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# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

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18 July 1984

## EAST EUROPE REPORT

### ECONOMIC AND INDUSTRIAL AFFAIRS

### CONTENTS

#### CZECHOSLOVAKIA

- Enterprises Warned on Unauthorized Price Changing  
(Jan Zervan; RUDE PRAVO, 14 Jun 84)..... 1

#### GERMAN DEMOCRATIC REPUBLIC

- EEC Influence Seen as Growing Threat to Socialist States  
(IWE WIRTSCHAFTSDIENST, No 20, 25 May 84)..... 7
- Agriculture's Role in Economic Strategy Discussed  
(EINHEIT, No 6, Jun 84)..... 8
- Managerial Aims Procedures, by Bruno Lietz  
Yield Improvement Techniques, by Peter Kundler  
Selected Statistics Tabulated, by Wolfgang Holan

#### HUNGARY

- Implementation of 1983 Budget Described  
(Antal Pongracz; FIGYELO, No 25, 21 Jun 84)..... 24
- Problem of Arsenic in Water Supply Discussed  
(Jozsef Gergely Interview; MAGYAR HIRLAP, 12 Jun 84)..... 29
- Enterprises, Authorities Try for Competitive Pricing  
(Katalin Bossanyi; NEPSZABADSAG, 14 Jun 84)..... 33
- New Proposals To Improve Agriculture  
(Imre Kovacs Interview; FIGYELO, 31 May 84)..... 37
- Relationship of Contract Stores, Unions  
(Ervin Tamas; NEPSZABADSAG, 29 May 84)..... 43

Aims of Economic Research in View of Plenum Stance (Robert Hoch; FIGYELO, No 25, 21 Jun 84).....	47
POLAND	
'NOT' Chief Says 'Antiengineer' Bias Curbs Auto Industry Growth (MOTORYZACJA, No 4, Apr 84).....	52
Minister Defends Demand-Side Thrust of Inflation Policies (Stanislaw Nieckarz Interview; ZYCIE GOSPODARCZE, No 26, 24 Jun 84).....	56
YUGOSLAVIA	
Successes, Shortcomings in Increasing Trade With Italy (Andrej Novak; DELO, 31 May 84).....	65
Serbian Lag in Regional Economic Development (Kosta Mihailovic; INTERVJU, 11, 25 May 84).....	71

ENTERPRISES WARNED ON UNAUTHORIZED PRICE CHANGING

Prague RUDE PRAVO in Slovak 14 Jun 84 p 3

/Article by Docent Eng Jan Zervan, CSc, chairman of the Slovak Price Control Office: "Nobody Has the Right To Earn Unjustified Profits"

/Text One of the negative phenomena that accompany our present economic development are the attempts of enterprises, V&H's /economic production units and even of some ministerial organs to use price management to meet plan targets through immaterial growth or hidden price increases and violation of price discipline. Phenomena of this type occur in industry, construction, agriculture, and also in the nonproductive sphere. They adversely affect not only the economy directly, but also the social consciousness of workers indirectly. The violation of technical-economic norms, noncompliance with the delivery terms previously agreed upon, sale and purchase at incorrectly determined prices, nonadherence to the prices in effect, charging for more work than actually done, speculative profits of one organization at the expense of another, all harm the consumer in trade and services. The acquisition and use of improperly earned funds are rather widespread phenomena. Most of these improprieties harmful to socialist society can be suppressed by various means and sanctions. In the first place, however, they must be detected. Not only the control organs, but also the managing organs must contribute to this.

Measures in the Area of Pricing

The measures in the area of price setting and price control also contribute to the struggle against the violation of socialist legality, morality and discipline, against profiteering. The intention is unequivocally clear: to induce, by the methodological management and coordination of work on the setting and application of prices, and by the price control measures, the organizations to use the delegated authority in price setting for the desirable development of the national economy and socialist society. For this reason also we began to look into the urgency and justification of price revisions and exemptions /from the price regulations. The results of this check have made it clear that it is necessary to amend and to update several of our previous rulings in accordance with changes in the internal and external conditions.

The measures of a preventive nature that restrict the possibilities of gaining funds in an easier way include revision in the methodology of price setting,

wider application of parametric methods or pricing and setting of price limits, as well as changes in the methodology of determining the price of research and development projects in order to stimulate researchers' interest in economical solutions to R&D problems. Likewise, the measure making exports more or less profitable at a particular time changes the financial-accounting relations in such a way as to increase the pressure for innovative activity and better quality and technical product standards.

The practice of enterprises in selecting methods or pricing (which should reflect the economically justified and socially indispensable cost in prices) makes it clear that some economic workers of enterprises and V&E's use shrewd tricks in their action. This demonstrates that it is necessary to insist more consistently on the application of mandatory methods or pricing and particularly on the observance of price standards. These price standards must be gradually updated in connection with the changes in the price of inputs. However, the mandatory methods of pricing must be gradually applied to other production sectors as well.

In the sectors of the economy supervised by the SSR Government uniform methods of price setting (specified by law) were applied to approximately 82 percent of the total volume of products manufactured in 1983. On the basis of the program calling for the improvement of pricing procedures, reliable methods will be introduced in another 51 production sectors by the end of 1985 so that the prices will be set with these methods for approximately 88 percent of the total volume of new products. Stricter state price control will thus cover a larger area and the barrier will be strengthened against the tendency of one organization to earn undeserved profit at the expense of another or at the expense of the consumer (customer). Moreover, we are revising and updating all calculation rates used in pricing so that the effect of the wholesale price revision on 1 January 1984 will not be reflected in the level of new prices of those production sectors and groups of products which have not been included in the 1984 price plan.

All these measures are closely related to the intensification of the struggle against the violation of socialist legality, morality and discipline in pricing. They also aim at securing the maximum possible objectivity in the level of prices of new products. Emphasis is laid on checking the observance of pricing principles and particularly on reviewing the proposed prices of products, services and work. The correctness of proposed prices is checked with special reference to the material, wage and overhead costs and planned profit. This should prevent the producers from acquiring undeserved financial resources. In 1983, for example, the Slovak Price Control Office had to reduce the proposed prices of new products of the woodworking industry by a total of Kcs 894,000, of textile and clothing products by Kcs 320,000, of products of leather, shoe and fancy goods industries by Kcs 878,000. The same is true of other production sectors. This is a signal that the erroneous thinking of some workers must be corrected already at this stage.

Special attention must be paid to the problem of prices of new fashionable items and luxury articles. The representatives particularly of engineering production sectors point out that the manufacturers of consumer goods have the possibility of earning legal profits without contributing to them by their own work. The

correction of this flow of financial resources and the elimination of certain shortcomings and of phenomena that curb initiative in our economy will be facilitated by the measure which establishes a stricter procedure for the evaluation of products' qualitative aspects in the system of state testing centers. The preferential pricing of fashionable articles for adults will be reduced from the present 50 percent to 25 percent of the base price. The preferential pricing will not apply to clothing and shoes for infants, for children of pre-school age and those in lower grades. The preferential prices of clothing and shoes for other age groups must not exceed 20 percent, and their share in the total shipments of the department or group of products must never exceed 10 percent. All instances exceeding this limit of preferential pricing will be subject to registration at the price control offices. This measure, which will provide less opportunity for earning undeserved or excessive profits, is planned to be put into effect on 1 January 1985.

### Intensification of Controls

We are trying to restrict the attainment of unlawful profits and the replenishment of economic incentive funds from such profits. In accordance with the adopted measures, controls will have to be carried out more thoroughly. In the spirit of Leninist principles we must emphasize the importance and authority of control. The letter of the Presidium of the CPCZ Central Committee and the resolutions of the CSS Government and of the national governments have created a favorable social and political climate for enforcing the observance of price regulations and for making price controls more effective.

The price control offices have at their disposal only limited personnel for these price controls. Also for this reason, the internal guidelines on the planning, recording and evaluation of price controls are appropriately supplemented by the agreements on cooperation with other organs, including the central agencies. We carry out price control according to a comprehensive plan which has been coordinated with the SSR Committee of People's Control as well as with all central organs of the SSR Government. In accordance with the intentions of the letter of the Presidium of the CPCZ Central Committee on the intensification of the struggle against the violation of socialist legality, morality and discipline, in the coordination of plans the price control concentrates on those areas in which the price regulations are violated more frequently. Other organs, particularly the national committees, are managed in the following manner: they receive control programs and procedures devised primarily for the area of work and services rendered to the population for payment. VhJ's and the ministries involved must carry out price control thoroughly and consistently.

The Slovak Price Control Office carried out and completed 246 checks last year, 78 of which were of a preventive nature and 170 of which followed the discovery of some irregularities. It was found in 142 instances that as the result of the violation of price regulations enterprises unlawfully obtained funds of a total value of Kcs 40.6 million. Following the checks the customers were reimbursed for Kcs 16.4 million, while the enterprises had to pay additional levies in the total amount of Kcs 41.8 million.

The effectiveness of preventive price control is evident, for example, in the fact that the budget costs of capital investment projects surveyed were reduced by Kcs 104 million, as well as in the above-mentioned reduction of proposed prices of new products or in the corrected prices on the suppliers' invoices.

Despite all measures, the development in some areas of the khozaschet sphere is not as we would wish it to be, particularly in the area of so-called individually calculated prices, but also in the area of capital investment and construction in general, in local industry and producer cooperatives. The reason for this should be seen not only in inconsistent management but also in inadequate exercise of duties and rights related to price control by the customers.

An analysis of the structure of violations of price regulations has revealed that the irregularities last year were mainly in the form of nonadherence to the prices in effect (27.7 percent) and violation of specified qualitative and delivery terms (24.7 percent). Such shortcomings were found mainly in the enterprises of the SSR Ministry of Construction, for example, in Prefmont Bratislava and Chemkostav Humenne, in the enterprises of the SSR Ministry of Industry, such as Martin Turcianske Pulp and Paper Mills, and in the enterprises managed by the national committees.

In comparison with 1982, there was an increase in the number of instances of incorrect pricing (from 12.6 to 17.4 percent). The foreign trade organizations and enterprises in the Federal Ministry of Electrotechnical Industry are largely to blame for this. It was found that despite the reduced volume of sale of products at the price not set by the appropriate organ (from 11.6 to 6.7 percent), the enterprises supervised by the SSR Ministry of Agriculture and Food, SSR Ministry of Industry and organizations controlled by the national committees sold such products in a total value of Kcs 90.6 million. Particularly flagrant irregularities were found in STS /Machine Tractor Station/ Stropkov and in the okres enterprise of community-run services at Spisska Nova Ves.

#### Responsibility of Management

It is apparent that not all managers--in the enterprises supervised by the federal or national governments or managed by the national committees--fully realize the social significance of correct pricing. Some workers do not sufficiently protect the socialist economy from socially harmful activity. They do not see in price discipline a means of economic consolidation and an educational instrument for affecting people's minds and actions. Such people were found, for example, at Hutne Stavby Kosice; they submitted a bill for landscaping and erection of a fence around the bus station in Bratislava, although the work was not yet completed when the invoice was sent. Likewise, Chemkostav Humenne demanded payment for rails on the prestressed sleepers in a yeast factory being constructed at Trebisov, although the rails had not yet been installed. Such shortcomings have been found also in other construction organizations. Irregularities were also discovered in the appraisal of joinery products for construction projects. For example, several organizations managed by the national committees did not use the price list in effect, but calculated the prices of products in an individual manner with the application of higher indirect cost and higher profit rate used in the carpenter workshops.

That the letter of the Presidium of the CPCZ Central Committee and set of measures enacted by the federal and national government--all of them designed to prevent unlawful financial gains--were justified has also been confirmed by the findings concerning the observance of price-setting principles, the use of price incentive measures as well as the adherence to specified qualitative and delivery terms in industrial enterprises. For example, price control in the enterprises of VĤJ Tatrasklo Trnava uncovered several recurrent shortcomings. This was again a case of inconsistent application of price regulations. For example, an enterprise of the Slovak Technical Glass Plants Bratislava, in calculating the prices of new products, overvalued material consumption as well as the indirect cost rates. Skloobal Nemsova likewise unjustly increased material costs. The Central Slovak Glass Works at Plltar did not adhere to the mandatory price standards. The inconsistent application of price regulations was also reflected in the enterprises supervised by the federal government. Some enterprises of the Federal Ministry of Transportation incorrectly applied surcharges and sold products at unspecified prices. Similar shortcomings were found in the enterprises of Plants for Engineering Machinery Prague. TOS /Machine Tool Factories/ Trencin, for example, were not granting a 15 percent discount from the wholesale of products included in the third quality grade.

