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CZECHOSLOVAKIA

Havel's Peace Prize Speech

90EC0060A Munich SUEDEDEUTSCHE ZEITUNG
in German 16 Oct 89 p 44

[Speech written by Vaclav Havel, Czech playwright and founding member of the Charter 77 dissident group, and read by Maximilian Schell at St. Paul's Church in Frankfurt: "A Word on the Word"; date of speech not given; first paragraph is SUEDEDEUTSCHE ZEITUNG introduction]

[Text] The peace prize of the German Bookstores for this year was awarded in the absence of the prize winner. Vaclav Havel had not received an exit visa, and even less a guarantee that he would be able to return to his homeland after receiving the DM25,000 prize. In his place Maximilian Schell read the acceptance speech in St. Paul's Church in Frankfurt. The text of this speech follows.

You live in a country, in which there is great freedom of the word. Anyone can use this freedom for all kinds of things, without others necessarily paying attention to it or even having to consider the matter. You may therefore think that I overestimate the importance of the word, simply because I live in a country where people are still thrown in prison for the word.

Yes, I live in a country, where the weight and radioactivity of the word is confirmed every single day by the sanctions which the free word incurs. Recently, the whole world recalled the 200th anniversary of the French Revolution, and so we also have to remember the famous declaration of human and civil rights, a declaration which says that every citizen has the right to own a printing shop. During those same days, that is to say 200 years after this declaration, my friend Frantisek Starek was sentenced to 2 and 1/2 years' imprisonment for having published the independent cultural magazine VOKNO—not in a private printing shop, but with a squeaky, antediluvian copying machine! Shortly before that, my friend Ivan Jirous had been sentenced to 16 months in prison for having cried out from a typewriter what everyone knows: That there have been many judicial murders in our country, and that even today someone who has been unlawfully thrown into prison can be tortured to death. My friend Petr Cibulka is in prison because he disseminated *samizdat*-published texts and photos of non-conformist singers and musical groups.

Yes, all that is true. I really live in a country in which a writers' congress or a speech held at one can shake the system. Can you imagine anything like that in the Federal Republic of Germany? Yes, I live in a country, which 21 years ago was shaken by a text, written by my friend Ludvik Vaculik, called "Two Thousand Words"; this text served, among other things, as one of the reasons for the nighttime attack on our country by five foreign armies. And it is not an accident at all that at the

moment I'm writing this the present regime is being rocked by a page of text under the headline "A Few Sentences."

Yes, I really live in a system where the word can shake the whole power apparatus, where the word can be stronger than 10 divisions, where Solzhenitzyn's word of truth was felt to be something so dangerous, that it was necessary to put its originator on an airplane by force and fly him out. Yes, I live where the word Solidarity is capable of rocking a whole power block.

All of this is true; much has already been written about it, and my great predecessor Lev Kopelev has already spoken about it right here.

However, I'm after something else. I would like to contemplate my subject in its greater and more controversial contexts.

Yes, the power of the word is not clear-cut and transparent. It is not just the liberating power of Walesa's word or the warning power of Sakharov's word, it is not only the power of the—apparently absurdly constructed—book by Rushdie.

For in addition to Rushdie's word there is here also the power of Khomeini's word. In addition to the word that electrifies society by its freedom and truthfulness, there is also the hypnotizing, deceptive, fanaticizing, raging, deceiving, dangerous, lethal word. The word—an arrow.

I think that I don't have to explain in detail to you, of all people, the black magic of the word, because you have experienced a relatively short time ago what inexpressible historical horrors can result under a certain political and social constellation from the hypnotic spell and simultaneously unreal insanity of the word of an average petit bourgeois. I don't understand, however, what he used in order to be able to spellbind some of your fathers and mothers, but at the same time I understand that it must have been something very suggestive and very perfidious if it was capable, even for a short time, of spellbinding the great spirit which gave the words "entity" and "existence" such a new and penetrating meaning.

What I want to say is: The word is a mysterious, equivocal, ambivalent, treacherous thing. It can be a beam of light in a region of darkness, as once Belinskiy called the "Thunder" by Ostrovskiy, but it can also be a lethal arrow. And worst of all: It can sometimes be one and sometimes the other, and it can even be both at the same time!

What about Lenin's word? Liberating or, on the contrary, deceptive, dangerous, and ultimately enslaving? Those who are interested in the history of communism to this day fight passionately about it and apparently will continue to do so for a long time. Personally, what has principally struck me about his word is that it is constantly furious.

What about Marx's word? Did it throw light on an entire hidden level of social mechanisms, or was it only the original seed for all the horrible gulags afterwards? I don't know, but most likely both at the same time.

And what about Freud's word? Did it bare the secret cosmos of the human soul, or was it only the seed of illusion, with which half of the United States of America anesthetizes itself today, thinking that you can get rid of your torments and your guilt by placing the burden for it under the interpretation of a well-paid expert?

But I would go even further and ask even more provocatively: What about Christ's word? Was it the beginning of the history of salvation and one of the most powerful culture-creating impulses in world history—or was it the spiritual beginning of the crusades, the inquisitions, the extermination of the American cultures, and finally the entire controversial expansion of the white race, which has caused so many tragedies, including the one that today the majority of the human world falls into the sad category of an allegedly Third World? I would always like to believe that it is rather the first one, but I cannot simultaneously ignore the piles of books which prove that even in purest, early Christianity something had already been unconsciously coded, which against the background of thousands of other circumstances, including the relative durability of the human character, in a certain way was able to open up space for the horrors, of which I have already spoken.

Words also have a history.

For example, there were times in which the word socialism was a magnetic synonym for a more just world to entire generations of humiliated and oppressed, and when people were capable of sacrificing long years of their lives, and perhaps even their lives, for the ideals which were expressed with this word. I don't know how it is in your country, but in my homeland the very same word—that is to say the word socialism—has long since become an ordinary rubber truncheon, with which some bureaucrats, who have become rich and believe in nothing, hit their free-thinking fellow citizens in the back, and call them "enemies of socialism" and "antisocial elements."

Really: In my country this word has long since become a godless invocation, which is best avoided unless you want to become suspicious. Recently I was at a demonstration organized spontaneously and by no means by dissidents, at which there were protestations against selling the most beautiful parts of Prague to some Australian millionaires. And when a speaker, who got vehement in his opposition to this project, wanted to reinforce his appeal to the government by stressing that he was fighting to save his homeland in the name of socialism, the gathered crowd began to laugh. Not because they would have been against a just social system, but simply because they heard a word that had been conjured up for so many years and in all possible

and impossible circumstances by a regime, which is only capable of manipulating people and humiliating them.

Words can have strange fates! The same type of free-thinking and courageous people can first be thrown in jail because some word means something to them, and second, because that same word no longer means anything to them, for it has changed from being a symbol for a better world into a magic linguistic formula for a silly dictator.

No word contains only that which is ascribed to it by the etymological dictionary. Every word also contains the person who speaks it, the situation in which it is spoken, and the reason why it is spoken. The same word can sometimes radiate great hope, another time emanate only lethal rays. The same word can once be truthful and another time be lying, sometimes fascinating and other times boring; sometimes it can open up wonderful perspectives, and another time only lay tracks that lead to entire archipelagoes of concentration camps. The same word can at one time be a building block for peace, but another time every single sound of it can roar with the echo of machine guns.

Gorbachev wants to save socialism by introducing a market and free speech. Li Peng saves socialism by massacring students and Ceausescu by leveling his nation with bulldozers. What does the word really mean in the mouth of the one and in the mouths of the other two? What is that mysterious thing, which is to be saved here in such varying ways?

I have mentioned the French Revolution and the beautiful declaration which accompanied it. This declaration was signed by a gentleman, who was one of the first to be executed in the name of this wonderful, humane text. And after him there were hundreds, maybe thousands more. Liberty, Equality, Fraternity—what wonderful words! And how terrifying their meaning can be: the freedom of the unbuttoned shirt before the execution, the equality in the speed with which the guillotine falls on the neck, fraternity in a suspicious heaven, in which the highest being rules!

The wonderfully hopeful word "perestroika" is heard all over the world today. All of us believe that behind this word there is hope hidden for Europe and the entire world.

And yet—I admit—I sometimes tremble with fear that this word could again be nothing but an incantation, that ultimately it could again transform itself into the rubber truncheon, with which someone hits us.

I understand him; fulfilling this gigantic task that he has undertaken is immeasurably difficult; everything depends on that silken thread and almost everything can make this thread tear, and we will all plunge into the abyss. And nevertheless I tell myself: Aren't considerable relics of the old thinking contained in this "new thinking?" Don't we hear the echo of ancient stereotypes of thought and linguistic power rituals? Doesn't the word

perestroika here and there begin to resemble the word socialism, above all when it is sometimes bandied about to the same person who for so long and so unjustly has been pelted with the word socialism?

Your country has made a great contribution toward modern European history: the first wave of detente through its well-known Ostpolitik.

But even this word could sometimes be quite double-sided. Of course, it meant the first glimmer of hope for a Europe without the Cold War and the Iron Curtain; but simultaneously—unfortunately—it also, more than once, meant renunciation of freedom and thus of a fundamental precondition for real peace: I still remember how in the early seventies some of my West German friends and colleagues avoided me out of fear that through any type of contact with me, who was not exactly loved by the government here, they might provoke this same government and thus jeopardize the fragile fundamentals of the germinating detente.

I'm not talking about it because of my person as such, of course, and even less because I might feel pity for myself. For even at that time it was they whom I pitied; it wasn't I but they who voluntarily renounced freedom. I mention this in order to illuminate from a different side how easily a well-meant thing can change into betrayal of one's own good intention—and once again just through the word, whose meaning obviously was not protected carefully enough. Something like this can happen very easily; it hardly draws any attention. It happens inconspicuously, silently, surreptitiously—and when it is finally found out, only one thing remains: belated wonderment.

But that is precisely the devilish way in which the words are capable of betraying us unless we are always very circumspect in using them. And frequently even a tiny and momentary loss of circumspection—unfortunately—can result in tragic results which are impossible to repair. Results which by far exceed the immaterial world of mere words and enter into an already bedeviled material world.

Finally, I arrive at the beautiful word peace.

For 40 years I have been reading it in our country on every roof and in every display window. For 40 years I have thus, like all my fellow citizens, been educated into an allergy against that beautiful word because I know what 40 years mean: powerful and ever more powerful armies as the alleged guarantors of peace.

Despite this long process of systematic emptying out of the word peace—yes, it went even further than that, it was given the very opposite meaning to the one listed in the dictionary—a few Don Quixotes from Charta 77 and a few of their younger colleagues from the Independent Peace Group succeeded in rehabilitating this word and giving it back its original meaning. However, for this semantic "perestroika"—that is to say putting the word peace back on its feet after it had been on its head—they

had to pay a price: nearly all the young leaders of the Independent Peace Group had to spend a few months in jail. But this had a purpose: An important word had been saved from complete devaluation. And this, as I'm trying to explain here all the time, is not just the mere rescue of a word. It is the rescue of something much more important.

Because all important events in the real world—the beautiful ones and the horrible ones—always have their prelude in the sphere of words.

As I already said, it is not my intention today to impart to you the experiences of a person, who has recognized that the word is still of significance when you have to pay for it with imprisonment. My intention was to acknowledge a different experience we have gained about the importance of the word in this part of the world and which—I'm convinced—has universal validity: This is the experience that it always pays to be suspicious of words and pay a great deal of attention to them, and that there cannot be too much caution in this respect.

One definitely causes less destruction through suspicion of words than through exaggerated confidence in them.

Furthermore, is it not precisely that—distrust of words and demonstrating the horrible that can slumber inconspicuously in them—which is the actual mission of the intellectual? I remember that Andre Glucksmann once spoke about that in Prague, that the intellectual should be like Cassandra, for his task is to listen well to the words of the powerful, to monitor their words, warn against them and predict all the evil they mean or could bring with them.

Let us consider one more thing: For centuries we—you and we, meaning Germans and Czechs—had many difficulties living together in Central Europe. I cannot speak for you, but I believe that I can responsibly say for us that the ancient national animosities, prejudices and passions, nurtured for centuries in the most varied ways, have dissipated for us in the last decades. And it is not an accident at all that this took place at a time in which we suffered under a totalitarian regime. Because this formed in us such a deep distrust of all generalities, clichés, phrases, mottoes, stereotypes of thought and ingratiating appeals to this or that level of our emotions, from the lowest to the highest, that today we are mostly immune to any kind of hypnotizing bait, may it be ever so suggestive in form, such as traditionally the national or nationalistic appeal.

Under the suffocating cover of thousands of empty words, under which we have had to live for so long, such a strong distrust of the world of deceptive words has formed in us that today we are capable better than before of seeing the human world as it really is: that is to say, as the complicated society of thousands and millions of unrepeatable individual human beings, who in addition to hundreds of beautiful characteristics also have hundreds of faults and bad tendencies, but who can never be flattened with the electric iron of hollow phrases and

devalued words—such as classes, nations, or political forces—into a single homogeneous mass, and thus praised or judged, loved or hated, slandered or celebrated as a single block.

In the beginning is the word.

This is a miracle, which we have to thank for being humans.

But at the same time it is an ambush, a trick and a test.

Greater perhaps than it appears to you who live under the conditions of great freedom of the word, meaning under conditions in which words don't appear to matter so much.

They do matter.

They matter everywhere.

The same word can sometimes be humble and sometimes be arrogant. And a humble word can extremely easily change into an arrogant one, while an arrogant one only with great difficulty and over a long time changes into a humble one.

The human arrogantly believed that he, being the culmination and master of creation, understood nature completely and could do with it what he pleased.

Arrogantly he began to believe that since he possessed an intellect he was capable of completely understanding his own history and that he alone could plan a happy life, and that this even gave him the right to sweep anyone who did not like these plans out of the way in the interest of an allegedly better future for all, to which he had found the one and only right key.

Arrogantly he began to believe, that since he could smash atomic nuclei he was already so perfect that he was threatened neither by the danger of the nuclear arms race nor by nuclear war.

In all these cases he was fatefully wrong. That is bad. But in all these cases he already begins to understand his error. And that is good.

Learning from all of this, we should all and jointly fight against arrogant words and attentively search for the cuckoo's eggs of arrogance in apparently humble words. This is obviously not just a linguistic task at all. As an appeal for responsibility for the word and to the word, this essentially a moral task. As such, it is not anchored at the horizon of the world we can see, but is some place where that word exists which was in the beginning and which is not the word of humans.

I will not explain why this is. For your great ancestor Immanuel Kant has done so much better than I would be capable of.

GERMAN DEMOCRATIC REPUBLIC

Der Spiegel Assesses Krenz

90EG0025A Hamburg DER SPIEGEL in German
No 43, 23 Oct 89 pp 16-23

[Staff article: "Egon Krenz—a Reformer?"]

[Text] It took less than 20 minutes for the 18-year Honecker era to come to an end.

At 2 pm last Wednesday [18 October], the SED [Socialist Unity Party of Germany] central committee met at party headquarters on Werderscher Markt in East Berlin. At 16 minutes past the hour, the ADN [German General News Service] ticker already carried the news that "the SED central committee elected Egon Krenz as general secretary at its ninth session on Wednesday afternoon."

Immediate reaction to the election of the new leader of the people and the party was disastrous.

In front of the Brecht museum on Chausseestrasse in East Berlin a group of teachers broke out into cries of dismay when a car radio report informed them who would henceforth be guiding the fortunes of the GDR. "It can't be true," one of the teachers cried. "Not that one." "It just doesn't make sense," a colleague of his commented.

Wherever the news made the rounds, people were stunned: in department stores and pubs, on streets and public squares.

The artists and intellectuals, the workers and students—tens of thousands of citizens throughout the country—were most stunned of all. From Plauen to Greifswald in weeks past they had voiced their growing disgust in numerous resolutions and declarations, in petitions, letters to newspapers and demonstrations with the situation in the GDR, with the lies the media were spreading and the deplorable state of the economy.

Wolf Biermann, the dissident songwriter who was expelled from East Germany by the SED almost exactly 13 years ago, put it all in a nutshell. Writing in West Berlin's TAGESZEITUNG, Biermann gave vent to his anger, calling Krenz "the worst of all possible candidates. Oh hapless Germany, I thought, to start with we are going full speed ahead, namely backward."

That is the very thing the many party members throughout the GDR are afraid of. For months they have been hoping for political change—but not this way. Krenz' election put an end to their secret hopes that the departure of ailing Honecker would usher in a more humane and more honest brand of socialism in the GDR. It is a good question as to whether and when this vision might reemerge.

And yet—this is the first time in recent history that the people have been able to topple a ruler in short order by

nonviolent means, merely by staging peaceful demonstrations or by leaving their homeland. But they did not succeed in putting a candidate of their own choice in the driver's seat. For now, the rulers are still having it their way, unwilling to share their power.

This scenario was drawn up by Erich Mielke, a past master at working the levers of power in the SED-run state. The 81-year-old Mielke, minister for state security and the oldest member of the old guard on the Politburo, has safeguarded party leadership over the people for the past 32 years.

Mielke did a perfect job of directing the changes at the top of the government and party hierarchy. The decision to get rid of the ailing SED chief was already made a week ago last Thursday [12 October] following dramatic controversy inside the Politburo, less than 2 weeks after Big Brother Mikhail Gorbachev left East Berlin. The party, Mielke argued, would have to sacrifice a handful of its leaders to avoid the risk of losing its hold on absolute power.

Mielke already knew who the scapegoats would be: Joachim Herrmann, the central committee secretary responsible for agitation and propaganda and, by extension, for the bland GDR media empire. Also Guenter Mittag, the man responsible for the East German economy and for its decline, for the drastic shortage of consumer goods and the decline in the quality of the GDR's industrial products.

The top dog would also have to go, Mielke said—with all due honors of course, with expressions of the party's gratitude. Only a new, younger man at the helm would be able to convince the people that the SED was prepared to learn from the events of the past few months; from the mass exodus and the demonstrations.

Herrmann and Mittag launched a counter offensive. Mielke and the two of them called for each other's resignation. But Mielke's dire prediction that the SED stood to lose its preeminent position made more of an impression on the old men on the central committee than the pleas by Herrmann and Mittag.

The king himself put up only a weak fight. Honecker who will soon have to undergo another operation had no strength left. He agreed to being replaced soon. The actual date was initially left open.

The central committee members had no trouble agreeing on Honecker's successor. The old men on the Politburo—the Kurt Hagers, Willi Stophs and Horst Sindermanns—look upon 52-year-old Egon Krenz as their ideological heir. They believe he is the only man who can be trusted to continue carrying out the traditionally orthodox policies beyond their own term in office. The former FDJ [Free German Youth] chief, who still sported blue shirts without a tie until his mid-40's, has given more than ample evidence of his unconditional support of the party line—even up to the most recent past.

Last October, he saw to it that four students were thrown out of the Carl von Ossietzky secondary school in East Berlin. The offense they had committed was that they used the school's wall newspaper to raise the question of whether it still made sense to hold the traditional military parade on the GDR's 7 October national day in this age of disarmament proposals.

Their misfortune was that one of their fellow students was Karsten Krenz, the elder Krenz' son.

As the central committee secretary on the Politburo responsible for the GDR's internal and external security, Krenz defended the Tienanmen Square massacre last June as a simple act of restoring order. In September, the Chinese Government thanked the visitor for his show of support.

Critics of the regime and dissidents viewed the show of support in a different light. They regarded it as a clear warning to all citizens of their own country that they would suffer the same fate as the Chinese students, if they stepped out of line.

To top it off, it was Krenz, as head of the election commission, who falsified the outcome of the communal elections on 7 May 1989. This is part of the reason why the masses by the hundreds of thousands are now courageously taking to the streets and SED cadres are taking part in the debate about reforms.

"The communal elections held in the 40th year of our workers and peasants state have turned into an impressive demonstration of support for the candidates of the GDR National Front," Krenz announced on election night in violation of the truth. Some 98.95 percent voted for the unity slate, he said.

On a visit to Saarbruecken during the following month Krenz reiterated without blushing: "We arrived at the election result in an orderly manner. There is no doubt about that."

Krenz' lie turned into a fateful mistake. For the first time ever members of East German peace and human rights groups had added up the votes as the ballots were publicly sorted in several cities and by their count there were far fewer yes votes. When charges of election fraud were filed, the government responded by issuing helpless threats.

By that time, however, the Politburo had begun to man the fort. Krenz' misstep caused him no harm. Quite the contrary: the members of the Politburo's old guard can still feel the events of 17 June 1953 in its bones and young Krenz' adherence to tradition fortifies them in their belief that he will see to it that a workers' uprising will never occur again.

Someone who knows Krenz well says that he has always been a hardliner—his watchword being "don't let things get out of hand. There may just be 50 people demonstrating today; by tomorrow it will be 5,000."

Paradoxically enough, it was the people that led the party bosses to turn the top job over to Krenz last week. "Erich Honecker might well have survived, if people had not taken to the streets en masse," one party member said. But when 150,000 demonstrators staged a march around Leipzig's inner city last Monday [16 October], shouting "the SED hurts you and me," Mielke and his men took action immediately. At Tuesday's Politburo meeting, they called a plenary meeting of the 163-member central committee for the very next day.

Given the tight control exercised by the SED over the past 40 years, the central committee does not have much of a role to play; but according to the party statutes a plenary session of the central committee alone has the right to name and remove the general secretary and the members of the Politburo. As a rule, the central committee does the bidding of the Politburo.

As always, things worked out without a hitch. The central committee elected Krenz as general secretary "without a dissenting vote"—the vote not being unanimous because the chosen one decided to abstain.

Immediately following his election, Krenz displayed his new style of leadership. For the first time in SED history GDR TV was permitted to broadcast from the lobby of the central committee plenary. When Anja Ludewig, a GDR TV reporter, congratulated the newly elected general secretary, Krenz responded by mouthing a statement worthy of West Germany's Chancellor Helmut Kohl. He was "taking on a difficult job," Krenz said.

The new party chief who would soon become chief of state gave a demonstration of just how different that job would be in a more than 50-minute speech that evening. He read off to his "dear fellow citizens" the speech prepared prior to his election in which he thanked his central committee colleagues for the faith they had shown in him. It was a speech couched in noncommittal terminology.

The very words used by Krenz were duplicitous. Those familiar with GDR doublespeak could tell what he really meant. "Today's meeting," he said, "will inaugurate a new chapter in our history"—apparently not in the sense of reforms but in order "to regain the political and ideological initiative."

Admitting that the basis of trust between the party and people was "impaired," Krenz charged in the same breath "that the external and internal enemies of socialism are trying ever harder to take advantage of this situation."

Socialist society, he said, is in need "of citizens who are self-aware, critical and sophisticated" but "the broad expansion of socialist democracy inside the GDR should not be mistaken for a warrant for irresponsible action."

The GDR media are "of major importance" for the incipient dialogue between the party and the people,

Krenz said, even while noting that "our press must not be turned into a forum of unfocused, anarchist chatter."

He did not say a word about the tens of thousands who have vociferously taken their protest of their rulers and living conditions to the streets of East Berlin, Dresden, Magdeburg, Plauen, Greifswald, Zittau, and Leipzig over the past several weeks. He did not extend an invitation for a dialogue to the tens of thousands who have joined together in opposition groups during the last few weeks.

Instead, he resorted to language hard as concrete. "Our might is the might of the working class and of our entire people under the leadership of the party," Krenz said. "We are holding it firmly and will not permit the forces of the past to tamper with it." Was that a reformer speaking?

As he spoke of the limits of "socialist democracy" and warned of "irresponsible action," Krenz smiled into the camera. "There can only be one type of response to such actions," he said, "and that is the preservation of law and order."

Egon Krenz—a reformer?

Erich Honecker's successor is a man of many faces. He likes to walk up to people, readily addressing them with the familiar "Du" (a throwback to his years as head of the FDJ); he is a man who likes to laugh and laugh loudly. Oskar Lafontaine, who has met with him several times, says that "he is easy to get along with and conciliatory; but on substantive issues he is dry and hard as a rock."

Krenz, an oldtime communist, who was born in Kolberg, Pommerania in 1937, is a teacher who has never taught school. Still, he was always at the head of the class—as FDJ chairman at the kreis and bezirk level; as lieutenant in the National People's Army; as chairman of the Young Pioneers children's organization (from 1971 to 1974) and of the FDJ (from 1974 to 1983). A Honecker protege, he was elected to the central committee in 1973 and to the Politburo in 1983. He received his formal training as a communist administrator at the Moscow party academy between 1964 and 1967.

Among the SED top brass, Krenz was viewed as a kind of eternal youth, tireless, wearing his blue [FDJ] shirt, flirting with pretty FDJ girls. Krenz, who is married to a teacher and has two sons, enjoys both life and alcohol to the full. "His shirt is blue, his hair is gray," the members of the old guard were in the habit of saying.

Krenz did not get to be Honecker's crown prince until after the latter's chosen successors had died off. Werner Felfe, the Politburo member responsible for agriculture, died in 1988 at the age of 60. Werner Lamberz died earlier, in 1978, in a helicopter crash in Libya.

Krenz moved into the walled compound on the Wandlitzsee, enjoying all the privileges reserved for the party bosses who reside there: a villa complete with

servants, a Volvo 760 GLE, free access to special stores stocked with Western delicacies.

For a time, Krenz is said to have been an alcoholic; but SPD politicians who met with him over the past few years did not detect any evidence of it. According to rumors making the rounds inside the SED, Krenz is said to have taken two (apparently successful) withdrawal cures.

Following his election as SED general secretary, Krenz candidly spoke about his private life in a JUNGE WELT interview—a first for the GDR press.

Hans-Dieter Schuett, the paper's editor, asked Krenz whether he still found as much time for jogging as before. "Yes," he said, "I try to do a few kilometers daily, mostly quite early in the morning. After all, one has to stay fit—in big things and small and although I have to make myself do it again and again, I will try to keep it up."

Throughout his career Krenz has given no quarter to deviationists. As chairman of the Young Pioneers and the FDJ he kept telling the youngsters who are now switching over to the class enemy's side in droves that "love of life includes hatred for the imperialist system."

Is he really a reformer?

The self-confidence of the 6-foot-tall, 185-pound tailor's son sometimes even took his West German DKP [German Communist Party] comrades' breath away. At the most recent SED party congress in April 1986 some of the DKP representatives asked him whether the rhythmic, carefully apportioned rounds of applause were still "in keeping with the times." Krenz, who had by then risen to the No 2 position in terms of applause, answered sternly: "That's the way it has been; that's the way it is and will continue to be."

Was that just an offhand remark? Or is it indicative of the present No 1's actual will to carry out reforms?

Krenz' TV address was a disappointment not only to the opposition. They had expected nothing else. "I am not the least bit interested in what he has to say," painter Baerbel Bohley, The New Forum spokesperson, told West Berlin's DER TAGESSPIEGEL. "It doesn't really matter who is on top."

It does matter of course—to the members of the SED. But many of them, too, did not know what to make of the new general secretary's talk of reform.

The disappointment was premature. Krenz' accession to the throne was only the first part of Mielke's master plan.

Once Krenz has been unanimously elected chairman of the council of state and the national defense council by the People's Assembly on 24 October, other events will quickly follow.

The council of ministers—with the exception of Minister President Stoph—will resign, including Honecker's wife

Margot, the present minister of education. That will give Krenz a free hand to fill the cabinet posts with men and women of his own choice.

At the next plenary session of the central committee—the actual date has not yet been set at this writing—additional members of the old guard will also be asked to vacate their jobs. By the time of the party congress in May most of the members of the old guard will have been sent into retirement.

The heads of mid-level functionaries are also expected to roll—at party headquarters, in the bezirks as well as in government and the industrial combines. A large number of SED kreis secretaries were already holding lengthy crisis meetings last week.

Krenz' personal strength and sense of direction will not become apparent until it is clear whom the central committee will name to fill the four seats on the Politburo vacated by Honecker, Herrmann, Mittag, and Felfe. The guessing game about who gets what has been the No 1 topic of conversation among the party functionaries since last Wednesday [18 October].

According to insiders, Hans Modrow, the SED bezirk secretary for Dresden, is sure to have improved his position as a result of the change in leadership. At the latest by the time the party congress meets in May 1990 Modrow will move up into the top ranks because Krenz, in order to secure his own position, would like Modrow, who personifies the hopes of those willing to institute reforms, to accept his share of political responsibility.

On substantive issues, too, Krenz does not mean to rely on empty words alone. He already provided a foretaste of this in his TV address. "The Politburo has proposed to the government of the GDR," he said, "that it prepare a new law on travel by citizens of the GDR to foreign countries."

In plain language this means that East Germans will soon be able to travel to the West more freely. This has been one of the sore points above all among many working people who neither have relatives in the FRG, nor enjoy any of the privileges which allow them to obtain long-term passports or to go on official trips.

"Those that don't are left out in the cold," Ronald Berus, a worker at the "7 October" tool and dye plant in East Berlin, told the new party boss last Thursday [19 October]. As an indication of the new openness, East German television broadcast the statement uncut.

The 13 October issue of NEUES DEUTSCHLAND had already carried a kind of preview of the regulations in explaining the restrictions imposed on travel between the GDR and Czechoslovakia 10 days earlier.

The salient points were that travel to the CSSR would also be approved to visit spas, take vacations, to honor invitations and "for urgent reasons."

These restrictions of tourist travel to Czechoslovakia—the one country GDR citizens could visit without a passport or an official permit since the closing of the border with Poland in 1980—would amount to virtually unhindered access to the West. The number of those entitled to leave would grow by leaps and bounds overnight.

But there is a hitch to the regulations now being pondered by the authorities. Travel regulations worthy of the name would have to provide GDR visitors to the West with enough hard currency to allow them not to become wards of their hosts. The DM15 travelers have been allowed to exchange at the GDR state bank at the rate of one to one are just enough to pay for a cup of coffee and the last few kilometers of the bus fare to the visitor's destination.

