Soviet Union will be able to sell part of their output to Iran. That is the conclusion to be drawn from talks that were held between a delegation from the Republic of Iran, which was headed by Heavy Industries Minister Mohammad Hadi Nezhad-Hoseynian and representatives of the Polish authorities, including Deputy Prime Minister Leszek Balcerowicz and industry minister Andrzej Zawislak.

The Ministry of Industry has prepared a list of 40 enterprises for the Iranians. The enterprises were at one time "welded" to the Soviet market and are now unable to operate at their full production and export capacity. The list includes the Stalowa Wola Steelworks and Warynski Shipyard. Initially, cooperation with the Iranians would mean exports worth \$10 million for the Stalowa Wola Steelworks. It is not an enormous sum, but for an enterprise that is experiencing such grave financial difficulties, any contract is a good one. It is estimated that the Iranian offer would use between four and 10 percent of the capacity of these enterprises.

There are also prospects for cooperation with Iran for our shipbuilding industry (the country has a very long coastline), and Poles could assist in developing and organizing shipyard work.

There would also be opportunities to sell Polish machinery to Iran, but in general the country's government is interested in a new form of cooperation—that is to say, it does not intend to export crude oil and buy finished goods in exchange, but would like to buy technology and support services.

Following talks with the Iranian delegation, the deputy prime minister said: "The visit—and we both share this opinion—might yield important results for the transformation of the economies of both Iran and Poland. We do not want to abandon traditional forms of cooperation, but would also want to make use of new forms, which chiefly center on the provision of construction and refurbishing services by Polish enterprises. This could be achieved in conjunction with contributions of capital. This kind of cooperation might also apply to those enterprises that are going through the difficult process of reorientation, of shifting away from the Eastern market and turning toward other markets. We also agreed that Poland's dynamic and expanding import sector should also focus attention on countries that are changing their economies—Iran is such a country, and that is something that our private importers should note."

The heavy industries ministry in Iran has allocated \$4 billion for the import of machinery and equipment for various sectors of the economy. How much of that sum ends up in Poland depends on how attractive are the items we have to offer and whether we manage to show what we are capable of doing quickly and well. The Iranian delegation, which will be in Poland from 3 to 5 June, will visit the Gdansk Shipyard, the Stalowa Wola Steelworks, and other Polish plants. It will also be received by prime Minister Jan Krzysztof Bielecki.

Solutions to Foreign Investment Problems Offered

*LD0806014191 Warsaw PAP in English 2237 GMT
7 Jun 91*

[Text] Warsaw, June 7—"Poland does not meet a number of conditions required to attract foreign investment to the extent that would be sufficient for playing a significant role in her development," is the conclusion of the Second General Assembly of the Industrial and Commercial Chamber of Foreign Investors, held in Warsaw on Friday. In a final document the foreign investors suggest over 20 detailed solutions that might improve the government economic policy which, they say, employs insufficient measures. Their main postulates include state interventionism, especially to eliminate all kinds of monopolies which in the Chamber's opinion will turn any attempt to boost the national economy into mere inflation. The Chamber members represent the opinion that the attractiveness of Poland as a country to invest in would largely improve when the now-amended Foreign Investment Act is passed, expected later this month. The Chamber plans to gather for the second part of its General Assembly in October.

YUGOSLAVIA

New Slovene Deputy Prime Minister on Economy

*91BA0690A Ljubljana DELO in Slovene 11 May 91
p 23*

[Interview with Slovene Deputy Prime Minister Andrej Ocvirk by Miha Jenko and Mija Repovz; place and date not given: "Not Without Political Stability"]

[Text] [Jenko] What is your brief analysis of the economic situation in Slovenia?

[Ocvirk] Economic analyses by the Bajt Institute indicate that annual production has declined by 20 percent. The economic crisis is very deep, since that is the lowest level of production since 1976. That is true not just here in Slovenia, but also in the whole of Eastern Europe. It has to do with the changes from a socialist economy to a market one. We ourselves have been making reforms from 1965 on, but all those reforms were partial ones. They did not take into account all three parts of the market—capital, goods, and labor. Now we will have to carry out that reform in full, and it will certainly require profound shifts. Economic policy has mainly been under the influence of the policy that was conducted in Belgrade. The key thing was the monetary policy there, which has recently seriously impoverished the Slovene economy.

[Jenko] Economic policy, like all politics, is above all the art of the possible. Does it seem to you that in the given political and economic situation, you have enough maneuvering room as deputy prime minister? Where do you see your opportunities and your limitations?

[Ocvirk] In the independence concept, the first thing is establishment of our own macroeconomic and economic system. Last year we ruined the market through economic policy, and the key thing in this was the exchange rate policy, which means balancing foreign trade, especially for the Slovene economy, which accounts for, or did account for, 30 percent of Yugoslav exports. That is why changing monetary and exchange rate policy, and shifting to our own formation of that policy, are very important. Unfortunately, the effects of positive steps in accordance with macroeconomists' analyses are only shown after a year.

[Jenko] How are you in the government preparing for possible sanctions when the monetary, banking, and other economic legislation is introduced? For instance, if the NBJ [National Bank of Yugoslavia] revoked the authority of Slovene banks to engage in foreign transactions?

[Ocvirk] I cannot tell you the details now, because I only started to acquaint myself with things and prepare them 10 days ago. A program has been prepared, a flow chart for independence, which provides for the progress of all the economic legislation, and a complete disconnection from the Yugoslav legislation. All possible consequences

have been foreseen, including the measures to take in such cases. This is legally based on existing international conventions. Now the question is only whether everything will be carried out in accordance with what the government, Presidency, and deputies agreed upon in various meetings abroad, and also, of course, at the NBJ. We have specific guarantees that what you mentioned will not happen.

[Jenko] Can you be more specific?

[Ocvirk] It is difficult to say specifically, since as long as the legal system is the way it is, and as long as the existing conventions are valid, no one can guarantee you anything outside of the existing legal system, until you take steps yourself.

[Jenko] A few days ago, the secu monetary accounting unit was introduced. Will it stay like that, or will Slovenia also get money with all its functions?

[Ocvirk] It was decided that we would use the accounting unit during the transitional period. It is not yet known when a Slovene currency will be introduced. It is projected that this will happen by the end of the year.

[Jenko] Not on the day of independence, then?

[Ocvirk] No.

[Jenko] At the end of last year, Minister Rejc assured us that substantial lines of credit had been prepared abroad, worth several hundred million dollars, which would be opened up during the period after the plebiscite. Do you know whether Slovenia has received any foreign loan during the past four months, or whether such a loan is promised in the future?