We also verified the documentation for the price trend plan as of 1 January 1984. No fundamental shortcomings in the application of methodical guidelines were found in this area. However, some enterprises, Dusla Sala among them, incorrectly planned production assets and calculated depreciation allowances from capital assets. In VSZ /East Slovak Iron Works/ Kosice discrepancies were found in the level of processing cost, prices of heating oils and the amount of the distribution upcharge. In all organizations checked in which shortcomings were discovered, changes in the printed forms were made on the spot or the organization was instructed to correct the shortcomings before the price control office submitted its proposals.

The observance of price discipline and honesty in the retail stores were primarily checked by the national committees, State Trade Inspectorate and Slovak Union of Consumer Cooperatives. They acted within their jurisdiction in this area. In controlling the organizations the national committees discovered several and sometimes even frequently recurring shortcomings especially in work and services provided. The provisions of generally applicable price lists have been violated. The prices in effect and delivery terms were not adhered to. In some instances more work was charged on the invoice than actually performed. Accounting documents were frequently incomplete or incorrectly filled. It was found that the primary records were not properly kept, which made the control by the customers themselves as well as subsequent control rather difficult. For this reason measures were adopted to rectify the situation. In the area of services, however, more thorough control must be carried out both by the price control offices and management organs. The control exerted by the citizens themselves and their complaints are becoming increasingly important.

It Concerns the Entire Society

In conclusion, it unfortunately must be stated that more than half of the organizations controlled acquired funds unlawfully. There are still enterprises

that willfully violate the price regulations. Their number would definitely be smaller if the control by management and customers were carried out more systematically.

The price increases achieved by the violation of price regulations are from the society's point of view an extraordinarily harmful, wrongful way of increasing efficiency because it is of explicitly inflationary nature. Unauthorized price increases are reflected in the increased receipts of organizations. This not only affects their economic results, but also makes it easier for them to comply with the basic plan indicators such as adjusted value added, profit, and profitability, and subsequently makes it possible for them to increase wages payable unjustly.

Our experiences with state price control demonstrate that much more attention must be paid to the problem of unjustified advantages derived from the undeserved improvement of economic results through the violation of price discipline. This is in the interest of both real efficiency of the national economy and of the khozraschet sphere itself. However, as long as the khozraschet sphere has not learned to make consistent use of rights and duties within the existing economic principles, especially use of rights and duties of price control by the customers, the organs of external control will have to create much more thoroughly and intensively the barriers against the violation of price regulations and to protect the socialist economy.

If we want to strengthen more distinctly the protection of the socialist economy and ensure its efficiency, we must also intensify preventive political education. The correct implementation of the intention of the letter of the Presidium of the CPCZ Central Committee in the struggle against antisocial activity--including in the area of prices--must become a matter of concern to the entire society, to all state organs, to economic and mass organizations as well as to the entire public.

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EEC INFLUENCE SEEN AS GROWING THREAT TO SOCIALIST STATES

Bonn IWE WIRTSCHAFTSDIENST in German Vol 25 No 20, 25 May 84: p 2

[Article: "East Berlin Sees Growing International Influence of EEC: Criticism of its Line Vis-a-Vis the Socialist States"]

[Text] East Berlin apparently is prepared to see the European Community (EEC) play a growing role in the international arena. The East Berlin Institute for International Policy and Economics (IPW) concluded in an analysis that substantial difficulties in the inner development of the EEC do not preclude in any way the group's "gaining weight and influence as a power factor in the interimperialistic area as well as in the system of international relations." The EEC "must on no account be underestimated" in economic and scientific technical aspects, as well as with regard to "some political action trends" in the international arena. In particular, it is trying to "assert its influence vis-a-vis developing countries and the trouble spots of world politics." In addition, a type of "de facto tie" with the EEC of European countries that are neutral and not tied to pacts is to be achieved.

In this context, the GDR institute criticized the EEC line vis-a-vis the socialist countries, which is characterized as being "two-tracked." Although the EEC countries are not interested in directly increasing the gravity of the situation, nevertheless they support "a policy of 'arms reduction' in the socialist states, of 'reducing their power' with the goal of aggravating their problems of economic growth to the point of shaking up the socialist system of state and society." For some time now, the EEC has also been blocking constructive and mutually advantageous cooperation with the Eastern economic community, CEMA. Influential circles are speculating that, through differentiated policies toward CEMA member states, individual socialist countries can be drawn "first into the economic, and later into the political" wake of the EEC bloc. The long-term strategy of the EEC countries, in coordination and "division of labor" with the United States, aims at "weakening and undermining the socialist community of states and at impairing their international capacity to act, especially through means and methods of political diplomacy, economic policy and ideology." Nevertheless, the Western European countries' strong dependence on world market relations and consequently greater vulnerability to disturbances therein, and the growing crisis situation in economic and social matters, force large parts of the ruling circles to search for possible ways of continuing the process of detente.

AGRICULTURE'S ROLE IN ECONOMIC STRATEGY DISCUSSED

Managerial Aims, Procedures

East Berlin EINHEIT in German Vol 39 No 6, Jun 84 (signed to press 14 May 84)  
pp 498-504

[Article by Bruno Lietz, SED Central Committee member, minister for agriculture, forestry and foodstuffs: "Effective Management Is Growing More Profitable and More Urgent"]

[Text] The cooperative farmers and farm workers, in the socialist competition on behalf of the 35th anniversary of the founding of the GDR, are making great efforts, with increasing personal dedication, many smart ideas and daily industrious labor, for the benefit of an all-inclusive socialist production intensification. They are thereby ever better taking care of their political and economic responsibility to ensuring the public with stable food supplies and industry with raw materials out of their own agricultural production. So they are fulfilling the 10th SED Congress mission of ensuring a constantly rising raw material production and a higher foodstuffs production, which plays an increasing role in the international class conflict.

The objectives in the enterprise plans and competition programs for 1984 project the basic concern to increase production while reducing specific expenditures. This confirms "that the cooperative farmers are seeking new solutions for attaining still higher results in feeding the people with less expenditure and for contributing to the strengthening of the GDR,"\* as Comrade Erich Honecker put it at the 12th GDR Farmers Congress. Improving the cost/benefit ratio--an essential yardstick for good cooperative labor--has become even more of a focal point in socialist economic management.

A significant share in this have had the resolutions on a farm price reform, on further improving management, planning and economic cost accounting, and on deepening cooperation relations in agriculture as a unified course for implementing our party's economic strategy. All that pays off in increasing results,

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\*Cf. Erich Honecker, "Arbeiter und Bauern Hand in Hand fuer Sozialismus und Frieden, XII. Bauernkongress der DDR, ueberarbeitetes Protokoll" [Workers and Farmers Hand in Hand for Socialism and Peace--12th GDR Farmers Congress--Revised Proceedings], Staatsverlag der DDR, Berlin, 1982, p 283.

higher production and greater effectiveness. The farm price reform that went into effect on 1 January 1984 is one of the most pervasive political and economic measures in the history of GDR agriculture. It helps in still better tapping all potentials of cooperative property, in stimulating the economic interest in higher yields and performance while expenses go down, and in making the requisite transition to all-inclusive intensification. So it consolidates the alliance between the workers class and the class of the cooperative farmers in further implementing the main task with its unified economic and social policies.

#### All-inclusive Socialist Intensification

Relying on the SED's consistent alliance and farm policy, the GDR has also created socialist production relations in agriculture. Thereby all conditions have been set in this branch for having the economic laws of socialism take effect throughout and the premises now for that, in conformity with our party's economic strategy, intensification can now assume an all-inclusive character in all phases of the reproduction process and in all its sectors. That, however, makes much higher demands on management, planning and economic stimulation.

The tried and tested principle of our party's farm policy is and remains to apply the fundamental insights and principles of socialist economic management in such a way that they take account of the natural and historic specifics of farm production and of the requirements of cooperative property that were worked out by the classic authors of Marxism-Leninism.

Perfecting the management, planning and economic cost accounting in socialist agriculture together with the farm price reform measures attest to the organic connection between overall economic requirements and the objectives of the farm and alliance policy. They logically are oriented to ever more deeply penetrating economically the entire agricultural process, the soil-crop-livestock-soil cycle, using all intensification factors as one complex, and enhancing the effectiveness of output.

Agricultural intensification implies economizing in embodied and live labor as much as making an effective use of the natural resources, especially of the soil. Simultaneously it requires getting still more out of the subjective factor, especially in the LPG's [agricultural producer cooperatives], GPG's [horticultural producer cooperatives] and cooperative facilities, through comprehensively opening up the potentials of cooperative property and the spreading of cooperative democracy, and using more broadly and effectively still good farming traditions to increase yields and performance.

Perfecting the management, planning and economic cost accounting as well as the farm reform are aimed at setting up as a standard in each LPG and in each crop and livestock production VEG [state farm] that their own output will rise fast through the use of internal reserves and that the expense per production unit and, above all, the use of material funds are diminished.

The performance parameters of indigenous production, net product, expenditure and profit become the decisive economic criteria. Their resolute application promotes the development of farm production and a most rational use of material and funds.

The chief concern here is to make the conformity between economic, collective and personal interests still more compelling, so that every cooperative farmer and rural worker becomes aware of it every day. To that also applies, *mutatis mutandis*, what Comrade Erich Honecker said at the 10th SED Congress: "What is of benefit to the economy must also be of benefit to the enterprises and combines."<sup>\*</sup>

The farm price reform further develops the performance principle in the relations between the socialist state and the LPG's and VEG's and between industry and agriculture. It also creates the prerequisites for bringing this principle to greater effect in the LPG's and VEG's inter-enterprise and intra-enterprise relations.

As the public property in the VEG's so also the cooperative property in the LPG's and the cooperative remuneration principles based on it offer all possibilities for establishing a close connection between production, efficiency and performance rewards down to the levels of the departments, brigades and individual cooperative farmers. The farm price reform promotes that in that its performance-inducing and cost-reducing effects are brought to effect in every collective, down to each and every cooperative farmer.

In the LPG's, where the basic economic demands made on intensification and the effects of the farm price reform were thoroughly discussed with the membership, accurate weighing, measuring and computing, it turns out, are more than ever becoming standard procedure. In picking this up, the new economic conditions must still more purposefully be exploited for promoting the intensification in all LPG's. That also applies to a rational use of the public labor capacity and its reproduction, proper as to structure, so that manpower available and manpower requirements be made to conform still better. That absolutely also includes carrying on job-related training and a target-directed higher flexibility in assignment capacities.

#### Deepening Economic Relations

The new steps in perfecting management, planning and economic stimulation in agriculture, in continuity of our party's farm policy that has stood up well for decades, are resolutely aimed at further strengthening the working class alliance with the class of the cooperative farmers and at reinforcing the cooperatives and state farms as the basic units in farm production, as well as the cooperation between them. Thereby our party follows the Leninist principle of supplementing the political alliance between the workers class and peasantry by their economic alliance and of paying great attention to the economic aspects in these alliance relations.

Already in 1945, right after the overthrow of Hitler fascism, total requisitioning was abolished and a differentiated partial delivery obligation was introduced at diverse procurement and purchasing prices. That was a significant measure to interest all farmers in boosting production and, with it, to

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<sup>\*</sup>Cf. Comrade Erich Honecker, "Bericht des Zentralkomitees der Sozialistischen Einheitspartei Deutschlands an den X. Parteitag der SED" [SED Central Committee Report to the 10th SED Congress], Dietz publishing house, Berlin, 1981, p 80.

consolidate the positions of the small and medium-size farmers. Subsequently, through concessions to the requisitioning obligation, the subsidies for MTS [machine tractor stations] tariffs, and later the handing over of equipment to the LPG's, especially the process of the farmers' merging in cooperatives was aided in a target-directed fashion.

Since the start of the socialist transformation in the countryside economic stimulation has been aimed at reinforcing the cooperatives in every way on the basis of steady production boosts, by which then also to reinforce the alliance. That was significantly aided by the gradual introduction of uniform prices and economically justified requisitioning and by temporary premiums for increased production.

The 1980's are marked by that the LPG's, VEG's and their cooperative facilities have developed into efficient socialist enterprises which are organizing their production in a modern fashion, are using science and technology ever more extensively, and are continuing to stand up well as rural political-social communities. The cooperative farmers and workers are perfecting their co-operation relations and are increasing the responsibility their elected co-operation councils have for an efficient management of their streamlined reproduction process.

That is done for the purpose of ensuring public food supplies and agricultural raw materials for industry out of their own production efforts. As Comrade Werner Felde has asserted, "the developed socialist production relations and the higher level of production socialization offer new opportunities for a high performance improvement."\* They both make possible and require for agriculture to become still more closely intertwined with other economic sectors. Of extraordinary importance for that is the consistent economic stimulation of the intensification process, from rationally handling the leads produced in industry and in agriculture itself, through farm production, all the way to the processing and treatment of agricultural raw materials through a comprehensive utilization of scientific-technical progress. That is one of the important purposes of the farm price reform.