But the East Berlin treasury simply does not have the hard currency it takes. "Krenz cannot even make good on his promise to improve the supply of consumer goods," one expert says. "He does not have the material base for it."

But he must try just the same, if he really means to reform the GDR. Perhaps the West might even help him do the job. Last Friday [20 October], the CDU/CSU [Christian Democratic Union/Christian Social Union], FDP, and SPD [Social Democratic Party] in Bonn contemplated the possibility of allowing GDR visitors to exchange their soft currency at the rate of one to one for up to DM500 or to draw on a German-German "hard currency pot," in CDU general secretary Volker Ruehe's words.

Walter Momper, the lord mayor of West Berlin, expects the new, more liberal travel legislation to take effect even prior to Christmas—and is worried about the financial consequences on treasuries throughout the country.

Only 1 day after his election Krenz already seized an opportunity to prove his mettle, as a tactician at least. At 7 am on 19 October (the SED is still smarting under the workers' protest of 17 June 1953) he showed up at the early morning shift at East Berlin's "7 October" tool and dye plant to see what the workers had to say. Only 1 week earlier these same workers had sent Gunter Rettner, a department head at SED headquarters, packing because his party line talk turned them off.

That same afternoon Krenz made a clever move: he invited Bishop Werner Leich, the president of the Conference of Evangelical Churches in the GDR, for coffee at Hubertusstock Castle, a favorite haunt of Erich Honecker's until the previous day. If Krenz succeeds in getting the official church on his side, he will deal a harsh blow to the restive peace and human rights groups and the incipient political opposition. These groups, after all, depend on the bishops' support and protection and on their parish halls as places in which to meet and assemble.

Since the change of power the media have become more attractive and frail ties are beginning to emerge between

opposition groups and—local—SED leaders. Wolfgang Berghofer, the lord mayor of Dresden, opened talks with Protestants and in Potsdam the New Forum gained recognition as a negotiating partner.

Still, it is extremely difficult to say how far Krenz will get on the strength of sheer tactics and whether the SED strategy of bringing about change without eventually having to share power, thereby placing the very survival of the party at risk will work. Time is working against Erich Mielke and his policy of nimble adjustment to the realities of our time.

The country's intelligentsia is skeptical. "Credibility is won by deeds and not by words," writes GDR author Stefan Heym in a SPIEGEL essay elsewhere in this issue, calling for major changes in real socialism.

The presidium of the writers association published an appeal in the 16 October issue of DER MORGEN, the official LDPD [Liberal Democratic Party of Germany] newspaper, which read in part: "An open and democratic debate on indifference, irresponsibility, mismanagement, and the patronizing attitude vis-a-vis the public must be begun immediately on all levels of society."

"The need at preset is for revolutionary reform," the appeal went on to say. "It is not reform that we have to fear—but the fear of reform itself."

The men and women active in the East Berlin theaters are planning a protest demonstration on 4 November or 19 November to wind its way through the city to the Platz der Akademie [Academy Square] for a rally to push for reforms. On behalf of the theater group, Gregor Gysi, the chairman of the East German bar association, has requested official permission to hold the demonstration and rally from the city government.

Even the student follow-on elite, controlled for years and causing no problems, began to wake up last week. Last Tuesday [17 October], 6,000 students at East Berlin's Humboldt University spent hours debating the merits of a freely elected student council, independent of the FDJ, which might henceforth represent their interests in place of the official youth organization.

The meeting, held simultaneously in nine different auditoriums, had been called by Richard Schmidt, the university's FDJ secretary, a chemist who had studied in Moscow. Schmidt made no attempt to calm down the debate marked by widespread distrust of the FDJ. He did not even intervene when one student said amid loud cheers of his colleagues: "we are for socialism—but socialism of a different kind."

Nor did he say a word when a reporter from the "Aktuelle Kamera" news program who had initially been booed by the students let it be known that the next time anyone asked him to delete part of a story, he would quit his job.

The meeting finally adjourned after 3 hours of heated debate. Once small working groups have sorted out and evaluated the various proposals for a democratically elected student council, another plenary meeting will be held to decide how to proceed.

Krenz and his mentor Mielke might run afoul of their own people. For the first time last week resistance surfaced against a group which not only continues to operate outside the confines of the law but is also immune from criticism, i.e., the henchmen of the minister for state security.

Bit by bit, detailed accounts are coming to light of the brutality with which the security forces charged into those who demonstrated for more democracy and spiritual quality of life at the time of the GDR's 40th anniversary celebrations in East Berlin, Leipzig, Dresden, Magdeburg, and Halle.

At a rock concert in East Berlin's Savior's Church, some of the participants told of the harsh measures employed by the security units. A man who had been forced to stand against a wall for 16 hours with his hands upraised was beaten when he collapsed; another was beaten in a toilet with a rubber truncheon; women were forced to strip and submit to interrogation in the nude.

"On the occasion of its 40th anniversary the GDR became more cosmopolitan than it ever had been," commented Christoph Hein at a reading from his own writings at the Berliner Ensemble. "Cosmopolitanism would seem to be the right word—considering the fact that we were now seeing on our own streets what we had previously seen only in pictures from Chile and China."

The outrage over these "excesses of the state security forces" (as Hein put it) is countrywide. The Evangelical Church has collected 50 eyewitness accounts; the presidium of the East Berlin Academy of the Arts has more than 20. Both East Berlin Bishop Gottfried Forck and the Academy are calling for an investigation of the state security apparatus and the riot police by an official commission.

In a SPIEGEL interview (in this issue) Hein even calls on Guenter Wendland, the GDR prosecutor general, to resign. On TV last Tuesday [17 October], Wendland said that citizens' complaints against the police were still being investigated even as he announced the conclusions reached by the investigation. "The acts of violence did not originate with the police," Wendland blandly maintained. "They were directed against the police."

To those who were witnesses to events such as the ones which took place at Prenzlauer Berg in East Berlin on 7 October where peaceable teenagers were chased, beaten, and dragged away by riot police units Wendland issued the following warning: "We will not tolerate...any slanderous statements by individual citizens or state officials."

The attacks on the legal system and the state security service are attacks against the very foundations of the establishment. Mielke's hated state security apparatus is the principal pillar which supports the repressive system with the help of which the SED has thus far been able to hold down any and all attempts at resistance. Insiders estimate that the state security service includes as many as 30,000 full-time enforcers and agents.

Fear of these security personnel is rapidly decreasing. A placard carried by demonstrators in Leipzig last Monday [16 October] read: "Put the State Security Men to Work." At a demonstration on 7 October, a number of youths began chasing some state security men and freed a young girl whom they had dragged away. These are scenes which would have been unthinkable only a few short weeks ago.

The question is, however, whether Egon Krenz, the central committee secretary who shares responsibility for the unlawful practices of the security units, can really afford to curtail their power without endangering his own position.

In his maiden speech before the central committee Krenz said: "Our face is turned toward the people." Early this week, he will be in a position to find out whether the people is prepared to turn its face toward him. The 150,000 people who marched through the streets of Leipzig shouted "we'll be back next Monday" when they disbanded. And 2 days after Honecker's downfall more than 10,000 people staged a silent march through the streets of Dresden.

They want reforms now. They are no longer interested in on-the-one-hand, on-the-other-hand or in tactical maneuvers.

Otherwise, they would just as soon leave. On the day following the change of power 1,119 GDR citizens left their Honecker-less country via Hungary.

These figures are the same as the ones during the last days of the Honecker era.

POLAND

Report on State of the Nation Through August 1989 Published

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[Report by the Central Planning Office: "Status of the State, 8 September 1989"]

[Text] The report presents the status of the state in August 1989. It embraces not only the economic condition, but also describes population, the status of meeting social needs, defense capability, foreign relations, natural environment, the status of internal security, and reform of the political system.

An objective presentation of facts and trends in the economy is the heart of the report. The material presented does not offer a more extensive analysis of the background or causes of the phenomena outlined. It amounts only to a current snapshot of life in our country in its various manifestations.

The status of the economy is presented as a time series; individual statistics and phenomena were compared to previous years. Many comparisons with the year 1978, the last before the economic collapse, were made.

The latest available information was used within the framework of individual topics. Most frequently, these are the data for the end of July or the end of June 1989. Due to the cycle of data collection, some issues were presented as of the end of 1989.

The report was prepared by the Central Planning Administration in cooperation with the Main Office of Statistics, the Office of the Council of Ministers, the Ministry of National Defense, the Ministry of Foreign Affairs, the Ministry of Internal Affairs, the Ministry of Environmental Protection and Natural Resources, the Ministry of Finance, the National Bank of Poland, and the Office for Religious Affairs.

THE STATUS OF THE STATE

7 September 1989

I. Society

1. Population

In the 1980's, the population of Poland increased by 2.3 million persons, i.e., by 0.69 percent a year. It is estimated that in mid-1989, Poland had 37.9 million citizens, of which 21.8 million were of productive age, 11.4 million were below productive age, and 4.7 million were of post-productive age.

The share of population of productive age declined from 59.4 percent in 1980 to 57.5 percent this year. The share of population in the pre-productive age increased from 28.8 to 29.9 percent. The number of children of primary-school age has been increasing continuously, from 4.2 million in 1980 to 5.1 million in 1989. The number of persons of post-productive age increased by about 0.5 million at the same time. Their share in the overall population in Poland increased from 11.8 to 12.5 percent over this period of time.

At present, there are 74 nonproductive persons, or five more than at the beginning of the 1980's, per 100 of those in the labor-capable age.

In the 1980's, 156,000 people emigrated for permanent residence. As of 31 December 1988, 402,000 citizens of the People's Republic of Poland who had extended by more than 6 months the duration of the visit stated when leaving the country were staying abroad. Persons of productive age account for 76 percent of this group.

2. Labor Force Participation

At the end of 1988, 17,831,000 people were employed in the national economy, of which 12,313,000 people were in the socialized sector, and 5,518,000 were in the nonsocialized sector. Compared to 1980, the total number of those employed increased by 62,000 whereas the number of those employed in the socialized sector declined by 485,000. In turn, the number of those working in the nonsocialized sector increased by 547,000.

Average employment in the national economy in the first half of 1989 amounted to 11,205,000, out of which 8,307,000 in the sphere of material production, and 2,897,000 in the sphere outside material production. The education system employed 1,056,000 people, health care and social welfare—865,000, state administration and the administration of justice 221,000. Compared to the first half of 1988, employment in the socialized sector declined by 280,000, of which by 257,000 in the sphere of material production and by 23,000 in the sphere outside material production.

Average employment in the nonsocialized sector outside agriculture amounted to 1,288,000 and increased by 132,000, or by 11.4 percent, compared to the first half of 1988.

Breakdown of Gainfully Employed Populace

Country	Year	Sphere of material production	Sphere outside material production
Poland	1985	83.5	16.5
	1988	82.8	17.2
Czechoslovakia	1986	78.8	21.2
France	1985	62.8	37.2
Spain	1986	74.3	25.7
FRG	1986	66.3	33.7
Hungary	1986	69.9	30.1
Italy	1986	69.5	30.5

The nominal work time of an employee in the sphere of material production amounted to 2,091 hours in 1980, and 1,961 hours in 1988. In the first half of 1989, the nominal work time in industry amounted to 976 hours (in the first half of last year, 983 hours).

In 1988, the number of work-related accidents in the sphere of material production declined by 7.7 percent compared to 1987. The indicator of accident frequency expressed in the number of accidents per 1,000 employees declined from 19.91 in 1987 to 18.74 in 1988; it was the lowest in recent years.

The number of people employed in a difficult environment or one constituting a health hazard amounted to about 1,309,000 in 1988, and was 1,900 lower than in 1988. Employees working in environments constituting

a health hazard and particularly difficult environments were granted shorter work hours (145,000 people), additional leave (211,000 people) and free preventive meals (3,340,000 people).

3. Financial Situation

Salaries. In the first half of 1989, the average monthly salary in the socialized sector amounted to 95,800 zlotys and was 52,500 zlotys, or 119.9 percent, higher than in the first half of 1988. About 41 percent of employees have earnings above the average salary, and about 59 percent below the average.

Employees working in the science and technical development sector had the highest average wages in the first half of 1989 (112,900 zlotys), and next to them employees of industry (107,900 zlotys) and in the extractive industry 162,400 zlotys) and construction (104,800 zlotys). The employees of communications (74,600 zlotys) and forestry (79,200 zlotys) earned the least, and next to them the employees of health care and social welfare (80,400 zlotys), and employees of education and upbringing (81,800 zlotys).

In the sphere of material production, the average monthly salary amounted to 99,800 zlotys in the first half of the year, and in the sphere outside material production to 84,200 zlotys.

In the entire sphere financed from the budget, the average monthly salary came to 83,700 zlotys in the first half of the year amounting to 83.9 percent of the average salary in the sphere of material production (73.4 percent in 1988).

Financial benefits by virtue of social security. Virtually the entire population of the country is covered by social security (99.9 percent). At present, retirement benefits and annuities provide the sole or basic source of support for about 18 percent of the population of the country. The amount of retirement benefits and annuities paid in the first half of 1989 was as follows:

	First half of 1989	
	1,000's	1st half of 1988 = 100 percent
Retirement benefits and annuities, total	6,847	102.4
of which		
labor, derived, and veteran's	5,511	101.7
including		
retirement benefits	2,257	100.8
disability benefits	2,144	102.6
family benefits	997	102.6
independent farmer benefits	1,336	105.7

In the first half of 1989, the average monthly payment of retirement benefits or annuities was as follows:

	First half of 1989	
	zlotys	1st half of 1988 = 100 percent
Retirement benefits and annuities, total	44,303	188.2
of which		
labor, derived, and veteran's	46,517	186.2
including		
retirement benefits	51,779	188.3
disability benefits	42,142	191.1
family benefits	41,884	192.1
independent farmer benefits	35,174	202.4

The average monthly payment of retirement benefits, employee annuities, and derived benefits for the first half of 1989 amounted to 48.6 percent of the average salary in the national economy in this period of time. Due to the faster growth of salaries compared to that of retirement benefits and annuities, this ratio declined compared to the first half of 1988 when it amounted to 52.8 percent causing this group of people to perceive a deterioration in their financial status compared to persons supporting themselves by their earnings. The average payment of retirement and annuity benefits to independent farmers in the first half of 1989 amounted to 75.6 percent of the average employee and derived benefits, whereas in the first half of last year it amounted to 69.6 percent.

In June of this year, advance payments (30,000 zlotys each) were made which are to be counted toward the adjustment of retirement benefits and annuities which will be carried out in September retroactive to 1 July of this year. From this date on, the lowest retirement benefit and annuity will amount to 56,000 zlotys, except for the handicapped of the 3d category in the productive age for whom the amount of 49,000 zlotys was set. In August of this year, additional payments were made due to price increases (for August and September).

On 9 August, the Economic Committee of the Council of Ministers adopted new protective measures associated with the growth of prices. Additional payments on top of salaries and family grants-in-aid were increased by 7,000 zlotys. In September, accelerated upward adjustment of retirement benefits and annuities by 120 percent will occur which will be retroactive to July.

Benefits. Expenses for individual types of benefits were as follows:

	Expenditures in the 1st half of 1989	
	billion zlotys	1st half of 1988 = 100 percent
All benefits	579.8	162.1
of which		
family and attendance	299.2	145.5
sick pay	190.8	194.1
maternity	27.5	169.8
guardian's	23.7	175.6
upbringing	12.9	129.0
funeral	20.6	204.0
delivery	1.8	128.6
others	3.3	132.0

Family and attendance benefits are particularly prominent in the total structure of benefits. At present, one person out of three ensured by the employee system (5,186,000 people) receive such benefits for members of his family. A majority of the benefits, i.e., 78.1 percent, are collected for children, 19.5 percent for children and a spouse, and 2.4 percent for the spouse only.

Effective 1 April 1989, the income levels on which the amount of family benefits depended were canceled. These benefits were set for all who are entitled to them at a uniform 5,300 zlotys a month except for those who had previously been collecting higher benefits.

Absenteeism by virtue of an illness is reflected in the disbursement of sick pay. In the first half of 1989, an average of about 695,000 people were absent from work daily by virtue of an illness. On an average day, about 88,000 people used the guardian's benefit, about 116,000 people used the maternity benefit, and about 207,000 people—the upbringing benefit. As far as one-time grants are concerned, that is, in the event of the birth of a child—delivery and in the event of death—funeral benefits, on the average 1,500 of the former and 950 of the latter were paid daily.

Cost of living. Compared to the same period of last year, in the first half of this year the increase in the cost of living for basic socioeconomic groups amounted to: about 76 percent in employee households, about 78 percent in peasant-worker households, about 80 percent in peasant households, and about 71 percent in the households of retirees and annuitants. The difference in the indicators of the cost of living is due to differing structures of consumption in these groups of families.

The ratio of growth of nominal wages to the growth of the cost of living of employees working in the national economy amounted in the first half of this year to about 125 compared to the first half of 1988, whereas the ratio of growth of the average current retirement benefit or annuity to the growth of the cost of living of retirees and

annuitants amounted to 102. Such comparisons are not completely reliable in evaluating the actual purchasing power of wages and retirement benefits in an environment of pronounced disequilibrium in the market and restricted availability of many goods.

Household incomes. A trend toward the leveling of differences between nominal incomes of basic socioeconomic groups of the populace emerged in the 1980's. A survey of household budgets shows that in 1988 the average nominal per capita income amounted to 31,400 zlotys in employee households (growth by 74.5 percent compared to 1987), 33,700 zlotys in peasant-worker households (growth by 85.1 percent), 36,900 zlotys in peasant households (growth by 91.1 percent), and 26,000 zlotys in the households of retirees and annuitants (growth by 62.1 percent). Differences in household income per capita are significant. Incomes of less than 20,000 zlotys per capita were received in 1988 by 18 percent of employee households, 17 percent of worker-peasant households, 25 percent of peasant households, and 28 percent of the retiree and annuitant households. On the other hand, monthly incomes of over 60,000 zlotys per capita were received by 3.7 percent of employee households, 5.5 percent of peasant-worker households, 13 percent of peasant households, and 1.1 percent of retiree and annuitant households.

Consumption of foodstuffs. After a considerable decline in the 1981-1982 period, an increase in the consumption of some foodstuffs occurred in subsequent years; nonetheless, for many items this level was below that attained in 1980.

Per capita consumption of some foods in 1988 amounted to:

	1988	1988
		1980 = 100
Meat and pluck	68.3 Kg	92.0
Fish and fish products	6.5 Kg	80.0
Eggs	203	91.0
Milk	271 l	96.6
Edible fats	25.3 Kg	102.0
of which butter	8.6 Kg	97.0
Sugar	46.2 Kg	111.6
Tea	944 g	13.0
Unflavored and flavored vodka converted to 100°	4.6 l	77.0
Cigarettes	2,511	93.7

4. The Status of Meeting Social Needs

Housing

The housing situation in our country is difficult. It is characterized by a considerable shortage of separate apartments compared to the number of households.

The rate of increase in the stock of housing in the 1980's exceeded the relative increase of population but was lower than the number of marriages performed. By the end of 1988, the housing stock in use amounted to 10,791,000 apartments. The average number of persons per room declined from 1.04 in 1981 to 0.96 in 1988, and in rural areas from 1.19 to 1.09 respectively.

The average useful area of an apartment in 1988 amounted to 53.6 square meters in the cities, and was 3.4 square meters larger than in 1981; in the villages, it was 69.6 square meters, or 7.2 meters larger. The structure of apartments as measured by the number of rooms per apartment has improved; it amounted in 1988 to 3.29 in the cities (3.13 in 1981), and 3.59 in rural areas (3.33 in 1981).

The housing situation of the population of Poland differs considerably from that in other countries.

The results of housing construction are not favorable. Its current scope approximates that attained in the late 1960's. In 1988, the scope of housing construction was almost 94,000 apartments (over 33 percent) smaller than in the period preceding the economic collapse, i.e., in 1978, of which the scope of socialized construction was almost 84,000 apartments (40 percent) smaller.

The course of implementation of socialized housing construction this year is still unsatisfactory; its scope has been decreasing consistently for 15 months. In the first 7 months of 1989, the number of apartments commissioned in this construction sector (46,200) was 5,900 (11.3 percent) lower than in the same period of last year.

At the same time, a continuous growth of the average useful floor space of one commissioned apartment has occurred. For the first 7 months of 1989, it amounted to 57.9 square meters and was 0.3 square meters larger than in the same period of 1988, 7.3 square meters larger than in the years 1976 through 1980, and 3.8 square meters larger than in the years 1981 through 1985.

The performance of independent construction was better than in 1988. In the first half of 1989, 17,800 apartments were commissioned, or 400 more than last year. The continuous growth of the average useful floor space is registered in independent construction as well. In 1988, it amounted to 106.4 square meters and was 12.2 square meters greater than the average area of apartments built in the years 1976 through 1980, and 6.5 square meters greater than that of apartments built in the years 1981 through 1985. The average useful space of one apartment in independent construction in the first half of 1989 amounted to 107.6 square meters.

In July 1989, 162,700 apartments in multi-family dwellings were under construction, that is, as many as in July 1988.

The average duration of erecting a multi-family residential building in 1988 (19.4 months) was 6.3 months (48.1 percent) longer than in 1978. In the first half of 1989, the

average duration of erecting residential buildings amounted to 18.9 months and was 0.3 months shorter compared to the first half of 1988. The duration of building single-family dwellings is increasing. The share of buildings under construction for more than 3 years amounted to 27.5 percent in 1976, 31.1 percent in 1978, 63.7 percent in 1987, and 66.9 percent in 1988.

Education and Upbringing

About 50 percent of children of preschool age attend preschool facilities (whereas in the GDR and Hungary this statistic stands at about 100 percent, and in Czechoslovakia, at over 90 percent); 45 percent of the graduates of primary schools continue their education in general complete high schools, out of which about 20 percent are in general secondary schools. As a result, out of 1,000 inhabitants of Poland 10 attend general high schools whereas in Sweden 49 students do, in the USSR 62, in France 78, and in Great Britain 88. In 1988, only 11 percent of young people at age 19 began attendance at the first year of full-time college study. This is one of the lowest rates of college education. In the United States and Japan, more than one-half of the 19-year-olds continue their education in colleges. In the countries of Western Europe, the statistic in question amounts to between 20 and 30 percent, and in the GDR, Bulgaria, and the USSR to about 20 percent.

In 1988, 1.4 million children attended preschool facilities which is somewhat fewer than in the previous year but about 14 percent more than in 1980. Due to the lack of slots, more than 70,000 children were not admitted; almost 96,000 were admitted above the standards in effect. This meant a reduction in "above-the-norm" admissions by about 55,000 children. As a result, congestion at day care centers declined. For every 100 places, there were 111 children on the average (compared to 117 in 1987 and 124 in 1980).

In 1988, one citizen of Poland in five attended a school of some level; 5.2 million students attended primary schools, or 23.9 percent more than in 1978. Schools above the primary level—incomplete high schools, high schools, and post-secondary schools had 2.1 million students. In the 1990's, the number of students at primary schools will decrease consistently whereas that of students in above-primary schools will increase.

The main indicators describing the conditions for study in the general educational system have not changed profoundly in recent years. In 1988, the average form at general secondary schools had 30 students (24 per one classroom). In primary education, a considerable disparity between urban and rural areas still remains. In 1988, the average size of a form in primary schools was 24 students (29 in the cities and 19 in rural areas), and there was an average of 28 students per classroom (38 in the cities and 19 in rural areas). In primary education,

work continues on more than one shift, mainly in new residential areas of large cities.

The decline in the number of college students which began in 1978 has been slowed down. In 1977, 491,400 students attended colleges, in 1986, 334,500, and in 1988, 356,400. The decline in the number of students was the result of restricting admissions to the first year of college.

In 1988, 514,900 full-time teachers worked in schools and upbringing and care facilities, and 59,000 full-time academic instructors worked in colleges (in 1980, 403,100 and 54,700 respectively).

Health Care

The health status of the Polish society is bad. Both the high levels of the incidence of disease and mortality and the inadequate potential of the health care service testify to this. Poland lags considerably behind developed countries. In a majority of these countries, a decline of mortality due to controlling the spread of diseases of civilization, i.e., mainly the diseases of the circulatory system and tumors, has occurred whereas in Poland an accelerated process of increasing mortality due to the diseases of civilization occurs as in only a few other European countries. Despite the progress made, the statistic of infant mortality also remains at a high level (in 1988, it amounted to 19.8 compared to 25.5 in 1980 whereas in 1986 it stood at 5.9 in Sweden; it is below 10 in a majority of developed countries). The high level of mortality in Poland has a direct influence on the average life expectancy. In 1987, it amounted to 66.8 years for men at birth, and to 75.2 for women. For men, this statistic has not increased since the mid-1960's, and for women, it even grew smaller compared to the years 1980-1981. Among the causes of this unfavorable situation, we should mention the condition of the natural environment, conditions on the job, the irrational pattern of nutrition, poor quality of foodstuffs, high alcohol consumption, and widespread tobacco smoking.

The unfavorable health situation is accompanied by a social perception of the unsatisfactory level at which the health care service meets needs.

In 1988, 672 general hospitals and clinics were in operation, that is, 31 more than in 1980. The number of beds in general hospitals per 10,000 population amounted to 57.2 at the end of 1988, and it has improved slightly compared to 1980 (56.2 beds in 1980). In the first half of 1989, this statistic increased, and at the end of June 1989 stood at 57.4.

In the 1980's, an increase in the number of medical offices in the cities and health care facilities in rural areas has occurred. In 1988, 6,653 clinics were in operation, i.e., 95 more than in 1987 and 248 more than in 1985. In rural areas, 3,312 health care facilities were in operation at the end of 1988, i.e., 94 facilities more than in 1980 and only five more than in 1987. In the first half of 1989, six new offices and facilities were added.

By the end of the year, the number of places at social welfare homes amounted to 66,400 and was 600 higher than in 1987 and 5,900 higher than in 1980. Per 10,000 population, there were 17.6 places in such homes in 1988 compared to 16.9 in 1980 and 17.4 in 1987. For a number of years, the number of people on waiting lists to be placed in such homes has been increasing (about 14,000 persons).

In mid-1989, there were 21 physicians (in 1980—18), 51 nurses (in 1980—44), and six midwives (in 1980—five) per 10,000 population. The number of dentists per 10,000 population has been at the same level, five, since 1980. The number of pharmacists per 10,000 population has remained at a level slightly higher than four since 1980. The shortage of dentists is particularly apparent, and in the hospitals, the shortage of mid-level and lower-level personnel.

The efficiency of the efforts of the health service is reduced by drastic delays in the development of diagnostic capacity and outfitting the facilities with new medical equipment and apparatuses, as well as shortages in the supply of drugs and disposable equipment.

Culture

Research of cultural participation indicates the progressing "home orientation" in receiving cultural values. Over 90 percent of the populace consistently listen to the radio and watch TV whereas fewer than 50 percent go to the cinema and about 15 percent to the theater.

Attendance at theaters, musical establishments, and cinemas has been falling for a dozen or so years now. At present, about 16,000 houses and centers of culture, clubs, and club rooms are in operation. Seventy-four drama theaters, 27 puppet theaters, 19 opera and musical companies, and 31 philharmonics and symphony orchestras operate.

The facilities of public libraries have been developing in a systematic manner. Their number (together with branches) exceeded 10,000 in 1988, and was 10 percent higher than in 1980. The collection of books increased by almost one-half and amounted to about 134 million volumes in 1988 (compared to about 95 million volumes in 1980).

The second TV channel is not received over one-quarter of the territory of the country, and only 25 percent of subscribers may view the TV programs in color because, for example, only one employee family in three and one peasant family in 11 have color TV sets. The dynamic development of satellite TV and video technology affects only the more affluent social groups due to the absence of domestic production and high prices.

The poor and differentiated availability of cultural facilities and their lack of adjustment to local needs hamper the consistent molding of customs of cultural participation.

Almost 70 percent of villages have no cultural establishment of any kind. Ten eastern voivodships do not have a theater; less than 16 percent of the inhabitants use more than 3,000 houses of culture and cultural centers.

Despite the development of visual forms of propagating culture books remain, and will continue to remain in the nearest future, a significant element of cultural life. The press runs of books and booklets in Poland, as well as the collection of books in public libraries, are among the lowest in Europe. In 1988, 6.5 copies per inhabitant were published, and the number of volumes in public libraries amounted to 3.5 whereas publishing output in 1984 amounted to 7.2 copies per capita in the USSR, 8.7 copies in the GDR, 11.1 copies in Hungary, and the stock of libraries amounted at that time to 4.4 volumes per capita in Hungary, 5.0 volumes in Bulgaria, and 7.4 volumes in the USSR.

Tourism and Recreation

In 1988, the service facilities of tourism and recreation had 843,000 beds available; 483,000 beds were in resort and recreational facilities which makes Poland the leader among the socialist countries.

A majority of resort and recreation facilities are administered by enterprises, organizations, and socioprofessional organizations.

The shelter-and-food pattern of services, incomplete utilization of the facilities, and lack of correspondence between the prices and standard of services and the expectations of clients present problems.

A consistent decline in the number of beds in hostels for young people, riverside shelters, tent compounds, and campings is registered. This restricts the potential for developing specialized tourism, particularly for young people.

Despite a considerable price increase, the research does not reveal a considerable decline in the tourist activities of the populace. Only the forms of recreation have changed. In 1988, the number of those participating in organized forms of taking leave declined by 100,000 (from 3.9 million in 1987 to 3.8 million). In turn, the number of those using individual forms of recreation has increased.

A decline in the scope of organized recreation for children and young people is a negative phenomenon. In 1988, 1,771,000 children and young people went to summer recreation facilities and camps compared to 1,835,000 in 1987.