[Ocvirk] I do not know. I do know that several of our enterprises are negotiating with foreigners, who are prepared to invest capital....

[Jenko] Those are foreign enterprises, then?

[Ocvirk] Yes. They are prepared to invest large amounts of money. I do not have any other information on capital investment, but I think that it will still be necessary to solve the problem of privatization. We also need some political stability here. Investing in some country is most of all a political risk, and as long as television pictures of tanks are being broadcast in the world, it will be very difficult for capital to come here.

[Jenko] In your first appearance before the assembly, you said that the new law on privatization would be a combination of Mencinger's model and Sachs's. Until then we actually did not know what the fate of Mencinger's law would be. Can you tell us very precisely what part of that law you do not agree with, and what part should be deleted, and how you would expand it?

[Ocvirk] Since it was said that this was the key point of the dispute, I obtained both proposals. In 10 days, I have read them, and also already stated several times that

both methods were possible. Everything just depends on space and time. If the assembly had passed Mencinger's law last November—and in my opinion, it should have—there would not be any problem. In view of independence, however, certain things have now perhaps become more urgent. In Mencinger's law, for instance, it was left open what would happen to large systems, what would happen to the infrastructure, which has to be resolved separately, and what would happen to the banking system. Sachs demanded that all this be settled at the same time for everything. I also think that it is right for everything to be done together, at the same time. Any sort of implementation, however, will take a long time in any case. Mencinger's law would therefore have had to be supplemented with other separate laws.

Some of our economists, including Dr. Ribnikar, advocated having all the capital go into the pension fund.

Sachs proposes that only part of the capital be transferred to the pension fund. I think that this has a certain economic logic, since we know that in the West those funds invest extensively in the economy, and thus obtain dividends with which they ensure the social security of the people insured. If we do that here, we would provide some of the money for pensions by means of dividends, and not through the budget, by means of taxes. It is a problem, however, because we still have to learn how to manage securities.

[Jenko] Consequently, what was wrong with Mencinger's law was primarily that other laws would have to be added to it in order to privatize large systems, the infrastructure, etc.?

[Ocvirk] Those, and the ones operating with large losses, such as the railroad industry, the banking system—in short, the entire infrastructure. That is certainly not easy, however. That is why some people say that Sachs's model involves shock therapy, and that a shock per se is not good. It is true that things will not recover through a heart attack—absolutely not. It is important, however, to adopt a concept. How long it takes to implement it can vary, however, since the pension fund will be able to start operating with this when we have learned how to manage and sell shares and securities.

[Jenko] You said that you compared two models: one is Mencinger's law, but what is the other?

[Ocvirk] We compared the bill that was prepared, and the memorandum that was prepared by an expert committee under the leadership of Prof. Sachs. It performed an analysis based on the model that Sachs had already used elsewhere and had successfully presented at the last World Bank assembly, which was at the end of April.

[Jenko] In addition to Sachs's proposal there is also one more proposal, which is entitled "Privatization," but is unsigned, and consequently it is not known exactly who its authors are. It was supposed to have been discussed this week in the Demos deputies' clubs. Whose proposal is it?

[Ocvirk] They actually did show that to me in the assembly recently, but I did not even want to look at it. I do not know who prepared it. We have to be aware that there are attempts to make privatization more of a political than an economic category; but we know that privatization is an economic category, which cannot be handled without a feel for politics. The key thing is for privatization to be divided among people as uniformly and fairly as possible. In the beginning we should not make distinctions among citizens of Slovenia. If we transfer shares to some joint fund and form some shares, bonds, or other securities from it, and distribute them among citizens, that is much more equitable than if we distributed them by firms, which are very bad and good; the employees are not responsible for that.

[Jenko] What proportion of social property should be distributed? There are different figures.

[Ocvirk] There was a proposal that 10 to 20 percent should be distributed among firms to the workers, and 50 percent should go into a joint fund, and then onward from there in some form. It was not specified anywhere that this would be for free. I think that it cannot be for free, since you cannot appreciate goods that you get for free. Mencinger was right about this.

[Jenko] Then there should not be any gratis distribution?

[Ocvirk] It is not defined anywhere that it should be completely gratis. It is possible, however.

[Jenko] In the future, will you head the group that will deal with privatization, and thus be Dr. Mencinger's successor in this?

[Ocvirk] I think that it will be assigned to me. So far it has not yet been decided, but after all the discussions that have taken place it seems that I will have to take it over. The law has to be prepared by a group composed of experts who are in the government, in the Republic of Slovenia, and with the assistance of foreign advisers, who will be led by Prof. Sachs.

[Jenko] We have been failing to achieve economic revival for at least two years now. When will we begin to revive it, and where will Slovenia get the money for financial rehabilitation?

[Ocvirk] It will be a long-term process, since we know that it lasted for seven years in Spain, which had a different infrastructure than we have here. We know that Markovic has already tried to rehabilitate the banking system, but nothing has been done. In this phase—when we do not even have an overview, except for certain reports—I will try to work toward financial rehabilitation of the banking system in accordance with the program that will be developed by the Slovene government.

[Jenko] Will you take into account Sachs's proposal for dismantling the monopoly of Ljubljanska Banka, which is among the exotic characteristics of our economic space?

[Ocvirk] Sachs has come down hard on Ljubljanska Banka's monopoly, and has proposed that several banks be created from it. I have to admit that when Ljubljanska Banka was formed, I supported the concept that it should be a single bank. If a Slovene bank is among the 200 largest banks in the world, it seemed to me, that means something. It seems to me that it would also mean something in the future. Of course, now the question is what to do about the monopolistic position that creates high operating expenses. Changing the banking system at a time when the bonds of the monetary system are being broken is very questionable. I have not yet been convinced that this bank should actually be broken up; I am in favor of ensuring that its operation is comparable to the operation of a bank in the West.

[Jenko] Recently the public has been made aware on several occasions of the idea that in time Slovenia could become a sort of Singapore, a door to Eastern Europe. Do you think that there are possibilities for something like that?

[Ocvirk] Slovenia quite certainly has to open up economically and build an economic environment that will attract foreign capital. Should Slovenia become a Singapore? I think that the matter should be defined differently: it has to establish the conditions for offshore legislation (a system of tax and tariff benefits known in certain smaller European states and English islands—author's comment). We also have to have a suitable infrastructure to do this. Without it, no one will come here. We have to establish a stable political system, and build an economic infrastructure with foreign capital. Only then will it be time for off shore legislation that will allow the development of enterprises. I know that this has been the concept of certain European states (Liechtenstein, Switzerland), and more recently Cyprus as well. With lower taxes, one can attract investors, and thus people, and afterwards capital. The basis for all of this is political stability, without which there can be no transfer of capital.