#### Stimulating High and Effective Farm Production

Production boosts, high-grade farm products, proper in structure as to demands, and their being processed into high-grade foods and other products significantly depend on the prices being right. The price provides the evidence for the public recognition for farm production down to each and every job.

The farm price reform heightens the importance of the price as a central economic category in economic cost accounting. For the farm products to obtain the importance they deserve, politically and economically, within the economic reproduction process at large, in conformity with the objective character and the new socioeconomic content of the value law of socialism, the new

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\*Werner Felde, "Socialist Agriculture, Forestry and Foodstuffs at the Pace of the 1980's," EINHEIT, No 2, 1982, p 132.

producer prices were set with respect to the planned economic outlay. That is of an importance of principle for making economic and enterprise interests conform.

About industrial prices covering economic outlays Comrade Guenter Mittag said they are prerequisite to having "the cost/benefit computation in combines and enterprises conform with economic accounting."\* By analogy that also applies to the new farm prices. They cover economic expenditures, create more favorable conditions for an expanded reproduction of cooperative property and provide an effective standard for efficient economic management. Producer prices take account of the yield and performance level in crop and livestock production called for by the 1981-1985 Five-Year Plan while making the most economical use of the material economic allocations. They enable the cooperative farmers and rural workers vastly to improve through their own efforts the economic results of their LPG's and VEG's. Discussions during the preparations for the 1984 enterprise plans showed that collectives that are competing for higher yields and performance by way of intensification can greatly increase their profits. The production boost and greater performance of their own, it turns out, are becoming vastly more worthwhile economically. That meets with the basic endeavor to improve the effectiveness of economic cost accounting in agriculture. Conversely, an insufficient utilization of productive reserves or allowing losses to occur cut down more than ever before the economic achievements of the LPG's and VEG's.

The fact that price adjustments and subsidies needed up to now were made part of the producer prices also enhances their effects as incentives. LPG and VEG sales of farm products to the state are becoming a still more crucial source of income.

On behalf of a proportionate development of the agricultural intensification processes, one of the essential aspects of the farm price policy is to ensure, through pricing, a well balanced profitability for the various production branches and commodities. That way one shores up the cooperation between the crop and animal production LPG's and VEG's with the aim of ensuring an effective organization of graduated production and a better utilization of the production collectives' special experiences and knowledge.

Especially for such commodities are given target-directed incentives that are in high demand in the economy or through which the best use can be made of the natural production conditions. Economically especially promoted are out of our own crop production the production of grain because it means so much for feeding the population and taking care of the livestock feed requirements. Higher yields, expanded cultivation and the most economical use of feed grain thus become a decisive source for increased efficiency. In animal husbandry, the farm price reform has the greatest effect on cattle breeding and dairy production. If we engage in prudent management, we shall reap a benefit from cattle breeding commensurate with the function of that branch of livestock

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\*Guenter Mittag, "Oekonomische Strategie der Partei--klares Konzept fuer weiteres Wachstum" [The Party's Economic Strategy--A Clear Concept for Further Growth." Dietz publishing house, Berlin, 1983, p 57.

production. One branch is here deliberately being promoted economically that is of strategic importance for using the natural and economic resources of our socialist agriculture. And what the new prices do for dairy production is that more high-grade bulk fodder can be used, concentrate be made available for further intensifying fat stock production, and a contribution is thereby made to getting away from grain imports.

The profitability ratios between livestock and crop production created through the farm price reform improve an ever better utilization of all the reserves of our own within the scope of the material exchange between crop and livestock production.

#### High Materials and Funds Economy

In 1984, our agriculture has available circa M 85 billion in basic assets and M 30 billion in working capital. From other economic branches and our own pre-production, the annual materials and services used in the ongoing production process come to circa M 20 billion. These figures give an idea of the economic importance of the materials and funds economy in agriculture. Paying the industrial prices for means of production commensurate with economic expenditures in full therefore is not only necessary for the sake of the economy but also conforms with the interests of the LPG's and VEG's. That means that also in agriculture economic expenses become most perceptible where they can best be influenced. Mainly those LPG's and VEG's derive a great benefit from this rule which are making special efforts to improve their materials and funds economy and are paying great attention to using their investments efficiently.

Savings in solid and liquid energy sources, propellants and lubricants, mineral fertilizer or industrially produced livestock feed bring approximately twice the industrial profit they used to bring, all due to the farm price reform. That ought to induce all LPG's, VEG's and cooperative facilities to work more thoroughly still through material consumption norms, optimize transports, organize the production more sensibly still in accordance with the territorial principle, and push for reducing the production consumption.

Experiences in advanced cooperatives have demonstrated that tapping one's own reserves gets vastly better rewarded at the new price level and that it becomes an incentive for making a better use of organic fertilizer in proper combination with mineral fertilizer. Combining both measures, together with growing yields, clearly improves the cost/benefit ratio.

Reflecting the economic outlays for important investment commodities will help us use all forms of basic assets reproduction, especially those that save money, like modernization, reconstruction and repair, in order to make scientific-technical progress prevail ever more in agriculture. This opens a broad field for innovator activities.

The higher level of industrial prices, however, also increases the responsibilities of the industrial enterprises and the agricultural preproduction sectors for ensuring the unity of values and use-values.

Marx had this idea, which still applies under socialist conditions: "It is the use-value of machinery, and not its value, that augments the productivity of agricultural or any other sort of labor."\*

In this sense, the farm price reform resolution contains the stipulation to set prices for means of production typical of farming also in relation to the use-value in a way that they will economically stimulate both the producers and users alike.

#### Best Possible Soil Utilization

LPG's and GPG's take care of roughly 86 percent of the agricultural acreage. As the soil is our chief means of production, a major component of our people's national wealth is entrusted to the class of the cooperative farmers. Using it effectively therefore also is a responsibility of management, planning and economic stimulation, by which, as Comrade Erich Honecker said at the 12th GDR Farmers Congress, one means "not blind exploitation, but prudent and expert value maintenance."\*\* How and to what extent the soil is used--that largely controls the success in implementing our all-inclusive intensification in each LPG and VEG.

The farm price reform has created conditions for including soil utilization more than previously in economic cost accounting. The rules made about it proceed from the objective effect of differential rates in socialism. Farm prices were set at the kind of level where even LPG's and VEG's operating on relatively unfavorable acreages can finance simple and expanded reproduction out of their own funds. LPG's and VEG's at better locations get differential rates. They, according to Marx, occur in two forms, a rate I, for equitable efforts on acreages diverse in fertility, and a rate II, for diverse expenditures in embodied and live labor on soils equal in natural fertility.

In conformity with the performance principle, it is the task of the socialist state largely to centralize the rate I while rate II is largely to remain up to the disposition by the enterprise collectives, so as to stimulate the intensification process. This Marxist idea on rates is being applied for the first time through the farm price reform by dividing deliveries into a fixed volume and a flexible part. The latter is tied to profitability and skims off parts of rate II.

The fixed volume the crop production LPG's and VEG's have to surrender, according to soil quality, but regardless of the size of the profit actually produced, constitutes an official minimum requirement placed on the cost/benefit ratio under the given conditions of locations. It also helps surmount unjustified disparities of yields and performances in comparable LPG's and VEG's.

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\*Karl Marx, "Theories on Surplus Value," "Werke" (Works), Vol 26.2, Dietz publishing house, Berlin, 1967, p 75.

\*\*Cf. Erich Honecker, "Arbeiter und Bauern . . .," loc. cit., p 285.

This arrangement has to be used in all LPG's and VEG's to make all cooperative farmers and workers aware of the economic significance of the soil and its increasing fertility. That includes the complete working of the soil, in terms of quantity and quality, and its intensive utilization with reference to sound scientific, acreage-related maximum yield concepts.

#### Improved Conditions for Performance Rating and Socialist Industrial Management

Performance rating and comparison are becoming more important also in agriculture. They help disclose reserves and gradually surmount unjustified disparities.

Four chief parameters were set down in the resolution on improving management, planning and economic cost accounting. They allow a comprehensive analysis of the contribution the LPG's, VEG's and cooperative facilities are making to intensification. While the parameter of indigenous production mainly indicates the use made of the chief means of production, the soil and the cattle stocks, to get a high end product to take care of supply requirements, the other three parameters (net product, expenditures and profit) account for the production performance and for the results in the effort to trim the production consumption. The value of evidence coming out of these parameters is being enhanced considerably. Production increases, quality improvements and the savings in energy and material clearly improve the net product and profit; the value-related parameters reflect the material production process to a larger degree.

Better use of that should still be made for the performance comparisons on all levels. It has been found useful for the state managements, assisted by the scientific-technical centers, to account for comparable enterprises and cooperatives in the kreises and bezirks, that command roughly identical natural production conditions, and that the results of the performance comparisons are analyzed at least once every year and a thorough experience exchange is engaged in with the cooperative farmers. Performance comparison results achieved in 1984 are going to indicate how well each LPG and cooperative facility has used the first year after the farm price reform for effective management.

Debates and plan consultations have shown that strong impulses are coming from the farm price reform for broadly enforcing socialist industrial management in all LPG's and VEG's and for pervasive industrial management in all cooperative facilities. Economic relations are increasingly being organized in such a way that they provide incentives for the interests of all partners in the outcome of their cooperation and properly indicate the share they have all had in the performance. The focal point of this lies in

- the application of incentive-providing contractual prices, especially for livestock feed,
- the setting up of joint funds,
- measures to bring LPG's still inadequate in their productivity and efficiency levels more in line with more advanced ones, and
- improved conformity still in the proportionate development of crop and livestock production.

The basic purpose of the farm price reform demands a higher expediency for intra-enterprise economic cost accounting in each socialist agricultural enterprise and a proper connection between it and the material interests in the

departments and brigades, and of the cooperative farmers and the workers. This does not amount to complicated systems causing more administrative expenditures but to the unity between planning and accounting in the collectives' output and the most important types of costs they can affect, especially material and energy, relative to optimum values.

The results of the material and value-related fulfillment of the departmental and brigade plans ought to be turned into the basis for the differentials in remuneration shares or premiums to be paid out at the year's end in the LPG's.

That way one can also trace any part of one's personal income to each ton of surplus production, each improvement in the livestock feed economy, and to the economizing in diesel fuel and other energy sources. That encourages the socialist competition in and between the collectives while it compels the LPG boards, the VEG managements and the cooperation councils to plan accurately.

The implementation of the basic purpose of the farm price reform in each agricultural enterprise and cooperative facility is decisively subject to comprehensively dealing with industrial management in its unity of developing socialist democracy, management and planning, the correct production and labor organization, the realization of the performance principle, and strict cost accounting and controls.

In carrying on the steady and proven alliance and farm policy of our party, the farm price reform once again attests to the full conformity of interests between the cooperative farmers and the entire society in making sure the people have enough to eat.

#### Yield Improvement Techniques

East Berlin EINHEIT in German Vol 39 No 6 Jun 84 (signed to press 14 May 84)  
pp 505-508

[Article by Prof Dr Peter Kundler, director of the Muencheberg Research Center for Soil Fertility of the GDR Academy of Agricultural Sciences: "Maximum Yield Concepts"]

[Text] Together with our agronomists, the cooperative farmers and farm workers are making every effort to increase yields and performances and to work more efficiently by means of the scientific-technical progress and by using their rich insights and experiences. That is noticeably expressed by the preparation and application of maximum yield and performance concepts that take into account the natural science, technical, technological and economic requirements for high achievements on all acreages and in all stables. Achieving maximum hectare yields in crop production through a better utilization of the yield potentials of agricultural varieties and locations, and the highest performance from livestock, that is what the maximum yield and performance concepts are aimed at.

Let us take crop production: Diligent work in the cooperatives, relying more and more on using scientific-technical progress, has already led to noteworthy results. Yet true here also is that what has been attained is not yet the attainable. Often the yields in fruit varieties and the hectare yields in crop production are not yet commensurate with the possibilities found, particularly, in

the natural production conditions and the allocations in funds. There still are, under comparable production conditions, vast differences in the performance levels among various crop production enterprises, their territorial departments and their different acreages.

Tracing such unjustified disparities, one finds they are due to avoidable differences in soil fertility and differences in the degree of respect for deadlines and for the quality of agro-technical measures. Maximum yield concepts, setting down concrete, controllable measures for how on all acreages yields can gradually be approximated to optimum values, help surmount these disparities.

The basis of the concept is, first of all, a thorough analysis of the natural and economic production conditions so as to determine, in particular, the causes for uneven yields in various fruit varieties and stables. Secondly, the yields must be compared with optimum values accomplished under comparable conditions. Proceeding from those facts, and while taking account of the latest science and technology data and of the best practical experiences, the requisite fruit variety and acreage-related standards are being worked out or revised. Such carefully prepared standards help pervade the agricultural reproduction process more deeply and scientifically and lift its management, planning and organization onto a higher level. They are a solid basis for setting down ambitious yield quotas that conform with the long-term yield development strategy in the LPG's and VEG's.