The volume of international tourist exchange is growing steadily. In 1988, 6.2 million foreign tourists came to Poland (of which 1.1 million were from capitalist countries). About U.S. \$136 million in proceeds were generated; however, this amounts to less than 25 percent of the proceeds generated by the Hungarian People's Republic. In the first half of 1989, a 38-percent increase in the number of arrivals from the socialist countries and

a 30-percent increase in the number of arrivals from other countries have been registered. Proceeds in the socialist currencies more than doubled, and those in convertible currencies increased by 30 percent.

In 1988, about 6.9 million Poles traveled abroad (5.2 million to the socialist countries). Differences in market availability and prices for individual goods cause some travel not to be undertaken for recreational and educational purposes. The scale of foreign travel makes it an essential socioeconomic phenomenon with extensive, and not necessarily favorable, consequences.

Denominational Issues

Roman Catholicism is the religion of a majority of the populace. The status of the Roman Catholic Church in Poland is shown by the following data:

Number of churches and chapels 15,731

Number of devotional facilities under construction or expansion.....2,151

Number of the clergy, excluding retired.....52,607
including 23,279 priests

Catholic education:

1. Colleges—Academy of Catholic Theology, Catholic University of Lublin, five papal higher schools;

2. Religious seminaries, including 26 higher diocesan seminaries, 25 higher seminaries of orders, 100 lower seminaries;

3. Schools operated by church institutions: 10 general secondary schools, two basic vocational schools, one post-secondary school, one technical vocational school, one boarding school without instruction;

4. Religious instruction sites—about 24,000.

Publications associated with the Catholic Church

1. Number of licensed denominational publications—42 (as of 24 April 1989), including: 14 publications of religious orders, 20 publications of the curia and archdiocese; four publications of Catholic schools and scientific societies.

2. Number of Catholic periodicals published in the country (as of 24 April 1989)—130.

3. Number of applications submitted to the GUKPiW [Main Office of the Control of the Press, Publishing, and

Public Performances] or to the Working Group for Publishing and Magazines for consent to recognize or to start a new periodical—13.

4. Number of new applications for publishing licenses (as of 24 April 1989)—six.

Forty-six churches and other non-Roman Catholic denominational unions also operate in Poland; 35 of them are Christian churches. The largest include the Polish Autocephalic Orthodox Church, the Augsburg Evangelical Church, the Evangelical Reformed Church, the Methodist Church, the Polish Catholic Church, the Old Catholic Mariavite Church, and the Polish Church of Baptist Christians.

In addition, 11 non-Christian religious unions operate, including three which have traditionally operated on Polish soil: The Religious Union of the Mosaic Faith, the Moslem Religious Union, and the Karaim Religious Union. The emergence of religious unions drawing on the traditions of Hinduism (three are in operation at present) and Buddhism (five) is a new phenomenon which began in the late 1970's and early 1980's.

The members of these religious unions have 1,521 churches, chapels, and prayer houses. A total of over 2,000 clerics operate in them.

One hundred and eight churches and devotional premises of non-Roman Catholic churches and religious unions are under construction.

Non-Roman Catholic churches and other religious denominations publish a total of 28 periodicals, including 15 monthlies, two bimonthlies, six quarterlies, and two yearbooks. The combined one-time press run of these periodicals comes to 146,000 copies.

Nineteen non-Roman Catholic churches and other religious denominations operate independent publishing houses which last year published 3,981,000 copies of 147 books.

Fundamental legal regulations in the sphere of relations between the state and the church and other religious denominations have appeared.

On 17 May 1989, the Sejm adopted three laws:

1. On the Relations Between the State and the Roman Catholic Church in the People's Republic of Poland;
2. On Guarantees of the Freedom of Conscience and Religion;
3. On Social Security for the Clergy.

An agreement between the Government of the People's Republic of Poland and the Conference of Bishops of Poland on regulating the status of higher papal schools and the mode and extent of recognition by the State of the degrees and scientific titles conferred by these schools was signed on 30 June 1989 and took effect on 15 July 1989.

The democratization of sociopolitical life and the enhancement of civil liberties, as well as the increasing interest of churches and religious denominations in having the believers participate in public life have facilitated the enlivening of lay religious communities which is expressed, among other ways, in the activation of already existing lay associations and the creation of new organizations, both sociopolitical and sociocultural in nature, as well as those operating in the sphere of social ethics, education, and charitable work.

The striving is strong to set up proprietary publishing houses and foundations, as well as to undertake commercial operations in order to secure funds for statutory activities.

II. Status of the Natural Environment

Improving the condition of the natural environment is one of the main problems which we will have to solve in the coming years. At present, Poland holds first place in Europe in the size of gas emission. Taking the volume of discharged gases per 1 square kilometer of area for comparison, the discharge of sulfur dioxide in our country is higher than in the FRG and the Netherlands but lower than in Great Britain, Hungary, and Czechoslovakia. A greater discharge of nitrogen oxides per 1 square kilometer than in Poland is registered in Great Britain, Czechoslovakia, and the Netherlands. Poland accounts for about 10 percent of the total European discharge of sulfur dioxide and about 8 percent of nitrogen oxides. It must be stressed that the overall discharge of SO₂ in Europe has been declining in recent years (in 1980 through 1985, it dropped by about 15 percent) whereas in Poland it has stabilized at a level of between 4.1 and 4.3 million tons a year.

The estimated size of emissions of principal air pollutants in 1988 from all sources in our country amounted to the following, in million tons: particulate matter—3.4, sulphur dioxide—4.2, nitrogen oxide—1.6, carbon oxides—3.1.

In 1988, 15.0 percent of the pollutants generated were captured in the existing pollution-control equipment at enterprises reporting statistics to the GUS [Central Office of Statistics] (in 1982, 11.5 percent). Particulate pollutants were reduced by 94.7 percent (in 1982, 92.7 percent).

Forests, including coniferous tree species, and especially fir and spruce, are the most vulnerable and susceptible to damage caused by air pollution. The area of forests damaged by the emission of particulate matter and gases has been increasing continuously; at present, it amounts to 64 percent of the total area of Poland. The threat is the greatest in the southern and western parts of the country.

A similarly unfavorable situation occurs with regard to the status of purity of water. The amount of municipal and industrial waste water generated in the country in 1988 amounted to 12.1 cubic kilometers, out of which cooling water accounted for 63 percent. Out of the total

amount of waste waters requiring treatment which amounts to 4.5 cubic kilometers, 33 percent were treated mechanically, 22 percent biologically, 7 percent chemically, and 38 percent were not treated at all.

In 1988, 713 cities out of 822 had sewers; out of these, 466 cities had sewage treatment plants; in 172 of these cities, the plants were mechanical. In 1988, 263 waste water treatment plants were commissioned with a combined capacity of 658,000 cubic meters per day.

A disproportion continues to exist between the development of water supply systems in rural areas and the lagging construction of sewers and waste-water treatment installations which increases the sanitation and disease-control threat and the qualitative degradation of water resources, on many occasions to the very upper reaches of rivers. Industrial waste waters account for 45 percent of waste waters in need of treatment. Due to the absence of water pollution-control equipment or the insufficient capacity of that in existence 25 percent of industrial waste waters are discharged into the bodies of water without any purification. This situation causes certain consequences in the natural environment.

In 1987, waters of the 1st category of purity flowed in rivers on 4.7 percent of their length (in 1983—6.8 percent), waters of the 2d category on 27.7 percent, waters of the 3d category—on 27.2 percent, and waters which did not meet the requirements for any category—on 40.4 percent of the length of the rivers surveyed. Likewise, 300 out of the 500 larger lakes in Poland are excessively polluted. The state of purity of water in our two main rivers, the Vistula and the Odra, and the unsettled water and water management in coastal communities cause restrictions on the use of the Baltic for recreation purposes.

Out of the total of about 186 million tons of solid industrial waste generated in 1988, 57 percent were put to use in the economy, and only about 0.2 percent were neutralized. The remaining mass of wastes, i.e., about 80 million tons (43 percent) remained on waste heaps. The low level of economic use of wastes and the negligible extent of neutralization were the reason why the load burdening the environment increased by the end of 1988 by a factor of almost 2.5 compared to 1975.

The total area of wastelands and degenerated lands which were in need of reclamation and management amounted to about 100,000 hectares by the end of 1988. In addition, 3.5 million hectares of the poorest sandy soil which are in the borderland of unusable soils require meliorative fertilization, land improvement, land reclamation, or tree planting. Fallowing land in the amount of about 53,000 hectares was registered, as well as the threat of severe and very severe wind erosion on more than 3 million hectares, and water erosion on an area of about 1.6 million hectares. Extensive use of land by industrial enterprises, and poor performance of land reclamation work (for example, merely 3,700 hectares in 1988) are registered.

Within the framework of protecting the environment and landscapes, about 4.5 million hectares in Poland are under legal protection of various kinds; this amounts to 14.3 percent of the area of our country. Since 1980, this area has increased by 416 percent. In 1988, we had 15 national parks, 988 nature preserves, and 165 protected landscape areas.

In 1988, ecologically endangered areas consisting of 27 regions in which the greatest and most burdensome sources of pollution are clustered occupied about 11 percent of the area of the country in which 35 percent of the population of Poland lived. The situation is particularly complex in five ecologically endangered areas: Upper Silesia, Krakow, Legnica-Glogow, Rybnik, and Gdansk due to the condition of the Bay of Gdansk.

Outside the ecologically endangered areas, highly unsatisfactory environmental conditions also occur in 60 localities where considerable sources of environmental pollution exist, 15 national parks and landscape parks threatened by the loss of natural equilibrium, and 23 resort centers threatened by the loss of medicinal properties.

Vigorous actions undertaken by the government in order to improve the condition of the natural environment in Poland consist primarily of the consistent implementation of economic arrangements forcing economic units to radically change their treatment of the natural environment. Particularly important among them are the system of fees for the economic use of the natural environment and monetary penalties for failing to comply with environmental protection requirements which together with target-oriented ecological funds and a set of financial preferences (tax relief and exemptions, subsidies, and loans) create a system of economic incentives for enterprises to protect nature and use its resources rationally. To this end, the rates of penalties for discharging excessively polluted industrial liquid waste and fees for the water drawn and waste waters discharged are consistently increased.

"The National Environmental Protection Program" aimed at shaping an ecological policy has already been worked out and submitted to the Sejm of the People's Republic of Poland. This program takes into account the conclusions and remarks made during social consultations and the proceedings of the roundtable, in particular the Subgroup for Ecology.

The involvement of Poland in the national forum has increased. Among other things, in this sphere:

- a protocol on restricting the discharge of nitrogen oxides to the convention on trans-border long-distance migration of pollutants has been signed;
- agreements on bilateral cooperation with Austria and France and agreements with the United States, Norway, and Sweden have been signed;
- agreements with the USSR and the FRG have been prepared for signing.

These agreements and understandings in particular regulate scientific-technical cooperation, technology and equipment exchange, and create conditions for cooperation in the field of producing environmental protection equipment.

The prime ministers of the Governments of Poland, Czechoslovakia, and the German Democratic Republic have signed a trilateral agreement on cooperation in the field of environmental protection.

Work intended to use the opportunity of the ecological conversion of our indebtedness to intensify actions in the interest of the natural environment has been undertaken. A preliminary list of specific investment projects protecting the environment in Poland and adjacent countries has been worked out. It has been communicated to many ecological organizations operating in our country and abroad, as well as to the representatives of the Governments of Sweden, United States, and the FRG.

The agreement concluded within the framework of the Subgroup for Ecology at the roundtable on taking into account the ecological policy in the economic practice of the state, the acceptance of ecological development principles as the guiding ones in socioeconomic and spatial planning, and the social openness of environmental protection will determine the future operations of the state in the field of environmental protection.

III. The Economy

1. The Reform of the System of Management

The processes of economic changes depend greatly on the pace of sociopolitical changes; however, only a harmonized rate of changes in all spheres of life of our society may decisively accelerate the pace of reforms in the national economy.

Recent years have seen considerable progress in reforming the economy; however, they have also powerfully revealed the main barriers and dilemmas which currently exist in the course of this process.

Without enumerating successive steps and arrangements in the course of introducing the economic reform, and concentrating on the recent period only, we must state that, in trying to evaluate the economic phenomena and performance of the economy in the period between January and August of this year, we should realize that this was a period of entirely different organizational conditions for the operation of economic units compared to the previous years.

First, since January a complete freedom of economic operations has existed for all those interested regardless of the property sector to which they belong. Preferential conditions for operations by foreign capital also exist.

Second, the restructuring of the system of finance management at state enterprises has begun. The practice of "compartmentalizing" the funds for different purposes

by order has disappeared: The enterprises manage their finances in keeping with their needs and opportunities.

The guidelines for the collection of the profit tax on the profit of all corporate persons regardless of the organizational form and property sector have been made uniform.

The hard currency management guidelines have been liberalized. Exporters, after selling some of the hard currency to the state, may freely manage the remainder of hard-currency funds. The creation of a hard-currency market through expanding hard-currency auctions has begun.

The bank system has been liberalized. Instead of the old greatly centralized system, a two-tier banking system has emerged which includes the central bank of the state and a chain of commercial banks. The objective of these changes is to provide a considerably greater opportunity for effectively overcoming the pressure for excessive increases in credit by introducing arrangements which make the extent of credit provision by credit banks to enterprises dependent on the ability of the banks to amass credit resources. Also, the subordination of banking operations to the principle of commercialism has occurred, i.e., the implementation of the profit criterion in bank operations. This creates conditions for shaping the practice of a free choice of their bank by economic units and individuals and a continuous improvement of the quality of banking services.

The system of banking has been reformed. A network of commercial banks has formed the credit policy of which is subordinated to the guidelines set by the NBP [National Bank of Poland], the central emission bank of the country. The credit and deposit policy of banks tends to protect the real value of the interest rate, i.e., the one that compensates for inflation.

The price-setting policy has been liberalized. The level of prices is determined primarily by the ratio of supply and demand, despite the extent of administrative interference in the setting of prices remaining considerable. Direct interference appears in the form of official prices or the ceilings for increases in contract prices, and subsidies amount to the indirect form.

Likewise, direct interference by the center in economic processes has also been reduced. The list of products distributed through mandatory brokerage has been reduced to just several items. The number of supply priorities has been reduced radically by restricting them to government orders, state and balance reserves only. The scope of state orders for materials and products was restricted. The process of abandoning operational programs has been completed. As of the beginning of the year, the 1952 decree on the management of goods in merchandise and supply distribution was canceled. The above actions have expanded considerably the freedom of merchandise distribution and reinforced the level of links between participants in distribution on an equal footing.

The list of goods the imports of which are centrally financed, as determined by the plan, includes only several items of basic raw materials and food staples. The plan also determines the scope of centralized investments and investment projects carried out with the support of budgetary means. The rest of the data in the plan are for reference only.

However, the legislative and organizational actions taken have not been as completely effective as possible due to the barriers present in the structure of the economy, its organizational forms, the absence of equilibrium in the domestic market, the consequences of foreign indebtedness, and inflation.

The current condition of the Polish economy reflects all the features characteristic of an economy which is going through the stage of a profound restructuring, i.e., a transition from the command-and-allocation system to the market system which is accompanied by tension and difficulties in all areas of economic activities.

2. National Income and State Finances

National income produced in 1988 attained the level of 24,994.6 billion zlotys in current prices. The socialized sector generated 81.2 percent of the national income. Industry produced 48.1 percent of the national income, construction 12.8 percent, agriculture 13.8 percent. The per capita national income amounted to 660,000 zlotys.

The national income produced in constant prices in 1988 continued to remain below the level attained in 1978 by 0.7 percent (per capita 8.3 percent lower). However, it was 29.8 percent higher than the level achieved in 1982 (per capita, 24.2 percent higher). In 1988, the national income produced in industry was 0.9 percent higher than in 1978, 31.9 percent lower in construction, and 7.7 percent lower in agriculture whereas compared to 1982 it was respectively 30.7, 37.2, and 8.7 percent higher.

In 1988, the social productivity of labor as measured by the value of national income produced in current prices per employee in the sphere of material production amounted to 1,715,200 zlotys (in the socialized sector, 2,166,300 zlotys).

Under comparable conditions, the social productivity of labor was 3.4 percent higher than in 1978 (in the socialized sector, 6.3 percent higher) whereas compared to 1982 it was 31.2 percent higher.

The productivity of fixed assets, as measured by the net product generated per 1,000 zlotys of the average gross value of productive fixed assets, amounted to 243 zlotys in 1988 (in 1984 prices) and was 29.3 percent lower than in 1978, or 12.2 percent higher than in 1982. The high degree of depreciation of the pool of equipment and its incomplete utilization influence this ratio unfavorably.

Technical capitalization of labor in the sphere of material production (measured by the average gross value of

productive fixed assets in current prices per one person employed in the sphere of material production) amounted in 1988 to 3,374,800 zlotys (after the price revision).

Compared to 1978, the technical capitalization of labor (in constant prices) was 46.4 percent higher in 1988, and compared to 1978, it was 18.3 percent higher.

In 1988, the material intensiveness of national income (as measured by the ratio of the cost of materials to the national income produced) amounted to 1,034 zlotys per 1,000 zlotys of national income produced (in the socialized sector, this ratio was slightly worse and amounted to 1,071 zlotys).

The share of the cost of materials (in current prices) in the cost of gross product decreased continuously between 1978 and 1988 (in 1988 compared to 1978, by 6.3 points in the national economy, in socialized industry by 4.2 points, and in construction by 13.1 points).

In 1988, the national income produced (in constant prices) was 12.2 percent higher than in 1985 whereas the consumption of hard coal fell by 3.9 percent, electricity by 1.2 percent, copper by 5.8 percent, plastics by 4.9 percent, wood pulp by 8.5 percent, coke and low-carbonization coke by 6.7 percent, primary aluminium by 8.4 percent, and synthetic rubber by 4.3 percent. At the same time, the consumption of paper grew by 10.2 percent.

The highest material intensiveness is registered in industry. In the years 1980 through 1988, changes in the indicators of specific consumption and yield of raw and other materials were very slight.

The national income distributed was smaller than the national income produced due to the surplus of exports of goods and services over imports. In 1988, the national income distributed came to 24,367.5 billion zlotys (in current prices), or 643,600 zlotys per capita.

In constant prices, the national income distributed was still considerably smaller (by 6.6 percent) than in 1978 but considerably higher (by 28.8 percent) than in 1982. In 1988, the per capita distributed national income was 13.5 percent lower than in 1978 and 23.3 higher than in 1982.

Consumption in 1988 accounted for 68 percent of the distributed national income in current prices, and accumulation for 32 percent. Compared to 1978, the consumption of national income in constant prices in 1988 was 12.2 percent higher (but per capita 3.8 percent higher) including the consumption of material goods from personal income which was 8.8 percent higher (whereas per capita it was 0.6 percent higher). Compared to 1982 the consumption of national income in 1988 was 26.1 percent higher (per capita, 20.7 percent higher) of

which consumption of material goods from personal incomes was 25.9 percent higher (per capita 20.3 percent higher).

Compared to 1978, accumulation in constant prices was as much as 46.1 percent lower in 1988 (of which net investment outlays for fixed assets were 39.9 percent lower), and compared to 1982, it was 39.9 percent higher (out of which net investment outlays for fixed assets were 56.7 percent higher).

State budget. The revenue of the state budget over 6 months of this year amounted to 7.5 trillion zlotys which accounted for 43 percent of the level set by the Budget Law for 1989. Compared to the same period of last year, the revenues increased by 73 percent.

The revenue of the central budget amounted to 4.6 trillion zlotys, i.e., 33.9 percent of the annual plan; thus, it was considerably below the revenue called for by the duration of time elapsed.

The turnover and profit taxes and dividends on the original capital fund are the main source of revenue for the central budget. In total, they accounted for about 80 percent of revenues. The payment of turnover tax in the course of 6 months amounted to 2.0 trillion zlotys which corresponds to 42.3 percent of the annual plan; the payment of profit tax by enterprises of the socialized sector came to 1.2 trillion zlotys, that is, 34.9 percent of the plan; proceeds from dividends on the original capital fund of state enterprises in the amount of 0.4 trillion zlotys were taken in which corresponds to 18.8 percent of the annual plan. A total of 3.6 trillion zlotys was taken in by the state budget by virtue of these three items. However, this amounted to merely 68 percent of the amount of taxes due to the budget (calculated for 6 months). Fees by virtue of hard currency auctions were also coming in slowly. By virtue of this, 0.13 trillion zlotys were transferred from the Bank of Commerce, i.e., 14.3 percent of the annual plan.

Expenditures of the state budget in the course of 6 months amounted to 10.7 trillion zlotys which amounts to 58.9 percent of the annual plan. Compared to the 6 months of last year, they increased by 148.1 percent. The rate of disbursement was higher than the time elapsed would call for.

Expenditures for product-specific subsidies, which amounted to 3.5 trillion zlotys, or 77 percent of the annual plan, grew the fastest. Compared to last year, they were 172 percent higher.

Product-specific subsidies for foodstuffs amounted to 1.8 trillion zlotys, for coal 0.9 billion zlotys (they have increased 10-fold compared to the first half of 1988); subsidies for the means of production in agriculture (fertilizer, fodder mixes, insecticides) came to 0.4 trillion zlotys.

The following were the main factors causing product-specific subsidies to increase:

- increases introduced in procurement prices for farm products while retail prices for food remained unchanged;
- increase in subsidies for coal due to a higher increase in the exchange rates of hard currency than envisaged by the plan (because the subsidy in mining amounts to the difference between the value of coal sales in contract prices and the value of sales in sales prices);
- subsidies for some imported goods not included in the plan.

In recent years, the burden placed on the budget by subsidies has been very heavy.

Subsidies for investments and capital repairs, which amounted to 1.4 trillion zlotys, or 70.4 percent of the annual plan, were also implemented above the amount corresponding to the time elapsed. This was associated with the very rapid growth of prices for producer goods this year. Meanwhile, expenditures by virtue of settlements with the banks were well below the amount corresponding to the time elapsed—0.3 trillion zlotys (28 percent of the annual plan), as well as the subsidies to the Fund for Servicing the Foreign Debt—about 0.5 trillion zlotys (43.9 percent of the plan).

The revenues of local budgets over 6 months of this year amounted to 3.7 trillion zlotys, which is 88.1 percent of the annual plans. Expenditures amounted to 3.4 trillion zlotys, that is, 79.5 percent of the plan. Compared to the same period of last year, revenues increased by 115.2 percent and expenditures by 116.7 percent.

The revenues of local budgets from their own sources were fulfilled at a level of 75.2 percent of the one set in the budget law. Expenditures for investment projects and capital repairs were higher than the amount planned; they were twice as high as those in the first half of last year.

The results of the state budget after 6 months of this year are very unfavorable. The deficit amounted to about 3.3 trillion zlotys with the planned deficit for the year being about 1 trillion. This result is the outcome of the deficit of 3.6 trillion zlotys in the central budget and a surplus of 0.3 trillion zlotys in local budgets. (In the 7 months of this year, the deficit of the state budget amounted to 2.7 trillion zlotys, out of which the deficit of the central budget was 3.0 trillion and the surplus of local budgets was 0.3 trillion zlotys).

The debt of the state budget to the banks by virtue of credit needed to cover the budget deficit amounted to 4.9 trillion zlotys (as of 30 June of this year). Compared to the status as of the end of 1988, the debt increased by 3.6 trillion zlotys. The development of the deficit of the

central budget in the first six months of this year compared to last year is presented in the summary below:

Item	1988	1989
Deficit of the central budget, January through May, billion zlotys	195	3,640
Ratio of the volume of deficit in the central budget to its expenditures	5.9	44.2

Foreign debt of Poland. The debt denominated in the currencies of socialist countries increased from TR [transferable rubles] 5.6 billion at the end of 1985 to TR 6.5 billion at the end of 1988.

In the 6 months of this year, TR 683 million in principal and interest payments were made on loans received in the currencies of socialist countries in keeping with the repayment schedule. Within this period, the debt was reduced to TR 6.4 billion.

The debt denominated in convertible currencies increased from U.S. \$29.3 billion at the end of 1985 to \$39.2 billion at the end of 1988. During these years, \$5.5 billion was paid in interest and principal payments which amounted to over 25 percent of proceeds from merchandise exports. The growth of indebtedness was due to unpaid interest in the amount of \$4.8 billion and the decline in the exchange rate of the dollar against Western currencies by \$5.5 billion zlotys. The repayment of principal reduced indebtedness by \$0.4 billion.

In the period between January and June of this year, \$3.2 billion fell due in payments on the loans received in convertible currency, of which \$0.8 billion was paid. Despite this, indebtedness in the currencies of capitalist countries declined by the end of June of this year to \$37.3 billion. This occurred as a result of the appreciation of the U.S. dollar against other currencies. Due to this, the indebtedness declined by \$2.9 billion. Interest payments which were not made increased the indebtedness by \$1.2 billion, and the repayment of principal amounted to \$0.2 billion.

Per capita ruble-denominated debt amounted to about TR 169 at the end of June (about TR 627 per family), and in convertible currencies \$984 (about \$3,715 per family).

The size of debt denominated in convertible currencies and the payments due by virtue of it are beyond the ability of the Polish economy to meet its payment obligations in a timely manner. Therefore, endeavors are undertaken in the international forum which are aimed at restructuring the Polish debt and working out a concept for solving this problem.

3. The Monetary and Market Situation

The monetary and market situation is one of the greatest problems of our economy. The aggravation of inflationary phenomena occurred in 1988 as a result of the price-and-income operation which was carried out. In

1988, prices increased by 61 percent whereas in 1986 their growth amounted to 17.5 percent, and in 1987 to 25.3 percent. This year, the inflationary phenomena have picked up even more. The growth of retail prices for goods and services in the course of 7 months amounted to 84.4 percent compared to the same period of last year.

The growth of prices is accompanied by other unfavorable phenomena which exacerbate the monetary and market disequilibrium. This is shown below by the indicators of the rates of growth in the period between January and July of 1989 (compared to the same period of last year):

Monetary income of the populace.....222.2 percent
Disposable income of the populace.....220.1 percent
Monetary expenditures of the populace....218.0 percent
Market deliveries of goods.....212.2 percent

The monetary income of the populace amounted to a total of 19.9 trillion zlotys and was 122.2 percent higher than that attained in the same period of last year; just as in the year 1988, they outpaced the growth of spending.

In the first 7 months of this year, the growth rates envisaged by the plan were exceeded for all kinds of income. The uncontrolled, above-the-plan growth of remunerations for labor poses the greatest danger to the stability of the market.

The disposable income of the populace came to 18.4 trillion zlotys and increased by 120.1 percent, i.e., at a rate somewhat slower than the rate of growth of monetary income of the populace. The coverage of this fund by the deliveries of consumer goods and services was lower than last year. This caused a high increment of the monetary reserves of the populace. As early as the end of July, these reserves came to 9.3 trillion zlotys. The amount envisaged by the plan for the entire year 1989 amounts to 10.5 trillion zlotys. The structure of the increment of monetary reserves was very unfavorable. The share of cash in the reserves increased from 36 and 37 percent at the end of the month of July in 1987 and 1988 to 41.8 percent this year.

In addition to the large amount of monetary reserves denominated in the national currency, the populace has considerable savings in hard-currency accounts. As of the end of July, the number of category A hard-currency accounts exceeded 5.3 million. Close to U.S.\$4.0 billion in hard-currency funds are deposited in these accounts. The increment of balances in the current year amounted to over U.S. \$0.3 billion.

Retail prices. Retail prices of consumer goods and services in the first half of this year were characterized by high and varying rates of growth. Compared to the same period of last year, prices increased by 81.9 percent on the average, out of which prices of products were 81.9 percent higher on the average, and prices of services were 73 percent higher. The prices of non-food goods

increased the most—by 103.6 percent. The food prices grew by 62.2 percent (in socialized trade by 51.1 percent, and in nonsocialized units by 103.2 percent). Increases in the prices of alcoholic beverages were of a similar magnitude (63.5 percent).

The average monthly rate of increases in the retail prices for consumer goods and services in the first half of 1989 amounted to 8.3 percent. The prices of foodstuffs and services increased from one month to another at the same rate. A rate higher than the average was characteristic of the prices for non-food items (9 percent). In turn, the prices for alcoholic beverages grew slower (by 5.7 percent). In the same period of last year, the monthly rate of growth of retail prices was considerably lower and amounted to 4.4 percent. The prices for foodstuffs and services increased monthly by 4.5 percent on the average, and for non-food items and alcohol by 3.8 and 5.8 percent respectively.

In conjunction with the decision on introducing market principles in the food sector effective 1 August, which was made by the Council of Ministers, the food prices increased rapidly; in the course of 2 weeks in August, the prices of individual items increased severalfold. It should be expected that this will also entail the growth of prices for non-food items as a result of pay demands.

The value of **market deliveries of goods** which are produced in our country or imported amounted to 15.1 trillion zlotys in current retail prices in the first 7 months of this year which means an increase of 112.2 percent compared to the same period of last year. This growth is 7.9 points slower than that of the disposable income of the populace over the same period. The ratio of the value of goods delivered to the market to the disposable income of the populace in the January through July period deteriorated from 88.9 percent in 1987 and 85.4 percent in 1988 to 82.4 percent over the 7 months of this year.

Deliveries of non-food goods to the market did not meet the demand despite greater deliveries of individual groups of goods compared to the January to July 1988 period. The disequilibrium in the market for these goods became more pronounced. The shortage of clothing, footwear, furniture, basic electronics, and mechanized household appliances, and so on is increasingly felt. The situation in the foodstuffs market deteriorated further. Since at least May of this year, difficulties have occurred in purchasing all types of meat and pork products, cheese, sugar, flour, and so on caused by, among other things, insufficient supplies associated with small procurement of farm products and stepped-up purchases, out of fear of supply shortages and price instability.

The pressure of the rapidly increasing monetary income of the populace on the market rendered impossible rebuilding the stock of merchandise in trade. At the same time, there was a decline in the turnover of merchandise stocks in trade from 51 days in the July 1988 period to 49 days in July 1989.