[Jenko] Is there any readiness in the government for something like that?

[Ocvirk] We will stimulate readiness. We still have a considerable lack of it, however. First of all secession awaits us; but above all, political stability is important.

[Jenko] Any secession or change in the political system will increase the so-called FUD (Fear, Uncertainty, and Doubt) factor, which drives away investors. What measures will you in the government take to diminish its consequences?

[Ocvirk] The first thing is certainly reaching an agreement within the framework of Yugoslavia. Because we have not been able to agree on anything in Yugoslavia, we are now, so to speak, in a state of civil war. It is necessary to do everything possible to ensure that it will stay on the other side of Slovenia's borders.

[Jenko] What economic policy measures will you use to attract foreign investors?

[Ocvirk] Secession is the first thing. The second is legislation that the Western world understands. Look at the law on enterprises that Markovic set up as an innovation. In my opinion, it is absurd, since there is a law on trading companies that has been coordinated for the European Community. One can only copy it and add additional articles to it, which will essentially only specify the transition from the existing situation to a new one. Why should Western businessmen have to learn something new here, if they do not need to, since they know how things work in the West? We obviously have to transfer that legislation here. In the second place, we have to ensure legislation for the banking system, for the system of securities.

[Jenko] In economic and financial circles, one can hear warnings about how small our 2-million-strong area is, in which we unnecessarily exhaust ourselves in party dissension when appointing people to key government or advisory positions, instead of giving priority to professionals.

[Ocvirk] I think that our small area is a big problem, because we all know each other, and that is usually not good.... In time, professionalism will begin to prevail, when interparty struggles have been replaced by a minimum of cooperation, and when it is clear that we all have to fight for one thing—for the development of the Slovene state and economy, and for a better social position for citizens.

[Jenko] One can frequently hear from the opposition benches in the assembly that the government does not yet have an economic and development program.

[Ocvirk] I think that today it is difficult to prepare such a program, because it is associated with establishing our own economic system, and also includes separation from the Yugoslav economic system and reactions in the world. The situation is very demanding and complicated. One should be aware, however, that an enormous amount has already been done, primarily in the financial and fiscal sector.

[Jenko] What standards will you use to choose your advisers? Will you give priority to economic or political standards?

[Ocvirk] To economic standards, absolutely, since as we go quickly in macroeconomic policy to that last word—policy—then in a very short time there is no more economics left in our ears, but only policy.

[Jenko] Are you an economist or a politician, then?

[Ocvirk] I cannot say that I am an economist, because I am a scientist. In any case, I studied third-year economics, and passed all the tests, but I do not have a diploma. But I am not a politician, because when I was in politics, I was always engaged in economic work and I never wanted to deal with pure politics.

[Jenko] How do you view your predecessor, Dr. Mencinger?

[Ocvirk] Dr. Mencinger is a recognized expert. What we heard about him in the assembly is absolutely true. I hope—and he has also promised me—that we will continue to work together.

[Jenko] How do you view his resignation? Does it seem to you that it was even necessary, if desires are now appearing for a combination of both privatization laws?

[Ocvirk] I did not have anything to do with his resignation. I have never criticized the government. I began discussions about my possibly taking over this position when he had definitely stated that he would resign. I filled the gap that appeared.

[Jenko] Have you known Mr. Peterle for a long time now?

[Ocvirk] I met Mr. Peterle for the first time when he invited me for a talk in connection with the deputy prime minister position. Before that we had only greeted each other a couple of times.

[Jenko] What party do you belong to?

[Ocvirk] The Social Democratic Party.

[Jenko] There is a lot of speculation about whether you belong to that party or not.

[Ocvirk] Possibly because last year I was a Socialist Party candidate in the Moste elections. Later it was suggested to me at various meetings that I participate in the Social Democratic Party's economic committee, and I began to do so. I consider social democracy a real European orientation.

[Jenko] Some analysts, possibly paranoid, say that more and more Christian Democrats and people with a Christian world view are appearing in the government.

[Ocvirk] It is hard for me to say anything about that. Also, Sosok and I, who came into the government together, are not Christian Democrats. He is independent, and I was persuaded most of all by Joze Pucnik, because he probably wanted the party to have that position in the government.

[Jenko] What can you promise Slovenes? How much longer will things be bad before they get better?

[Ocvirk] My statements cannot go beyond what has already been written. It is necessary to reduce public and personal consumption, since the present volume of the social product cannot support it. It will be necessary to do this with the involvement of all political forces, for the establishment of an appropriate economic system. If there are no excessive difficulties abroad with our becoming independent, and if foreign capital and investments can be secured, things can rapidly take a turn for the better.

[Jenko] A certain well-known economist told us that at least 10 years will pass before Slovenia can expect a stable, three to four percent annual economic growth with relatively low unemployment.

[Ocvirk] I have not seen those calculations, but I have information that with the known subsidies and credits, in approximately 10 years eastern Germany will reach the present level of the western part of the country, but the rest of Europe (without the USSR) will take 30 to 50 years. We have been better off, and more developed than the GDR. It is consequently just a question of whether we will get capital.

[Jenko] Have you already had any contacts with banks in connection with this?

[Ocvirk] Not exactly, because I have only been here for a day. It has been promised, however, that they will not create any particular difficulties for us upon independence. You also heard that yesterday in the assembly.

Views of Economic Chamber President on Crisis

91BA0760A Zagreb DANAS in Serbo-Croatian
14 May 91 pp 30-32

[Interview with Dagmar Suster, president of the Economic Chamber of Yugoslavia, by Davor Glavas; place and date not given: "Collapse Coming in Autumn"—first three paragraphs are DANAS introduction]

[Text] Dagmar Suster, president of the Economic Chamber of Yugoslavia, [elaborates] on the interconnection of the Yugoslav economy, on the cost of the anti-inflation program, on the inevitable hyperinflation, on an assuredly hot autumn, on Ante Markovic, and on what he would do if he were federal prime minister.