When one is working on such concepts, one must consider, of course, that maximum yields are subject to many different factors which are all reciprocally interrelated. Increasing the soil fertility, e.g.--it being the central concern of the maximum yield concepts--demands taking into account crop rotations justified in biological-technological and in economic terms and ensuring the most efficient use of all available organic and mineral fertilizers. It calls for working the soil in a manner that protects its structure and for soil improvement where there is ground water shortage or the soil is packed or shows erosion damage, all as demands require.

In working with these concepts one must pay much attention to the fact that maximum yields are not established for once and for all but depend on the level of awareness and education in the work collectives, on the quality of management and organization in the enterprise, on the developmental status of science and technology, and on allocations of funds. All these production conditions therefore have to be analyzed every year. Changes that then become noticeable--in the soil condition, the crop density, infestations, weather conditions and other factors--must be taken account of in the requisite scrutiny given to acreage-related standards, which are setting down in principle when and how the latest science data have to be enforced in close connection with proven agricultural and crop production measures. If standards are operationally adapted in this way to whatever the new conditions are, the field card index becomes the reliable basis within the scope of permanent controls that is imperative both for planning and in comparing standard with actual yields. As in the management and planning process at large, one also finds it to be true of maximum yield and performance concepts that they are all the better prepared and all the more imaginatively implemented by the cooperative farmers and rural workers, the

more intensively the work collectives are drawn into these efforts right from the beginning so they can bring their experiences to bear on it. To set the stage for that makes high demands on political-ideological work. The more persuasively we manage to present the importance these concepts have for the requisite yield and performance improvements and to provide expert substantive guidance, the more favorable will be the positions in overcoming reluctance and in coming to grips with those who invariably argue about the "special conditions others have" when they are making a poor showing in comparisons with optimum values.

Crucial for the quality of the concepts is that the managers assume the responsibility for them and commit themselves without reservation to resolving the tasks. It is up to them to set the premises for a broad discussion of the goals and of how to get there, while seeing to it that the yield and performance goals are precisely and accountably formulated so that they, together with the standards can be introduced to socialist competition. A manager should always be intent on observing the factors that affect the complexity of yields and performances. It cannot be reiterated often enough how important it is to avoid any one-sided approach and to take account of the various interactions between the agricultural, crop production and soil improvement measures and the natural factors. Well working collectives such as the VEG of Lindenberg or the LPG of Albertsroda have taken that into account and can sense it by achievements that make a difference. In agricultural producer cooperatives that cannot keep in step with that, where maximum yield concepts do not lead to the expected benefits, one should seriously check whether these concepts truly have a mass base or are perhaps only considered something to be handled by a few specialists. For there is no doubt about this: Where they are only worked out round the table, as it were, where no store is set by the wealth of experience and the knowledge the collectives have for preparing and implementing them, such initiatives are thwarted rather than challenged. Under such conditions, the highest effects can be expected as little as when maximum yield concepts are routinely prepared and fail to be based on an analysis of any given concrete conditions. The VEG Lindenberg avoided such practices from the outset. The maximum yield concepts were prepared there with consideration for the experiences and initiatives of the collectives, thoroughly discussed and ruled on by the party and trade union management, and then ratified by the manager. Those are the rules that should govern the actions of all.

One of the main reasons for the great economic impact of maximum yield and performance concepts is that through them new science-technology data can be put into farm production. The search for new ways having to do with preparing such concepts virtually compels us to plumb all new opportunities of the scientific-technical progress and to use everything suitable and integrate it with previous solutions.

And something else still has to be taken account of in working with these concepts: The efficiency of farm production greatly depends on deepening the cooperation between crop and livestock production. This amounts to achieving maximum yields for all crop varieties on all acreages, providing enough high-grade livestock feed from the territory, thereby coming up with a higher achievement, through a fine livestock feed economy and animal hygiene, and using

the organic fertilizer from livestock production as efficiently as possible for an expanded reproduction of soil fertility and, hence, for the intensification of crop production. It follows from that that these concepts also have to conform to the streamlined agricultural reproduction process, correlated in terms of their objectives as between crop and livestock production.

However nicely maximum yield concepts may be worked out, high agronomic discipline alone will guarantee their full success. Deviations from agro-technical schedules and quality criteria or the omitting of partial labor processes inevitably cut into the yields. So it is all the more important to keep agronomic discipline constantly under control, rate results critically, and conduct performance comparisons and experience exchange. That keeps the work with maximum yield concepts alive, keeps these initiatives from becoming rigid through routine. The preparation and implementation of maximum yield concepts makes high demands on agricultural science. Of it one expects that it will establish location and variety related yield potentials whereby at the same time current yield limitations can be accurately demonstrated. Seeking ways for crossing those limits--through new knowledge and also through improving familiar methods for increasing yields--is today among the scientific tasks of the highest social rank. For that reason, the research program for further developing the maximum yield concepts includes experimentations in the following directions:

- How many of the possible combinations of factors lead to maximum yields?
- How can one ascertain as accurately as possible the causes for yield disparities under specific production conditions?
- How can experimental results be applied in practice?
- How do complex solutions affect the yields and the costs under industrialized conditions?

The complex procedures for increasing soil fertility between 1976 and 1983, after years of production experiments in crop rotation, increased yields by 17 percent per hectare over previous results and also led to a more efficient use of the means of production. These experiments created the prerequisites for extending the complex procedures, within the scope of maximum yield concepts, now also to entire enterprises.

Scientists at the Muencheberg Research Center for Soil Fertility of the GDR Academy of Agricultural Sciences are assisting a large number of LPG's and VEG's in Frankfurt/Oder Bezirk and in other bezirks in drawing up, implementing and further developing their maximum yield concepts. In this, the scientists mainly concentrate on preparing recommendations on incorporating new science data. This applies, e.g., to the selection and determination of measures for periodically checked soil fertility parameters, the improvement of crop rotation, the operational determination of nitrogen applications, the introduction of cultivation combinations, the working of the subsoil, and soil improvement.

The maximum yield concepts in the VEG Lindenbergl came as an answer to the challenge to ensure a speed-up for higher yields with funds being cut back. For all intents and purposes, largely thanks to our party's bezirk management this led to a mass initiative in the Frankfurt/Oder Bezirk under the motto of the equation: "Practical farming + science = maximum yields." Results and experiences were analyzed regularly, and kreis managements and kreis councils

got suggestions for spreading that initiative. The party executives of the crop production enterprises would report to the secretariats of the kreis managements and would confer in the LPG's and VEG's with the cooperative farmers and workers on the effectiveness of the initiative. Kreis seminars, experience exchanges, sponsored by the bezirk management secretariat, with party secretaries and chairmen or directors of the crop production enterprises, and application seminars and performance comparisons sponsored by the scientific-technical center of the bezirk council proved very beneficial. The party press and radio popularized the initiative. Much help for spreading the initiative also came from a task force set up by the bezirk management secretariat that would generalize good experiences, check up on advances made, and be intent on having LPG's and VEG's work together with science institutions. The Muencheberg Research Center for Soil Fertility, the centerpiece for maximum yield concepts that prepared the complex procedures for improving soil fertility and applied them in a number of LPG's and VEG's, has been particularly committed. Those VEG's and LPG's then that were consistently working with maximum yield concepts were able to increase their grain yields much more than the bezirk enterprises at large in 1983 over 1982, their acreages being comparable.

There are still differences in the work with and the effect of maximum yield concepts. But we can be sure we shall manage to use the natural production resources and economic funds better and better for increasing our yields. That is all the more urgent in that the use of important material funds in crop production, such as fertilizers, herbicides and fuels, cannot be expanded at will.

Working with and further developing the maximum yield concepts is a long-term requirement, firmly embedded in the continued implementation of our party's successful farm policy.

#### Selected Statistics Tabulated

East Berlin EINHEIT in German Vol 39 No 6 Jun 84 (signed to press 14 May 84)  
pp 562-564

[Article by Dr Wolfgang Holan, political staff member of the SED Central Committee: "Our Agriculture"]

[Text] Further raising our own yields in farm products and greatly improving our cost/benefit ratio--those are the points to which we have been oriented by the resolutions from the 10th SED Congress and the 12th GDR Farmers Congress. Thanks to the initiative from the cooperative farmers and agricultural workers, whose production forms the main basis for stably feeding our population, and through the contribution from individual producers, we have already managed a high degree of self-supply in animal and crop products. To ensure the high supply level, our farm policy is aimed at further intensifying public production and perfecting the socialist production relations.

To provide the population with its daily needs is a demanding task in socialist agriculture. It provides us every day with 5,150 heads of cattle, 36,800 pigs, 15.6 million eggs, 21,050 tons of milk, 3,580 tons of produce and 2,255 tons of fruit.

Agriculture had a work force of 2 million in 1950. With the socialist development of agriculture and as an expression of its steadily growing capacity, that number diminished to circa 800,000 up to today. The farm production share of national revenue comes to some 10 percent. Its whole importance, however, becomes evident only if one realizes that every other mark in the retail trade-over is spent on foods and luxury items.

Agriculture has an important role to play as the supplier of raw material for many industrial branches, the textile and leather industry, the chemical and pharmaceutical industry, and wood processing. In turn, agriculture is a big user of products from other industrial branches, such as farm machinery construction and the chemical industry, and of the construction and transportation services.

#### Growth Trend for Selected Farm Equipment

	<u>1960</u>	<u>1980</u>	<u>1982</u>
Tractors	70,566	144,502	149,523
Trucks	9,312	51,590	53,495
Harvester-threshers	6,409	13,582	14,497
Potato pickers	6,383	7,894	7,991

Such considerable funds of technical equipment must be used most efficiently, and the equipment we have always has to be kept in good shape through care and maintenance. On the extent to which it is used, e.g. by optimizing transportation, the advances in the intensification of social production largely depend.

The working people in industry and construction are engaged in great efforts trying to satisfy the needs in agriculture, forestry and the foodstuffs economy. Agricultural development is and remains a responsibility for all of society. How pronounced this sense of overall social responsibility to this important economic branch is, also is attested to by the direct assistance actions taken by the workers class. They range from the movement once of "industrial workers into the countryside" to the help given to removing lumber from the woods broken down there under the snow.

#### Allocations of Agro-chemicals (kg/ha)

	<u>1950</u>	<u>1970</u>	<u>1982</u>
Nitrogen (N)	28.7	81.3	97.1
Phosphorus (P <sub>2</sub> O <sub>3</sub> )	15.4	65.2	48.6
Potash (K <sub>2</sub> O)	59.7	97.7	79.3

#### Using Better What We Have

Agriculture of course also is included in the transition to an intensively expanded reproduction, which necessarily is going through the entire economy. To that end it is of crucial importance that we are using what we already have. With what results and at what costs our equipment is used, how much fodder we need to produce a liter of milk or a kilogram of meat--those are questions on the agenda in agriculture today, so that we will make further advances in our production.

## Trends in Working Time Consumption

<u>Yearly Averages</u>	<u>Grain h/dt</u>	<u>Milk h/dt</u>
1961-65	4.00	7.5
1966-70	2.68	5.5
1971-75	1.80	4.6
1976-80	1.75	4.2

The role and influence of science and technology keep growing greatly throughout. We must pay special attention to the chief agricultural means of production, the soil. There is but a per capita 0.37-hectare agricultural acreage per inhabitant. Using this area as intensively and economically as possible is the most important concern. In the last 2 years, thanks to the initiative from the cooperative farmers and agricultural workers, at more than 10 million tons each, the two largest grain harvests were brought in.

## Crop Production Yields (dt/ha at annual averages)

	<u>1976-80</u>	<u>1981/82</u>
Grain	35.8	37.8
Potatoes	175	191
Sugar beets	269	294
Fresh and silo maize	293	323
Forage root crops	499	519
Field forage crops	355	372
Meadows	264	274
Pasturages	291	299

## Maximum Yield Concepts

For intensifying farm production maximum yield concepts are a key issue. High and stable yields, after all, depend on many different factors--properly timed soil preparation, the selection of varieties and their cultivation, the proper crop rotation, optimum fertilization and other factors. That has to be correctly combined for every acreage. That calls for the knowledge and skill of all farm workers. For that we must utilize the experience and knowledge the farmers have gained over decades as well as their now higher educational level.