Retail sales of goods by the units of the socialized sector (in current prices) in the January to July 1989 period were 102.9 percent higher compared to the same period of 1988; within this, the sales of foodstuffs increased by 73.5 percent, non-food items by 121.6 percent, and alcoholic beverages by 88.7 percent.

As of 31 December 1988, trade had 227,000 retail outlets out of which 183,900 belonged to socialized trade (81 percent of the total number of retail outlets). Compared to 1980, the number of socialized retail outlets increased slightly (by 1,600, or by 0.9 percent). The network of nonsocialized trade increased by a factor of more than 2 (by 21,800 outlets, or by 104 percent). At the end of 1988, there were 166 inhabitants per one retail outlet (at the end of 1980—175 inhabitants).

The number of public catering facilities open to the general public amounted to 26,600 at the end of 1988, out of which 17,900 were socialized facilities. Compared to 1980, the number of socialized facilities dropped by 3,100 (by almost 15 percent) and the number of nonsocialized facilities grew by a factor of more than 2 (by 4,600, i.e., by about 115 percent). At the end of 1988, there were 1,422 inhabitants per one public catering facility, or almost as many as at the end of 1980 (1,427 inhabitants).

Ratio of Deliveries of Goods to the Net Income of the Populace for the Months of January Through July

Year	Percentage
1982	85.1
1983	91.0
1984	92.8
1985	84.3
1986	88.7
1987	88.9
1988	85.4
1989	82.4

4. Fixed Assets and Investment

Fixed Assets. The total stock of fixed assets in the national economy as of 31 December 1988 amounted to over 94 trillion zlotys (in current prices) and was 3.5 percent greater than at the end of 1987 (in constant prices). Compared to 1978, these stocks (in constant prices) increased by about 38 percent.

Assets employed in the process of material production account for almost one-half of these stocks. Compared to 1978, the amount of these assets is about 40 percent higher. The structure of productive fixed assets is unfavorable, and it has not changed greatly in years. Out of the total value of the fixed assets in industry, raw material industries (fuel and power, iron and steel, chemical, and construction materials) account for about 57 percent, or somewhat more than in 1978 (0.4 percent higher), and industries which produce output at higher

stages of upgrading for about 43 percent. A reduction in the share of typical market-oriented industries, i.e., light industry, the food, and wood and paper industries (from 19.4 percent in 1978 to 18.4 percent in 1988) should be viewed as an unfavorable change, whereas an increase in the share of the machine building industry (from 21.5 percent in 1978 to 22.3 in 1988) is favorable.

The assets have depreciated to a considerable degree. The average degree of amortization of machinery and equipment in 1988 amounted to 64, and of the means of transportation 58 percent. At the end of 1988, over 30 percent of the total stock of machinery and equipment in the sphere of material production was entirely amortized. A considerable restriction of investment activities after 1978 is the reason. In addition, the unfavorable structure of investment projects carried out was also a factor. Among other things, the excessively low share of replacement and modernization investment was characteristic of this structure. Between 1983 and 1988, about one-third of the machines and equipment installed in industry were not replaced after their service life had ended.

Degree of Amortization of Machinery and Equipment in Socialized Enterprises of Selected Sectors (percent; in current prices)

Year	1975	1983	1989
Total	41.5	57.5	64.1
Industry	42.8	58.0	66.7
Construction	41.3	66.8	67.3
Agriculture	30.4	48.0	49.8

Construction has a pool of machinery with the highest degree of amortization (over 67 percent), followed by industry (67 percent) and transportation (64 percent), and within industry, the following groups of branches: mineral materials industry (74 percent), iron and steel industry (73 percent), light (73 percent), and machine building (72 percent). Therefore, the technological equipment of production enterprises is not modern. About 40 percent of the fixed assets operating in the socialized sector come from before 1970, and about 40 percent from the 1970's. A considerable segment of the park of machinery and technologies used have low productivity and high energy- and material-intensiveness; they are a burden for the natural environment. The goods produced are of poor quality and not modern. The aging of the fixed assets is the result of difficulties in replacing the amortized fixed assets caused by both financial restrictions and, to an even greater degree, restrictions in the physical availability of new machines and equipment.

These assets are unused to a considerable degree. This is the consequence of difficulties which occur in materials supply and labor shortages. The shift coefficient of work is low, and in recent years it has trended downward. It amounted to 1.49 in industry in 1978, and fell to 1.29 in

1985 and 1.24 in 1988. A particularly unfavorable phenomenon occurs in that the branches of the machine building industry have the lowest shift coefficients which fluctuate around 1, and the industries recognized to be the promoters of technical progress, such as the precision mechanics industry, the transportation vehicle building, electrotechnical, and electronic industries have coefficients which are below 1.

Investment. In 1988, investment outlays in the national economy amounted to 6.5 trillion zlotys in current prices and accounted for 25.1 percent of the gross distributed national income (in 1982, 21.2 percent, and in 1978, 31.2 percent). These outlays in constant prices were 49 percent higher than in 1982 but still lower than in 1978 (by about 18 percent). Compared to 1978, the decline in production investment was more pronounced (by 23 percent) because the sphere of social consumption was protected in the course of the crisis.

In the first half of this year, investment outlays in the socialized sector amounted to 3.9 trillion zlotys in current prices, and in constant prices they were 10 percent higher than a year ago. After 3 years of a slowdown in the growth rate of investment outlays, in 1988 and this year it is picking up again. The increased propensity of enterprises to spend the funds losing their value for development is one of the reasons. Given the insufficient supply of machinery and equipment produced domestically and limited hard-currency funds for imports, it resulted in the deterioration of the technical structure of investment outlays this year. In the first half of this year, the outlays for construction and assembly work increased by about 15 percent whereas those for purchasing machinery and equipment were 2.3 percent lower than a year ago. Besides, the exceptionally favorable weather conditions for performing work in January and February also influenced the high growth rate of outlays this year.

The amount of work performed with enterprises' own resources and by private enterprises increased considerably, by about 66 percent. This year, private enterprises and construction brigades of investor enterprises performed over 20 percent of all capital construction work compared to 14 percent in the first half of 1988.

Purchases of domestically produced machinery and equipment were lower than in the first half of 1988 (by 4.3 percent), as well as those imported from the 2d payments zone [capitalist countries] (by 7.5 percent). Currently, expenditures for importing machinery and equipment from the 2d payments zone amount (in constant prices) to over 5 percent of the entire outlays in the socialized sector compared to about 10 percent in 1980. In turn, imports of machinery and equipment from the 1st payments zone [socialist countries] were 12.6 percent higher than a year ago.

In the 1980's, changes in the structure of investment outlays have occurred. The decline in the share of production investment in total outlays which began in

1976 was halted in 1984 which is a favorable process from the point of view of creating the basis for economic development. In 1988, this share in the socialized sector amounted to about 73 percent in current prices and was higher than in 1983 (67 percent) but still lower than in 1978 (78.8 percent).[graphic omitted]

Out of the total amount of investment outlays in the national economy, about 30 percent were spent for the housing complex, about 20 percent for the food complex, and about 10 percent for the fuel and power complex. The claim of these sectors on total investment outlays was smaller in 1988 compared to 1983. Meanwhile, the share of the machine building industry, including especially precision mechanics, electrotechnical, and electronic industry, and light industry increased. As a result of actions undertaken with a view to the development of the construction materials industry, an increase in investments in this industry occurred in 1988 and in this year.

The share of centralized investment has been decreasing for several years now. In 1985, it amounted to about 11 percent of the overall outlays of the socialized sector, and in 1988, 7.7 percent. Similar trends have occurred this year. In the first half of this year, the outlays for such investment amount to 7 percent of total outlays. By a resolution of the Council of Ministers, the outlays for centralized investment set in the Central Annual Plan were reduced by 100 billion zlotys, or 15 percent; beginning 1 July, the financing of investments from the central budget was restricted.

Meanwhile, the volume of investment by enterprises made on the basis of their own decisions rose (from 53 percent percent of outlays in the socialized sector in 1985 to 59 percent in 1988). The scope of replacement and modernization investment has been increasing. This growth has been made possible by the financial means for development at the disposal of enterprises. In the years 1986 through 1989, with the exception of 1988, the proceeds of the development fund grew at a rate faster than that of producer prices which was due to the improved profit margins of enterprises, an increase in amortization allowances following the revaluation of fixed assets, the increasing scope of reductions in the profit tax and amortization contributions to the budget, the creation of various off-budget funds, and a reduction in the basic rate of the profit tax (in 1989). To be sure, in 1988 the growth of proceeds of the development fund was slower than that of producer prices; however, the enterprises had at their disposal a relatively high volume of funds accumulated in previous years.

In the producer goods market, a marked imbalance remains; it is due primarily to disproportions in economic development which emerged mainly in the 1970's. The funds remaining at the disposal of enterprises are the most dynamic element of demand for producer goods.

The supply of producer goods and construction services was smaller than the demand for them. Despite the high growth rates of production in the machine building industry in recent years, the deliveries of machinery and equipment for domestic customers for capital investment purposes have been at a relatively low level due to the competition of exports. The delivery cycle for a number of machines amounts to 2 or 3 years; the lack of machinery has been one of the main reasons for failing to carry out investment projects on time.

Powerful pressure for increasing investment caused by great quotas tied up in investment projects not completed, a considerable rate of amortization of most fixed assets, the scope of housing needs which are not being met, and the underdevelopment of the material facilities for social services has remained a substantial factor of imbalance in investments in the 1980's. The economy entered 1988 with an investment program with an estimated worth of about 24 trillion zlotys in current prices. Outlays of 12.6 trillion zlotys (in current 1988 prices) are necessary in order to complete the entire program of investment assignments carried out in 1988. After years of continuous growth of tied-up capital investment, it remained at the 1987 level by the end of 1988 (counting in constant prices). However, it amounted to the equivalent of 3 times the investment outlays made in 1988. The volume of investment projects initiated increased in the first half of 1989. The combined estimated cost of projects initiated was about 116 percent greater than in the first half of last year, whereas producer goods prices grew by 84 percent.

The high growth of prices and the still protracted fulfillment assignments should be mentioned as manifestations of imbalance in the producer goods market. To be sure, a reduction in the average cycle of fulfilling assignments by more than 17 percent has occurred since 1985 (calculated on the constant structure); however, the cycle still takes about 27 percent longer than in 1975.

5. Material Production

By the end of July 1989, 31,000 basic units (i.e., enterprises, cooperatives, and so on) were registered in the socialized sector, out of which 3,500 were companies under the commercial law. Compared to the end of 1988, the overall number of units was 9 percent higher, and the number of companies 75 percent higher. Out of the companies regarded as units of the socialized sector, 83 percent operate in the sphere of material production. Most of these companies engage in multisector material services (among other things, brokerage). Two hundred and twelve companies engage in commercial activities only.

The Administration for Scientific-Technical Progress and Implementation has registered 796 innovation and implementation units, out of which private units accounted for 70 percent.

Material supply. At present, the supply of raw and other materials to enterprises is the main factor restricting the development of material production.

The tension in the supply market which occurred in previous years has become more acute in 1989. The deliveries of basic raw and other materials in the first half of this year were 2.3 percent lower than in the first half of 1988. The shortage occurs mostly in the same groups of raw and other materials as in 1988. The inadequate supply of iron and steel products, especially rolled goods, steel pipes, rolled sheet metal, drawn bars, and a number of chemical industry products (e.g., chemical fiber, tires, fertilizer, PVC floor tiles), as well as cardboard and cotton, is felt particularly hard. There is no opportunity to provide additional deliveries quickly because the reserves of these raw materials in the possession of suppliers have been drawn down. This affects unfavorably the output of many industries, mainly the machine building industry, as well as housing construction. Difficulties with the supply of raw and other materials imported from the 1st payments zone are particularly acute. Over the first 7 months of this year, such imports were 5.6 percent lower than a year ago. The decline in deliveries affected primarily the products for the machine building, iron and steel, and chemical industry.

Despite the growth of supply imports from the countries of the 2d payments zone (by 8.3 percent) shortages of some raw and other materials occur, especially for the light, iron and steel, pharmaceutical, and paper industries. This is associated primarily with the enterprises lacking sufficient funds for the purchase of hard currency at hard-currency auctions at which the purchase prices for dollars have been growing rapidly (from 2,888 zlotys per U.S. dollar on 24 January 1989 to 6,116 zlotys on 21 August 1989).

The scope of items covered by mandatory brokerage was restricted. At present, mandatory brokerage applies only to fuel, paper, passenger cars, and buses; these products account for about 14 percent of the entire merchandise turnover. Changes made in the supply system of the economy are intended to implement a model which envisages eliminating all forms of rationing and proceeding from free contractual links among the interested parties in the course of supply processes.

At present, the list of goods the imports of which are financed in a centralized manner includes six groups (crude oil, products of the chemical industry for fodder, insecticides, oil-meal and oilcake, fish meal, and grain and milled grain products).

The fuel and energy situation is not causing a slowdown in production. The needs of private consumers are likewise met. This is due primarily to favorable weather conditions, restrictions on the production of energy-intensive goods, and additional imports of liquid fuel.

The output of hard coal over the first 7 months of this year amounted to 107.5 million tons, and was 4.4 percent smaller than that in the same period of last year. This is the result of reductions in the average daily output on business days, as well as on Saturdays in view of recognizing the principle of optional work by miners on days off. The output of coal on days off is declining consistently. Optional work on days off makes it difficult to operate the mines continuously, to organize the work properly, and to prepare the facilities for operation as planned.

Favorable weather conditions in the winter and spring season caused a decline in the demand for coal and coke. Deliveries of hard coal to domestic customers were about 5 percent smaller than those during the same period of last year, and their needs were fully met. At the same time, the stocks of this fuel increased. By the end of July, total stocks of hard coal in the country amounted to about 17 million tons, and were 1.4 million tons higher than a year ago.

Deliveries of brown coal were somewhat lower than a year ago while the needs of customers were fully met. Deliveries for private consumers were considerably smaller due to less interest by customers caused by the adequate supply of hard coal and the improper ratio of prices for these fuels.

Deliveries of liquid fuel for market sales were about 6 percent higher than in the first 6 months of last year, out of which deliveries of motor gasoline were 24 percent higher, and of diesel fuel about 1 percent lower. The announced price increases caused intensified purchases of motor gasoline which induced temporary supply shortages. Additional purchases of motor gasoline above the levels specified in the national plan and increases in retail prices relieve the tense supply situation. Deliveries of diesel fuel met the demand which made it possible to build up the stocks and export the above-the-plan surplus.

The output of electricity during the first 7 months of this year was 1.6 percent higher compared to the corresponding period of last year and met the demand of production enterprises as well as of communal customers and the populace.

Deliveries of high-methane gas in the first 7 months of the year were 5.4 percent lower than a year ago, with domestic production declining by 2.6 percent and deliveries from the USSR by 6.1 percent. Favorable weather conditions made it possible to meet the needs of the main customers. However, severe shortages in the deliveries of liquefied gas to the populace persist.

Financial situation of socialized enterprises. Basic financial performance indicators of socialized enterprises (except state farms and agricultural producer

cooperatives) between January and June of this year were as follows:

	January- June 1989	January- June 1988
	billion zlotys	= 100 percent
Sales of marketable output and services	37,153.4	179.1 ^a
Self-cost of sales	30,452.1	180.4
Financial accumulation of enterprises, all operations	7,276.7	186.0
Turnover tax	2,805.0	188.3
Contributions to accumulation ^b	3,641.7	291.0
of which subsidies	2,709.0	280.8
Profit (balance)	8,113.3	222.1
Profit tax	2,536.9	128.8
Dividends on the original capital fund	804.1	x
Net profit	4,772.4	291.9

^a The ratio of sales prices for the output sold in the socialized industry between January and June 1989 and those for the output sold between January and June 1988 amounted to 175.2.

^b Subsidies and the balance of positive and negative compensatory settlements in foreign trade

The financial performance of enterprises in the first half of this year was associated with the increase of sales prices for products sold and high increments of subsidies from the budget. This enabled them not only to finance increasing costs (among other things, remunerations) but also ensured the increase of the share of accumulation in the value of sales from 18.9 percent between January and June 1988 to 19.6 percent this year.

The enterprises secured a profit (balance) in the amount of 8.1 trillion zlotys after settling with the budget for the turnover tax and subsidies. Compared to the profit in the first half of last year, this profit was 122.1 percent higher. The rate of growth of profit outpaced the rate of growth of sales of marketable output and services by as many as 43 percentage points. The indicator of profitability amounted to 26.6 percent, and it increased by 5 percent compared to the same period of last year. The increase in prices and growth of subsidies and other supports for the operation of enterprises (4.1 trillion zlotys) influenced this greatly. The load of contributions to the budget on enterprise profits declined from 55.3 percent last year to 41.2 this year. This was due mainly to changes in the principles of taxation this year (reducing the rate of the profit tax from 65 to 40 percent and introducing the dividend) as well as the tax relief and exemptions granted.

As a result of reduced tax contributions to the budget, the share of profits remaining at the enterprise increased. The net profit (at the disposal of enterprises) amounted to 4.8 billion zlotys in the first 6 months of last year, i.e., 58.8 percent of the profit generated (last year, 44.7 percent). This profit was 192.6 percent higher than last year.

Basic financial ratios of socialized enterprises

	January- April 1988	January- June 1989
Self-cost as a share of the value of sales, percent	81.4	82.0
Ratio of the profit margin to self-cost, percent	21.6	26.6
Financial performance per 1,000 zlotys of sales in zlotys	176	218
Ratio of subsidies to financial accumulation, percent	32.0	50.0
Ratio of subsidies to financial performance, percent	34.3	44.9
Share of the profit tax in financial performance, percent	54.0	31.3
Share of the dividend in financial performance, percent	x	9.9

Industry. In the first 7 months of this year, product sales of 29 trillion zlotys (in current prices) were attained in the socialized industry. The increase in production amounted to 0.2 percent (in constant prices); the output of the manufacturing industry increased by 0.4 percent whereas in the extractive industry a decline of 2.3 percent occurred.

In the branch breakdown, a decline of output occurred in the producer-oriented industries, i.e., the fuel and power industry (by 7.2 percent), iron and steel (3.4 percent), machine building (by 1.3 percent), transportation vehicles (4.2 percent), and chemical (by 1.1 percent) industries. Large increments of production were attained in the electrotechnical and electronic industry (6.4 percent), metal working (5.6 percent), and mineral materials (5.1 percent). Increments in production were also achieved in industries producing mainly for the needs of the consumer, i.e., light (by 3.6 percent) and food processing (3.3 percent).

In 1988, the level of product sales from the pre-crisis period was exceeded while employment declined significantly, and supply imports and investment outlays dropped. Compared to 1978, the product sales grew by 13 percent, and compared to 1982 by 13 percent. At the same time, the level of net product continued to be lower than in 1978 by 2.8 percent but it was 28 percent higher than in 1982. Product sales in a majority of industries increased compared to 1978, and the net product increased in the machine building, chemical, and wood and paper industries.

In 1988, production of many goods per capita did not achieve the 1978 level. This was the case with, among others, production of household electrical washers and dryers (except for automatic), household refrigerators and freezers, passenger cars, trucks, road tractors and

farm tractors, radio and TV sets, nitrogenous and phosphorus fertilizer, and cement. At the same time, the level of per capita 1978 production was exceeded in the case of detergents and personal hygiene products and footwear (except rubber footwear).

Changes in the structure of production. Changes in the branch structure of production were basically restricted to an increase in the share of the machine building industry from 22.5 percent in 1978 to 27.5 percent this year and an unfavorable decline in the share of food processing from 26.1 percent to 20.4 percent. Changes in the share of other industries were under 1 point.

The production of branches and industries which may be recognized to be the carriers of technical progress (precision mechanics industry, electronic, telecommunications equipment and technology, organic industry, plastics industry, auxiliary chemicals for industry, pharmaceuticals, insulation materials for construction) grows at a rate more than 2 times greater than average. However, the share of these industries in the value of overall output is too small (6.4 percent) to influence the rate of structural changes and substantial progress in the quality and modernity of goods.

In 1988, the output of new and modernized products amounted to 5.7 percent of industrial output compared to 4.9 percent in 1980. A higher degree of modernization of output than in 1980 was achieved in the following industries: iron and steel, precision mechanics, transportation vehicles, electrotechnical and electronic, chemical, construction materials, paper, and light.

In the years 1971 through 1979, 446 licenses were purchased. Since 1980, the number of licenses purchased has been decreasing continuously. A total of 26 licenses have been purchased in the years 1980 through 1989, of which one license was purchased in 1989. The share of production under license in the value of products sold declined from 5.7 percent in 1980 to 1.4 percent in 1988.

The number of designs of inventions submitted at the units of the socialized sector came to 163,000 in 1988, i.e., 41 percent fewer than in 1980. At the Patent Office, 6,300 inventions made in our country were submitted, or 1.3 percent more than in 1980. Two thousand and eight hundred patents, or 51 percent fewer than in 1980, were issued for the inventions for which legal protection was sought. In 1988, 3,700 utility models were submitted to the Patent Office, and protective rights were granted to 1,600 models, i.e., respectively 48 percent more compared to the utility models submitted and 7 percent less compared to the protective rights granted than in 1980.

One hundred and thirteen thousand designs of inventions were implemented, i.e., 42 percent fewer than in 1980.

In the 1980's, the quality of industrial products deteriorated. The number of products bearing the quality marks in 1988 amounted to 25,000 and was 0.5 percent smaller than in 1978 but 5 percent greater than in 1987; their

share in the sale of goods subject to quality classification amounted to 15 percent in 1988 compared to 26 percent in 1978. The number of cases of failing to comply with the standards grew by 3 percent; the number of complaints lodged by individual customers declined.

Inspections carried out by the Polish Committee for Standardization, Measures, and Quality confirm the poor quality of products, and of consumer goods in particular. Among other things, the following percentage of the batches of goods inspected were questioned: 27 percent of clothing, 23 percent of knitted goods and pantyhose products, 26 percent of fabrics, 11 percent of food concentrates, 23 percent of processed fruit and vegetables, 34 percent of furniture, and 25 percent of electronic products. Inspections carried out by the State Trade Inspectorate contested 27 percent of the batches of baked goods inspected, 14 percent of poultry and processed poultry, 57 percent of clothing, and 45 percent of the shoe deliveries checked for failing to meet quality requirements.

In 1988, the average employment in socialized industry declined by 9.7 percent compared to 1978, and by 4.0 percent compared to 1982. The decline occurred in the processing industry whereas employment in the extractive industry (despite a slight decline by 0.8 percent compared to 1987) and the fuel and power industry increased. Compared to 1987, employment in 1988 increased only in the power and food-processing industries.

The decline in employment also persisted in the first 7 months of this year affecting both the extractive and processing industries. The average employment in socialized industry was 2.6 percent lower than in the same period last year. In 14 industries out of 20 the decline in the number of employees exceeded 2 percent.

In recent years, the shift coefficient of work declined from 1.5 percent [as published] in 1978 to 1.3 percent in 1982 and 1.2 percent in 1988. The use of work stations on the largest shift also deteriorated from 86 percent in 1978 to 79 percent in 1982 and 76 percent in 1988.

The productivity of labor defined as the value of products sold (in constant prices) per one employee was 25 percent higher in 1988 than in 1978, and 37 percent higher than in 1982. The productivity of labor increased in most industries, but declined considerably in the coal and fuel industry, and, compared to 1978, in the fodder and utilization industry.

In the first 7 months of this year, labor productivity increased by 3.5 percent compared to that in the corresponding period of last year.

Agriculture. In the post-war period, the area of agricultural land declined by about 1.8 million hectares (by 8.3 percent) and in June 1988 amounted to 18.7 million hectares. Per capita the current area of agricultural land amounts to less than 0.5 hectares and is 40 percent smaller than in 1950, 18 percent smaller than in 1970, and 7 percent smaller than in 1980.

Over three-quarters of the agricultural land area is owned by independent farms. The share of the socialized sector in 1980 amounted to 25.5 percent, and in recent years has stabilized at 23.4 percent.

Processes of land concentration are under way in non-socialized agriculture. The average total size of a farm increased from 5.1 hectares in 1970 to 5.4 hectares in 1980 and 6.0 hectares in 1988. The share of farms with an area greater than 10 hectares in the size breakdown increased from 12.6 percent in 1970 to 14.7 percent in 1980 and 17.6 percent in 1987. These farms owned 41.3 percent of all agricultural land in 1981, 44.1 percent in 1984, and 48 percent in 1988. The share of small farms with an area smaller than 5 hectares is still high; in the years 1970 through 1980 it amounted to about 59 percent, and in recent years it has declined slightly to 57 percent.

The improvement of the size structure is hampered, among other things, by the scattering of land of certain farms which affects about 1.8 million hectares of peasant land. In 1988, consolidation work was performed on an area of 66,000 hectares (in 1984, on an area of 24,000 hectares).

In recent years, the change of generations on independent farms has been at an average level. In 1986, 57,000 independent farms were transferred to successors, in 1987, 65,000, and in 1988, 56,000.

The availability of the means of production in agriculture is increasing. By the end of 1988, 1,101,000 tractors were used in agriculture (that is, more than 2 times as many as in 1978), out of which 932,000 were on independent farms (an increase by a factor of more than 3). On the average, there is one tractor in our country per 17 hectares of agricultural land (in 1986, one tractor per 49 hectares in Czechoslovakia, per 20 hectares in France, per 8 hectares in the FRG, and per 121 hectares in Hungary). Tractors with a capacity of under 30 HP dominate in terms of numbers in the breakdown of tractors by capacity class (over 50 percent). In addition, old tractors manufactured before 1980 dominate. Their share amounted at the end of 1988 to 55 percent of all tractors used by independent farms.

The utilization of tractors is low due to the unsatisfactory supply of companion implements. Only one tractor in two has a tractor trailer, one in five has a lifting potato digger, one in four has a mower and tractor seeder, and one in six has a tractor shearer. Only the number of tractor plows approximates that of tractors. Fewer than 4 percent of independent farms (i.e., one farm in 27) have trucks or delivery cars.

In recent years, the amount of mineral fertilizer applied has ranged from 193 kilograms of NPK [expansion unknown] per hectare of agricultural land in the 1979-80 agricultural year, through 170 kilograms in the year 1982-83, and 192 kilograms in the year 1988-89.

For the 1989 harvest, agriculture used about 95 million tons of manure, i.e., about 5 tons (equivalent to about 66 kilograms of NPK [expansion unknown] per hectare of agricultural land whereas in 1980 the consumption was higher and amounted to 6.4 tons.

Consumption of insecticides and herbicides (active substance) in the agricultural year 1988-89 was 1.3 kilograms per hectare of agricultural land and was about 6 percent higher than in the year 1987-88.

In 1988, integrated growing technologies were applied on about 1.5 million hectares compared to about 400,000 hectares in 1985.

Gross agricultural product (in constant prices) in 1988 was 1.1 percent smaller than the highest attained in the post-war period, in the year 1986, out of which crop production was 2.3 percent lower, while animal husbandry output was 0.4 percent higher. Compared to 1987, gross production was 1.2 percent higher, out of which crop production was 0.3 percent lower, whereas animal husbandry production was 3.2 percent greater. [graphic omitted]

The harvest of basic crops in 1988 was lower than the results of the 2 previous years and amounted to:

grain harvest—24.5 million tons, i.e., 6 percent less than in 1987 and 2.1 percent less than in 1986, or 9.7 percent higher than the average of the years 1981-85;

rape and oil-yielding rape harvest—1.2 million tons; it was 1 percent greater than the 1987 harvest, but 7.6 percent smaller than the 1986 harvest, and 73 percent greater than the average in the years 1981-85;

potato harvest—34.7 million tons, i.e., 4.3 percent smaller than last year and 11.1 percent smaller than in 1986, as well as 5.2 percent smaller than the average in the years 1981 through 1985;

sugar beets harvest—14.1 million tons, or 0.6 percent greater than in the previous year but 1 percent smaller than in 1986 and 9.8 percent smaller than on the average in the years 1981 through 1985.

In recent years, the area under intensive crops—wheat, barley and wheat-rye [hybrid of wheat and rye] as well as rape, has been expanded. Cultivation of more labor-intensive crops, such as sugar beets and potatoes, has been restricted whereas the yields of these crops have stabilized.

According to the first estimate, this year's results of agricultural production promise to be better than the results attained in 1988 and on the average in the years 1981 through 1985 but lower than the large 1987 harvest. It is estimated that the grain harvest will amount this year to 25.8 million tons and will be 1.3 million tons (5.3 percent) greater than last year's harvest and 3.3

million tons (15.2 percent) greater than the average in the years 1981 through 1985. Increased harvests are envisaged as a result of increasing yields which is associated with the further expansion of the cultivation of intensive crops, as well as an increase in the application of mineral fertilizer.

The rape and oil-yielding rape harvest is expected to be about 1.5 million tons, or 0.3 million tons (22.8 percent) greater than last year, mainly due to the expansion of the area under these crops by almost 100,000 hectares and yields increasing by 1.2 percent.

At the end of July, the condition of potato fields was evaluated to be at the level of last year, and that of sugar beets—considerably better. It is estimated that the harvest of green fodder will approximate that obtained last year from both permanent grasslands and land under cultivation.

The vegetable and berry crop is estimated to approximate last year's. The production of tree-growing fruits is expected to be about 14 percent lower than last year.

The estimated harvest of cultivated plants this year, especially the higher grain crop should provide favorable conditions for increasing animal husbandry output given the auxiliary imports of high-protein fodder at a level about 290,000 tons higher than in 1988. After the downward trend in the herd of cattle in recent years, the growth of the herd to 10.7 million, or 3.6 percent, compared to the status of a year ago, was noted in the first half of this year. It was almost 20 percent smaller than the highest size of the cattle herd registered in 1975. It is difficult to estimate the degree to which the growth of the herd reported for the end of June is the result of farmers refraining from the delivery of slaughter cattle (in anticipation of a rise in procurement prices) or of genuinely increasing interest in developing animal husbandry.