Dagmar Suster has been a presence in the local media for more than two decades, but not exclusively because of politics. Even cursory readers of the sports column know him as a versatile auto-racing champion, a man who has spent 20 years at the racetracks—and who still races the newest BMW monster; the public at large remembers him for his sharp and blunt criticism of the federal government's economic policy and for the reported agreement whereby he will succeed Ante Markovic, while his close colleagues, with a little trembling in their voices, talk about how he gesticulates and discusses the government's measures even while the speedometer reads between 200 and 220.

In an interview with DANAS, Dagmar Suster presents his view of the Yugoslav crisis and observations that he is willing to openly address to the prime minister at any time.

[Glavas] Leaving aside Yugoslavia as a political or emotional category, what are its chances of surviving as an economic community of interest?

[Suster] On that question, I can provide a clear and unambiguous opinion: Yugoslavia could and should

survive as an economic community, but right now it is difficult to say what the chances are of it doing so. I am firmly convinced that such a solution would be in the interest of the economy in all parts of Yugoslavia, just as I am convinced that the economy does not protect this interest. But unfortunately, the economy's voice is almost drowned out by the domination of politics over it within republican borders, which is why it is not only inadequately present in the pan-Yugoslav scheme, but also has practically no major role in the shaping of negotiating positions within each republic.

[Glavas] What can the economy do to break out of this inhibiting framework of politics?

[Suster] I do not believe that in the times immediately facing us the economy can be freed from the tutorage of politics to any significant degree. Although elections have been held, the relationship between politics and economics has not changed even after the profound political changes that the majority of the Yugoslav republics have undergone. Moreover, it is possible to say that there are plenty of examples where the economy has been placed in an even more subordinate position than before. There are two explanations for this. The first is that in a historical, ominous situation like the one today, in which the national and republican interest is predominant, there is an inadequate number of, shall we say, economic conditions for freely developing economic interests. The second explanation is that a decisive change in the relationship between politics and economics apparently cannot be carried out without a change in ownership relations. To be sure, with the old forms of societal, state, and para-state ownership it is illusory to speak of some sort of autonomous position of the economy in relation to politics, even less so of its dominance over politics. Only a change in ownership relations can create the material preconditions for a change in previous relations.

[Glavas] How realistic is it to expect this when it is in fact politics that must take decisive steps towards changing ownership relations, and thus towards its own disinheritance as well?

[Suster] One of the reasons that the transformation of ownership is slow in coming is clearly this political interest that you have noted. But I still would not overemphasize it. I am deeply convinced that the change in the character of ownership, the introduction of all forms of it that are characteristic of a developed society, is an unavoidable process. The question, of course, revolves around the dynamics with which it will proceed, the price that will have to be paid for it, and so on, but this process cannot be avoided. I even believe that it will not be as difficult as it may seem at first glance, and there is a fairly strong argument for this: Who could have predicted two or three years ago that the LC [League of Communists] would expropriate itself and initiate multiparty elections?

[Glavas] Do you think that that comparison is valid?

[Suster] I think that it's appropriate. It is obvious that what we are talking about here is something that is not only a political option, but also a trend of civilization, and that a multiparty system and a market economy—without fetishizing the modalities in which these things can manifest themselves—are the best thing that the world has to offer at this point. Despite all the searching, despite all the costly and time-consuming experiments, the world has not found a better solution.

[Glavas] You noted earlier that there will be a price to be paid for the transformation of ownership, a social price. How much will that price be?

[Suster] It is hard to give a more precise answer to that question, but certain indications can be provided. In any event, a high social price is unavoidable, regardless of whether or not we undertake a transformation of ownership and regardless of the pace. This price will simply have to be paid. The only question is what kind of effect and sacrifices this price will entail in terms of the final result. Thus far, unfortunately, it has most frequently been the case that the social price has been paid without any results being achieved. Our entire contemporary history, and especially the last 10 years, has been inundated with examples of this outrageous price being paid for every new program, only to push us deeper into the abyss. The latest example: Last year, we paid a very high price, and we are continuing to pay it, for the program to knock down inflation—but without results. To return to the beginning of the question, we will have to pay the price, but if we link it to the transformation of ownership, at least we will not be doing so in vain. And when we get this going, we must be clear about the fact that we have entered into a process, not some measure that will begin to yield results in the short term. It seems to me that there is significance in one of Bajt's ideas provided in the context of criticism of Markovic's program and of Slovene plans for secession, according to which it is impossible to immediately push an inherently weak economy into the crosswind, into the exposed position of world competition, without certain protective measures and without a gradual approach. But that is exactly what the government's program of the past 16 months has done. Imports have been almost entirely liberalized without any protective measures for the domestic economy.

[Glavas] So do you mean to say that Markovic's program has failed not only because of the politically encircled situation in which it was created and executed, but also because of its own weakness...?

[Suster] In my opinion, that program has failed for three reasons. First, because of the general political situation....

[Glavas] Are you listing the reasons in the order of their importance?

[Suster] No. Under circumstances where the fate of the country was being redefined, a program that required specific sacrifices did not have much of a chance to

succeed. Second, in this very political context, the republics—and I am thinking of Serbia, Slovenia, and Croatia, although the others have not stood by with their arms crossed either—have made a series of moves through which, via facti, they have contested and blocked both the market and the unified legal system that represent the only possibility for the program's success. There is almost no disagreement about these two reasons for the failure of the reforms. The only possible difference is in the assessment of their importance, but there is no debate about whether or not they have blocked the reforms, although there is also an opinion to the effect that the republics have in some way been almost forced to adopt some measures.

[Glavas] Does this also relate to the collapse of the country's payment system?

[Suster] Well, to a certain extent yes. This does not mean that I find this justifiable, far from it, but I don't approve of taking individual examples out of context instead of looking at the whole. I can't agree to this when Croatia is blamed for suspending payments of its federal contribution for all the powerful cars that have been imported, when Slovenia is blamed for several decisions through which federal laws are derogated, when Serbia and Montenegro are blamed for raiding the country's payment system.... These are different phenomena, with different consequences, and of different intensity, but nevertheless they have one common denominator: They can be done only when there is a complete breakdown in the rule-of-law state, when there is no common market in existence, when the state is not applying its instruments. Because what kind of federal state is it, I ask you, that cannot even collect its own budget, and this federal state has left it practically uncollected for a half a year now?

But to get to the third reason for the failure of the reforms, which is the program itself and its execution. Here we can go back to the very beginning, to the plan for so-called new socialism, the theory concerning overcoming inflation through a so-called dynamic development plan, which was not only projected but also carried out. This needed the shock of a September inflation rate of 48 percent, when it was still thought that this was an isolated incident, only to adopt the anti-inflation program of 18 December 1989 at the horrible annual rate of 20,000 percent or more.