Training Status of the Full-time Workers in Socialist Agriculture (excluding veterinary affairs, crop protection and agro-chemical centers), in percent

	<u>College</u>	<u>Technical School</u>	<u>Foremen</u>	<u>Specialists</u>	<u>with completed training</u>
1960	0.2	0.7	1.3	3.7	5.7
1970	0.8	3.2	5.3	48.3	57.6
1980	2.1	5.8	6.7	74.4	89.0
1982	2.2	6.1	6.6	74.8	89.7

Much depends on how well we can improve the other growth factors, such as irrigation. Through the initiative-rich efforts of the cooperative farmers and workers, 16,200 hectares of agricultural acreage were opened up to irrigation in 1983. That gives us a total of 930,000 hectares under irrigation. On such acreage, an average of one-fourth more was harvested than on other comparable acres.

## Using All Forms for Growing Farm Products

All forms of farm production for ensuring the population of steady, diversified and high-grade products are important. Some products come almost exclusively from private plots--a sensible and socially useful supplement to cooperative and VEG production (proportion of total production in percent): Rabbits, 99.9; eggs, 41.8; wool, 22.6; honey, 98.0; fruit, 23.3; and produce, 13.0.

Agriculture, forestry and the foodstuffs industry provide our society not only with material accomplishments. Our forests, for example, which cover 27.2 percent of our total land surface, and from which we get 17 percent of all our domestic raw materials, and which supply the lumber for roughly 12,000 different commodities, are places of recreation and relaxation for hundreds of thousands of our citizens. Maintaining their recreational value while developing them as an important production site is the concern of forestry as well as of numerous protectors of the natural environment in the Culture League of the GDR and of the 41,000 hunters, who are organized in 920 hunting associations in our country.

It is understood that the intensification of farm production largely depends on the democratic partnership of all cooperative farmers and agricultural workers. Through their initiatives and the conscious dedication of their capacities to increasing farm production they are making a significant contribution to the further successful implementation of our party's policy, which aims at peace and the well-being of the people.

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CSO: 2300/542

## IMPLEMENTATION OF 1983 BUDGET DESCRIBED

Budapest FIGYELO in Hungarian No 25, 21 Jun 84 pp 1, 4

/Article by Dr Antal Pongracz: "1983's Budgetary Management: Improving Financial Balance"

/Text As a result of the 1983 state budgetary management the domestic financial balance definitely improved, and the increase--experienced in earlier years--of the budgetary deficit compared with the revenue produced in the economy came to a stop. The budget deficit in 1983 is 6.1 billion forints, 6.1 billion forints less than the previous year but 4.1 billion forints less than estimated.

In the interest of preservation of supply and demand and in the interest of avoiding the phenomena of undesirable inflation and compulsory savings, the task of the budget and the credit system is to adjust the enterprisal, populational and governmental purchasing power opposite their buying to the total stock of goods usable domestically. To this end, as a result of the measures taken at the beginning and in the course of the year, the budget increased by roughly one percentage point its share from the revenue created.

## Structure of Revenue and Expenditures

Because of the strict consequences of purchasing power regulation the revenue surpluses cannot be reintroduced into the circulatory system of the economy in the form of income regrouping or direct budget expenditures supporting additional purchasing power. Therefore, one part of the revenue surpluses moderated the planned budget deficit, while the other part went toward the so-called credit coverage funds created during the year as a nondisbursable budget deposit. The value of the credit coverage funds in 1983 was 9.7 billion forints. All this contributed to a certain lessening of the pressure weighing heavily on the credit sphere. In that way, the demand of the budget sphere from the regroupable deposits and from the resources available for domestic credit investment decreased; comparatively more went to the financing of important economic policy and social goals.

The following abridged balance sheet illustrates the development of the chief revenue and expenditure items of the state budget year 1983:

Abridged Balance Sheet of the State Budget  
1983

Revenue	Billions of forints	In percentage of previous year
Payments of enterprise units*	364.3	113.2
Consumers' turnover tax	82.7	115.2
Payments of population-at-large*	37.6	120.1
Revenue of budget authorities*	46.0	111.6
International and other revenue	13.1	66.2
<b>Total revenue</b>	<b>543.7</b>	<b>111.9</b>

Deficit 6.1 50.0

\*Extra expenses of social insurance included

Expenditures	Billions of forints	In percentage of previous year
For investment capital	57.3	107.5
For support of enterprise units	95.9	116.7
For supplement of retail price	66.6	103.7
For expenditures of budget authorities	172.4	105.6
For expenditures of social insurance	107.2	108.8
For international and other expenditures**	50.4	137.7
<b>Total expenditures</b>	<b>549.8</b>	<b>110.4</b>

\*\*Filling in of credit coverage funds included

The current-price value of the total income created in the national economy (net national product), in comparison with the growth of 8.8 and 9.2 percent in the preceding 2 years, rose more moderately, by 6.8 percent. The possibilities for domestic income distribution were moderated by the deterioration of the exchange rates in both major foreign market scales.

Within the total income, the net income increased considerably more slowly than previously, by 5.9 percent. From the enterprise incomes expanding more moderately--as the balance of payments and subsidies--at the same time the budget's profitsharing rate corresponds to that of the previous year.

Modification of several elements of the economic regulatory system in 1983 made the conditions for enterprisal management more strict. Under the inspiration of rational management with labor input, the degree of extra social insurance expenses increased three percentage points. In keeping with the demands for regulation of investment purchasing power, six to nine percent of the enterprise development funds were curtailed, or rather blocked; furthermore, exemptions from tax and levy payments were tightened, and credit interest rates were raised.

The income situation of enterprises which are efficiently run and which quickly adapt to market demands was improved by the fact that in 1983 the wage and income regulation system made the tax-free increase of the wage standard dependent on the enterprises' profitability, that the current separate taxation of wage improvements came to an end, and that the quantity of the progressive profits tax in connection with the formation of the profitsharing fund was modified. The possibility of the flow of resources to more efficient domains and the practice of it which followed in 1983 expanded significantly with the application of the debenture form.

#### Stricter Conditions

The course of adaptation to the stricter conditions is slower than necessary and possible. This is first and foremost the reason that the success of enterprise management in 1983 improved to only a modest degree. As a balance of the 202.4 billion forints of profit and 6.5 billion forints of loss, the enterprises obtained in their totality a management result of nearly 196 billion forints. Within these, the income situation of the national economy branches and the individual enterprises differentiated to a greater degree than before. The producing branches paid 61 percent of their profits into the budget, and this meant a budget share greater by an 0.8 percentage point than the previous year.

The bulk of the budget's revenue surpluses stemming from the enterprises was derived from the already mentioned withdrawal of development funds and circulating capital goods. At the same time the subsidies which were made payable to the enterprises surpassed by 3.4 billion forints what had been allocated. A large part of these extra expenditures increased the support which stimulates the favorable transformation of a productive structure.

As a consequence of the gradual creation of harmony between producers' and consumers' prices, the budget has obtained in the last 2 years a net consumers' turnover tax of growing quantity. Under the influence of the central price measures of 1982-83, the budget obtained a net revenue of nearly 16 billion forints as a balance of the consumers' turnover tax and the consumers' price subsidies, and this amount surpassed the allocation by 2 billion forints.

#### 1984 Outlooks

Analysis of 1984's external and internal economic conditions indicates that strict regulation of the domestic use of produced incomes will continue to be essential for the fulfillment of our economic policy goals, and, as a consequence of this, better utilization of enterprise resources available in limited quantities. The acceptable path to future reduction of budget expenditures may be first and foremost a tightening of the unfavorable budget income regrouping, thus a reduction of enterprise subsidies. This was also formulated in the 1984 budget, in the interest of the fulfillment of which the subsidies lessened significantly to an absolute and specific degree. The rate of producers' and consumers' subsidies compared with the GNP stabilized at around 18 percent in the years 1980-83. According to our plans, this rate must decrease to a value of about 14.5 percent by 1984. This means above all that the enterprises which lag behind and adapt more slowly to economic conditions can count on central assistance in a narrower range and degree than up until now.

In the weight of the budgetary revenues, the payments of the population-at-large constitute a part which is of less significance but which is increasing most dynamically. The earlier measures taken for the evolution of private initiative and the development of small-scale production were significant in the rapid expansion of social insurance and retirement pension fund payments as well as tax and levy payments of the population-at-large. Under the influence of these in the past year, the enterprises' domain has expanded, surpassing what had been calculated, and by this means the taxable turnover, or rather, income grew considerably.

#### Institutional Management

The share of budgetary financing--following the gradual reduction since 1980--in the end use (investment capital and consumption) rose to a small degree in 1983. Next to the unchanged budgetary share in consumption there was in essence a rise of one percentage point in the financing ratio of investment capital tasks. All this indicates that the paths previously traveled in the improvement of the budgetary balance, the decrease of investment capital expenditures, or rather the curbing of growth of public social expenditures--without the essential reorganization of fundamental state commitments--no longer mean considerable further reserves. This also indicates that the future possibility for improvement of the budget resides primarily in the reduction of enterprisal subsidies.

We surpassed by three percent the 1983 estimate--somewhat larger than the previous year--of the investment capital expenditures of the state budget. Compared with that of the previous year, the proportion of budgetary sources in the financing of large-scale investments and targeted investment programs declined somewhat, while state expenditures rose which were directed at other state investments and the money supply of circulating capital.

In 1983 the state budget directed altogether 280 billion forints for institutional and social insurance tasks. The state granted to these domains a central subsidy, or rather, a local contribution of 121 billion forints. Although the proportion--compared to the gross domestic product--of the expenditures of budgetary organs and the social insurance expenditures can be called essentially stable in the last 4 years, next to the increasing prices it is necessary to make greater and greater efforts in the interest of retention of the real value and level of state services.

The increment of state support was concentrated on the stressed tasks of social policy. Health and social provisions as well as lower-grade education received the means for particular development. However, there was no way to completely counter the effect of price changes in these domains. In the social programs the progress is slower in comparison with the planned tempo. Therefore, all the central institutions and all the councils, for the purposes of basic provisions, mobilized and rearranged a significant part of their revenues, or rather, their surplus funds.

Review of the sphere of tasks financed by the state also continued last year. On the one hand, the efforts were directed at the narrowing of the sphere of state undertakings of obligations, on the other hand, at the expansion of

organizational, interest-oriented forms. Initiative on updating of the organizational system and on expansion of the interest elements can be observed on the part of the institutions. While the traditional possibilities for thriftiness become narrower or depleted, the goals and efforts directed at the increase of earnings (in the use of buildings, in the undertaking of wage work, etc.) become stronger.

The outlay for social insurance in 1983 was 9.1 billion forints more than in 1982. The greater part of the increment of the expenditures--6.5 billion forints--derives from the fact that the economic and demographic factors changed, and their effect in the social insurance system automatically prevailed.

12327

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PROBLEM OF ARSENIC IN WATER SUPPLY DISCUSSED

Budapest MAGYAR HIRLAP in Hungarian 12 Jun 84 p 5

[Interview with Jozsef Gergely, deputy technical director of Csongrad County Water and Canal Works, by Attila Vodros: "Methods That Need Refining: Southern Lowlands Drinking Water Situation"]

[Text] This is not the first time we ask the water management experts about what will happen to the arsenic detected in the drinking water of the Southern Lowlands. This time the water people of Bacs-Kiskun and Csongrad counties give their opinions, which make it clear that the method of getting out the arsenic still needs refinements--even if not in the area of technology. The biggest question is: "What will be the fate of the arsenic extracted from the drinking water?"

It is said, and indeed my informants even proved it with an old photo, that some time ago there was a wonderful fountain on the main square in Szentes. Looking at the statue clusters of the fountain, I think, it must have been a characteristically beautiful sight in its full glory long ago. One from which not merely a few streams of water squirt out, like the ones built today, illuminated by colored lightbulbs as an example of human ingenuity. No, the fountain in Szentes was the kind of structure the Hungarian tourist nowadays marvels at mainly in Italy.

Iron Ties Up the Arsenic

Jozsef Gergely, technical deputy director of the Csongrad County Water and Canal Works Enterprise also tells us that this was the first well dug by Vilmos Zsigmondy (1821-1888) and his coworkers using contemporary methods adapted by the French. Zsigmondy and his colleagues increased the number of artesian wells in the Southern Lowlands. These bring up water from a depth of 350-550 meters. Several of them became famous because they were excellent in quenching the thirst of those who lived there or those who only visited there.

Well, times have changed since the days of Zsigmondy, and Jozsef Gergely can report on a more pessimistic situation.

"As probably very many people know by now, after the acceptance of the stricter standards used by the ENSZ [United Nations Organization] the precision instruments have shown that in this part of the country our waters contain more arsenic than permissible by the standards. I know that in Bekes county--as you have written earlier--people did not dare offer you a drink of water... We could do so quite freely here in Szentes, since the situation here is far from being as urgent as at our neighbors. In Csongrad county, except for a few villages, the people who live here are drinking good quality water."

[Question] According to this, arsenic is not a problem in Csongrad county?