Meanwhile, the retrogression in the breeding of hogs became more extensive; the herd in June of this year amounted to 18.8 million and was 4.2 percent lower than a year ago. The decline occurred primarily in the group of piglets (by 13 percent) and sows (by 11.8 percent), especially farrowing sows (by 15.3 percent), which will cause lower deliveries of slaughter hogs by the end of this year and in the next year. The eventual decisions made with a view to developing the breeding of hogs after introducing market principles in the food sector may result in increases in supply in the fourth quarter of 1990 at the earliest.

The grain harvest, 6 percent smaller, and the potato harvest, 5 percent smaller in 1988, which are constraints on basic fodder stocks in the agricultural year 1988-89, especially for hogs, fundamentally influenced these development trends in animal husbandry. The shortage of fodder caused a considerable growth of free-market prices for them which, given the overall low profitability of agricultural production, additionally reduced the profitability of hog breeding.

The imports of grains and high-protein fodder amounted in 1988 to 4.4 million tons, the highest imports to date, 9.2 million tons, being registered in 1980. This means that the development of animal husbandry is based mostly on domestic fodder resources with imported deliveries being only complementary.

The production of milk in 1988 amounted to 15.2 billion liters; compared to the highest production of milk, 16.6 billion liters in 1978, it was 1.4 billion liters, or 8.6 percent, lower. The production of milk per capita in 1988 amounted to 401 liters and was 73 liters lower than in 1978. Despite the reduction of the herd of cows under way in recent years, the procurement of milk has remained in the last 5 years at the level of 10.5 to 11 billion liters. This is the result of improvements in the unit milk yield of cows from 2,700 liters 5 years ago to 3,200 liters in 1988 and the increase in the yield of marketable product from 69 percent to 73 percent. The sales of milk which ensure a continuous influx of money to the farms on a monthly basis become particularly significant in the environment of rapid inflation. [graphic omitted]

Between January and July of this year, the procurement of slaughter cattle (in terms of meat) amounted to 1,306,700 tons and was 4.7 percent lower than in the corresponding period of last year. A considerable decline in meat procurement occurred only in the last 2 months. In August of this year, the procurement of meat was smaller still than in July. Before 17 August, only 62 percent of the amount procured in the corresponding period of August 1988 was purchased; this procurement was 40 percent lower than in the comparable period in July of this year. In the period between January and July, milk procurement amounted to 6.9 billion liters, and was 7.9 percent higher than a year ago. In 1988, meat production per hectare of agricultural land amounted to 169 kilograms, and was 1.2 percent higher than a year ago, or more than 2 percent higher than the highest production registered in 1979. It also must be stressed that it was attained primarily on the basis of domestic fodder resources and with the higher specific productivity of cattle.

One independent farm in five has no cattle. About 32 percent of the farms do not breed cattle, and about 40 percent do not breed hogs. This phenomenon is becoming more common, especially on the small farms of peasant-workers. In the group of farms smaller than 2 hectares, 71 percent of the farms do not breed cattle, and 70.5 percent do not have hogs. Consequently, the percentage of independent farms which do not sell farm products to the state increased from 19 percent in 1980 to about 22 percent in 1987.

Construction. Beginning in 1985, a trend toward weakening rates of growth of the output of socialized construction enterprises has occurred, and in 1987 even a drop in its volume occurred. In the first 7 months of this year, these enterprises attained a relatively high increment in production (by 5.9 percent); however, just as last

year, it was mainly the result of exceptionally favorable weather conditions for performing work in the first quarter of this year. Since April, the growth rate has come down.

A number of reasons are responsible for the downward trend in the output of socialized construction and repair enterprises. One of the reasons is found in the deteriorating situation with the supply of materials due to the low volume of their production compared to needs, channeling the deliveries to other uses more advantageous for the producers, i.e., exports and the market at the expense of deliveries to construction, the shortage of funds in construction enterprises (especially those involved in housing construction) for current financing of purchases of raw and other materials. Measures taken last year and aimed at stimulating an increase in the production of construction materials have already resulted in a certain pick-up in production (increase by 5.9 percent compared to 0.3 percent in 1987) despite being not fully consistent or fully implemented, and being late. This year, the instruments of economic influence on the development of this industry (exemption from the profit tax) have been reinforced. As a result, this industry showed high growth rates over 7 months of this year which amounted to 105.5 percent compared to 100.2 percent for industry as a whole.

The decline in the production capacity of socialized construction and assembly enterprises which has lasted for 3 years is continuing. This is associated with the outflow of labor to the private sector. In 1987, employment in these enterprises was 32,000 persons, or 3.5 percent, lower than in 1986, in 1988, it was another 35,000 persons, or 3.9 percent, lower; in the 7 months of this year, it was 62,000 persons, or 8 percent, lower. Over the last 2.5 years, employment declined by about 15 percent. The average employment in 1988 was about 235,000 persons, or 21.4 percent, lower than in 1978. The losses in employment are not compensated for by the improvement in the availability of construction machinery and equipment and electric instruments to such enterprises, or by improvements in the organization of labor and management and changes in the technology of construction.

The lack of improvement or insufficient improvement in streamlining the use of the factors of production and the lack of economic pressure for improving the operation and increasing the efficiency of enterprise operations were other factors restricting the level of production. Over the last 3 years, the average annual reduction in the consumption of 21 basic groups of materials, fuels, and energy (about 30 percent of the entire consumption) amounted to 1.3 percent. This means that the progress in restricting wastefulness and in using more material-efficient designs has been insufficient.

Changes in the structure of production assets of construction enterprises have occurred. They consisted of increases in the share of general and special construction enterprises which build the technical infrastructure

(including land development for housing construction) in the total value of basic production.

Progress in the organizational change of construction capacity is still minor. Despite an increase in the number and significance of small enterprises which adjust with greater ease to the needs of the market and are organizationally more resilient, units employing more than 500 people still turn out more than 75 percent of output.

Just as in the 3 previous years, a very high growth of prices for construction services, higher than in other sectors, occurred this year. During the first 7 months of this year, it amounted to 85 percent. Global imbalances in the construction market and the monopolistic position of construction and assembly enterprises created a situation favorable for the high increase in prices. The short supply of construction services made it possible for the socialized construction and assembly enterprises to achieve increasingly higher profit margins (in the first half of this year, the profitability indicator amounted to 33.4 percent compared to 24.7 percent a year ago). It also resulted in the rapid development of in-house construction divisions (brigades, departments, repair and construction enterprises which are a part of enterprises belonging to the sectors of the national economy other than construction).

Transportation. Due to the smaller need of the national economy for cargo haulage, freight transportation has been meeting basic transportation needs of the national economy. The haulage of freight by socialized transportation is trending downward (decline by 7.1 percent in the first 7 months of this year compared to the same period of 1988) which is due to a decline in the stocks of goods provided for transportation by customers. This involves especially bulk commodities, such as hard coal, metal ores, metal products, and construction materials. This is also the result of the rapidly developing private motor transportation taking over the haulage of cargo.

The greatest decline in haulage occurs in maritime shipping (by 9.6 percent in the first 7 months of 1989 compared to the same period of 1988) and in public and specialized motor transportation (by 8.2 percent). The downward trend in cargo transportation has existed the longest, since 1987, in railway transportation; this decline grew from 0.4 percent in 1987 to 5.8 percent in the course of 7 months of this year.

The decline in demand for the haulage of cargo by the railway caused the largest reserve of cars in years to occur which at present has a tendency to grow (by about 50 percent in the first half of this year compared to the corresponding period of 1988). This reserve exists despite the increase in the average daily number of technically unfit cars by 4 percent and a decline by 1.5 percent of the average daily stock of cars compared to the similar period of last year.

A continuous process of modernization of the rolling stock occurs through the replacement of old, amortized

cars by more modern cars with better technical characteristics and greater load capacity. The share of 4-axle freight cars in the total stock of freight cars increased from 61.2 percent in 1987 to 63.9 percent in 1988.

The stock of passenger cars is smaller than in 1985 (by 116 cars as of the end of June 1989 compared to the end of 1985) which makes conditions for traveling considerably worse. This is caused by the deliveries of these cars being consistently smaller than the number of cars retired from operation.

Progressing electrification of the lines and modernization and expansion of classification yards, with the length of railways decreasing somewhat, are factors which influence the increase in efficiency of railroads.

The share of electric traction in freight transportation trended upward (from 75 percent in 1985 to 82 percent in 1988 and 83.5 percent in the first half of this year) which reduced the energy-intensiveness of railroad transportation and limited the pollution of the natural environment.

A continuous increase in the number of freight motor vehicles occurs in the national economy (up 18 percent in 1988 from the 1985 base) with the downward trend in the number of such vehicles in public and specialized transportation (down 3 percent in 1988 compared to 1987). The duration of use of these vehicles beyond the standard period (6 to 7 years) is still extended considerably (up to about 9 years).

Work on modernizing and repairing railroad tracks and highways proceeds with delays. Annual quotas of replacing rails continuously and replacing the track bed were about 30 percent fulfilled in the first half of this year. Arrears in major overhauls of railroad tracks amount to about one-fifth of the entire length of the network which hampers utilizing the transportation potential efficiently and influences the safety of railroad traffic unfavorably. About 30,000 kilometers, or 20 percent of the highway network, and about 35 percent of bridge facilities are excessively amortized and require urgent renovation and modernization. The progress of work is hampered by considerable shortages of some construction materials and funds for purchasing materials and technical equipment.

At present, reloading in commercial seaports is trending downward (decline by 4.5 percent in the course of 7 months of this year compared to the similar period of last year). This is associated with a decline in the supply of many groups of bulk commodities, especially lumber, ores, crude oil and refinery products, and coal. Also, the transportation of cargo by the merchant marine is decreasing (by 9.6 percent in the first 7 months) which is largely due to the restricted supply of coal and ore.

By the end of June, the Polish merchant marine numbered 252 vessels with a carrying capacity of 4.1 million DWT [deadweight tons], and had five fewer ships than at the same time last year. The number of vessels and the

tonnage of the fleet have continuously trended downward. At the end of 1988, the average age of a vessel amounted to about 11 years, and was the highest since 1970.

Passenger carriage by socialized transportation basically remains at the level of last year. Passenger carriage by railroad transportation is declining whereas the carriage of passengers by public highway transportation is trending up continuously. The highest growth rates are registered in passenger carriage by airlines and sea-going vessels which is caused by the considerable development of foreign tourism.

Communications. The integrated communications and service system of the postal service consists of 8,400 post offices and 14 mail facilities of basic significance. The efficiency of operations of the postal service is not at appropriate levels. Particularly inadequate is the timeliness of services offered by the postal divisions which is due to the low level of mechanization and automation and the shortage of personnel. The accessibility of post offices in some areas of the country is also inadequate.

By the end of June of this year, the number of telephone subscribers amounted to 3.0 million, out of which 0.3 million are in rural areas. The number of new installations of telephones declined (by 8.8 percent in the first 7 months of this year compared to the similar period of last year). The backlog of 2.2 million applications for telephone installation still remains to be taken care of, and the number of such applications trends upward.

The density indicator of the subscriber network expressed by the number of telephone subscribers per 100 inhabitants amounted at the end of June of this year to eight; it is one of the lowest in Europe. Difficulties which occur in establishing a phone connection constitute a substantial barrier in contacts between producers, and especially in contacts with foreign partners.

The quality of telecommunication services is unsatisfactory which is due to the poor technical condition of the telecommunications network and equipment. The addition of circuits and related equipment in the local, long-distance, and international networks is inadequate; it is smaller than the increment of telephone subscribers. The process of aging of local exchanges is advancing. About 30 percent of exchanges have been in operation for 30 years now and need to be replaced urgently. The overload on the network and exchanges is higher than in the past.

6. Services for the Populace

The volume of services offered by both the socialized and private sector has been increasing. In 1988, further accelerated growth of the sale of broadly defined services was registered (by 6.4 percent in constant prices compared to 4.3 percent in 1986 and 5.4 percent in 1987). Within the framework of broadly defined services, household services which include mainly repairs and maintenance of consumer durables and construction and

repair services developed particularly fast. The growth rate of the sales of household goods in the socialized and private sector amounted to 108.1 percent (in 1986, 102.1 percent, and in 1987—106.9 percent).

In 1988, a pronounced development trend in the material facilities of household services emerged for the first time in a number of years. A total of over 12,200 (or 4.7 percent) of service establishments were added in the country in 1988, and employment in this sphere increased by 20,400 persons (or 3.6 percent). It should be stressed that the rate of growth of household services in 1988 outpaced the rate of increase in the number of establishments and number of people employed in services. Therefore, the productivity of the service network increased which as a result of substantial structural changes.

In 1988, a marked change in the ownership relations in the sphere of household services became apparent. The number of service establishments in the socialized sector declined by almost 1,000 whereas the number of private establishments increased by more than 13,200. This also testifies to the advancing process of deconcentration of the service network; large socialized establishments are replaced by small private establishments which are better adjusted to local needs. Even stronger trends emerged in the changing structure of employment. In the socialized sector, it declined in 1988 by almost 12,000. In the private sector, employment increased by almost 32,300 people in the same year. This indicates indirectly an increase in employment in the average service establishment. This was caused by the particularly rapid development of motor vehicle and construction services in which the establishments, as a rule, employ more than one person for technological reasons. Little development is registered in the remaining household services, and in some areas retrogression continues. Such areas include clothing, laundry, and shoe repair services. The rate of development of the service network offering repairs of motorized household appliances, optical, and radio and television services is insufficient. At the same time, the demand for these services grows continuously, especially due to the wear of the appliances which are used by households.

In the first half of 1989, the growth rate of sales in current prices did not keep up with increases in the disposable income of the populace. Consequently, the share of expenditures for services in the disposable income of the populace, which amounted to about 11 percent in 1988, dropped to 9.5 percent in the first quarter of 1989, and for the entire year may be under 8 percent.

The reasons for this situation are varied:

1. In view of the growing cost of living, a departure is observed from the purchase of services without which one can do temporarily or which can be performed inside the household.

2. Supply shortages and a rapid increase in the cost of providing services and in the prices for those services result in the decline of their affordability for many groups of customers. This involves primarily the clothing, laundry, and shoe repair services.

3. Systemic arrangements introduced thus far and supporting the development of services are not fully efficient. Relief in the real estate tax (by 30 to 40 percent), reductions in fees paid to territorial funds, reductions in the profit tax (paid as a lump sum), and reductions in rents have not been completely introduced by individual people's councils.

For example, just a few people's councils have adopted resolutions in the matter of reducing local fees—in Chelm Voivodship, one people's council, in Warsaw Voivodship, 10 people's councils, and in Sieradz and Zamosc Voivodships a majority of people's councils at the basic level. These actions are inadequate in view of considerable and growing costs of investing in services, particularly in crafts. Reimbursement for the cost of modernizing and starting service establishments was the main avenue of centralized support for the development of services. In 1988, 1 billion zlotys was allocated for these purposes from the PFAZ [National Vocational Mobilization and Retraining Fund] moneys. In 1989, 2 billion in such funds are being provided.

Those who offer services are also entitled to a number of tax and credit privileges especially if they are developing preferred types of service operations. This primarily includes services for agriculture and the food sector and for housing construction. It is estimated that 75 percent of the newly set up service establishments used bank loans for this purpose in 1988; their total value is estimated to be 12 billion zlotys. In 1989, the preferred types of development of services continued to enjoy exceptionally favorable conditions (interest rate of 25 percent the upper limit of the general interest rate on loans being 66 percent) despite the guidelines for loan provision being made more restrictive by the Sejm (resolution dated 15 February 1989).

7. Foreign Trade

In the years 1986 through 1988, trade in merchandise developed dynamically. The volume of exports and imports increased by 6.2 percent a year on the average, i.e., at a rate considerably exceeding the rate of increase of the national income (3.9 percent).

The experience of recent years indicates that properly set economic parameters have prompted enterprises to make decisions on producing for exports. This has been expressed, among other things, through an increase in the number of enterprises contributing to exports, as well as a considerable increase in the growth rates of the volume of delivery of goods to both payments zones.

Despite this, the significance of foreign trade as a factor accelerating economic growth was small in comparison

with other countries. Poland holds one of the last places in Europe in terms of the volume of exports and imports per capita.

In the same years, minor shifts toward more highly upgraded goods occurred in the structure of exports; their share in total exports to the 1st payments zone amounted to over 60 percent, whereas in the 2d payments zone goods with the lowest degree of upgrading accounted for over 60 percent.

A considerable increase in imports also occurred; however, in 1988 total imports were only 2.7 percent higher than the level attained before the crisis in 1978. Nonetheless, supply imports remained smaller (by 1.2 percent), as well as capital goods imports (by almost 50 percent). Deliveries from the 2d payments zone were 11.3, 20.4, and 58 percent smaller respectively.

Supply imports, the share of which in total imports trends downward, dominate in the structure of imports. Capital goods imports increase slightly whereas deliveries to the consumer market increase most dynamically.

Favorable trends in merchandise trade have been weakened to a degree this year. In the 7 months, the growth rates of turnover declined compared to those registered last year. The volume of exports increased by 0.7 percent, and that of imports by 3.7 percent; imports from the 1st payments zone declined considerably. Supply imports from this area are declining whereas imports of capital goods are growing.

Meanwhile, supply and consumer goods imports from the 2d payments zone are growing whereas capital goods imports are smaller. Imports of grain, fodder, and meat from the 2d payments zone have increased considerably.

Exports to the 2d payments zone are continuing to grow at a rate exceeding the growth of industrial production.

In 1989, the scope of using hard-currency auctions for enterprises has been expanded; due to this, opportunities for the decentralized financing of imports have become greater.

As of the end of July 1989, the positive balance amounted to 542.5 million rubles and \$36.7 million, that is, it was 269.4 million rubles higher and \$302.1 million lower than the balances registered at this time last year.

Evaluating the situation of Poland in the context of phenomena and processes which are essential at present for international cooperation and trade the following should be noted:

- insufficient influence of technological innovations in all spheres of operations on which the quality and competitiveness of our offerings hinge;
- considerable lag in the development of the technical, organizational, and institutional infrastructure which renders impossible plugging effectively into the global

system of circulation of commercial information, capital turnover, and rapid transportation;

- increased competition due to the formation of integration groups of developing countries, socialist countries, and Southern Europe;
- bilateral agreements on cooperation within the CEMA render impossible the efficient concentration of resources within individual countries and most favorable turnover of goods within the framework of the region.

Along with the limitations enumerated, we may also indicate the factors which provide prerequisites for closer ties to the international market. Primarily, these are radically and persistently introduced Polish socioeconomic reforms which create:

- codified principles changing the role and extent of the economic center the attention of which is increasingly focused on shaping the appropriate economic, institutional, and organizational environment supporting the operation of economic units and designed to improve efficiency and competitiveness;
- conditions under which enterprises may make economic decisions, including those involving foreign trade activities. Thus an opportunity appears for the vigorous development of cooperation with foreign countries based on the initiative of economic units;
- a foundation for small and medium-size enterprises which quickly adjust to technological changes due to freedom in undertaking production operations. Besides, these enterprises will be able to attract foreign capital for joint undertakings with greater ease;
- greater clarity, lucidity, and elasticity of the operation of the system as perceived by foreign merchants and a complete freedom in the contacts of potential partners which, among other things, creates a foundation for the circulation of information and for achieving an understanding more quickly.

8. Economic Operations of the Private Sector

At the end of 1988, a total of 572,000 establishments operated by individuals were active in the private sector outside agriculture, including 388,400 trade shops, 53,300 retail and food service outlets, 6,600 service establishments, 123,400 units of passenger and freight transportation, as well as 42 joint-venture-type companies and 730 foreign small-scale production enterprises. This sector employed a total of 1.3 million people, out of which about 1.2 million people were in private establishments (973,000 people in trade shops) and almost 82,000 people were at foreign enterprises.

In 1989, a lively development of nonsocialized units is registered following the law dated 23 December 1988 on economic activities taking effect. In the first half of this year, the number of private enterprises operated by individuals amounted to 749,000, including 435,000 in

trades, 57,700 in retail trade and food service, and 176,700 in services. Out of the total number of enterprises operated by individuals, enterprises which began operations for the first time in the first half of this year accounted for 17 percent (128,000, out of which over 57,000 were started in the second quarter). The greatest number of new units began operations in the following voivodships: Katowice—13,900, Warsaw—12,900, Lodz—9,900, Poznan—5,300. The newly formed enterprises began operations in industry—35 percent, in construction—17 percent, in transportation—21 percent, and in trade and food service—17 percent. Employment in these enterprises amounted to 1,349,000 people, out of which 996,400 (74 percent) were in trade shops.

At the end of June of this year, over 900 companies with the participation of foreign capital existed, 22 percent of which were formed in the first half of this year. At the end of 1988, these companies employed 82,000 people. In the first half of this year, these enterprises attained turnover in the amount of 0.6 trillion zlotys. In the total amount of turnover in 1988, sales of consumer goods amounted to 53 percent, sales of production supplies to 22 percent, exports 10 percent, and services 15 percent, including 2 percent for services to the populace.

At the end of the first half of this year, 107 joint-venture-type companies were in operation out of which a majority (62.6 percent) were involved in industrial, construction, and commercial operations whereas 16.8 percent carried out varied operations in the material production sphere offering material services to many sectors. Along with joint-venture companies, 223 foreign small-scale production enterprises also were in operation. Almost 89 percent of these units were involved in industrial operations. The total number of private companies amounted to 5,839 (growth by a factor of almost 14 compared to the status as of the end of 1988). In the sphere of material production, 5,234 companies were active, and in the sphere outside material production, 605. One thousand two hundred and forty-three private companies are involved in industrial operations, 1,220 in construction operations, 848 in commercial operations; 1,581 companies provide material services for many sectors, and 166 companies carry out service operations filling various orders. In total, the above units employ about 150,000 people, including over 100,000 people in foreign small-scale production enterprises.

IV. The Status of Compliance With the Law and Public Order

The condition of the social mood caused mainly by the economic situation is very tense, and reveals an alarming trend toward the growth of dissatisfaction and critical opinion of the authorities. The process of introducing market principles in the food sector which has been initiated did not contribute to a neutralization of the unfavorable social mood in either urban or rural areas. This promotes the strengthening of fears of a drastic

decline in the standard of living, mounting demands for compensation and pay increases, and the mounting "hot money" psychosis.

The continuously deteriorating market situation, the lack of political stabilization of the state, and the social mood of frustration may bring about a rapid radicalization of social attitudes.

The threat of anarchization of public life is mounting. Many citizens enter into a conflict with the law due to the need to meet material needs in an environment of acute shortages of merchandise and runaway inflation. The behavior of citizens is frequently the result of protracted stress and lack of certainty in the future. Against this background, the danger of common crime is increasing rapidly.

This threat is alarmingly great. To be sure, last year the total number of crimes declined, and the statistical indicator of criminalization of the populace declined from 1,350 to 1,255 crimes per 100,000 inhabitants. Nonetheless, it still remains one of the highest in the past 10 years.

Unfavorable trends in this sphere have been reinforced this year. The number of crimes, particularly against property, is increasing; the efficiency of detecting the perpetrators of common crimes and more serious economic crimes is declining. The traffic safety status on the roads is deteriorating.

During the first 7 months of the year, a total of 271,788 preliminary investigations were initiated, i.e., 20.6 percent more than in the same period of last year.

Losses caused by crime grew by almost 26 billion zlotys and now amount to over 48.5 billion zlotys. Assets worth over 4.9 billion zlotys were recovered, or 2.6 billion more than in the same period of last year.

Containing the growing crime against property is the main subject of operations of the organs of state protection. This involves mainly burglaries on private premises and theft of private property, as well as robberies.

The increase in large-scale crimes against property (i.e., when assets of a high unit value are the objective of an infringement) continues to be a particularly painful problem for society. However, crimes against life and health are showing a declining trend. Robberies combined with gaining entry to apartments are increasing, theft and breaking into cars occur on a mass scale.

Traditional phenomena of a criminogenic nature are a powerful influence on the level of crime. Persons committing a crime while intoxicated with alcohol, groups of people reluctant to work or study, as well as delinquent minors and youths, continue to account for a considerable share of perpetrators. Many people without previous penal records, who until the time of committing a crime enjoyed impeccable reputations in their professions and communities, embark on the path of crime.

The etiology of this phenomenon must be attributed to, among other things, the mounting decay of social discipline.

Progress in updating the penal law and considerable liberalization of its application set for the Citizens' Militia the task of looking for new forms of increasing the efficiency of preventive and detective work.

Poland has 170 militiamen (without the ZOMO [Motorized Reserve of the Citizens' Militia]) per 100,000 population whereas, for example, in the United States and Great Britain this statistic amounts to 260, in the FRG to 280, and in France to 360.

V. Reforms of the Political System

In the sociopolitical sphere, changes have occurred in the recent period on a scale without parallel in the postwar history of Poland. The elimination of the vestiges of the Stalinist period and the accomplishment of facts which shape the face of a democratic, law-governed, and modern Poland are the essence of such changes.

The roundtable talks became a consequence of the implemented policy of understanding; their provisions have quickly brought about profound political changes in the country. The office of the president was created. As a result of elections, a pluralistic parliamentary system emerged.

Practical accomplishments in the sphere of sociopolitical life were concentrated in the sphere of developing civil and economic freedoms, in the evolutionary transformation of the political system, in releasing social initiatives, and in a wide opening to the world.

Creating an opportunity for revealing publicly the pluralistic nature of the Polish society and defending varied sociopolitical, community, and regional interests holds a prominent place in accomplishing these tasks. This was especially advanced by the development by the Office [of the Council of Ministers] or with its participation, and the subsequent adoption by the Sejm, of the following draft laws setting forth the right of citizens to free association:

- the Law on Associations,
- on amending the Trade Union Law,
- on trade unions of independent farmers.

Work on regulating the legal status of political parties has also begun.

Pursuant to the Law—Regulations on Associations—any association which proclaims the compliance of its activities with the Constitution of the People's Republic of Poland and the legal order as established by the laws will be registered. Cancellation of the public good clause provides an opportunity for alternative associations to be formed. The category of higher-order associations has been abolished. Legal causes for declining to register an association and the oversight powers of the organs of state administration have also been restricted. Economic operations by associations have been made possible.

Trade union laws have introduced pluralism in the trade union movement in enterprises and in rural areas in keeping with the ILO [International Labor Organization] conventions. They ensure an opportunity to freely create unions and for employees and farmers to unite in them and grant the right to form trade union structures freely, and shape the forms of cooperation of trade unions within enterprises. These laws have made it possible to legalize the NSZZ Solidarity and the NSZZ Solidarity of Independent Farmers resolving at the same time one of the fundamental sociopolitical conflicts in the country. This also involves providing an opportunity to resume employment for individuals who have lost it due to activity in illegal trade unions after 13 December 1981 and the restoration of uninterrupted tenure in cases where it has been interrupted as a result of being dismissed from work.

Proceeding from the principles of freedom of conscience and religion, the lay nature of the state, the respect for the performance of religious functions by churches, as well as the equality of rights and duties of citizens regardless of their attitude toward religion, the Sejm adopted laws which regulate relations between the state and the church and guarantee to the citizens the freedom of conscience and religion.

These laws have laid down the corporate personality of the [Catholic] Church and guaranteed to it the freedom of performing all pastoral functions. The freedom of conscience and religion has been also guaranteed for the atheists, and a number of rights for churches and denominational unions have been guaranteed.

In addition, a convention on relations between the People's Republic of Poland and the Holy See has been agreed upon. Thus, a long chapter of political and administrative disputes in the denominational area has been closed.

Actions have been taken which are aimed at opening the world wider for our country. They have resulted in:

- greater availability of passports,
- a pick-up in contacts with the Polish community abroad,
- measures for the easier reception of satellite TV,
- new conditions for economic cooperation with foreign countries.

New regulations in the sphere of circulation of information have become important areas of arrangements associated with the democratization of socio-political relations.

To this end, the following laws have been adopted, among others:

- on amending the Law-Regulations on the Press,
- on amending the law on the control of publications and shows,
- on amending the Law-Customs Regulations.

In this manner, the guidelines for the operation of censorship have been liberalized. Publications of Polish publishing houses operating abroad may be brought to Poland. Polish citizens may speak freely in the programs

of Polish-language radio stations located abroad. The provision of the telecommunications law which made the execution of services contingent on the evaluation of information transmitted has also been canceled.

Changes have been made in some provisions of the penal law and the law on misdemeanors. Their thrust is to enhance the judicial guarantee of the defense of civil rights, considerably restrict the opportunity to apply detention without a court conviction, restrict the severity of penalties or abolish them. Regardless of the changes already made, the government has referred for public consultation the draft of overall amendments in the penal law and the law on misdemeanors.

Steps have been taken aimed at eliminating an excessive amount of regulations which hamper the contact between the citizen and the authorities. A considerable decentralization and deconcentration of decisionmaking at various levels of the executive authority occurred.

VI. Status of Defense Capability of the Country

The operation of the Armed Forces of the People's Republic of Poland was focused on tasks entailed by the duty to guarantee the security of the state within the framework of the political-military alliance of the Warsaw Treaty. It has been subordinated to the principle of necessary sufficiency written into our defensive military doctrine.

Restrictions have been introduced in all spheres of defense due to political and military decisions in the international forum and in view of the economic situation of the state.

This has been expressed primarily in far-reaching reductions of defense expenditures which, for example, are 26 percent lower this year than in the projections of the 5-year plan. As a result, their share in the national income declined from 3.8 percent in 1987 to 3.0 percent this year, and respectively from 8.3 to 5.5 percent in the national budget. This is the lowest level in the post-war years and one of the lowest in Europe. Regardless of the savings measures, the aforementioned restrictions coincided with inflation phenomena mounting on a scale considerably exceeding that expected, which has caused a rapid increase in the cost of procuring weapons and maintaining and training the troops.