[Glavas] Is it possible that we will again have some inflation "surprises" like the one you have mentioned?

[Suster] I will once again have to argue with the government, and I don't even want to do that. But look, on 15 November 1990 in the report by the president of the government, this government first said one thing; on 28 December, and thus only 39 days later, it said another thing, and now, on 19 April, it has said a third thing. But the subject has remained the same: the government's economy policy in 1991. They have said completely different things. Among other things, on 28 December the assessment of inflation was 30 to 40 percent, while

today it has climbed to as high as 60 to 70 percent, to say nothing of the fact that on 28 December the assessed decline in production was six percent, only to stick at 20 to 25 percent today, or the fact that for the past year they assessed an inflation rate of 13 to 20 percent, while officially that figure was 121 percent. And unfortunately that sort of relationship between the prognosis and the final outcome will be maintained this year as well.

I am a sportsman, I like to bet, and I am willing to put my last dime on the prediction that we will see three-digit inflation this year, and the first digit of which will not be "1." If I translate this tightrope act into real figures, I believe that inflation this year will be less than 200 percent, but I am afraid that it will rise much, much higher, even up to four digits, because corresponding economic measures are not being undertaken, rational measures are not being adopted, and some moves are simply feeding inflation. It is being fed most of all by the current policy on personal income. I am very sorry to have to say this, because all of us, including myself, are very sensitive when it comes to our own pocketbooks, but it is an indisputable fact that all in all, as an aggregate, personal income is simply too high.

Second, the growth in public spending is enormous, exceeding all reasonable bounds, even though the republican governments bear primary responsibility for this. Look at the dinar-German mark ratio. Last year, a deadly and suicidal rate of 1:7 was maintained, which is why this current devaluation, which is not being accompanied by corresponding practical measures of economic policy, can have and will have only one consequence, inflation. This is another reason why my assessment concerning advancing hyperinflation is unfortunately accurate—even now we have already built in an inflationary charge that we can no longer disarm.

There are two other strong arguments that point to upcoming hyperinflation: The people on the one hand and the economic factors on the other hand have lost their confidence in this state and in this policy, as well as in this government. Practice shows us that an inflation program can have credibility only one time, and that once it is continually put forth anew with attempts to carry it through, it has no chance. Ultimately, this has been evident for some time now in terms of the citizens' attitude towards dinar and foreign exchange savings, etc.

Third, and I would say perhaps most importantly, given the misfortunes that we are suffering, there is a certain social tension that is growing stronger. In our situation, where total production is not even attaining the level of 70 percent of production in 1989, which puts it at the level at the end of the 1960's or the very beginning of the 1970's, amidst a further declining trend in which we are drawing closer to the 1950's than to the year 2000, and thus amidst this level of production and the even more tragic financial results, we simply cannot maintain a balance with current-day consumption. In the area of personal consumption, social pressure is emerging, strikes are being used to try to forcibly extract even the

minimum amount, but there is no money. Social peace will be bought by printing new money, but we know where that leads. This is a solution only from today to tomorrow.

This is why I say that the Yugoslav economy will collapse in June, or in the fall at the latest, depending on how much new money is printed to buy a social reprieve. This is the third and key reason for assuming continued hyperinflation. But the government is continuing to act as if nothing dramatic is happening in the area of economics. Perhaps it is right; who in the assembly asked them how it was that they planned for 13 percent inflation last year although it was 121 percent, who asked them how it was that at the end of last year they were saying that inflation would be 30 to 40 percent in 1991, while already they are talking now about 60 to 70 percent—but then they'll come a fourth time and say that it won't be 60 to 70 percent, but rather 110 to 120 percent, and then a fifth time and saying not 120, but rather 200 to 250 percent, and in December they'll explain to us that all of this had to be and that it's best for all of us. And at the same time it is said that only this government, which is not to say the president of the government personally, is supposedly capable of ensuring foreign credits and financial assistance, which is strange. The IMF, as some personification of foreign capital, dealt with many Yugoslav governments back when Markovic was still at Koncar, and it will continue to deal with us even after the premier has retired....

[Glavas] You say that social peace is being bought. Are you afraid that an explosion of social rebellion, which can be expected at any moment, could paralyze or destroy efforts to redirect the Yugoslav economy?

[Suster] I would be very happy if the immediate future proves me wrong, but I think that an outbreak of social rebellion is inevitable and that it can be expected very soon. I wouldn't want to bet on a date, but I think that the most likely time period for its eruption is early autumn. It will certainly be a hot and ill-fated autumn, unlike many others that have been forecast as such in the past....

[Glavas] Can you pinpoint this rebellion geographically?

[Suster] Despite all the differences among the individual republics, both economically and otherwise, I think that social discontent of major proportions is awaiting all the republics. Nor will the exact moment of the explosion be as tragic and dramatic, despite the charge that it will involve, as the fact that it could erect long-term obstacles to opportunities for finding a way out of the crisis. I am not that concerned about the fact that this rebellion could result in changes in the current governments, something that they should definitely take into account. But these rebellions bring with them a great risk, because they most often end in some form of egalitarian conservatism and almost as a rule in some type of strong-handed rule.

In terms of civilization, this would mean the nullification of all the important steps that we have made over the past two years in the direction of parliamentary democracy and a market economy. I think that it is quite obvious where that would lead us, and that is the reason why we are so insistently in favor of establishing a political consensus at least for some period of time, be it six months, a year, or two years, in order to solve the pressing economic problems. Because we cannot escape them, regardless of whether we want one, two, three, or six states in the territory of present-day Yugoslavia.

[Glavas] Is there any assessment of what effect secession from Yugoslavia would have on individual republican economies?

[Suster] There are several factors that must be taken into account here. One is the repayment of the current Yugoslav debt, which simply cannot be a contested point. The question concerns what quota system, whether it is easier to pay together or individually, but in any event it must be paid. But when we add everything up, this balance is much, much higher than what it seems at the moment. If we take only three elements, those being net foreign exchange debt with servicing, foreign exchange savings, and losses by banks, etc., then we get a figure of some \$60 billion. Besides the debt, there is also the question here of the price of resolving the economic crisis, which must similarly be paid, while the third question is how to function independently after this, without the Yugoslav environment.

It seems to me that a lucid theory of Mencinger is useful here, which roughly states that "losses and sacrifices are inevitable in the short run, while gains are possible in the longer run." And when I say "short term," this must be looked at in a historical context, such as five or 10 years, or even longer.