[Answer] I could not say that, as there are villages where it is. For example, in Asotthalom or Maroslele. But I will add quickly that neither written material nor legends spread by way of verbal traditions state that anyone lost his life anywhere in Hungary because he regularly drank water which contained more arsenic than the standard we use today allows. I say this because contamination is not as high in the villages mentioned either that it would endanger life. In our opinion--and this by all means is a part of the truth--nitrates pose much more of a danger to our waters than does arsenic. That is, we have all heard already that this chemical has killed.

[Question] Is there nitrate in Csongrad county?

[Answer] We are fortunate that there is none.

[Question] But arsenic does occur, even if only in traces.

[Answer] In twenty villages, and immediate intervention was necessary or is necessary as soon as possible, in eight of them. Because in Asotthalom and Maroslele, the ones we mentioned before, we are already removing the arsenic from the water...

This is done by bringing the arsenic into contact with iron which is frequent in the waters of Csongrad county. Various chemicals--far from being cheap--are needed for this manipulation, but the investment is worth it because the arsenic combined with iron is then removed from the water when the iron is taken out. By the way, iron is not harmful to humans, but if there is too much of it in the water, it becomes unappetizingly murky and may also change its taste.

What Will Happen To the Sludge?

[Question] So, as a result of water purification the iron has been removed, and the arsenic with it.

[Answer] Yes, but at the same time a volume of sludge is produced which then is really a concentrate contaminated with arsenic. That is, we are getting such a quantity of homogeneous material containing arsenic--

and not just a little, either, as it may be as much as 100-150 cubic meters a day--the disposal of which is an unsolved problem. Of course, we are not the only people who know this, the health department also knows it--in our case, the county's KOJAL [Public Health and Medical Clinic for Contagious Diseases]. And they have decided that if we can not safely dispose of the mentioned arsenic--contaminated mass, we must also discontinue the technological process of removing the arsenic. Let me ask you: Where should we put 100 cubic meters of contaminated sludge every day?

In deep silence I spread my hands, indicating that I can not supply any kind of an answer. And just then the immediate coworker of the technical deputy director entered his room: Jozsef Nadudvari, head of the water technology department. I introduced myself, then he posed this question to the technical deputy director:

[Nadudvari] Arsenic?

[Gergely] Yes.

Immediately, Nadudvari took a seat. With a deep breath he indicated he has an opinion on the matter:

[Nadudvari] Sir, I suspect that in some cases we tend to exaggerate, that at time we recognize no limits. I can even give you a good example of this. Years ago--in 1974, to be exact--the standard said that eight-tenths of a liter of methane is permissible in one cubic meter of water. Then time passed, life went on and experience showed that more could be permissible. At the present time the permissible methane content according to the standard may go as high as 5 liters! I don't think it is outside the realm of possibilities that the same will be the case even with the poison we are discussing, since at least in my strictly defined county surroundings I have not spoken with one health care professional--a doctor, for example--who would say that the most dangerous contaminant in our waters is arsenic. Do not misunderstand me! I know that our job is to put the best quality water into the pipes that our possibilities permit.

#### Rain Leaches It Out of the Stone

[Interviewer] I did not misunderstand Jozsef Nadudvari, if for no other reason then because I know that like their colleagues in Kiskunhalas--that is, Bacs-Kiskun county--the water works people in Szentes were informed in late 1981 that there is arsenic in their waters. And at the beginning of the following year on the basis of the VITUKI's [Scientific Research Institute on Water Resources] recommendation they developed the best technological methods most suitable for the given local conditions. In several places in the two countries testing was started on water purification equipment handling more tasks than before.

In Kiskunhalas Beno Mamlecz, head of the operating department of the Bacs-Kiskun county Water Works Enterprise gave this opinion:

"In our county this problem affects the residents of about ten settlements. In these locations we had to act immediately and we took the same course of action as our colleagues in Szentes described to you. But I don't know whether they mentioned the thing I personally am very sorry about. Specifically, that the water management professionals and health care people--at least at our level--have not yet met in a conference and have not discussed jointly the tasks at hand. I am not thinking of a monstrous conference, only that finally beyond the information provided by the standards we could look into the essence of these matters as well even if we know that our main task is to provide the pure water specified by the health care professionals."

In Bacs-Kiskun and Csongrad counties, as the water management experts told us, with the investment of 100-200 million forints local solutions could be applied which would rid our waters of arsenic. Because in the final analysis this is the main goal here where the waters are free of nitrates. The poison--we already wrote this--is washed out of the stones of Transylvania's mountains by precipitation into the water tables deeper down, from where it then gets into the glasses along with the drinking water. The method for removing the arsenic has been developed in the two counties. With some refinements this will hopefully become a reassuring everyday service activity.

8584

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## ENTERPRISES, AUTHORITIES TRY FOR COMPETITIVE PRICING

Budapest NEPSZABADSAG in Hungarian 14 Jun 84 p 6

/Article by Katalin Bossanyi: "Price Club Membership"/

/Text/ "I would never join a club which would accept me as a member," we hear as the first sentence in Woody Allen's famous film. Well, our enterprises of the processing industry cannot afford to be so ironic and self-critical, for, in spite of stricter market conditions and greater risks, it still appears more beneficial for them to be club members--more precisely, members of a price club--than having to adapt to the competitive pricing regulations that are generally in force today.

The conditions for price club membership and the methods of application were announced at the end of last year by the National Bureau of Materials and Prices and by the State Bureau of Wages and Labor. The objective is to try, in harmony with the development of economic management (this year still within the enterprises but next year on a more general basis), how the affected enterprises can cope with the new pricing system which is more up-to-date and better adapted to international and domestic market conditions.

#### Adapting to the Market

The most important aspect of the modernization of the pricing system is that from now on the producer prices of the processing industry will be determined not by administrative limits but by the effects of the market and by enterprise and competitiveness. This, among other things, may also make it possible for organizations, which meet the demands of the world and domestic markets, to have a faster pace of development. Regarding the character of the modernization, the most important aspect is to have the enterprises follow the market fluctuation more closely in their pricing, resulting in a longer-range stabilization of their comparative producer prices between export and import prices, including duties. Enterprises which become members of the price club will be exempt from the two central pricing regulations that up to now limited their domestic profits. Thus their profits will be regulated from now on by competitive prices adapted to the balanced conditions of demand and supply.

Only producers which do not limit their nationally profitable exports can be members of the price club. It is important for them to be competitive domestically as well and, accordingly, to have a careful pricing policy; they should also see

to it that their domestic prices do not exceed import prices. This also means a security for the users. This possibility is not meant to give green light to additional increases of domestic prices. On the contrary, this way will make it possible to have a greater control over price changes, for price increases will be determined by realistic and hard market conditions. On the other hand, the possibility for a more flexible pricing may further increase the market mobility of the large exporters, for this way they can adapt more to boom and depression, they can take risks in exploiting new markets and in coping with temporary losses.

Until the middle of this year, enterprises may apply for price club membership by showing their market objectives and pricing policy in detail. Under the supervision of the Pricing Bureau, an interministerial committee was formed to judge the applications; the committee's work is supported, in addition to the chief authorities and the individual ministries, by the Hungarian Chamber of Commerce as well. In case of unethical use of the price club for profit, of disregard for the rules of economic competition or of establishment of a price cartel, enterprises will be automatically excluded from membership in addition to other economic sanctions.

So far more than 50 enterprises applied for price club membership, 34 of them have been accepted, 3 of them withdrew--including the Tungsram, Inc; 4 applications were rejected, and no decision was reached by the beginning of June on 6 applications. As Miklos Tombacz, chief of the main department of planning and economy of the Ministry of Industry, said, the selection process involved lively, and sometimes heated, debates on one or another application. There was one thing the committee members agreed upon: the Ganz-Mavag, having great economic problems, cannot be a member. But the pricing control cannot be solved with the Hungarian Silk Industrial Enterprise either; this enterprise is not only in a monopolistic position but is also inefficient. The application of the Charmeuse Knitwork was also rejected after a hard debate: it was primarily the Ministry of Internal Commerce which grieved that the enterprise has been producing less and less each year for the domestic market. It was also said, however, that the enterprise cannot be blamed for this, for it has greatly increased its exports to capitalist countries recently and, as it was said, it could do this only at the expense of production for the domestic market.

#### Who Is in a Monopolistic Position?

Most differences of opinion emerged in connection with the various assessments of the enterprises' domestic markets and competition. For instance, the Taurus' application was accepted only after several rounds, for some authorities maintained that it has domestic monopoly. On the other hand, the Ministry of Industries represented the view that this can be easily controlled by imports competition. So much the more because the enterprise has only partial monopoly, for several other smaller domestic enterprises make rubber products as well. The Taurus had a solid domestic pricing policy up to now, i.e., it did not exploit its advantage on the market, and it plans to adhere to it even after the lifting of administrative limitations. There was a debate on the application of the Quality Shoe Factory, for its domestic supply, in spite of the existing competition, is allegedly uneven. In spite of this, the enterprise may become a member after all. On the

other hand, the application of the Electric Appliance and Material Factory was rejected, for it has limited capitalist exports and its domestic supply is not constant enough; the quality of its products is sometimes also questionable. The application of the Electrical Equipment and Appliance Works, although supported by both the ministry of commerce and the ministry of industries, will be judged by the Pricing Bureau. The opposing faction argued that the price increases of electrical equipment, although properly done, exceeded the warranted limits in the past years.

In judging the applications, the interpretation of monopoly was the most frequent cause for differences of opinion. There were many cases in which the authorities argued that the applicants had monopoly over the domestic market, resulting from the fact that, because of the size of our country and because of industrial management, a single enterprise frequently represents an entire production or industrial branch. The special ministry's argument was, on the other hand, that these large enterprises have been exporting for a long time, they know the rules of competition, and realize that unlimited price hikes may soon strike back at them. In their case it should not be allowed at all that organizational status or size stand in the way of experimenting with more realistic possibilities in pricing, for it may be precisely this that will in time bring about a competition among them.

The most characteristic conflict became clear in connection with the application of pharmaceutical enterprises. One camp (including the Ministry of Industries, the Ministry of Foreign Trade, the Hungarian Chamber of Commerce and the Pricing Bureau) maintains that the pharmaceutical enterprises are competitive both abroad and at home, only the buyer (the Gyogyert) seems to have monopoly. Limited domestic pricing policy is also guaranteed by the nature and use of the products. And if they continue to be required to report any increase in producer prices, then the price changes can be controlled by the state. The opponents, on the other hand (including the National Planning Bureau and the Ministry of Finances), argued as follows: in classifying our pharmaceutical industry there is no mention of import competition and, in addition, the enterprises are forced to market their own products. But the greatest doubt is caused by the fact that the users are hardly in the position of tolerating an increase of the producer prices of medicines. In other words, the membership of this industrial branch in the price club would result in an automatic increase in the budget's consumer price supplement expenses. This clearly illustrates the great dilemma of competitive pricing. For no one doubts that our world famous pharmaceutical industry is not only competitive abroad but also withstands competition. Thus it would be justified from the aspect of production to gain as much profit from their domestic prices as well as necessary for their present and future development. This would also make it possible to increase their competitiveness and thus their longer-range revenues. The question is open, the members of the committee still differ in the assessment of this industrial branch.

#### Debate on the Hen and the Egg

The few months since the price club's "opening" and the development of competitive prices are, of course insufficient for making general conclusions. It is already apparent that the views of applying enterprises and the judging authorities are getting closer to one another in this economic debate of the hen and the egg, i.e.,

which should come first: the market or a competitive pricing system? For it has been recognized that these processes can develop only parallel to one another, strengthening one another. On the other hand, until only partial markets exist in our economy, rules of competition (already on the drawing board) are sorely needed for an increase of enterprising opportunities or for the elimination of monopolies resulting from a profile economy; these rules would lay the foundation for decent economic activity--among other things. In addition, the strengthening of price control, market control and updating may become paramount among the tasks of industrial management of the near future. The first steps toward this have been made in the past weeks in the Ministry of Industries.

9414

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HUNGARY

NEW PROPOSALS TO IMPROVE AGRICULTURE

Budapest FIGYELO in Hungarian 31 May 84 p 17

[Interview with Dr Imre Kovacs, deputy head of the MSZMP Central Committee Economic Policy Committee, by Peter Bonyhadi, correspondent; date and place not given]

[Text] Seeing the success of agriculture but ignoring, for instance, its share of the national economic investments and its contribution to the national product, many individuals are on the verge of overstating the actual role of the branch. Our correspondent, Peter Bonyhadi, talked to Dr Imre Kovacs, deputy head of the Department of Economic Policy of the MSZMP Central Committee, about the realistic economic-political evaluation of agriculture and foodstuff production.

[Question] The Central Committee recently discussed the directions for further development of the economic mechanism and for modernizing economic management. To what extent and in what way are these related to the agricultural cooperatives [TSZs]?