A reduction in expenditures has been possible due to a profound restructuring of the army. As a result, the armed forces declined in the years 1986 through 1988 by 15,000 soldiers; also, considerable amounts of military materiel and equipment were retired from service such as, for example, 400 tanks, 200 combat aircraft, 300 armored carriers, 250 artillery guns, over 1,200 motor vehicles, and so on.

At the beginning of this year, the subsequent stage of reductions which is now under way began by cutting another 11,000 soldiers before May. These reductions are accompanied by transformations in the structure of

services, headquarters, and troops, and in the operation of the military education system. The process of transforming the units of a service and production nature into units of civil defense is under way.

In the environment of budgetary restrictions, the procurement of materiel was streamlined proceeding from the principle of selective issuance of modern generations of weapons to the troops. Many of the planned modernization measures were rescheduled (investment outlays have been reduced by 30 percent compared to last year). Orders to the armaments industry have been cut back by about 25 percent. Besides, expenditures for the imports of military materiel and equipment have been reduced. This is expressed in the reduction of the share of funds for imports in the total expenditures of the MON [Ministry of National Defense] from 7.3 percent in 1987 to 2.3 percent this year. Domestic industry is increasingly switching to civilian production. This is producing measurable effects, especially in actions such as electronic equipment, construction and agricultural machinery. Last year, the value of civilian deliveries by armaments enterprises amounted to about 900 billion zlotys, including about 190 billion zlotys directly to the market; this year, such deliveries will increase further. Also, 20 percent of the capacity of military repair and production plants are allocated for civilian needs.

For 1990, requests for materiel and equipment are cut back by about 40 percent compared to earlier plans.

Due to savings considerations, the number of exercises with troops has also been restricted considerably (in some cases, by as much as 40 percent). At the same time, the amount of resources and funds committed to these exercises has been reduced by 30 to 50 percent). Both the frequency and the duration of exercises in the course training the reserves for the needs of mobilization have also been reduced. The duration of training students in the reserve officer cadet schools has been reduced from 12 to 5 months.

VII. Relations With Foreign Countries

Reinforcing the security of the state and its international position, supporting internal reforms, and using the external factor for improving the economic situation of the country is the supreme goal of the foreign policy of the state. Opening in all directions and intensifying external contacts serve to achieve this goal.

Political, economic, and social transformations have favorably changed the political image of our country but have failed to improve its profile as an economic partner. A complete normalization of political relations

with significant Western partners and their support for the process of reform have not been accompanied by considerable involvement in the development of the Polish economy or mitigation of the burden of our debt.

Developing partnership relations with the Soviet Union remains the main task of the Polish foreign policy. Mutual interaction in the process of reforms and perestroika has served to democratize these relations and eliminate the negative heritage of the past. Contacts at the highest state levels have given a new impetus to expanding economic cooperation.

Ties with the Polish ethnic group in the USSR have been expanded. Joint actions have been taken aimed at shedding light on the so-called blank spots, especially on the issue of Katyn and the Ribbentrop-Molotov Pact.

In relations with the GDR, a treaty has been finalized on the issue of ensuring direct, free, and sovereign access of the Szczecin-Swinoujscie port group to the open sea which put an end to the dispute in this matter which lasted many years.

In the middle of this year, a trilateral agreement between Poland, the GDR, and Czechoslovakia on protecting the environment and water management in areas adjacent to the border was signed.

However, differences remain in relations with Czechoslovakia concerning some issues related to the responsibility for polluting the natural environment.

Our relations with Hungary have become closer; plans for cooperation with Bulgaria, Romania, and Yugoslavia have been carried out.

Unfortunately, in relations with the socialist countries of Eastern Europe we have not been able to completely eliminate attempts at border-crossing and other restrictions on Polish citizens.

In relations with China and other non-European socialist states we concentrated our attention first of all on the development of trade and economic cooperation advantageous for Poland.

Within the framework of the Warsaw Treaty, Poland has been striving to democratize allied cooperation, invigorate the political tasks of the alliance, and streamline the mechanisms of cooperation. The content of documents adopted at the sessions of the Political Consultative Committee in Bucharest and the Committee of the Ministers of Foreign Affairs in Budapest and Berlin is in keeping with the Polish reasons of state, the interests of detente, and the development of East-West relations. This applies in particular to the principles of equality, independence, and the right of each ally to develop a political line, strategy, and tactic independently, without interference from the outside, as well as the statement that no universal models of socialism of any kind exist.

Despite the resolute actions of Poland aimed at reforming the CEMA, an improvement in the operation

of this organization has not occurred; disintegration tendencies have appeared. Under these circumstances, we intensified economic cooperation with the countries reforming their economy in a direction similar to Poland.

In relations with the West, the policy of opening and activization of cooperation has resulted in complete normalization and the development of political relations with almost all most significant partners.

The visit by G. Bush has opened a new stage in Polish-American relations. The support of the U.S. President for the reform process has been a favorable influence on the attitude of other Western states toward our country which has been expressed in particular in the proceedings of the Paris summit of the Seven and the meeting of 24 states on economic aid to Poland.

A fundamental turnaround for the better has also been accomplished in relations with France. The president of France has visited Poland, and the prime minister of our country has visited Paris. We have undertaken a policy of dialogue at the highest level with Great Britain. Last year, the first visit by the prime minister of that country to Poland took place, and this year, the chairman of the Council of State held talks in London.

Further meetings with the heads of state and governments took place in relations with Italy, Belgium, Austria, and Finland. We have been developing relations with a number of other Western states, including in the basin of the Baltic Sea.

Restoration of diplomatic relations between Poland and the Vatican in July of this year was an important event.

Despite a marked improvement of the atmosphere surrounding Poland, we have not been successful in finalizing the talks with the IMF on an adjustment program or in securing loans from the World Bank.

Restrictions on the exports of modern technology to Poland have been maintained. We count on the declaration of the Paris summit of the Seven and the program of aid to Poland by 24 states, with the EEC playing the coordinating role, bringing about perceptible results for the Polish economy.

The FRG has remained our most significant economic partner in the West. However, despite intensive talks at various levels, we have not been successful in bringing about a resolution of many outstanding essential issues, especially financial and economic, as well as those involving the remnants of territorial and political arrangements following World War II. The renewal of the discussion in the FRG around maintaining the fiction of the existence of the 3d Reich in the 1937 borders cannot but cause concern.

Poland has been developing political relations with the nonaligned and developing countries. Our direct cooperation with the Movement of Non-Aligned States, in which we were recently granted guest status, has become closer.

Active political relations have not been accompanied by satisfactory progress in the field of economic cooperation with this group of states.

The Jaruzelski Plan is the main program of our security policy, especially in Central Europe. Its content has been incorporated to a considerable degree in the joint platform of the Warsaw Treaty states for the Vienna talks of 23 states on conventional armed forces in Europe and of 35 states on the means of confidence-building and security. It also facilitated the activities of our delegation in the course of the Vienna talks themselves.

We play a constructive role in disarmament efforts in other forums, especially in the negotiations in progress in the forum of the Geneva Disarmament Conference on eliminating chemical weapons. Poland participates vigorously in improving East-West relations. This primarily involves the development of the general European CSCE [Conference on Security and Cooperation in Europe] process and the invigoration of our activities with regard to the institutions of Eastern Europe, especially the EEC and the Council of Europe. We have expressed this through, among other things, actively participating in the Conference on Human Rights in Paris, the Information Forum in London, and organizing in Warsaw a meeting of the heads of parliaments of the CSCE states.

We have joined the dialogue on the concept of the "Common European Home" assuming the participation of the United States and Canada in materializing it.

In view of the prospect of the emergence of an integrated economic area of 12 states, we have made efforts to complete the negotiations and initial a treaty with the European Economic Community. We are taking actions so that the creation of the "common market" would not make the divisions of the continent more profound.

The special guest status obtained by Poland in the Council of Europe will enable us to participate vigorously in the work of its Parliamentary Assembly thus creating conditions for securing at a later date membership in this organization. Work associated with Poland joining numerous conventions initiated by the council, which create a favorable infrastructure for the cooperation between Poland and Western Europe, has begun.

Within the framework of the United Nations Organization, we cooperate in the efforts to democratize international relations, in searching for solutions to problems of a global scope, including those involving our country directly: disarmament, indebtedness, environmental protection. Cooperation with the UN also results in calculable material benefits for Poland, especially by virtue of the subsidies of the United Nations Development Program (UNDP).

We participate in multilateral activities aimed at extinguishing regional conflicts. Citizens of our country serve with peace contingents and observer groups in the Middle East, Afghanistan, Iran and Iraq, Namibia, and the Commission in Korea.

Open policy with regard to the 15-million Polish emigre community was the focus of government attention. The liberalization of the passport and visa regulations has facilitated contacts between the Polish emigre community and our country and the involvement of Polish emigre companies in economic cooperation with Poland.

In cooperation with the Polish Episcopate and the emigre Polish clergy, we have engaged in promoting the Polish culture and language for strengthening the bonds between the Polish emigre community and our country.

The government has promoted intensive foreign contacts by the creative arts and scientific communities on the assumption of complete unity of Polish culture inside the country and abroad.

The international activities of the Sejm, political, trade union, and public organizations have picked up. The composition of the Polish delegation at the CSCE Information Forum in London has reflected the advancing pluralism of sociopolitical life in the country. Representatives of both the government and the opposition have engaged in negotiations with the leading politicians of Western states on the economic and financial aid for Poland.

Former Ministers Outline Future Activities

90EP0074A Warsaw *POLITYKA* in Polish
No 38, 23 Sep 89 p 7

[Compiled by Barbara Olszewska: "The Backbenchers: What Will Members of the Former Government Do?"]

[Text] A new government has been elected, and the preceding one has withdrawn. Only a small part of the previous Administration continues to exercise responsible political and state duties: former Prime Minister Mieczyslaw F. Rakowski is the first secretary of the PZPR Central Committee; former director of the Office of the Council of Ministers General Michal Janiszewski has been appointed chief of the Chancellery of the President of the Polish People's Republic; and two incumbent ministers have retained their portfolios: Minister of Internal Affairs General Czeslaw Kiszczak and Minister of National Defense General Florian Siwicki. What are the future plans of the other members of the dismissed government? We asked this question of all the former ministers of state. Below are their replies:

Ireneusz Sekula (PZPR), 46 years old, former vice premier and chairman of the Economic Committee of the Council of Ministers:

"What will I do next? Same thing as before, but in another role, as a Sejm deputy. This means that I will promote radical economic reforms, a new market-based

economic order. If the government continues the reform policy, I will support it; if it deviates from it and takes the road of compromises and half-measures, I will oppose it.

"But now for the immediate future I will attend to the affairs of my electoral district, Zaglebie. I am going to travel there in order to organize permanent contacts with voters, meet them and ask whether my program of action meets their wishes.

"Lastly, I will devote more time to my family, which in the past year had seen me more often on television than at home. I shall read a dozen or so books, and perhaps I will write one myself."

Aleksander Kwasniewski (PZPR), 35 years old, former minister and chairman of the Socio-Political Committee under the Council of Ministers:

"I remain the chairman of the Committee for Youth and Physical Culture and have nothing against finalizing the plans which we commenced to carry out. To me and to us the Olympic Games in Barcelona are a special watershed. We promised Polish kibitzers that they would be better than in Seoul, and I want to prove true to my promise. Besides, I believe that sports victories are good for any government."

Janusz Patorski (PZPR), 43 years old, vice premier:

"I do not intend to relinquish and divest itself of my interests, because so far I believe that I have succeeded in combining professional work with my hobby, which is modern management and organization. Hence also I perceive my future to lie in continuing the work which I began with my colleagues and friends while I had still been working at the Warsaw Voivodship party committee and subsequently traveling to many of the country's cities and deliberately looking up the most interesting individuals changing the culture of the institutions and enterprises at which they work or which they manage. For to me at this moment the fundamental issue is the restructuring of enterprises, the pragmatic identification of the most effective and efficient enterprise models.

"I intend to continue all the contacts which provided me with invaluable experience, because, as one of the world's most eminent management experts, Peter Drake, says and claims, 'Experience is experienced.' Hence also, for example, yesterday I had a meeting with the Club of Experimenting Enterprises, upon invitation by its organizers....

"I intend as before to be one of the prime movers of the Polish Foundation for Personnel Advancement. I also think that the heads of Polish Television will let me continue presenting 'The Manager's Teleclub' program, which I had originated."

Kazimierz Olesiak (ZSL) [United Peasant Party], 52 years old, former vice premier of the Council of Ministers and chairman of the Economic Committee of the Council of Ministers:

"For the time being I need a rest. As yet I have no specific idea on what to do next. However, I cannot imagine any other work than that relating to agriculture and the food industry. Thus, wherever I may be, affairs of the countryside and agriculture will be of concern to me."

Aleksander Krawczuk (nonparty), 67 years old, former minister of culture and art:

"Fortunately, I was and remain a university professor. Thus soon I will return to Krakow. Of a certainty, I will take a 2-month unpaid leave in order to steep myself back into various domains of scholarly research. I will be writing again, but I am unsure as to where to get my new books published, because the 'first circulation' [official publishers] is state-owned whereas the ['second-circulation'] unofficial, totally progovernment, and supposedly independent but in reality privileged, publishers are subject to neither censorship nor taxes. In view of this I am establishing a 'third circulation,' which will of course avail itself of the privileges of the 'second,' because a precedent has already been set, but will be completely independent of the government, of the parties in the grand coalition [Solidarity-ZSL-SD], and of the Catholic Church. As a result, I will be able to publish the book 'The Reds and the Blacks.' The title speaks for itself and shows clearly that this will be a 'third-circulation' book."

Tadeusz Olechowski (PZPR), 63 years old, former minister of foreign affairs:

"I must admit that I responded with feelings of disappointment, disenchantment, and regret to my retirement to the rear at a time when our diplomatic offensive is promisingly developing. I feel like a soccer player whom the coach withdraws just when the game is becoming exciting. Seriously speaking, I feel a bit sorry that just now when our diplomacy faces such important tasks, I was recalled to the reserve bench.

"But I am not dramatizing my situation and not taking it too personally. I believe that what I have learned over many years in foreign service can prove just now particularly useful. Therefore, I will calmly await offers."

Jozef Oleksy (PZPR), 43 years old, former minister, member of the Council of Ministers:

"For the time being I have received no offers. I am leaving for a sanitarium in Szczawnica for treatment of my throat, which was impaired in the struggle for reforms which did not succeed. I think that I will manage, because of my educational background and extensive practical experience, and because I disdain no job."

Michal Czarski (PZPR), 40 years old, former minister of wages and social policy:

"I will rest a bit and attend to household chores. As for specific job offers, I may have something to say only a few days hence."

Janusz Kaminski (PZPR), 56 years old, former minister of transportation, navigation, and communications:

"What is the purpose of this poll?"

"First I must rest a bit for a few days, and then I will consider where to look for a job."

Mieczyslaw Wilczek (PZPR), 57 years old, former minister of industry:

"I am returning to my normal life, that is, to doing business, to engaging in economic activity on my own. I will be working in my old field, that is, with feed concentrates. I intend to launch large-scale production of food, especially of processed meat products. The nation needs sausage, so it has to be manufactured. But first peasants have to be helped to raise hogs, and therefore they must be provided with protein feed concentrates, which they need most."

"I would also like to pursue the dream of every businessman who reaches a certain age, the dream of making money, that is, of either owning a bank or dealing in securities. For civic reasons, I undertook to manage the party's finances. I am the Central Committee's plenipotentiary for these matters and, more broadly, I am administering the party's finances in such a way as to make it financially self-supporting."

Wladyslaw Loranc (PZPR), 59 years old, former minister and director of the Office for Religious Affairs:

"I shall not be an observer like up till now; I shall be a man of action. I don't yet know the extent of the domain of my future activities. Perhaps with one exception: I shall be a columnist above all. Two topics attract my attention: it would be good for this country if Tadeusz Mazowiecki's government succeeded in its mission, if the real rather than propaganda meaning of such concepts as work, wages, prices, credit, and profits were to be regained to an extent palpable to every Pole. To this end, fundamental changes are not necessary provided that the vacillation among different calculational approaches is abandoned, because there is only one arithmetic. I would like to participate as a journalist in this restoration of the life of logic."

"The other thing is: we are observing an astonishing increase in the number of compliments paid to Poland and Poles in general and to the Polish worker in particular. The fewer the expected facts are the more numerous the compliments. There exists the problem of the re-exportation, as it were, of compliments. I would also like to participate in attending to this matter. To put it briefly, I was, am, and always shall remain a man struggling for ends which I respect, and in this sense little

has changed following my retirement from office and little will change in the immediate future."

Bogumil Ferensztajn (PZPR), 55 years old, former minister of construction and land use management:

"I still do not know what I will do. For the time being I intend to rest and avail myself of the 2-month leave due me. Later I shall see what next. In the worst case I shall publish a job-wanted notice in your newspaper. Perhaps then I will receive some interesting offer."

Dominik Jastrzebski (PZPR), 47 years old, former minister of foreign economic cooperation:

"He has refused to participate in the poll; he is leaving Warsaw for a trip and cannot be contacted for the next few days."

Jozef Koziol (ZSL), 50 years old, former minister of environmental protection and natural resources:

"Speaking sincerely, I would like to utilize my experience and knowledge so far in sociopolitical and professional work (I am an economist familiar with several domains of our economy) to support and enrich newly conceived plans rather than to confine myself to programming. As for the form of my commitment, I have not decided yet, because there was simply no time. I have yet to start considering it. I am not sitting and doing nothing. I remain a vice chairman of the ZSL [United Peasant Party] Supreme Committee; an interesting period of preparations for the ZSL congress, for changes in the ZSL's program, has commenced. I hope that my wishes and possibilities will be utilized to this end."

"Lastly, I would now like to devote more time to my family and myself."

Zbigniew Grabowski (PZPR), 59 years old, minister, director of the Office for Science and Technology progress and Applications:

"The matter is simple: I have a guaranteed position at the Warsaw Polytechnic; I used to be director of the Department of Geotechnics and Subterranean Structures. After my vacation I will resume that position."

Andrzej Wroblewski (PZPR), 39 years old, former minister of finance:

"For the time being I will attend to household chores and determine more precisely my plans for the near future."

Marcin Nurowski (PZPR), 55 years old, former minister of the internal market:

"I am planning a 6-week vacation during which I will try to sum up my 11-month adventure on Rakowski's team (I am using this term even though the 'adventure' cost me a change in the color of my hair, which became very light, and which is a source of concern to physicians who recently examined me). And after that, what? I shall see, but even now I can say what I certainly will not do. First, I do not want to travel abroad, although this possibility

has arisen, and second, I do not want to opt out of active life. Of a certainty I shall watch the vicissitudes of the Mazowiecki Administration, the more so because I do not think that its economic program differs from ours. And in general I think that something will arise in life for a restless man who still carries in his head many unrealized ideas."

Izabela Planeta-Malecka (nonparty), 59 years old, former minister of health and social welfare:

"I am returning to my previous job as administrator of the Second Clinic for Pediatric Diseases at the Military Medical Academy in Lodz. In addition, I am deputy director for pediatrics at the Memorial Hospital of the Polish Mother in Lodz, where I will continue my scholarly, clinical, and administrative duties."

Franciszek Gaik (PZPR), 43 years old, former minister, former director of the Office of Central Planning:

"I have always viewed myself as a reformer approaching the solution of problems on the basis of courage, common sense, and radicalism. I shall be faithful to these ideas of mine wherever I am and whatever I will do. Of a certainty, I shall continue to promote initiative, resourcefulness, and good and effective work. I think that right now the time is coming for people who can boldly confront all challenges and prove themselves by deeds, not words. In the immediate future I intend to devote more attention to an intensive expansion of the Society for the Promotion of Economic Initiatives, of which I am a cofounder. I shall do everything to rally around it thinking and concretely acting individuals."

"Of course, I want to precede all this with a brief moment of rest, because I never had a vacation since I became director of the Office of Central Planning."

Jacek Fisiak (PZPR), 53 years old, minister of national education:

"While a minister I did not cease to be at the same time the professor and director of the Institute of English Linguistics at the A. Mickiewicz University in Poznan. I have never ceased that activity, and I shall continue it."

Lukasz Balcer (Democratic Party), former minister of justice:

Minister Balcer's secretary had transmitted to him on his last day in office our request for participation in the poll, but we failed to establish contact with him: his home telephone was silent all the time.

[Box, p 7]

Former members of the government are entitled to a paid 6-month leave plus financial compensation for previously unused leaves. (In the event that in the meantime they take jobs paying less than their previous salaries, they receive equalization pay.) During those 6 months, but not afterward, they are entitled to avail themselves of the vacation facilities of the Office of the Council of Ministers, as well as of the services of the government clinic. Persons completing 60 years of age (55, in the case of women) who held executive positions (upward of the post of the director general) in the government for at least 5 years, are entitled to early retirement with pension. Persons with work seniority of 30 years (including at least 8 years in executive positions in the government) are entitled to retirement with pension regardless of age.

They forfeit their right to live in the official residence that they had been assigned for the period of exercise of their duties. They also forfeit their right to discounts for official telephone conversations conducted while at home.

CZECHOSLOVAKIA

Marketing, Worker Involvement Stressed

90EC0025C Prague HOSPODARSKE NOVINY
in Czech 15 Sep 89 pp 1, 4

[Article by Eng Zdenek Smely, candidate for doctor of science (CSc.), senior secretary of Czech council of the Czechoslovak Scientific and Technical Society: "To Market With a Skin"; first paragraph is HOSPODARSKE NOVINY introduction]

[Text] While speaking with the author about the connection between marketing and R&D progress in production, we gradually gleaned excerpts from his concept of the scientific and technical revolution, which is based on three principles: labor productivity, quality, and an ecological feedback mechanism. He has formed these views over the course of a life that has been one way or another involved with innovative processes. He has served as director of the Research institute for Rubber and Plastics Technologies, as senior manager in the now defunct Czech Commission for R&D and Investment Development [CKVTIR], and in his current position. We also introduced him a while ago as chairman of the Scientific Production Association for Microelectronics. This was at the time when the resolutions of the 14th Session of the CPCZ CC were being implemented and the author was trying to replace the so-called introduction of scientific and technical development into production with a new program of scientific and technical development of the very economic foundation of plants, enterprises, and branches. This type of development obviously makes no sense without taking account of market responses to efforts of a production collective, from the design engineer right down to the warehouse employee.

The time has come, with restructuring, to reevaluate many categories that have not been subject to discussion previously. Among the problems facing us is the importance of a rational application of marketing as part of the processes involved in expanded and qualitatively improved capital replacement.

The scientific and technical development of the national economy is above all a sociopolitical matter, and only secondarily a technical process. It is an inseparable part of the world wide technical revolution. The priority aspects of this revolution are producing a constant world wide flow of technological and production innovations. The priorities of this revolution are an increase in "net" labor productivity (expressed as time consumed per unit of production in the form of human and embodied labor), as well as increased quality of both material and nonmaterial production (expressed by improved technical and economic parameters), and a trend to ecologization (i.e. the management and protection of the environment, including workplace amenities, hygiene, and work safety). Anyone who does not come close to world

class levels of labor productivity and quality does have any chance over the long term in the competitive struggle.

What Must We Know And What Do We Want To Know

To determine one's actual standing in the world wide competitive standings one needs precise, timely, and accurate information about the status of actual production procedures and outputs, about what the competition is doing, and about the state of the art scientifically in the given area. One needs to be aware of international economic and political issues that might affect the salability of a given product on both world and domestic markets.

Restructuring therefore means that world wide trends will have a much greater and sharper impact than previously on individual producers. Many manufacturers, in fact, do not realize that the implementation of any part of what has been called for for so long, namely koruna convertibility against the ruble and freely traded currencies, will bring with it a sharp impact of the world market on every producer, every organization. No one in the world pays for just work itself, but for the output that it produces, provided the output is high quality. Those work collectives, teams, organizations and the like that do not pick up new trends, that do not recognize the critical importance of scientific and technical progress for their own work will find themselves in a very difficult and in time hopeless situation.

The previous tendency to manage the entire national economy as a single gigantic and complex mechanism should theoretically have resulted in optimizing the volume and quality of individual products, to a balanced drawdown of resources, to the maintenance of optimal ecological conditions, and to other optimizing benefits at the national level. The reality, though, has been that such exceptionally difficult planning implemented without adequate computer or computer network resources has resulted in objective and subjective failure of individual, frequently smaller pieces of the whole, and through them to a chain reaction. For example, the final producers of certain complicated products are unable to complete products because a subcontractor does not deliver a subcomponent. This forces them to work overtime, and missing their deadline sets up a chain reaction of a number of important, unmet targets. This scenario has been the rule rather than the exception.

Soviet economists have been doing interesting work documenting the mechanism of the former technique of central management of the national economy. These economists are also discussing the psychological consequences of this method of national economic management. The theory, which has never been proved unrealizable, of economic management to the last detail, i.e. establishing tasks for every employee at every conceivable location, has left its mark in people's consciousness

in that they have begun to consider their single, fundamental responsibility to be completing their assigned tasks without regard for what is going on around them or for the consequences of what they and their fellow employees are doing.

This is the so-called theory of the screw. In essence this means that in a complicated mechanism such as a watch every wheel has a precisely defined task. When all the components function well, the watch runs well. One of the results of these attitudes is that work has come to be performed in many cases without any interest in whether it will be useful for society, whether it relates to activities in other parts of the economy, whether it is being performed optimally, etc.

What Actually Is Most Important

In this country as well I have noticed similar attitudes. These are evident in a number of forms. I have participated in the past few years in a number of discussions with managerial personnel and with line employees at factories and organizations. I know for certain that many skilled blue collar workers look at things this way: Give me a quality machine, keep it well maintained and adjusted, and give me material; I will then do my job carefully and with quality, and when the piece is complete you can take it away anywhere you like, to a job site or elsewhere. And here is my hand. For this work I expect to be paid a fair, preferably high wage. Sometimes this attitude is accompanied by ideas that "my job" is fundamental and the most important activity of a specific production process and that all other jobs represent activities of an auxiliary character.

One finds similar attitudes, however, not only among blue collar employees but also among the technical intelligentsia and many managerial and administrative employees. They share the view that "my job" is much more important than all other jobs and, usually that the wage paid for the job is too low.

The consequences of restructuring, however, will be much greater responsibility and incentives for collectives and individuals to participate in all aspects of their work and the products they produce. It is a transition, figuratively speaking, from the concept of "working people" to the much more specific and clear "our workshop", "our enterprise", etc. Under this conception it is unthinkable to make a definitive evaluation of the work of an individual or of specific teams without taking account of the final output of their work, represented for instance by the sale of quality goods and the deposit of an appropriate amount in the account of the manufacturer. The compensational approach, where the high quality work of some people was redistributed through middle and senior management and frequently used to cover shortfalls in production, quality, etc., is coming to an end.

What is beginning is responsibility of a defined collective for producing one or another product or product line, for this or that additional work activity. Regardless of where

a shortfall actually occurs, it threatens the work of the entire collective, from the designers, researchers, and design engineers through those responsible for supplying and preparing for production, transportation and maintenance, the entire range of production tasks, to the final assembly and sale of the product, including all financial and other transactions. Managers in all phases are also involved and not allowed to stand by.

Market research, advertising, service, and product information services all play a role in this chain. The optimal number of employees—here I am returning to the "importance" of this or that job—in the individual phases is in no way determined by subjective views of the importance of this or that profession, but by the objective needs of specific activities. If there is a technically sophisticated product that requires frequent and substantial innovation at both the technical and production levels, then the units or divisions that make use of the innovative resources of scientific and technical development such as internal research, licenses, international cooperation, machinery and equipment procurement, capital investment, etc. must be fully staffed with highly skilled people. Complex products of this type usually have a smaller blue collar employee collective, but those who are in the collective will be highly skilled and capable of doing the work of several different specialties.

Conversely, if the product in question is a traditional product with no significant innovational requirements, there can be relatively fewer employees in preproduction positions and in administration, and the blue collar collectives will be tightly specialized with great emphasis placed on precision work. In situations where new products are produced with new uses those divisions concerned with marketing, advertising, service, trade and research activities will need to have more employees. The proportions for individual qualification groupings cannot be specified precisely. Nor can programs or schedules that specify for instance how to reduce numbers of administrative employees or other professions bring about the desired result if they do not take account of the intensity of the desired activities, the qualifications required to accomplish them, and the level of responsibility they bear for enterprise management.

From my own experiences as director of a large research institute I can list a number of examples where the precise regimentation of numbers of individuals in specific professions with specific qualifications led to precisely the opposite affect than that which was intended. For instance, I could not hire without threat of sanctions the requisite number of typists, who for half the money and twice as fast would have been able to type research reports, compile tables of results, etc. However, there was nothing to stop college educated researchers from spending entire weeks with one finger on the typewriter writing this documentation that they absolutely had to do themselves.

It would be a mistake to build a structure of collectives at random, based on the needs of the moment. The necessary proportions, without risking stressful situations, can be determined only based on a long range science and technology policy that is implemented conceptually. The preconditions of prosperity include a shift from the position of "me and my quality work" to an attitude of "we and our quality work".

It is more than a matter of reconciling existing professions within a given enterprise or organization; it is frequently true that entire divisions are absent. An enterprise that is supposed to handle distribution does not need an office of R&D or a design engineering department, and possibly would not even need marketing. But if this organizations does without these services for an extended period, then it will have to utilize the services of other partners.

Second Wind for Marketing

We can expect, then, an increase in the importance of quality marketing as a full fledged activity essential in any smoothly functioning enterprise or organization. This does not mean, of course, that we have to set up a marketing department in every enterprise or organization. It will be more advantageous to assign these activities to organizations capable of servicing large numbers of enterprises or organizations, as a rule from a single production field or group of related fields.

Research on the needs of prospective customers, supply and demand, and public opinion surveys on how the general public feels about this or that product or phenomenon is a field that throughout the world is experiencing a sharp increase in the equipment available. Modern data bases of immense scope are appearing and personal computers and supercomputers are able very quickly to evaluate all the properties of recorded files with astronomical amounts of information. There are also international centers which provide marketing services for a modest fee.