As far as the interconnections between republican economies are concerned, I can say that regardless of the fact that some are trying to assert that no such connections exist, that they are minor, regardless of the fact that some people have taken great pains to hamper them, these connections are still relatively significant. A considerable portion of this economy is set up for a market of 20 to 25 million consumers, to say nothing of the fact that certain branches of the economy, such as the iron and steel industry, the petroleum industry, the energy supply industry, agriculture, etc., are simply of no use to a market as small as that of an individual republic.

Here too there is the interest of foreign partners, who are in any event, regardless of politics, more interested in a larger market than in one-sixth or one-tenth of that same market. To say nothing of all the efforts at global, regional, and even political integration, which are unfolding before our very eyes and at our doorstep. Much of this speaks on behalf of the need that we not lapse into a small, unhappy ghetto of poverty and despair, where the question of our mere survival and that of our children will hang over our heads.

[Glavas] If you were prime minister today, what could you promise?

[Suster] First of all, I am not the prime minister. Who succeeds Markovic and when is completely unimportant. It is essential that new impetus be given to thinking about how to get out of the tragic economic situation in which we find ourselves. Our paramount interest is to see whether in the Yugoslav region—and it is utterly certain that it will never again look like it has in the past—there are opportunities and the will to create some new community of interest, without an emotional charge, on the basis of pure economic logic and pragmatism.

Another thing that bothers me is a certain glorification of the government. There is no doubt that the current government, besides all of the failings that we have discussed, has taken many positive steps which perhaps we sometimes unfairly forget, but it is ridiculous to say, even as an argument in favor of this government, that there is no one else who can do this job or that its collapse would cause economic and political chaos. The government's work isn't easy, but we have enough experts who can do it without any political or ideological liabilities.

This is why I am in favor of the concept of a managerial government, a government of experts, which is not political, which is not partisan, and which will carry out policy on the basis of professionalism and economic logic, not political dictation. Under present-day conditions, in which it is impossible to create any sort of abstract, panfederal government given the reality of strong republican states, as well as various political options, this concept seems to me to be the only acceptable one.

But if you ask me whether it is feasible, I will say that pessimism outweighs optimism in my reflections. During times when people in Yugoslavia are being politicized and mobilized, are attacking each other, defending themselves, and erecting barricades...it is difficult to think of any concept that simply requires a higher level of civilization from everyday politics.

HUNGARY

Malnutrition Said To Plague Lower Middle Class

91CH0555B Budapest MAGYAR HIRLAP
in Hungarian 18 Apr 91 p 7

[Article by Julianna R. Szekely: "Shame"]

[Text] I read that lately, parents have been bringing their pale children, holding their hands, to the neurological clinic of Szeged. The children have a headache, their hands are numb, and apparently they are not developing properly. "What is wrong with him?" ask the worried parents, caressing the small school children's lusterless hair with nervous fingers. But the doctors only hemmed and hawed for a long time, scratching their heads in seeing these strange symptoms. They just discovered the cause recently when one of them asked a small patient, perhaps only because of being puzzled, what he ate that day, and the child naturally and unhesitatingly replied: "Bread."

The journalist would think that this is the end of the story. The enigma was solved, the illness is called malnutrition, its treatment is simple. The patient must eat meat, fruit, vegetables, breakfast and lunch, and other things for dinner than the usual bread with sugar and chocolate. Yes, but most parents went into a rage on hearing about the treatment. Not that they are destitute people. Most of them belong to the so-called lower middle class: employees with fixed salaries, even beginning entrepreneurs. Hardworking citizens who had always been industrious, who worked for decades to have a home, a car, a decent living. When they look into the mirror, they can say, yes, we have done everything we could, everything that people claimed, or claim, builds the country, builds self-respect. But they do not like to look into the mirror lately. The shiny glass shows rings under the eyes, pale skin on the face, new and fresh wrinkles. And they, too, have headaches, their hands go numb, if they had the time, they would go and see a doctor, if it was not the child they had to take to the doctor. He is not thin, only so strange, fatigued; he is doing worse and worse in school.

Most parents become angry because they expected help from the physician. Medication, incantation, anything but giving themselves up as citizens. If a family spends more than 4,000 forints a month for food, then that is the end of the venture, the car must be sold, or the mortgage cannot be paid. The parent becomes angry, and then quiets down, "thank you, doctor," she says after her child has been strengthened at the neurological clinic with infusion and vitamin-rich food. She will not come again. Even though the child becomes pale again and has a headache, as the doctor states, the parent is ashamed to bring the child back again. But the parent knows that this is a shame, too. It is also a shame if the family fails.

More and more people are ashamed in this country. Beginner rubbish-sifters wait in the evenings for the streets to become empty so that no one sees them as they

lift the containers' lids with trembling hands. During the daytime they can camouflage themselves as decent retirees, temporarily unemployed, or hopeful youths. They are ashamed if they have to stand in line for a free lunch or quarrel for a free goose or free clothing; if their child asks for free milk in school, although anyone can pay for it if he wants to, or if he is still too ashamed not to pay for it. I listen on the radio to prominent smallholders. One of them says that now he will blow the whistle. No one knows why he blows the whistle now because, as it turns out, the reasons have been there for a long time, ugly and evil reasons. This prominent smallholder says that other prominent smallholders lie, cheat, and squander party assets worth millions. Of course, the accused also talk. They say that the whole thing is nothing but conscious discrediting, uninhibited struggle for power, just like before. Because the reasons for blowing the whistle are not recent. This is not the first time people in this country witness a whistle blowing at the smallholder who cannot proclaim loudly enough that they are almost the only protectors of the population. Even though this would also mean that the population has a fundamental interest in seeing its protectors prove every week that they, and the others, are corrupt, power-hungry, and stupid people. Although it is possible that this chain of thought is followed to this point by no one. After all, this would be shameful, and I have never seen a prominent smallholder become ashamed.