[Answer] The modernization of economic management relates to the enterprise and institutional system of the entire Hungarian economy including the TSZs. But further progress cannot be interpreted in a mechanistic fashion. Basic changes are not needed in the TSZs but the--let me say--maintenance of their internal management system is, nevertheless, justified. Namely, one of the principal aspects of the modernization of economic management is independence and entrepreneurship, and the TSZs have had these from their beginning.

In the framework of cooperative self-management, the owner-membership determines and approves the strategy of management. These methods of internal management and incentive--which are to be followed by other enterprises, by the way--must be further developed. Especially at TSZs occupying large areas or functioning in several agricultural branches, it is warranted to assure greater independence, responsibility and the associated financial interest for the individual agricultural units. In many TSZs, this already is the managerial practice--and where it is done well, the results also don't fail to arrive--but it is not yet generally adopted.

The excessive centralism of management must be relaxed also in the TSZs. The cooperative form becomes up-to-date, in the current sense as well, through this and through the meritorious functioning of the self-governing forums. Therefore, by the way, I find no sense in the proposals raised at cooperative theoretical debates which urge the splitup of the large TSZs.

Namely, the process of merging the TSZs was not a faulty step. This was one of the basic conditions for a rationally increased production. Moreover, the 4,400 hectare average size of the TSZs cannot be viewed as a mammoth-sized enterprise. Of course, it is another question that the rate of mergers was too rapid in certain cases. Therefore, occasionally it took longer than justified to fill the increased enterprise dimensions with content.

#### Interest Representation of the Membership

[Question] Continuing with the organizational management system of the TSZs, how does it change, and is there any need at all to change the system of interest representation?

[Answer] The regional associations of the TSZs and the national council adequately provide for the tasks of economic interest representation. But an expansion of the economic interest representation into a task with official characteristics must not be permitted. To be candid, such initiatives mostly did not come from the interest representations. Namely, in several cases, they accepted such types of tasks in response to a request from precisely the governmental authorities.

Having been freed from these, the regional associations and the national council also ought to deal with representing the individual interests of the membership in addition to protecting enterprise interests--as has been done up until now. Namely the TSZ member, both owner and employee at the same time, can encounter conflicts with the cooperative leadership. Especially in the period to come when the ac members or a group of them and the ac leadership can have differing opinions about the effectiveness of managing the farm with human labor.

In such cases, the cooperative interest representations also ought to fulfill a role similar to the unions in state enterprises. By the way, this line of duties is spelled out in the "license" of the interest representations, only they have not much used it so far.

[Question] Although there are some controversies between TSZ members and TSZ managers, the judgment of the regulatory system is almost always received with complete agreement. Discounting enterprisal bias--which is almost compulsory in such cases--it appears indeed that the large agricultural enterprises are less and less interested in increasing their profits because the excess is immediately taken away from them. Many formulate it so that the regulatory system seems to punish those who manage well. What is your opinion?

[Answer] There is some truth to this--although enterprisal opinions are often exaggerated--and this also is a reason why the further development of the

regulatory system is needed. In addition, they will continue to pay attention to the characteristics of agriculture, of course. Thus, for instance, the so-called price center of the producer prices is expected to continue being based on the enterprises managed under average conditions. Enterprises managed under worse than average conditions will, of course, receive support.

In further advancement, it also has to be kept in mind that many foodstuffs will continue to have prices set or limited by the authorities. Thus the growers cannot automatically pass on their costs to the consumers. Obviously, this also means that the factored-in costs must also be controlled in some manner. Thus, not only must wholesale and consumer prices belong to the so-called official category, but much of the agricultural tool and material prices must also be controlled.

#### With Lower Subsidies

[Question] Does that mean that they want to narrow agricultural parity?

[Answer] I think it can be expected from the final effect of the decisions that agricultural parity will not become broader. This would be very important because, if industrial and agricultural prices continue to edge away from each other, then this would cause very serious problems in significant areas of agriculture.

Hopefully we will succeed in providing the resources needed for the renewal of agricultural production. Namely, for agriculture to be able to increase its production according to plans on a longer-range as well, its production capacity must be increased both in quantity and quality. No one debates this. The only question is how we succeed in providing the necessary resources for development during the individual plan cycles and, if they are available, what they can be spent on.

However, this special attention does not mean that agricultural production could make itself independent of international economic conditions. It must be managed at lower costs and must produce better quality.

The increase of processing, packaging and especially of storage capacities is of fundamental importance. Namely, if we have succeeded in producing something of good quality, then it should be preserved until its sale at a level for it to meet stringent market requirements. If we do not make considerable progress in storage then it will not be worth while to increase the yields above a certain level because part of the value produced will be wasted anyhow.

[Question] Does what was said so far indicate a recognition by economic management that the limitations on development had a more serious effect on agriculture than on other branches of the national economy?

[Answer] It cannot be stated that the involuntary budgetary restrictions would have affected agriculture more. On the contrary! Agricultural regulation is, in many cases, more favorable than industrial regulation.

Thereby I do not want to imply that agriculture is in a preferential situation because--in accordance with international practice--its characteristics are acknowledged by regulation.

Of course, the fact that in years past less than needed could be spent on development, makes its effects also felt in agriculture. But the stress is still bearable. Development is needed, however. This is not only a matter of decision but it is also the function of changes in the economic situation where, in turn, agricultural production plays an important role.

I hope that, taking into account the characteristics of agriculture, regulation will be able to give more recognition than before to better, more efficient work at the expense of those doing a poor job. This means that, in the future, better workers will be allowed to prosper while bad managers will land in an even more difficult situation than the current one.

[Question] The badly managed TSZs working in the red will, nevertheless, be helped through the budget. Or will the enterprises hopelessly in the red be dissolved?

[Answer] According to the general guidelines, uneconomical activities must be suspended. In agriculture, however, it is inconceivable that soil would be left uncultivated because of managing them at losses. At these enterprises, the unsuccessful, ineffective management must be replaced. If even this doesn't help, only then can the enterprise be liquidated in such a manner that its production tools and soil could be used by other, successful, or at least more successful, agricultural enterprises. Agricultural production, however, must be continuous, the organizational form is not guaranteed by anyone.

Interest representation can play a great role here also. Already because of its situation, it can foresee that the direction of an individual cooperative is leading to economically impossible performance and, in order to prevent it, it can suggest timely steps toward a solution. Regulation can only take into account unfavorable natural endowments, not incompetent management.

Net Income First of All

[Question] It appears from various economic analyses that agriculture contributes more to the state budget than it receives from it. How can this be evaluated, in your view?

[Answer] I do not consider such "shifting" of the balance unfavorable. Namely, for a long time, agriculture was accused of increasing only gross production without making headway in its net production. In recent years, however, the growth rate of net income surpassed that of gross income. There was also improvement in the indicators registering allowances in kind, such as feed utilization, energy consumption, etc. This also indicates that the coercive effect of the regulators more or less achieved its goal. It inspired greater efforts.

With the exception of last year with its drought, agriculture was able to increase its profit in spite of the stringent regulations. It is my firm

conviction that without the drought the branch would also have been able to do so in 1983.

[Question] Economic management is striving to provide the system of conditions necessary for development. But will there be something to spend the money on? Will Hungarian industry be able to satisfy the machinery demands of agriculture to a greater extent than before?

[Answer] Previously, it was one of the errors of industrial development that it did not look upon the food-producing branch as a significant receiving market. The situation has changed since! Industry has modified its earlier stand and the industrial enterprises also are striving to turn toward agriculture today. It means much for the future perspective that the current strategy for industrial development also favors agriculture and the development of branches supplying and serving the food industry.

But this recognition is futile if industry also struggles with developmental problems, if the earlier developments are not in every way suitable for satisfying the agricultural and food industrial market of today. But food production also needs modern production tools and packing materials right now. Only in this manner is it able to fulfill domestic supply and, even more, the export tasks which increase year by year.

#### Closer Relationship with Foreign Markets

[Question] In export, a decisive role is played by foreign trade enterprises, the organizations which are criticized by growers with increasing frequency. How valid are these criticisms?

[Answer] Foreign trade enterprises have an easy task if they can market the kind of products in demand there. But we cannot always respond to the demands of the foreign market or else we cannot always deliver goods of special quality to saturated markets. When foreign trade enterprises refer to these facts, they must be acknowledged.

At the same time, it also must be concluded that the foreign trade enterprises dealing with agricultural products were organized at a time when a relatively small amount of products had to be, and easily could be, sold on seller's markets. This situation has drastically--and for us often disadvantageously--changed since. But in their approach and methods, the foreign trade enterprises often remain unchanged.

Of course, much depends also on the growers but it would be precisely the task of foreign trade enterprises to make known the foreign market demands and requirements, and to maintain a closer relationship between production and marketing.

Economic management did not discover these demands now, and it also did more than just plan an improvement, but much is to be done before these principles become enterprisewide practice. On the one hand, the fulfillment of our export projections must be insured--in some cases also with direct guidance

methods--and, on the other hand, within the framework of the modernization of economic management, the regulatory, guidance and organizational conditions must be set up which will make a direct intervention in enterprise activities unnecessary.

[Question] We have gained a clear picture of the economic policy evaluation of the branch. What is the situation with the social evaluation?

[Answer] The picture is unequivocally favorable! Agriculture is praised much, perhaps too much. The branch would also be better off if half of these praises could go to industry.

2473

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## HUNGARY

### RELATIONSHIP OF CONTRACT STORES, UNIONS

Budapest NEPSZABADSAG in Hungarian 29 May 84 p 5

[Article by Ervin Tamas: "The Steward in Half Light--The Contract Stores and Trade Union Work"]

[Text] What can a trade union steward do in a store being run under contract? Most of the answers received to the question are cynical, some try to dismiss the matter with a joke, and even those responsible in the matter give an uncertain answer. So, what can he do?

"He can work."

"He can collect stamp money!"

"He has no say in anything. He should keep quiet."

Let me quote at greater length the trade union secretary of the regional directorate of a catering industry enterprise:

"There are few personnel in the contract shops and the worktime is unconscionably long. When I ask someone if he has taken his day off he thinks I am joking. For the time being no one is complaining, but there is a question what the trade union can do in case of a possible accident or if one's health is permanently damaged. The total of their accounted wages is small also. We once asked the contract operators to send in the names of their female workers--two of them replied. In the end, we ourselves collected the list of names so we could give out the awards for Women's Day. When it came time to distribute them we were surprised to find that half of them no longer worked there! Not a single person working in a contract shop showed up for the traditional enterprise excursion, they have no time for such things!"

### He Who Gives Work Gives Bread

When the contract system was introduced it was declared in black and white that the enterprise itself was only the employer, providing the work, but whoever led the shop was the employer who provided the bread. On paper, the wages of the employees are less than those of a factory gatekeeper, but in reality they are frequently more than those of the director general in the same plant--the boss "differentiates" with the considerable difference between the two sums. Pay out of pocket can eclipse the labor law rules and enterprise

prescriptions, just as does interest protection for the workers. So silence is golden, at least more commodious, and those who talk will not easily find another contract job.

Of course the labor affairs court can provide justice--but how, if the purse is not filled with documented forints? The boss will take the worker back, but he is not inclined to pay special for his work, and there is no paragraph for such cases. In a word, peace reigns in the house of the contract shops, money serves as the instrument of discipline, there is no committee or written admonition, and it is superfluous to appeal. There is no doubt that from many viewpoints this simplified order of business is useful: but there is a disadvantage on the other side--the employee is more dependent than elsewhere. The strictly material factors encourage not only more industrious work but also an attitude of not seeing or hearing, and especially not speaking.

"Under such circumstances can one expect the trade union steward to carry out his task?" I asked Bela Tavali, secretary of the Somogy County Committee of the KPVDSZ.

"In only one case--if he is absolutely needed! To put it plainly, the function is viable only if the best trained, most clever, most mature worker is the steward, somebody who does not just run off at the mouth. Even the hardest boss must tolerate such a person, because his work means money."

The conclusion to be drawn is a beautiful one, for it indicates that the natural selection of the contract system helps those worthy of it to assume the office, and insofar as it is bequeathed to them, the shop chief desiring peace secretly adds a "scoop" to the wages--to buy the satisfaction of the steward. It is true that--especially on Lake Balaton in the prime season--the collective may ridicule someone who goes through the law books to protest against the 16-hour workday or perhaps to demand a day off. It is interesting to note that social insurance supplementary pay days have hardly been registered from the 409 contract shops of Somogy and the protests against the harsh work conditions are not so loud as in the regular accounting shops. Although the number of personnel are kept unjustifiably low in some places by the restrictions on personnel, forcing "black" employment and more extra work than there should be, some of the catering enterprises and consumer and marketing cooperatives have converted virtually entire combines to contract operation.