The importance of advertising is also increasing. Advertisements are using precise ecological and health care information to a much greater extent. Large multinational monopolies have almost stopped fighting with the ecologists and are now studying trends in the protection of air, water, and soil, so that they can produce in a timely way new products, more expensive products, that will in one way or another help people stay healthy. Producers that do not keep up with these new trends receive "penalty points" and their competitiveness declines rapidly. Information services, including marketing services continue to broaden their scope. Implementing a strategic, competitive policy also requires new knowledge of managers and an ability to react rapidly to changing conditions.

A smoothly functioning marketing operation is an essential condition for the entrepreneurial success of an enterprise or organization under restructuring. I would therefore like to call the attention of managers at all levels to

the need for reassessing a negative attitude to marketing and its importance under the conditions of modern entrepreneurship and competitive economies. In the future the function of marketing should not be simply to learn about markets, but rather to determine possibilities for positioning certain products under favorable circumstances. Marketing is becoming more and more a qualitatively new information gathering activity carried out with the latest in computer equipment and performed by highly skilled personnel.

Definition of Good Economist Sought

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in Czech 15 Sep 89 p 4

[Article by Docent Eng Miloslav Tomsik, candidate for doctor of science (CSc.), and Prof Eng Jaroslava Bauerova, CSc., Prague Economics College: "Wanted, Economist; But What Kind?"]

[Text] Changes in the economic mechanism, technical innovation, world economic growth, and in national economic structures—all these require not only flexible adaptation by economists, but above all their thoughts and ideas. Such ideas require, however, fertile ground, which can only be provided by the school system when one is talking about aspiring economists without their own base of experience. How is this ground being prepared? How are new ideas accepted in the real world? Apparently there are a number of problems.

The 13th CPCZ CC plenary session pointed out serious problems in our mastery of the latest scientific and technical findings and in training college students for the requirements of real world jobs. These problems stem from the structure of the educational system itself, and from the conservative and technocratic attitudes of certain practitioners. Bureaucracy, along with interference in educational affairs by people without the authority or qualifications to do so also play a role. In spite of all this, the most important tasks facing college teachers and researchers is the systematic development of a modern, profoundly scientific, integrated profile of the typical graduate of individual colleges, and the redefinition of fields of study and specialization, on the length, curricula, methods and techniques for these programs. The successful resolution of these issues will go a long way to determining future success in the development of our science, technology, economy, and culture, professional opportunities, self-realization and the development of the graduates themselves, and their ability to adapt to changing conditions of socioeconomic development and possibilities to participate actively in this development.

Creating an open and flexible system of college studies requires, among other things, specific knowledge of real world job requirements. College graduates should not only be able fully to handle these requirements, but also bring to a job professional knowledge and focus that allows him to bring creative focus to the job. How are

graduates of the Prague Economics College doing in this regard? These people, after all, are entering a profession that is no bed of roses.

A questionnaire concerning the jobs that our graduates have found is one source of information on this issue. The questionnaire was circulated and the results compiled in 1988. The target group was day students who completed their programs between 1983 and 1985. We mailed 4,648 questionnaires and received responses to 2,379, a return rate of 51.2 percent.

The 29 questions covered a wide range of issues. In addition to job satisfaction, respondents evaluated the quality of their training for their present job, the focus, forms and content of their completed course of study, and selected aspects of their job situation. The largest percentage of respondents had completed one of the following fields of study: economics of labor, economics of domestic trade, economics of foreign trade, or finance.

Who Wants Them?

Approximately half of the respondents work in one of two economic sectors, industry (20 percent) and business and public food service (25 percent). These are followed by education, culture, and physical education (10 percent), transportation and communication (8 percent), and money and insurance (7 percent). The largest percentage of respondents is employed at the enterprise level (40 percent), with many fewer at the factory level (16 percent). A relatively large percentage (10 percent) is employed in scientific, research, and pedagogical facilities.

It was somewhat surprising to learn that almost one third of the respondents work in managerial positions. Forty percent of the male respondents work as managers, and 20 percent of the female respondents work as managers. These figures represent about 50 percent of the respondents working in transportation and communications, in communal services and housing management, in health care and social services, and about one third of the respondents who listed their jobs as being in construction, agriculture, forest and water resource management, or business and public food service.

This fact is certainly related to the relatively high salaries received by graduates. The average gross monthly salary of our respondents amounted to Kcs 3,395. Some 28 percent of the respondents listed their monthly salary as more than Kcs 3,500. There are significant differences between men and women, to the disadvantage of women. Salaries are relatively larger for graduates in managerial positions.

There is a high level of correlation between prior professional training and current jobs, with 96 percent of the respondents working in positions with economics training as one of its qualifications. Of these, 86 percent are in jobs that require college educations, and 10 percent in jobs requiring high school level economics

training. There is a much lower correlation between current jobs and the field of college specialization. Of the respondents, 42 percent indicated that they were working in their field of specialization (most noticeable in the fields of computerized management systems, economics of foreign trade, and teaching advanced economic subjects), 37 percent indicated a partial correlation, while 21 percent of the respondents were not working in a job for which they had been trained. There are differences between men and women here as well, with women more frequently working in jobs for which they were not directly trained.

Almost two-thirds of the respondents indicated that the job they are currently performing could be performed successfully by graduates in other fields. These results lend support to those who contend that we reduce the current number of fields of study and specializations.

Two important facts should be noted with regard to questionnaire results related to the current job situation of respondents. These are prospects for further professional and salary advancement. Neither is evaluated positively in the questionnaires. Half of the respondents felt that prospects in both areas were unclear, while not even one third felt that prospects were positive. These facts are certainly related to a relatively high level of instability—almost half the respondents are considering a change in job in the near term.

Was Training Adequate?

Evaluations of how well school prepared respondents for their current jobs were positive. Fully 32 percent listed their training as very good or good, 44 percent consider it adequate, and only 12 percent consider it inadequate (the remainder did not provide a response). The results were different in terms of potential future demands on economists related to restructuring the economic mechanism. Fully two thirds of the respondents rated their training in independent economic decision making, assuming risks associated with such decisions, and their preparation for socialist entrepreneurship as inadequate.

This is clearly connected to another response, namely that respondents felt a keen need to improve their qualifications. Their preference is for special purpose courses given by sectoral, or enterprise managements (48 percent of respondents), or for independent study programs (46 percent of the respondents). Fully 25 percent of the respondents are interested in pursuing some form of post graduate study. Despite the reservations they expressed about their training for positions as economists, 73 percent of the respondents indicated that they would again decide to pursue their studies at the Economics College.

Respondents felt that there were shortcomings in their training in five main areas: practical professional skills (two thirds of the respondents), information and computer science (40 percent), organizational and managerial skills (35 percent), dealing with people (32 percent), and language training (30 percent). These preferences are

in line with the courses that respondents think should be included in future curricula for specific fields and specialties. These courses are: language courses (27 percent of the respondents), practical computer training (27 percent), computer science, basic data processing, and computerized management systems (20 percent), and sociology and psychology from the social sciences (18 percent). The respondents feel that it would be better to limit those courses that are too historical or descriptive in character.

Some of these requests had already been implemented before the questionnaire was circulated. In the past three years, for instance, substantial equipment purchases have been made and the curricula revised for both language trainings and computer science offerings, so that current graduates of the college will not be able to attribute deficiencies in these areas to the school. Some of the "practical professional skills" noted by some respondents can be acquired only on the job.

Overall however, respondent answers to the questionnaire indicate that the school is on the right track in its efforts to overcome instructional rigidity, to stop overloading student memories with unnecessary information, and to begin training in problem solving, how to get along with people and to manage them, how to make correct decisions rapidly.

Respondents also evaluated the mix of general and specific courses in their programs. Not quite 20 percent thought that the mix was correct, while 60 percent felt that there were not enough professional courses in a curriculum designed for the college level. There was a slight tendency for graduates in fields related to the national economy to think that the course mix was correct, and for those graduating from business programs to think the mix was not proper, but the trend is not significant.

Evaluations of the balance between exercises and seminars on the one hand and lectures on the other did not yield clear results. Two responses stood out. The first considers the current balance to be appropriate (38 percent), while the second would increase the percentage of seminars and exercises (43 percent). What is interesting is that on a department by department basis there tended not to be significant differences. Only four fields of study accounted for 10 percent of the differential in these answers.

Enterprise Manager?

There were also differences of opinion on the question of the breadth of training that economists should receive to deal with the changes now being implemented in the economic mechanism. Some 48 percent of the respondents thought that the changes resulting from intensification and restructuring would be handled better by economists with generalist training who acquire job specific skills as needed, or through graduate programs. The remaining respondents (51 percent) felt that economists should graduate from college with a fairly deep and

specific concentration in a narrow area. Graduates in fields related to the national economy tended to prefer the generalist approach, while those in business programs preferred the specialist approach.

The respondents did not agree, in other words, on the ideal profile of a college graduate trained in economics. This indicates the complexity of the issue, and makes it clear that we need to develop optimal variants that combine both approaches. One such approach would involve a generalist foundation with a strong representation of professional subjects, with relatively narrow specialization introduced towards the end of a program.

What Is the School Doing?

The Economic College is implementing several long range programs in line with the results of the questionnaire. One of these is the above mentioned expansion in foreign language training, which involves purchasing modern equipment for the language laboratories and setting up computer learning centers. Steps are being taken to improve the space available to the school. This will make it possible to offer more hands on training to smaller groups of students. Based on the questionnaire we are also planning structural changes in the fields of study, which will involve the preparation of new curricula for certain fields and specializations.

This mainly involves the introduction of broader fields of study. These will be developed by individual departments at the Prague Economics College. Each field will offer a sufficient number of flexible sub-specialties. In addition, each department will define the basic information that all students must master. This information will include basic general concepts that every economist must know.

The objective, and it is not an easy one to fulfill, is to create an educational system for economists that will enable them better to fulfill the tasks required of them by the restructuring of the economic mechanism. There is no need to emphasize that this is a permanent task, because the economic changes it is meant to address are also permanent.

HUNGARY

Privatization, Law on Transformation Stir Controversy

Bank Director Comments

25000473 Budapest FIGYELO in Hungarian
21 Sep 89 p 3

[Article by Lajos Bokros, Hungarian National Bank managing director: "Response to Tamas Sarkozy: In Defense of a Society"]

[Text] Deputy Minister of Justice Tamas Sarkozy attributes to me a fantastic power over the masses when he states that every participant of virtually every shade

in the national trilateral negotiations used the Bokros argument to attack the Law on Transformation. (See: "In Defense of a Law," FIGYELO Nos 34 and 35, 1989 [JPRS-EER-89-117, 26 Oct 89: "Critique of Law on Transformation Disputed"]). Although I never took part in the trilateral negotiations—today's highest level political forum—I am afraid the deputy minister is overstating the case. This is because it is likely that the negotiators would have taken unanimous action to change the Law on Transformation had they reached a consensus on their arguments. To this date, however, they have not.

In today's overheated atmosphere saturated with expectations, which on occasion is not lacking in demagoguery and personal reference, there is an increasing shortage in two fundamental requisites of public and political morals: true-to-life, factual information on the one hand, and professional argument on the other. These have always been weak points of ours. Today this applies particularly to the mixed professional-political debate over the advance outline of proprietary reform. This includes practical steps to be taken in order to achieve a fundamental rearrangement of proprietary conditions, primarily the legislation which has the decisive influence on formations of ownership during the transition period. Everyone recognizes the key significance of this issue. This is one reason why I was happy to read Sarkozy's panoramic description. It presents matters with the accuracy of an inventory, and enables me to redefine the proprietary reform concept he represented with sober objectivity. This, in turn, reinforces my conviction and unchanged criticism of the governmental action he is undoubtedly in charge of. My response will be cool as well as passionate. On the one hand I am able to see with bitter satisfaction the inability of the Law on Transformation to function, and that the expert arguments were entirely correct. On the other hand I am concerned that anti-market proprietary reform to salvage the power of the old elite is proceeding with full steam, circumventing the Law on Transformation. This, then, serves to justify my preliminary political concerns.

Delayed Critique?

Unfortunately, I must agree with Sarkozy when he says that only a few persons thoroughly analyzed the laws on enterprises, business organizations, and transformation. Thus instead of arguments, the struggle produced slogans. These laws are pivotal from the standpoint of proprietary reform.

As far as my personal contribution to the debate is concerned, the deputy minister of justice has two things to say. First, that my writing did not comment on the draft ultimately presented to the National Assembly, therefore the correctness of my thesis is not supported by a single paragraph contained in the Law on Transformation. Second, since I did not analyze the Law on Transformation in the context of the Law on Business Organizations, the inappropriate conclusions I reached

contributed to the critique that was nurtured by misunderstanding, and which has since evolved into a spectacular volley of fire.

Let us first take a look at the facts. Sarkozy is correct in saying that in most instances criticism arrived too late. But the primary reason for the delay is the work method followed by the state administration—a method Sarkozy also likes to take advantage of. This work method is characterized by the fact that legislative proposals submitted are changed even within the short time before they are placed on the agenda and discussed by responsible bodies. Sarkozy should remember that committees of the National Assembly were debating series of "obsolete" versions of the proposed Law on Transformation. This is a good way to prevent debate on the substance.

As long as legislative proposals are changed, one might ask why they were changed. Perhaps sometimes, and in certain places, they were changed in response to criticism. The author of the article must have saved for himself a copy of the first version of the Law on Transformation, subsequently changed beyond recognition based on emerging counterarguments in the course of expert debate. He made use of the views of Laszlo Antal whose name he cited, and of an army of bureaucrats not mentioned. Because they are bureaucrats they acted logically in making their comments first to the person who submitted the legislative proposal, and then went public with the arguments not accepted in the course of bureaucratic reconciliation. One cannot publicly claim that work that is not public dominates within the state administration, and that the person who submits a proposal can utilize his colleagues' critique before the public can. It is not factual and not proper to prove the lack of foundation for the ultimately publicized views of opponents within the office, with material that has been corrected using the arguments presented by those opponents!

Free for Managers

More important than the above is the fact that the bulk of criticism came late, but without losing its timely validity. I, for example, was not fortunate enough to substantively influence the legislative drafts of the Law on Transformation. My public critique referred to by Sarkozy appeared in the 25 May issue of MAGYAR NEMZET, 5 days before the National Assembly adopted the Law on Transformation. The legislative proposal was not changed during this period. If I can prove that my counterarguments defined at that time are valid with regard to the final version of the Law on Transformation, then, incidentally, the accusation that my criticism did not pertain to the final version will also falter.

Sarkozy acknowledges the fact that there are some critical statements which in some instances, at least, reach the merits of the issue. Most important among these is the one that says, "the law transfers state property to enterprises, and makes permanent the rule of managers over public property at the enterprises."

The final text of the Law on Transformation also includes all provisions whose joint application creates a right to dispose over social property, and grants that right free of charge to managers who rule enterprise councils and to other enterprise management organizations.

1. Paragraph 17.1 of the Law on Transformation (hereinafter: "Law") provides that decisions concerning transformation shall be reached on the basis of a two-thirds vote of an enterprise council (general meeting, meeting of delegates). In the case of an enterprise operating with an enterprise council, the clear effect of this provision is for the enterprise to be transformed only at the initiative, or with the agreement of managers who rule the enterprises or the enterprise council. For the time being, this entitlement to exercise ownership rights is regarded as a negative provision. As a result, a series of advantageous foreign offers were rejected. These offers held out the well founded promise of true structural change and development.

2. The National Assembly solidified this ownership right granted to enterprise managers when, under the false banner of enterprise independence, it adopted an amendment to Law No 6 of 1977 concerning state enterprises. According to the amendment only the National Assembly may revoke rights pertaining to "self-governance and self-management" (Section 42/A.(3)). Since by virtue of its nature Parliament pays attention to the fate of individual enterprises only in cases of emergency, purely positive opportunities for transformation, i.e. transformation for reasons other than bankruptcy, remain eternally concealed. Well, discovering these opportunities should be the job of the capital market of course, not Parliament. If by chance and coincidence a capital market does evolve, its initiatives will be negated by this authority retained by Parliament.

3. The Law not only protects managers of "self-governing and self-managing" enterprises. Paragraph 16.(1) of the Law requires the concurrence of the trust in order to transform a trust enterprise. Since the right of trust enterprises to leave a trust is not governed by any legal provision at all, it is apparent that the Law exerts an effect to preserve old monopolies.

4. An enterprise council ceases to exist once an enterprise directed by an enterprise council transforms into a corporation. It is obvious that disbanding the closed cluster embodying the rule of managers constitutes a great sacrifice. Therefore managers cannot accept such change voluntarily, without compensation. At this point the functionality of the Law was at risk. Therefore 17. was created, at last. By virtue of this provision a 20-percent, or a minimum of a 100-million-forint increase in the founding capital became the condition for transformation. Accordingly, if an enterprise transforms itself, it will acquire at least some new money, some liquid capital. This serves as an appropriate lure if the enterprise intending to transform itself would go bankrupt otherwise. It will not suffice in the case of well

functioning enterprises. Therefore it is obvious that transformation becomes possible only if the new owner makes a settlement with the old managers.

5. From an economic standpoint, that provision of the Law which requires an increase in capital in order to form a corporation is not at all rational. Foreign investors in particular are puzzled: why should they increase the capital in an enterprise whose basic capital and activities should be decreased, or "cut to size"? But then they discover the great advantage and shake their heads. They don't believe their eyes when they compare the Law on Business Organizations with 23.(1) of the Law, and find that with a 21-percent capital investment they can acquire absolute majority ownership of the firm! This is because at best only 20 percent of the original founding capital will have an owner (i.e. the state trust fund). The rest of the shares are "dormant," they do not vote, and the enterprise can retain those shares for at least 3 years (23.(1)). Accordingly, not only can the old managers choose their future owners; they can also make a generous offer: They may hand over the entire enterprise in lieu of a minimum amount of additional capital investment. What else would this be than the establishment of an interest to sell out public property cheaply and in an uncontrolled manner?

6. Some outside owners will continue to show reluctance. They may be scared of becoming even majority owners in a company in which the other owner is an unknown institution to be created later. Establishment of state trust organizations is delegated by 15. of the Law under the jurisdiction of a separate law. Once established, these trust organizations may prevent the waste of state property. But as long as they do not exist, they will prevent transformation itself when sober and solid outside capitalists are involved. They will be scared away by uncertainty.

7. The idea of reaching agreements prior to transformation is obviously predicated on the fact that the dormant stock worth 80 percent of the old founding capital must be gotten rid of, otherwise it becomes the property of the state trust organization, without compensation. If that happens, the state trust becomes the controlling owner. This would not be in the interest either of the old/new managers, or of the outside owner. Therefore, the most advantageous solution presents itself in the instant sale of this stock. Under such circumstances the company may retain 20 percent of the proceeds (22.(1)). In the critique I wrote in May I said that this artificially created selling wave will not be sensitive to demands presented by the capital market, therefore stock values will decline sharply, and further business shares will be transferred to the ownership of persons capable of paying prices below market values. In addition, this process will destroy the already weak-footed capital market institutions. Thus it is apparent that we are dealing once again with the waste of property. In theory, depreciation is not in the interest of the company either. Nevertheless, 20 percent of a small amount is more than nothing that would be

produced under any other circumstance. This is because revenues can be generated only by selling the enterprise.

Nonfunctional, at Best

8. Some deeply indebted firms will recommend to their lending institutions that they swap stocks for debts, of course. In such cases the state trust organization is not entitled to any revenues pursuant to 22.(2) of the Law. Using this procedure may be more advantageous to both the bank and the enterprise. From an economic standpoint, however, this means nothing but an enterprise in which the state's share of ownership amounts to a mere 20 percent, relieving itself at the expense of the state, or out of revenues to which the state is entitled. Eighty percent of the burden is placed on the rest of the owners. This produces the same substantive result in a refined form, namely the squandering of state property.

9. The managers of some strongly capitalized firms which used little credit financing may overcome the lure of receiving instant revenues, and will not sell their stock at just any price. They are also rushed by the 3-year limit. But they were considered by legislators when they established the institution of accredited temporary stock (Law 31.). Such stock may be acquired by business organizations even if they paid for only 10 percent of the stock subscribed to (Law 30.(1)(a)). This is a primary provision from the standpoint of the capital market, because it relaxes the limits of one's ability to pay, and one need not lower prices. This same effect, however, reinforces the absolute rule of both the old/new managers and of daring outside investors, because there is an opportunity to select these lucky persons on the basis of unclear terms, as long as money and the strength of capital do not matter to additional future owners. All this clearly enhances the further, anticompetitive reinforcement of today's monopolies, or supports the creation of new monopolies as a result of evolving cross-ownership contrary to market principles.

10. All in all then, the problem is that in all cases enterprise managers appointed those days on the basis of bureaucratic selection criteria have essentially unlimited control over state property embodied in enterprises. These enterprise managers did not prove themselves to outside investors who risk their capital, and were not appointed by these owners. This situation is not alleviated by existing rules of guarantee which assign authority to a state trust—one that does not exist for the time being. All I'm saying is that under the Law, any transformation may be ruled out without the concurrence, or perhaps contrary to the will of enterprise managers. On the other hand, the interest of enterprise managers may be served, or their agreement may be secured, only by providing advantages which actually and permanently realize proprietary reform in their favor, behind society's back. At the same time the loss and devaluation of state property may be avoided only in exceptional cases.

I will not search for legislative intent. I merely wish to point out that an economic and sociological analysis

even of the final version of the Law proves that the Law is irrational and non-functional at best. On the other hand, we will soon discover that the trouble is even greater: The reform that runs against the grain of the market, and which places old managers into ownership positions, can also be accomplished without the application of the Law. I will describe this in the next issue of FIGYELO in an article written jointly with Istvan Tompe.

Auth on 'Stalemate'

25000473 Budapest FIGYELO in Hungarian
21 Sep 89 p 7

[Interview with Deputy Industry Minister Henrik Auth, by Arpad Hajnocy: "Privatization Stalemate?"; date and place not given]

[Text] It seems that centralized endeavors to accomplish privatization have run aground. This is because as a result of developments that have taken place during the past 2 decades the state simply has no power to interfere in a number of matters. In other words, in order to privatize we would first have to renationalize the state property. What can the Ministry of Industry do in this matter? Deputy minister Henrik Auth replied to our questions.

[FIGYELO] In regard to privatization we hear many cautionary statements according to which sooner or later we will run out of state property, moreover, we will do so at prices below market values or without receiving compensation. Those who raise these cautions include the government commissioner charged with this matter, as could be seen in our last week's issue. Did these processes indeed slip out of the state administration's hands?

[Auth] At present we are witnessing a spontaneous privatization process—in its infancy, for the time being. It does not take long for enterprises to discover the possibility of privatizing independent from the state's will, in a manner uncontrollable by the state, but in compliance with the law. Thus, state property melts away in a way that it has never before disappeared anywhere in the world. The state does not accomplish privatization, because it cannot do so in the place of autonomous enterprise councils.

In order to find a way out, we must pin down the most important factors that determine the present situation. In my view the fundamental issue is that the state as an owner is extremely weak, it fails to exercise its basic ownership rights not only in regard to collectively managed enterprises, but also with respect to enterprises managed by the state administration. In turn, at least until now, the state indemnified itself by mixing its roles as an owner and as a public authority both "philosophically" and in reality in the framework of a constantly changing tax system. The baby gets lost among the many midwives; not a penny of revenues has accrued to the state as a result of privatization.

[FIGYELO] Do you have in mind privatization like those of the Ganz Engine Manufacturing Factory, the State Paper Cooperative Enterprise [APISZ], or the Ganz Electric Meter Works?

[Auth] The banks are already the owners in the case of Ganz Engine, Inc.—a sales agreement has been consummated with a British firm. I regard the Ganz Electric Meter case as the reverse example, because at the time of sale we gave far reaching consideration to the state's interests. Aside from specific examples involving enterprises, we are facing a situation in which an enterprise with minimum capital establishes a limited liability corporation under foreign majority control. And the remaining share of assets belongs to the enterprise council. But the assets owned by the enterprise council are property only on paper. They do not permit that share of property to reach a level higher than 50 percent due to fear of forced transformation. Therefore they lease part of the assets. The meaning of this possibility to any enterprise manager operating with an enterprise council is that he may become the absolute owner. Except that in this way the state will not derive any revenues, and the managers become owners of securities.

Accordingly, an ownership structure evolved in which basic ownership rights were transferred to managers. With that, the strength of enterprise managers increased significantly, because they are largely independent from both the legislative and the executive power. At the same time their ownership position is unstable. To use a fashionable term, the legitimacy of their position is uncertain, and I believe that because of their earlier linkage to the political structure this issue will sooner or later come to the forefront of the political struggle.

[FIGYELO] But is it really possible to sell property? Is there foreign demand?

[Auth] Experience thus far has shown that one can always find an interested foreigner. What raises concern is that this process cannot be controlled, there is no opportunity under law by which we can observe what kinds of business transactions are being consummated. The other concern is that since property appraisal is on uncertain foundations in Hungary, it could occur that an enterprise would show a high rate of profitability as compared to its book value. In this way, due to the absence of market mechanisms, they may sell the property at a price lower than the actual value of the property.

[FIGYELO] This is also true in the reverse. For example, I am not shortchanged of 1,300 forints if I say that the book value of my jacket is 1,500 forints, but I can sell it only for 200 forints. Or would I be shortchanged?

[Auth] That's not quite the issue. Within the Hungarian economy there is an incidental, ad hoc capital market. An interested person appears and makes an offer. Another one comes; he offers more but he is looking for the state as the owner. But the enterprise council which disposes over the property is not interested in that business. Part of enterprise management has fallen into a

bankruptcy situation. It can extricate itself from that situation only by establishing a new status for itself. And when a foreigner buys something below its realistic price he can easily offer a 50-percent or higher salary increase. In given situations we were told that the workers would strike if the ministry took appropriate action.

[FIGYELO] Are there specific examples for this kind of privatization?

[Auth] There are no signed contracts, but some enterprises are considering entering into contracts.

[FIGYELO] All this convinces me only of the fact that it is unfavorable from the state's viewpoint not to obtain revenues. On the other hand, if the number of enterprises under foreign majority control multiplies—as is not characteristic for the time being—the workers will receive more wages, but production will increase and efficiency will improve, then tax revenues will also increase. Wouldn't you say that this would have a beneficial effect on the economy as a whole?

[Auth] A totally indebted state cannot permit itself not to have a sales transaction supportive of a change in ownership. The state's financial opportunities will further deteriorate if it does not collect revenues. It is yet another matter that such revenues must not be spent on financing the budgetary deficit. Income derived through privatization must be plowed back into the economy, either in the form of reduced taxes or as a segregated investment fund. The financial system disintegrates unless the state's indebtedness is backed by property. For this reason privatization must take place in the name of the state, by observing the interests of the state.

I will not argue the fact that the Hungarian economy cannot stabilize itself without the influx of foreign capital. But I will question to the end whether decentralized privatization is useful. In any event, this should serve as a warning. Compared to privatization processes that took place in the more modern part of the world, our situation is unprecedented. The state is passive while its own property is being privatized; the state is unable to control the privatization process; frequently the state does not have even the information needed to act, and simply put, the state does not acquire an income. From this standpoint the much debated and much criticized Law on Transformation is indifferent, because in its essence the Law is a hollow framework, and no transformation has taken place pursuant to the Law. I can say with certainty that except for a few extreme cases, there will not be an example for such transformation at all. That is, it is clear that the enterprise, or more accurately the enterprise management, will not risk the already acquired ownership rights by transforming on a "one-to-one" basis. In the course of such transformation an enterprise would expose itself to being renationalized unless it finds an appropriate partner to buy its stock or business shares. Under such circumstances the stock or business shares would transfer to the presently non-existent state trust fund or state trustee.

[FIGYELO] Would the Trust Fund, whose functions and operations have not yet been clarified, be able to enforce state interests?

[Auth] A more or less clear concept has evolved in regard to the Trust Fund, except for the fact that in the present situation the concept is unacceptable to everyone. A majority of the participants at the expert negotiations of the trilateral political forum believe that this is a pivotal law which must be adopted by the next Parliament. But even by moderate estimates a year and a half or two years may pass before this takes place, while the processes do not stop.

This is a situation in which injuries on all sides may be presumed to exist, from the state on down to the narrower groups. There is only a single legal formula to remedy these injuries, and that is to let Parliament negotiate the case of each individual enterprise. But this is a nightmare; one cannot do business this way. The fundamental question to be decided is whether spontaneous, decentralized privatization could or should continue, or if a different direction must be charted for purposes of proprietary reform. The issue is not whether there should be proprietary reform. That is going on already, and it cannot really be stopped. Several signs indicate that the spontaneous processes should be slowed down and stopped because society does not tolerate them.

[FIGYELO] Did all the so-called listed privatization endeavors of the Ministry of Industry fall through?

[Auth] The list of enterprises for sale was a total misunderstanding. I don't believe anyone in the ministry seriously believed that these enterprises could be sold. Aside from that, it is not the job of the government administration to strike business deals, and we were aware of the fact that we could not do so because of the administrative procedure now in force. Actually this list amounted to no more than an offer.

As a result of purposeful misunderstandings and enterprise reactions it became clear that enterprise management could lose within minutes its quasi-proprietary position it had acquired in the course of 2 decades. Today there is no state property in the real sense of that term, and privatization can be accomplished only if we nationalize first. In other words, we would have to take back the ownership rights granted to enterprise councils and delegate meetings, because without doing so an absolute stalemate would evolve.

[FIGYELO] But doing so would be an extremely troublesome and sensitive matter. And not only because the conditions do not exist on the part of the state....