No one can see government officials with bowed heads either. And the past regime's minister of interior was the only one I saw on the screen sweating. His successor was still dancing with joy when we all were sweating from fear that the cab drivers blockade would develop into a civil war. It turned out afterward that they made some kind of a mistake after all, we were pardoned for it, and if we behave, no one is going to remind us. The minister of interior, too, has assumed another important post since then, unlike the minister of foreign affairs whose resignation has been demanded who knows how many times. The one who easily and slowly succeeded in angering not only the opposition but also just about every neighboring country. The one who was the last to learn about the arms sale, about a ravaging political crisis of a neighbor, the one who is able to arouse suspicion even on the other side of the ocean, having only one unshakable statement, namely, that he has no reason to resign. Why should there be one after all? It seems that a member of the power establishment may not be ashamed ex officio in Hungary. He cannot disappear voluntarily like a Szeged parent, no matter how big a headache the people he must care for have. There is no scandal in Hungary that would make those involved in it blush; on the contrary, it is as if they gained strength from it: let us proceed. The tiny history of the new regime also includes a series of embarrassing affairs which in itself would not be so bad, we could be justified in saying that we are still learning about openness and democracy. But if the lesson always ends with the statement that nothing has happened, let us forget it, then we begin to feel uncomfortable.

The new power establishment has promised, among other things, that it will lift our bowed heads. That it will free us from the stigma of a sinful nation and from the infamy of dependence and that it will give us back our torn pride. Of course, this will be difficult when we are poor and undernourished. But in the meantime, it could at least see to it that we do not constantly have to feel ashamed for others.

Hunger Seen as the Cause of Many Crimes

91CH0593A Budapest MAGYAR HIRLAP
in Hungarian 22 Apr 91 p 5

[Article by K.L.: "Many Steal Out of Hunger"]

[Text] Although the deteriorating standard of living, growing unemployment, and impoverishment can indeed drive someone to committing a crime, one cannot categorically state that pauperization necessarily leads to the moral degradation of the individual. At this point, it may be safer to say that multiply disadvantaged people—the undereducated, those trapped at the low end of the socialization process, and the deviant living on the edge of society—are more likely to become criminals than others.

Even the National Police Headquarters does not have reliable data to support this assumption. It is a fact, of course, that the great majority of crimes, about 80 percent of them, are committed for material gain, and a growing percentage of them are classified as petty theft. Last year, more than 260,000 crimes were committed against property, resulting in an average loss of 38,000 forints per incident. In 140,000 cases the damage was less than 10,000 forints, and on 80,000 occasions the loss amounted to between 10,000 and 15,000 forints. No one today can say with any degree of certainty whether a thief had needed the money to make ends meet, or had an entirely different motive.

However, there are definite indications from which one can conclude even without further investigation, that there are more and more crimes perpetrated for the purpose of obtaining basic food stuffs. While in the past law enforcement experts seldom encountered food thieves, for example, today a growing number of people are attempting to commit theft in self-service stores; besides coffee, expensive perfumes, candy and quality liquor, many are caught trying to steal a few slices of bologna, a little meat or other foods. This, incidentally, is also backed up by department store statistics: besides juvenile thieves, store detectives are catching mostly retired people in the act.

Not even the latest statistics on the perpetrators can help us draw better substantiated conclusions. In 1989, for example, some 20,000 people had committed crimes, 60 percent of whom named material gain as their motive. What the data do not reveal, however, is whether or not they had also tried to obtain money by other means. The crime prevention department, therefore, will soon undertake a comprehensive analysis of last year's data, at

the conclusion of which we will undoubtedly have an answer, supported by precise figures, to the question: Is impoverishment a compelling enough reason for one to opt for a life of crime?

POLAND

Pope Calls Upon Jews, Poles To 'Find Unity'

AU1206112191 Warsaw PAP in English 1146 GMT
9 Jun 91

[Text] Warsaw, June 9—During a meeting with representatives of the Jewish community at the apostolic nunciature here on Sunday, Pope John Paul II called on Poles and Jews "to try to find unity and friendship despite the evil, because there was also much evil in our mutual history."

Present at the meeting were Michal Friedmann, chairman of the Coordinating Committee of Jewish Organizations in Poland; Moses Finkelstein, chairman of the Religious Union of the Mosaic Faith in Poland; Konstanty Gebert, journalist; Stanislaw Krajewski, deputy chairman of the Council of Christians and Jews and deputy chairman of the Polish-Jewish Friendship Society; Szymon Szurmiej, chairman of the Social and Cultural Society of Jews in Poland and manager of the Kaminska Jewish Theatre in Warsaw; and Pawel Wildstein, deputy chairman of the Coordinating Committee of Jewish Organizations in Poland.

The meeting was also attended by representatives of the Polish Episcopate with Polish Primate Cardinal Jozef Glemp, Cardinal Franciszek Macharski, and Bishop Henryk Muszynski, leader of the Commission of the Polish Episcopate for Dialogue with Judaism.

While addressing the pope, Michal Friedmann said that "for a thousand years, almost as long as in its own land...the Jewish nation lived and was creative in Poland, a country of great religious tolerance. Here, in Poland, the Jews not only preserved, but also enhanced, strengthened, and enriched their religion and culture."

Friedmann stressed that "Jews have made a large contribution to Polish culture. Jews have also gained very much from Polish culture. They also gave their lives in defense of the common homeland. All of Poland's battlefields, from the time of Kosciuszko up to the present day, are sprinkled with Jewish blood. They also found a common grave in Katyn."

Next, Michal Friedmann referred to the pastoral letter of the Polish Episcopate of November 30, 1990, and said: "We hope that it will open up a path to systematic work in education, school instruction, and catechesis. Almost nothing harms Poland more than anti-Semitism, which is nothing more today than anti-Polishness."

Next, he stressed that "Poland is not only a Jewish cemetery. Our life is here—the roots of a great number of the Jews throughout the whole world are found here. We

believe that it is our mutual concern that Auschwitz [Oswiecim] be a place of remembrance, and not a place of conflict, and that relations between the Vatican and the state of Israel be fully normalized."

Pope John Paul II also referred to the pastoral letter of the Polish bishops and quoted an excerpt which said: "The same land was a common homeland for Poles and Jews for ages, the mutual loss of life, a sea of terrible suffering and of the wrongs endured should not divide, but unite us. The places of execution, and in many cases, the common graves, call for this unity."

While speaking about Polish-Jewish relations, the pope stressed that "the history of Poles and Jews, even though there are so few Jews currently living on Polish soil, is still very much present in the lives of Jews, as well as in the lives of Poles."

Next, the pope spoke about the tragedy of Jews in the years of World War II and said that "unfortunately, both the good and evil that occurred between us were crushed by the genocide, inconceivable in its severity, to which the Jewish nation fell prey."

Speaking of this unprecedented crime, Pope John Paul II stressed that it shocked Christian Europe and mobilized it to righting the wrongs that were done against the Jews. "The nations of the Christian civilization undertook the arduous task of rooting out from their mentalities all unjust prejudices towards the Jews, as well as any manifestations of anti-Semitism. Christian churches, including the Catholic Church, actively participated in this task," the pope said.

After the meeting, Konstanty Gebert said that they considered the pope's comparison of abortion to the holocaust as unfortunate.

While commenting on the papal homilies, Gebert added that the speech condemning the pogrom of Jews in Kielce included words concerning the souls of Jewish martyrs but it lacked a word about those who had murdered them, who were silent, and who thought even today that nothing happened.

Gebert said that a few years ago the pope said anti-Semitism was a sin, and added that he believes the church would fight against this sin.

ROMANIA

Little-Known Isaccea Leper Colony Visited

91BA0721A Budapest KAPU in Hungarian No 4, Apr 91 pp 37-44

[Article by Don Hinrichsen: "Leper Colony in Romania"]

[Text] Miskov Calin is a frail 78-year-old man. There is three-day-old stubble on his swollen cheeks, a cigarette stub between his lips. His eyes are red holes in a

framework of pain. His skin is almost translucent, as if it were packaging foil hastily pasted on.

The air is mild, yet he sits idly, bundled up, on a bench under a tree. Light filtering through the leaves sketches motley patterns on his face. Now and then the old man lifts his bandaged hand, and with it punches a hole in the air. Then he just sits and taps his cane on the ground, as he listens to the chirping of birds and the shuffling of his companions in misfortune.

Miskov lives in a quiet and secluded valley, not far from the Danube's delta, near Tulcea. The flower beds are resplendent in the colors of the rainbow. The kitchen garden is nicely kept, and the small cottages are neat and clean. Life here could be idyllic, but Miskov Calin is a leper.

He came from the Soviet Union to the Tichilesti Isaccea leper colony 50 years ago, still a young man, but already nearly blind. He no longer remembers what the world is like. To him time is a long, dark tunnel where there are sounds, voices, and smells, but no light. He was never able to see his two daughters. He does not know where they live. They have not visited him in a long time, and he cannot go anywhere.

Fifty-two lepers live here, all of them Romanian citizens. Two of them have been here since the colony was founded in 1928, and several, like Miskov, for more than half a century. Almost all of them are blind, with disfigured limbs. Some have no ears. Miskov spends his days shuffling back and forth, leaning on his cane, or sitting on his favorite bench. Sometimes two gray-haired old men join him. Their eyes, too, have been eaten away by disease. They sit, sometimes talk, and smoke the cigarettes they have rolled.

"These poor people certainly don't have much of a life," says Gheorge Popa, the leper colony's 34-year-old chief physician, "but they're in good hands here."

The colony has 45 employees, including five nurses and seven medical students. The bandages are changed every morning, and the open wounds are cleaned. Most of the patients receive medical care, but lamperene, the most potent antidote to leprosy, is unavailable.

"We ought to have the drug, because quite a few patients undergoing long-term treatment have become immune to traditional medication, which no longer does them much good. Treatment with lamperene would be more effective."

The Tichilesti Isaccea leper colony is sustained by donations, most of which come from the Catholic organization called Caritas in Germany. But there is never enough money.

Romania is the only European country that does not send its lepers to colonies in the tropics. Victims of this dreadful disease in the United Kingdom are sent to North Africa, for example, and there is an enormous

colony, with roughly 5,000 patients, in Vietnam. Tichilesti Isaccea is the only one in Europe.

It is as if the village did not exist in the present, as if it were plucked from some other era. The whitewashed cottages are flanked by flower beds and leafy trees. Honeybees buzz from flower to flower. Goats and chickens wander the dirt roads that traverse the village. The whole thing has an archaic, medieval aura.

(Right into 1991, there were no flush toilets in the village—only latrines were used. Goods are delivered by horse-drawn carriage.)

Most of the lepers similar to Miskov can still do a little work. They cultivate the 1-hectare kitchen garden, where corn, melons, potatoes, and tomatoes are raised. Those too old or too sick to work in the garden are taught to roll cigarettes. The cigarettes are sold in Tulcea and as far away as 20 kilometers to the east. The garden's produce is also transported to a neighboring village and sold at the local market to earn the colony a little extra money.

Every leper has two rooms. Some of them, however, live alone in little houses on the outskirts of the village.

It is difficult for a visitor to understand the tragedy of leprosy. Most people know about it only from the Bible or historical accounts. It is horrifying to look this disease in the eye. It is impossible to imagine what the poor souls think or feel.

When I ask about his life, Miskov Calin stares at me with a peculiar smile. "I don't remember any other life. I feel as if I've been here since the beginning of time." He misses his daughters, who visited him for about 10 years. He is a fatalistic Russian to the depths of his heart. He is resigned to his fate. "Maybe I'll be luckier in my next life," he says.

Like many of his companions in the leper colony, Miskov attends church once a week. Services are held without notice, and in attendance are those who can see or hear. Miskov is of the Orthodox faith, but no priest has stopped in the village during the past month. The

Baptists are in a similar situation: the nearest minister does not come frequently to Tichilesti Isaccea. Nonresidents keep clear of the village. A few close relatives come to visit, but not often.

Prejudice against lepers is still deep-rooted.

Many people think you can get leprosy through contact. But leprosy is caused by a bacterial spore that enters the body through the lungs when you breathe. Children under six are the most susceptible, because their immune systems are still not developed. Bacteria that enter the body lie dormant for 20-25 years before symptoms appear.

Leprosy slipped into Romania centuries ago, in all likelihood, from India. It is said that leprosy was introduced by sailors and the children of merchants. But regardless of where the disease arose, the life of those infected is miserable. Modern drugs bring some relief, but the elderly victims of Tichilesti Isaccea have no hope. Most of them became lepers when there was still no way to treat this disease effectively. They are beyond help, they live their lives in darkness, and they draw only on their memories.

It is true that the devotion of the nursing staff warms the heart. But most of the nurses leave the colony as soon as they can. Doctor Popa, who speaks of himself as a saint, often goes hunting, plays cards with staff members, or disappears for a short time to visit his wife and baby in Tulcea. He does not deny that now and then he drinks a glass of domestic wine to dispel the nightmare and loneliness of this place.

The patients cannot go away, even if they wanted to. As I start to leave, Miskov Calin points at me with the gnarled and withered stump that formed instead of a hand. He turns his head toward me and wants to say something. I approach him and hear him say in English: "Goodbye."

As we leave the village, Miskov beckons to us. He flaps his bandaged hand, as if he wanted to fly away.