[Auth] In terms of a condition the Trust Fund is indeed only a concept. In regard to issues pertaining to ownership one must proceed with the greatest possible circumspection, slowly and gradually. In Hungary there is only a minimum of liquid capital in the economy, and one should be cautious with foreign capital because thus far

every country has had a strategic goal as to the volume of foreign capital it would like to attract, and as to the areas to which it wants to attract such capital.

For example, a significant amount of Austrian capital has appeared in the building materials industry. This obviously relates to expectations regarding the world's fair. Great demand can be expected for these capacities, and the state set the limit so that this field of industry does not turn into a monopolistic market, because building industry competition is regionally based. The state must think not only in terms of revenues. Strategy and industrial policy are also essential. On the other hand, the conditions by which the state could direct these processes do not exist.

[FIGYELO] Is there a possibility that the state will resolve this stalemate?

[Auth] Certain paragraphs of the Law on Business Organizations should be revoked, because they contain conceptual mistakes, in my view. In order for us to know what is going on we should develop a monitoring service. This could amount to the provision of statistical data; let the enterprises report changes in levels of assets, summarized for the previous 3 or 4 years.

There would also be a need for a law on privatization. Its essence should be that only the state can privatize, and consequently the ownership rights from presently autonomous bodies should be taken back.

[FIGYELO] A measure like this could produce side effects which may arrest a number of positive processes.

[Auth] Yes, and it would be a mistake to impede honorable and sensible business deals. I agree with you, a privatization law could set back all of these transactions, and could even bring these transactions to a halt. On the other hand the emergence of new owners on an ad hoc basis is no solution either. I feel that a clever move, through which the present enterprise management appoints itself owner, provides an uncertain proprietary status.

[FIGYELO] Who should be the owner in the end?

[Auth] In terms of a rough simplification I see two characteristically different opinions. One view places the emphasis—although not exclusively—on some kind of communal property (autonomous local communities, foundations), while the other points to private and foreign ownership. Quite naturally, these are not mutually exclusive alternatives, but the proportions decide the fundamental issues. If communal ownership dominates, one should be concerned that we are once again experimenting not with an organic, but with an artificial method unknown to the world. Another possible alternative to proprietary reform would be the gradual increase of private capital. A 20th Century European society must not repeat the original accumulation of capital. This is why the emphasis must be placed on foreign capital, while one must clearly understand that

the appearance of foreign capital in large volumes is conceivable only if we clarify our proprietary conditions and surrender the concept of self-ownership by the enterprises.

[FIGYELO] On the basis of all this, would it be just an illusion to transfer smaller industrial enterprises and parts of enterprises to private hands? More than one branch of industry has low capital intensity, and production is taking place at a low efficiency ratio within inflexible, overly centralized enterprises.

[Auth] This could and should be accomplished. Unfortunately, however, the legal framework needed to accomplish this is missing. Within the structure of laws, not one step but an entire floor is missing.

[FIGYELO] What could the Ministry of Industry do in this situation?

[Auth] It could do nothing with regard to enterprises under autonomous management. In these enterprises one can see completely different, and on occasion confused processes. Enterprises under state administrative direction could be transformed by the ministry into corporations. And because proprietary rights are exercised by the ministry prior to the effective date of the law on state trust management, it would have the authority to sell those enterprises, to pass them on, even to foreigners.

In other words, the ministry could do two specific things. The largest organizations, the trusts—the National Oil and Gas Industry Trust [OKGT], the Hungarian Aluminum Industry Trust [MAT], and the Hungarian Electric Works Trust [MVMET]—are suitable for a more modern type of state ownership. For example, I could imagine that building from the basis of trust enterprises, the OKGT let's say, would change into a financial group. This would constitute privatization only in part, because these trusts are too large for the liquid capital available in Hungary.

The other matter pertains to the question of what could be done with enterprises under state administrative supervision, but which are within the competitive sphere. Actual privatization could be accomplished with regard to some of these. I would like to emphasize that property is a matter to be handled carefully. For this reason the state's ownership rights should be activated only in cases of enterprises which can be sold and transferred to new owners instantly, or within a short period of time. Otherwise state interference will have a disorganizing, bureaucratic effect that will result in reversals.

POLAND

CEMA Blamed for Inadequate Energy Policy

90EP0064A Poznan WPROST in Polish
No 38, 17 Sep 89 pp 4-6

[Interview with Stanislaw Albinowski, economic journalist, former adviser to Minister of Industry Mieczyslaw Wilczek, by Janusz Michalak: "The Hothouse Effect"; date and place not given]

[Text] [WPROST] You are, along with Janusz Goscinski and Stefan Bratkowski, the coauthor of a memorial published in TYGODNIK POWSZECHNY in which you demand amortizing a part of Poland's foreign debt because of, among other things, our contributions to the struggle against Hitlerite Germany. You moreover divide that debt into the debt "borrowed in the interest of society" and the debt "borrowed contrary to those interests, as it were"; and you claim that we should not repay the latter. Why is it precisely at present that you are making this demand which anyhow is pure fantasy from the standpoint of the attitude so far of the creditor countries?

[Albinowski] We are not referring to any "Polish contributions" but simply to facts. If the Lithuanians, Latvians, or Estonians can claim nowadays that the Ribbentrop-Molotov Pact should be declared invalid, because as a result their countries lost their sovereignty, when why should not we also refer to certain facts whose coauthors were the Western powers? After all, as a result of these facts, Europe was divided and Poland placed within the USSR's sphere of influence. From this fundamental fact ensue all the consequences, including the economic ones too. Placing us in that spot has totally determined our economic ties and share in the world economy.

[WPROST] But you cannot say that Gierek had been forced to apply for the loans which ruined our country, can you?

[Albinowski] Just as no one doubts at all that the Gierek administration had not been forced to borrow such and such amounts of funds for such and such purposes, so it also is an incontrovertible fact that borrowing these funds had been largely influenced by the interests of not Poland but CEMA.

[WPROST] What would happen if every country would, decades later, begin to reappraise the effects of foreign economic cooperation and, in addition, interpret it in terms of whether it is or is not "contrary" to national interest?

[Albinowski] Forty-five years is not such a huge lag. But our argument is political rather than formal or purely moral in nature. After all, we are making this proposal in a particular situation in which Western governments are welcoming, as they declare, the process of democratization taking place in our country.

[WPROST] You want to provide the West with an "occasion" for helping us?

[Albinowski] No. All we want is that the Western governments be consistent. After all, it should be borne in mind that granting Poland such huge loans in the 1970's had been at the time very good business for the lenders, too. In this way, for example, we had saved the Berliet Company from an otherwise inevitable bankruptcy. I could cite many more such instances.

[WPROST] You postulate renegotiating that part of our indebtedness which had served to finance investment projects built for the needs of the USSR. It sounds as if you want thus to shift to that country the burden of paying a part of our debt.

[Albinowski] That is so indeed: in order to implement investment projects on USSR territory, we had to meet the technological requirements imposed by the Soviet side—we had to import facilities for dollars. And not only that. In Poland too a number of investment projects operating in the evident interest of the USSR was built. Who needed the Katowice Steelworks more? Poland or the Soviet Union? Even so, it was not enough to build that steelworks; afterward a giant trunk railroad line had to be laid in order to carry hither and thither materials and products, and this required allocating huge construction resources needed elsewhere, etc. I claim that building the Katowice Steelworks not only cost us immense amounts in dollars but also markedly contributed to disorganizing our entire economy. This also applies to the building of shipyards in Poland. The ships which we built and which, after all, we exported chiefly to the Soviet market, required importing equipment from the West for which we paid in dollars, whereas from the USSR we received only rubles, and at an unequal exchange rate at that. I do not know whether at that time Poland could adopt a "straight posture" toward her Soviet partner, but I know that transactions of this kind should simply be the subject of objective economic negotiations.

[WPROST] Until 1956 the USSR used to remove from Poland, that is, from the territories annexed to Poland, on grounds of reparations due from Germany, huge quantities of various goods, chiefly coal. However, Gomulka challenged this and succeeded.

[Albinowski] Yes, but let's emphasize that he succeeded only as late as in 1956. But I wish to declare at the outset that I do not support arguments demonstrating how greatly unfavorable to us are our economic relations with the USSR. For example, recently Senator Dietl declared that our exports of coal to the socialist countries are highly disadvantageous. I think that in the balance they are not. Consider, after all, the low prices at which we import crude petroleum, natural gas, and other raw materials from these countries. But since it is now being openly said that entire domains of international relations require renegotiating, I believe that our economic relations with the USSR and other CEMA countries also

require this. On the other hand, I am quite far from claiming that these relations are disadvantageous to us. On the contrary, I believe that the previous Polish governments simply failed to exploit the tremendous latent potential for cooperating with such an economically attractive partner. The Soviet market is a gold mine which can bring immense advantages to all partners.

[WPROST] Why is it that so far we failed to avail ourselves of these opportunities?

[Albinowski] Because we were oriented toward easy opportunities for exporting to the USSR; because we simply were not forced to raise the technological level of our products.

[WPROST] Recently the press has been promoting the idea that the need to implement longterm agreements with the USSR and CEMA is an obstacle to restructuring our industry. In your opinion, are our obligations to the socialist countries an opportunity or a misfortune to our economy?

[Albinowski] Good question! So far they have been mere ballast and "collective brake." I recall the years 1970-71 when I used to be a TRYBUNA LUDU correspondent in the FRG; just then a proposal for concluding an advantageous trade agreement between Poland and the EEC had been made, but the other CEMA countries opposed it. In other respects, too, our membership in CEMA has been a brake, an obstacle, to us. Above all, CEMA has created hothouse conditions for its members—conditions that simply did not impel them in the direction of competition. Until the late 1960's our technological gap versus the West had not been that wide. It was only after the "oil shock" of 1973-74, and especially in 1978-79, that the Western countries had been compelled to make a tremendous technological leap forward whereas we stayed put, because within CEMA crude oil was much cheaper than on international markets. As a result, not only is our industry highly energy-intensive but also we lack the technologies which as a side effect, as it were, reduce that energy intensiveness owing to quality manufacturing, low materials-intensiveness, computerization, etc.

[WPROST] You have written the book "Pulapka energetyczna gospodarki polskiej" [The Energy Trap of the Polish Economy], in which you state that of the 170 adjusted metric tons of fuel consumed annually in Poland at least 100 million are wasted.

[Albinowski] This cannot be put like that. In my book I consistently use the expression "excess consumption"—waste is only part of it. The state to which I compare that excess consumption is neither ideal nor optimal but merely the state that could exist had our economy functioned normally. In such an economy there would be, for example, no large-panel construction, and no one would have conceived either the idea of building within Warsaw itself a steel plant to which all materials would

have to be transported from outside the city and from which all products would have to be transported outside, too.

[WPROST] In your book you offer many simply shocking conclusions. For example, you calculated that the modernization of industrial power grids alone would yield energy savings equal to the anticipated power to be generated by the Zarnowiec Nuclear Power Plant, and that they would be of equal value in monetary terms. Or you argue, with the aid of specific figures, that it would cost less than half as much to transport coal to a power plant sited within some industrial agglomeration than to ship it "into Poland" from a couple of large facilities located, as customary, in the south of Poland. Another recommendation you make concerns high-octane gasoline: if we would not save on the raw materials for its production, we would consume 11 to 20 percent less of that gasoline. But the principal conclusion discerned from reading your book is that adherence to the traditional energy option results in that, according to your calculations, each year we throw billions of dollars (!) out of the window.

[Albinowski] I did not make up all these facts which you cited from my book. They were verified by experts in the concerned domains. To avoid any suspicion, I provided several source footnotes on nearly every page of my book. For at least the last few years various experts have been claiming that the energy-intensiveness of our GNP is higher by a factor of 2.5 to 3 than in West Europe. For years, too, these statements have been disregarded. When I began my calculations and derived that figure of 100 metric million tons in excess consumption, I clutched my brow. But later I recalled that 2.5 index and realized that if we had a normal economy like in the West then its energy intensiveness would decrease by just that much.

[WPROST] How did the experts react to your book?

[Albinowski] What is most amusing is that the same facts which I gathered in my book had not been questioned when previously they were reported in isolation. It was only when they were pieced together that the power experts became outraged.

[WPROST] Still, last January you were appointed advisor to Minister Wilczek.

[Albinowski] Yes, after reading the book, the minister telephoned me and said that, since I can write so convincingly about what should be done, I have the opportunity to put it into practice. Although I had never before worked for the government, I could not refuse. So I pieced together a special technical team and began to act. At the outset, I concluded that we can dispense with nuclear power plants until at least the end of this century. This met with a negative response from the energy community, because, for very many reasons, they are interested in investments of this type. Then I showed them an expertise authored by the Energy and Brown Coal Community which concluded unambiguously that

if we would obtain better coal, we could save 1,500 MW of electrical power without any additional investments whatsoever—that is as much as the Zarnowiec Nuclear Power Plant would generate.

[WPROST] What did you accomplish during your 7 months as an advisor to Minister Wilczek?

[Albinowski] I drafted an outline of a concept of energy policy which was discussed at a session of heads of the ministry. It was a veritable shock to many of them. For all the previous forecasts of the coming decade had assumed allocating from 3.5 to more than 6 billion zlotys—in 1984 prices which nowadays have to be multiplied by at least 4—on investments in the fuel-energy complex. In contrast, the macroeconomic model I had prepared indicated that we can allocate for this purpose only 2.3 billion zlotys, if the current growth rate of the GNP persists, which is highly doubtful. Following my presentation I was accused of wanting simply to sentence the energy industry to die. I replied that I would like myself to build continually new power plants if I only had the money for that. But there simply is not and will not be any money for that. Where then should subsidies be cut? Wherever the investments are the least effective. Since generating one megawatt of power in a nuclear power plants costs thrice as much as in a coal-burning power plant, the conclusion begs itself. Thereupon no one accused me any more of talking nonsense. They merely began to "voice apprehensions that the economy would come to a standstill owing to an energy shortage." I answered that our main problem is not a shortage of energy but its excess consumption. My adversaries agreed with this, too, except that they stated that measures to markedly reduce the energy demand have never yet produced substantial effects in this country. They have not, because they could not, I answered. Since hundreds of billions of zlotys are being expended just on laying the foundations for the Zarnowiec Nuclear Power Plant, there are obviously no funds left for energy-conservation measures. For example, in addition to the Zarnowiec Plant, the Opole coal-burning power plant is being built, and horrendous delays occur at both these construction sites. So I said, "Gentlemen, let us shut down the Zarnowiec project and shift the thus freed resources onto building the Opole project. Every month that the construction of Zarnowiec continues is causing simply unimaginable economic losses." That meeting at the ministry resulted in the recommendation, issued a week later by Deputy Minister Miedziarek, for drafting a new forecast based on the assumption that energy investments would be reduced to a total of 2.3 billion zlotys. Of course, this still does not mean a definite turnabout; only a small step has been made, but this entire polemic is perhaps the best proof that, in our case, the most formidable barriers are those of mentality.

[WPROST] Do you also have a prescription for the recovery of our economy as a whole?

[Albinowski] Of course, there are not and cannot be any ready-made prescription, a miracle one or not. What

matters most is rationalizing the economy. I am greatly worried because in speeches at the forum of the Sejm and the Senate as well as in the media so far the greatest importance has been attached to spectacular measures concerning the regulatory aspects of the economy. Of course, the greatest economic and social danger is the inflation, which, given its current intensity, is bound to disorganize the entire economy and undermine the motivation for productive work. I am not even mentioning the social consequences of the galloping inflation, because we all are experiencing them on our own skin. Nevertheless, it must be stressed that the taproots of the inflation lie in the real economy. A particular burden is the excessively materials- and energy-intensive enterprises, especially those of the so-called heavy industry. Of course, the current price deformations are so huge that practically any verdict of bankruptcy of an enterprise is nowadays questionable; all that can be done is to indicate the areas in which adopting sensible decisions is possible at present. One such area is, for example, the iron and steel industry: we should simply shut down as soon as possible the majority of open-hearth furnaces. Of course, we will then produce much less crude steel, but it will be better processed and, in effect, the decline in the output of commercial, refined steel does not have to be as large as the decline in crude steel output. The same thing applies to cement plants.

[WPROST] It is easy to advocate "shutdowns." But the trick is to produce everything that this country needs.

[Albinowski] That is not the point. For example, in Poland we have 12 cement plants. They all operate at three-fourths capacity, owing to the energy shortage. In such a situation I say: shut down the most energy-intensive cement plants and provide the thus conserved energy to those which can utilize it more efficiently. Simple? The economy can certainly only benefit. We should reassess in a similar manner the effectiveness of other industrial subsectors.

[WPROST] But what about the personnel of those shutdown plants?

[Albinowski] Precisely, here is the rub. I have been advocating a related idea for 8 years and everyone likes it in theory. However, the previous governments lacked the courage to take unpopular decisions. It is necessary for the new government to tackle the recovery of the Polish economy in a comprehensive and effective manner. I feel certain that the entire public, including also the people employed so far at inefficient enterprises, can only benefit from it, although of course this will demand of them considerable effort at adapting themselves to the new working conditions.

New Decree on Foreign Exchange Viewed

90EP0066B Warsaw RYNKI ZAGRANICZNE in Polish
No 96, 12 Aug 89 p 8

[Article by Jerzy Szydłowski: "New Approaches to Foreign Exchange Legislation" under the rubric "Polish Foreign Trade"]

[Text] The decree of 15 February 1989 (Foreign Exchange Law, DZ.U. [DZIENNIK USTAW], No 6, Item 33) introduces substantive changes—compared with the Decree of 22 November 1985, Foreign Exchange Law (DZ.U., No 63, Item 288). The legal construct of the Decree of 15 February 1989 is based on the principle that foreign exchange transactions can be freely performed, apart from the restrictions specified in the provisions of this decree.

The decree settles anew the problem of the obligation to sell to foreign exchange banks part of foreign-exchange earnings and introduces new solutions concerning foreign-exchange negotiations, outlets for sale and purchase of foreign exchange, and changes in agency competencies. The solutions adopted in the decree are to bring our country closer to zloty convertibility. In this article we discuss only the decree's provisions applying largely to foreign trade.

Foreign Exchange Transactions

Pursuant to the decree, a foreign exchange transaction is defined as the conclusion of an agreement and the performance of other legal activities resulting or intended to result in payment in foreign exchange or transfer of liabilities or obligations in foreign exchange, and also the importation or exportation of foreign exchange and the execution of international bank letters of credit or postal money orders.

Foreign exchange (defined in Article 2, Point 3 of the decree) may be owned by Polish residents in this country and abroad as well as by foreigners in this country. Polish residents and foreigners (individuals and legal entities) may freely perform foreign exchange transactions upon adhering to the related restrictions specified in the provisions.

Polish residents are obligated to bring into this country the foreign exchange they own abroad, not later than within 2 months from the date they gain possession of it. If a Polish resident obtains foreign exchange while sojourning abroad, he/she is obligated to bring it into this country within 2 months from the date of his/her return here. Exemptions from this obligation require a foreign-exchange permit.

The following activities associated with foreign exchange transactions require a foreign exchange permit:

1) Exportation of foreign exchange as well as its transfer abroad by means of a postal money order or a bank letter of credit, with the exception of:

- a) exportation of foreign currencies by Polish residents up to the limit defined by the minister of finance in the general foreign exchange permit (at present, US\$500.00);
- b) exportation by foreigners of the foreign currencies they had brought into this country, up to the amount remaining after deducting the amount of foreign exchange subject to obligatory exchange into Polish currency;
- c) transfer abroad by enterprises of foreign exchange for the purpose of acquiring the goods and services relating to their operations;

2) Importation of Polish currency, with the exception of the currency previously exported under a foreign exchange permit;

3) Foreign exchange transactions between Polish residents and foreigners in this country, with the exception of:

- a) acceptance by Polish residents and Polish legal entities of donations in foreign exchange from foreigners and foreign legal entities;
- b) bequeathing of foreign exchange in wills;
- c) foreign trade in goods and services by Polish entities;

4) Granting loans and borrowing by Polish residents in foreign exchange transactions abroad;

5) Acquisition of foreign exchange with the object of its resale at a profit;

6) Disbursement, by legal entities, of foreign exchange earned from their economic operations, on purposes not related to these operations;

7) Payments in foreign exchange for goods, services, and labor, in transactions between Polish residents in this country;

8) Establishment of an account in a foreign bank by Polish residents in this country.

Polish residents are obligated to make payments abroad, and to receive foreign payments, in foreign exchange through the mediation of Polish foreign exchange banks. Exemptions from this obligation require a foreign exchange permit (Article 13).

In foreign exchange transactions and clearings the rates of exchange in zlotys fixed by the National Bank of Poland are applicable, with the exception of auctions and sales of foreign exchange between economic entities;

this also applies to other activities connected with such transactions whose exercise does not require a foreign exchange permit.

The Duty of Reselling to Foreign Exchange Banks Part of Foreign Exchange Earnings

Article 6 of the decree provides that economic entities are obligated to sell to foreign exchange banks part of the foreign exchange earnings from their operations. Accordingly the Council of Ministers determined, in the Appendix to its Ordinance of 14 March 1989 Concerning the Resale of Part of the Foreign Exchange Earnings from the Operations of Economic Entities (DZ.U., No 15, Item 80), the percentile proportions of obligatory resale at from 50 to 90 percent depending on the commodity group. The basis for figuring the amount of resale was taken as:

- 1) earnings from exports of goods minus the expenditures in foreign exchange on financing the costs of transportation, forwarding, insurance, and fees of foreign agents;
- 2) amount due to the economic entity for implementing a service-exporting contract;
- 3) surplus of earnings from re-export, stock-market, and other foreign trade transactions of a conjunctural nature, over expenditures on foreign exchange;
- 4) all income from other sources.

In the event that a foreign exchange loan is obtained from a foreign exchange bank for financing current export activities, the repayment of the loan principal and other related obligations are deducted from the basis referred to in Points 1)-4). This is advantageous to borrowers.

During the period covered by the repayment of foreign-exchange loans borrowed to finance the pro-export operations defined in the Ordinance of 30 June 1989 of the Minister of Foreign Economic Cooperation Concerning the Nature of Pro-Export Operations, the entities engaging in these operations are exempted from the duty of reselling their foreign exchange earnings from any increase in exports due to these operations. The resale of part of foreign exchange revenues should be performed within 14 days from the date the economic entity receives a notice that foreign exchange has been credited to it. In the case of exports of services the resale period is determined in agreements concluded between foreign exchange banks and the entities, provided that it does not exceed 30 days from the date the final invoice is submitted.

The economic entity to which foreign exchange has been credited determines the amount subject to resale and instructs the foreign exchange bank accordingly. Advance sales of foreign exchange should be made not later than on the date the goods are delivered or services performed or the last payment for the implementation of a contract is received. Foreign exchange banks are obligated to transmit the thus received foreign exchange to

the Bank of Commerce in Warsaw, Inc, for processing as part of the international clearing of accounts.

The above regulations were extended in 1989 to cover the foreign-trade earnings of economic entities in accounting units. Earnings in transfer rubles derived from exports covered by government agreements are subject to resale in toto.

The following kinds of foreign exchange are not subject to resale to foreign exchange banks:

- 1) foreign exchange purchased at auctions for zlotys or otherwise acquired in this country from Polish residents and foreigners in return for Polish currency;
- 2) foreign exchange obtained in the form of a loan;
- 3) foreign exchange derived from exports of goods and services reckoned in the national currencies of the countries of the Council for Mutual Economic Assistance, and in transfer rubles, unless such exports are covered by government agreements;
- 4) foreign exchange transactions linking exports to imports and implemented on terms defined by the minister of foreign economic cooperation.

Pursuant to Article 24 of the Decree of 6 July 1982 Concerning the Rules for the Conduct of Economic Activities Relating to Petty Industry by Foreign Economic Entities and Individuals on Polish Territory (uniform text, DZ.U., No 27, Item 548, 1989), enterprises termed "foreign economic entities" will resell to Polish foreign exchange banks 30 percent of their export revenues in foreign exchange.

And pursuant to Article 19 of the Decree of 23 December 1988 on Economic Activities with the Participation of Foreign Entities [Joint Ventures] (Dz. U., No 41, Item 325) such ventures shall resell to Polish foreign exchange banks 15 percent of their export earnings in foreign exchange. This obligation does not apply to earnings from the sales of the means of production owned by the joint venture, when such means are replaced with their more up-to-date counterparts. In economically warranted cases, the chairman of the Agency for Foreign Investments may specify a lower resale proportion in the permit to establish a joint venture.

Foreign Exchange Auctions and Sale-Purchase Outlets

Article 9 of the decree provides that foreign exchange banks are authorized, upon receiving foreign exchange permits from the chairman of the National Bank of Poland, to organize auctions at which economic entities may sell or purchase foreign currencies in order to meet their obligations in these currencies. The general rules for conducting foreign exchange auctions were defined in the Ordinance of 4 May 1989 of the ministers of finance and foreign economic cooperation and the chairman of the National Bank of Poland (M.P. [MONITOR POLSKI], No 15, Item 112).

The rules for conducting foreign exchange auctions are defined by the banks having permits for such auctions. The purchase of foreign exchange at these auctions by the economic entities operating on the basis of the Decree of 6 July 1982 on the Rules of the Conduct of Economic Activities Relating to Petty Industry by Foreign Legal Entities and Individuals on Polish Territory (DZ.U., No 27, Item 548, 1989) and the Decree of 23 December 1988 on Economic Activity with the Participation of Foreign Entities (DZ.U., No 41, Item 325) requires a foreign exchange permit.

Pursuant to Article 10 of the Foreign Exchange Decree, Polish residents may operate outlets for the purchase and sale of foreign exchange on the basis of foreign exchange permits from the National Bank of Poland. Persons operating such outlets may purchase foreign currencies from foreigners and Polish residents who are not economic entities and sell them to Polish residents who are not economic entities.

At auctions and at purchases and sales of foreign exchange, the prices agreed upon by the purchaser and the seller apply.

The provision prescribing the adherence to the exchange rates of foreign exchange set by the chairman of the National Bank of Poland does not apply to the sale of foreign exchange between economic entities as well as to other foreign exchange transactions whose performance does not require a foreign exchange permit.

Auctions as a new institution of the currently binding foreign exchange law have become a major inflation-spurring factor. [As published]

In addition the new Foreign Exchange Law revises the related competences, namely, the minister of foreign economic cooperation has been deprived of his powers relating to foreign trade and the services connected with that trade, even though foreign trade activities contribute about 95 percent of all foreign exchange revenues to the balance of payments.

Methodology of Privatizing Economy, Enterprise, Discussed

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[Article by Jan Macieja: "Privatization—How to Do It?"]

[Text] In normal living economies some organisms are constantly dying and others are being born, and that is how development takes place. In our economy, there are no such mechanisms for creating life. Prof Jan Macieja's article contains a proposal on how to set them in motion. He also talks about the prospects of privatizing the Polish economy.

The success of privatization requires not only the exercise of a great deal of judgment and the rejection of bias

on the part of the authorities, it also requires a lot of knowledge on methods and techniques of privatization and respect for the law.

First of all, we must make a distinction between privatization of the national economy and privatization of state enterprises.

Privatization of the economy means the creation of a private sector at a faster rate than the creation of a public sector.

The basic element in a market system is the mass formation of new enterprises, with equal rights for all sectors. In countries such as Italy, Great Britain, the FRG and France, hundreds of thousands of enterprises are formed each year, and in the United States, about 1.3 million.

By its popularity, this process acts innovatively on the life of the economy. It ensures an influx of new products and technologies, reduces production costs, inspires competition, and counteracts monopolization of the economy. Only large-scale formation of new enterprises can bring about the bankruptcy of enterprises which are not able to cope under the new management conditions. If new enterprises are not created, the market system cannot function at all.

Thus, marketization of our economy demands real support for the formation of small, mainly private enterprises. Changes in the rules of access to capital (developmental funds) and the creation of a network of institutions to finance the formation and development of new investment and leasing and consulting firms, are of basic importance.

Privatization of already existing enterprises which comprise the national assets is something entirely different. Privatization of state enterprises is a complex and long-term process. Let me remind all of those who think that this can be done quickly that the most spectacular privatization—in Great Britain under Mrs Thatcher's government—in 10 years brought about a drop in the share of state enterprises in aggregate production from 11.5 percent to 7.5 percent.

Privatization makes sense if it helps to improve management efficiency. However, it cannot be treated as an independent goal. The British experience has shown that the effectiveness and motivation of the actions of enterprises depend more on the nature of the environment

and the system by which the economy is regulated, than on the form of ownership. An enterprise conducts itself correctly (it introduces new products, improves old ones, reduces costs, invests) if it operates in a market environment. This "environment" improves thanks to gradual privatization, and even the threat of privatization alone.

In privatizing state enterprises, we should be guided by the following principles:

- it cannot be done by distributing state assets without getting payment for them, because this does not lead to improvement in efficiency (one does not take care of what one got for free), and it creates occasion for abuse;
- every privatization act must have an individual character. I propose full use of world experience, especially the British, together with use of the services of specialty firms. Also indispensable is the fastest possible preparation of skilled professionals. Money allotted to Poland by the British government could be used for this (we do not know how to manage it!);
- the greatest care must be taken to ensure that assets are priced correctly. For small enterprises, the best method is an auction system. However, we cannot expect that the market will fix the price of average-size assets, and especially large enterprises. The principles of price-fixing, accepted procedures and methods, and methods of choosing price-fixing experts, must be established by legislation. The formation of licensed firms which know how to prepare these professional reports, must be accelerated. The opinions of experts would constitute an indispensable prerequisite for decisionmaking in each individual case. All of these matters should be managed by a special government agency;
- the regulations governing the functioning of enterprises, and especially the settlement of the enterprises' accounts with the state treasury, should be so designed that the motive for privatization cannot be the possibility of circumventing tax laws. At present, this is a good way of not paying taxes, especially on wages;
- the establishing of effective social control (parliament, self-management) over reprivatization activities is indispensable;
- correct utilization of the assets of bankrupting enterprises should be the first concern.