So money talks. . . Only inspections, like commando raids, and the rumored scandals call attention to the methods which can be found here and there, employment which is not exactly human centered.

The people complaining at meetings in Somogy County are usually the shop leaders, and not the stewards.

I learned from Bela Tavali that long wrangling preceded the answer to the question: How should the trade union be present in the contract units of

the commercial and catering industry? Finally those responsible decided that a worker could choose between two possibilities: If he wanted, he could reserve his rights, and if he wanted, he could remain a member with full rights also.

#### Key In Hand

"In the latter case, the member has full rights to the various entitlements and preferences--but the trade union cannot provide direct legal protection. That is, the worker can seek redress for grievances only via civil proceedings," the county secretary of the KPVDSZ said.

The shop leaders objected that they were helping to generate the welfare fund at the enterprise but that they could not make use of it. Indeed, up to now, the doctor could not put them on supplementary pay status. Only very recently did it become possible for them to register themselves in the event of a sickness lasting more than 7 days. But anyone who knows anything about the world of the contract shops will tell you that these complaints are valid only in theory. So far not a single shop leader has made use of the welfare fund. The boss must be in a very frail state indeed to let the key to the shop out of his hands and stay at home.

A more vital problem is the problem of those approaching retirement; on paper their pay is extraordinarily low. There is no hope of legalizing their extra income because if this were done more than one firm would go bankrupt due to the extra withdrawals for the higher wages. For the same reason, many accidents on the job are kept secret, because the contract shop leaders are not much inclined to compensate the difference between "recorded" money and real income.

"While we produce about half of the profit of the enterprise we are excluded from the basic staff, we cannot be 'outstanding workers,' we cannot receive profit shares," the chief of one country inn listed the indignities affecting him. His complaint may not seem serious, but if I supplement what was said with the fact that for decades prior to the introduction of the contract system he was a respected worker of the firm--it is essentially just, because he remained faithful to the firm. But he feels that his firm was not faithful to him--never before could the firm book so much profit for his work, his shop was never so profitable before. And the awareness of achievement is not simply a material question for him. He misses the praise, the moral recognition.

#### Outstanding Shops

"I stay open 87 hours a week. There are no family members to spell me, and since the risk is mine I cannot go home to rest, much less take a day off! And in addition everybody sharpens his tongue on me, puts the touch on me, because I am living as easy as a fish in water! I have the right to do one thing--to pay," another speaker said.

The other shop leaders painted the dark side of the new form of operation too. Perhaps they are right, because public opinion is concerned only with the sunny side. It made me wonder that there are entrepreneurs willing to give up a sure thing for uncertainty, put their family life and health at risk, deprive themselves of a tranquil old age, when finally someone put a point to the flood of complaints: "We figured on this before we got into it, and only a few of us have put up the white flag. Doesn't this prove that our calculations more or less paid off?"

The answer was a mute nodding.

It is a fact that the stewards--that is, the employees--hardly spoke up at this forum. But the county leadership of the KPVDSZ was right to hold the roundtable talk. Partly because it opened a possibility for an exchange of views, to map the not few contradictions. But also because it provided an occasion for the trade union to indicate that it was not forgetting about the new form of operation, was trying to deal with the problems arising there--even if, for the time being, it is not clear what can be done, what must be done. For example, they are experimenting with spreading labor competition, they are supporting the initiation of an "outstanding contract shop" movement, they are urging an adjustment of the interest protection of the workers to this form.

"About 10 to 15 percent of the trade union members are working only in contract shops. We will meet with an entire series of still hidden problems when each agreement comes to an end and the workers want to receive satisfaction for their grievances after the fact," Bela Tavali emphasized. "Those who are silent today will speak tomorrow, and they will expect a concrete answer. We cannot avoid giving an answer. We must prepare to do so."

8984

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AIMS OF ECONOMIC RESEARCH IN VIEW OF PLENUM STANCE

Budapest FIGYELO in Hungarian No 25, 21 Jun 84 p 3

[Article by Robert Hoch, member of the Economics Working Group of the Central Committee: "The Tasks of Economics Research," based on a speech titled "Economic Reform and Social Structure in the 1980's" given at a scientific session of the Hungarian Academy of Sciences]

[Text] In the second half of the 1980's--even more than ever before--the reform of economic guidance and management sets the tasks for economics researchers.

Economics research (and social sciences research in general) and the debates which took place on the basis of it had a significant role in the development of that conception which was suitable for a further development of the reform which began in 1968. But science cannot stop with the preparation of a model. It must keep track of how this model should be adapted in practice and how it is actually working. The study itself has many sides:

--What functional confusion is caused and what trends are set in motion by deviations from the original ideas?

--What were the deficiencies of the original model?

--In what direction must the model be perfected?

--Does everything which is being realized in practice coincide with the draft accepted by the researchers and the economic policy leadership and finally approved in the 17 April stance taken by the Central Committee?

How Is It Working?

One of the most important experiences of 1968 was that when the reform ideas went from the committees organized by the Central Committee to the "state line" the result was that a number of elements of the mechanism which went into effect on 1 January 1968 were modified significantly as compared to the party conceptions worked out by the committees, or at least the original thinking changed to such an extent that this could be regarded as an essential modification. I mention only one example. A position developed according

to which the links of foreign trade enterprises and industrial enterprises were to be of many types--in accordance with economic rationality--but priority was to be given to no one form. The actual situation which developed--existing even to this day--was that the commission system remained supreme, the activity done, as they say, on one's own account was forced into the background, and all this was accompanied by a number of negative consequences.

In the event of the full or partial realization of the original conception we must examine the extent to which it is functional in real life. Two questions have outstanding importance from this viewpoint:

--the scheduling of the changes, and

--the legal regulation.

A study of the harmony between the latter, the change in legal regulation, and the economic conception requires close cooperation between economics and legal science. As for scheduling, it is not possible to put a perfect, faultless and absolutely consistent conception into effect from one day to the next. Even today one needs smaller steps in the planned direction, but the essential thing is that there is a need for a larger, more significant step to be realized in one or two years, which then must be followed by new, gradual changes. The starting point for the process is the intermediate phase. This must prepare for a further stage ensuring gradual development. As is well known the economy and the society are a uniform system, and it may thrust out of itself elements alien to the system. The fundamental question for research is to determine the critical mass of change which can change the character of the organism and not just start an "immune reaction" against the new elements. Only when this is achieved will the economy accept the changes gradually implemented in the stage following a larger step, and this is one of the guarantees that a "return to the old order" will not begin again.

When and in What Sequence?

The changes carried out in a larger scope can realize only a part of the conception, and this presumes a continuation in the next stage. We learned after 1968 that if the presumed next steps are not taken or are delayed then the contradictions and tensions necessarily accompanying the transition sharpen to such a degree that even preserving the results already achieved becomes questionable. For example, in the years following 1968 we should have modernized our institutional system as well. But--as is now obvious--the change did not take place, and this became one of the chief obstacles to the unfolding of the reform. So we must analyze carefully what the necessary elements for a continuation of the reform are when and in what sequence they must be implemented and what the consequences of failing to implement them will be.

The present conception, like all conceptions, is not perfect, not faultless and not absolutely consistent. Nor can it be. Theory can predict only

in part, only in large tendencies--in the optimal case it sees the main line of development. It makes use of hypotheses, which the future will or will not justify.

Like every plan, so a plan for the further development of production relationships also makes use of a number of suppositions--explicit ones in a good case. Some of these hypotheses pertain to those conditions in the midst of which the changes can be carried out. For example, there is the supposition that the international economic and global political situation will not be considerably worse than at present.

Another part of the suppositions presumes that the behavior of the economic actors will change in a determined way with the modification of the conditions for management. For example, we presumed that the leaders of the enterprises would react more sensitively to changes in costs and profits, primarily that they would adapt better to the (internal and external) market and would strive for innovation. The hypothesis is a just one, for various studies have shown unambiguously that basically the economic environment does determine the behavior of the economic actors. But we can count on a change in behavior only with a certain probability--as a function of the environment. It may be that the "dependent variable" follows the "independent variable"--in this relationship--only with a significant delay. A number of important questions cannot be decided a priori; only practice can be the judge, and theory must confirm, modify or even reject the hypotheses on the basis of practical experience.

Open questions necessarily remain also. Fundamental theoretical questions were not answered in 1968, and have not been answered since. To mention just one example, one of the basic pillars of the reform introduced more than a decade and a half ago is that profit is the chief motive of the action of the enterprises. But we have not cleared up what the actual content of the profit of a socialist enterprise is. It is now accepted that it was an error that short term profit became the focus of the incentive for enterprise activity. But what is long term profit and profit interest? Is it the average of the profit of several years? Or is it something entirely different? Might it be the combination of the strategic goals of the enterprises? (The enterprise policy goals pertaining to getting and holding markets, product structure, technical development, etc. and the interest in the effective realization of them.) But how can we make the leaders interested in fulfilling them in a way acceptable to them? Basic research must answer a number of questions similar to these.

If we wait to act until we have cleared up all questions and decided every debate, then we would never act.

Continue the Theoretical Debates

Every conception, especially a reform conception affecting economic-social relationships on such a large scale, is necessarily the result of compromise, if it pretends to practical realization. It must be made acceptable to those

holding the most varied views, values and interests. And inconsistencies necessarily follow from compromises. It would be naive to think that one could give birth to some sort of pure theoretical plan, and that the compromises would arise only in the political sphere. The truth is that even the opinion of the researchers is not uniform. It would be a big problem if it were. One researcher or a smaller research group may submit a theoretical conception homogenous in every respect. But the Economics Sciences Institute, for example, is not capable--nor does it desire this--of handling in a monolithic conception with which every scientific colleague absolutely agrees--even in the chief questions alone. The theoretical debates must be continued in the second half of the 1980's--amidst changed and changing circumstances--with even greater intensity than at present. Because, let us confess it, we have swept many debate questions "under the rug" so that we might emphasize our agreement in the unavoidable necessity of continuing the reform.

We must examine the critical limit of inconsistency and compromise, that value beyond which the basic conception itself will be sacrificed.

The conception worked out to continue the reform--more or less following from the character of the thing--has an economic character. The application of the model may run onto shoals if society does not accept it, if it produces social contradictions and frictions which appear in the form of political tensions. Of course, every reform, indeed every more significant change, will produce negative social effects. Beyond a certain point these tensions--if we do not resolve them--either become unbearable and/or there must be a retreat. Let me note that even certain local tensions can be exploited well as arguments or pretexts against the changes. The new always clashes with the existing interests, ideologies or customs. I am convinced that one of the serious errors of the 1968 reform and of the years following it was that we did not turn sufficient attention to social acceptance; we did not discover in time the contradictions which were arising, did not work out methods, tools and institutions to handle and resolve them.

Let me mention only a few of the dilemmas which can be seen already before the changes now suggested:

--Ensuring simultaneously manpower mobility and full employment.

--Creating harmony between reform and social policy. Connected with this, the problematics of income and property inequalities.

--Reform and inflation. Will inflation necessarily accelerate in the wake of the reform? If so, what effects will this have on the populace and on certain groups of the populace?

--The effect of dissolving supply responsibility on the supply of goods for the populace.

--What will the competitive position of the various social groups be? I consider this especially important: Will we create conditions so that workers

in large factories can increase their earnings in accordance with extra performance?

The authority of the enterprise sphere is increasing, and what is even more essential, the structure of the enterprise sphere is changing. So we must turn greater attention to research dealing with the enterprises and must change the methods of research dealing with the enterprises too.

#### Macro-Research and Enterprise Research

A reduction in the role of macroeconomic research does not follow from the above. In the first place, the importance of macroeconomic research will increase for the enterprises too. In the second place, the sphere of central decisions may be narrower but it becomes all the more essential to discover what the object of economic policy decisions and (long, medium and annual) economic planning is; what tools of economic policy are in harmony with the changing relationships. For example: the sphere of central decisions pertaining to the allocation of resources and the depth and means for these decisions; macroeconomic regulation of the buying power of enterprises and of the populace; and the role of the state in technical development and the tools for this.

The developing and changing socioeconomic relationships require--as I tried to indicate in the foregoing--a change in research attitudes. We need not work out new mechanism models, rather we must place in the center of our studies the functional ability of the new forms and relationships, the conditions for this, and a perfection of the model which has been placed into operation.

We must develop research methods. Increased cooperation between economic science and the other social sciences (and not only the social sciences) is especially important.

Last but not least, all this makes obvious the importance of applied research. But if we do not increase the role of basic research aimed at answering important theoretical questions we will not be able to meet the demands being justly made of economic science either.

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POLAND

'NOT' CHIEF SAYS 'ANCIENT ENGINEER' BIAS CURBS AUTO INDUSTRY GROWTH

Warsaw MOTORYZACJA in Polish No 4, Apr 84 pp 89-91

[Excerpts from a speech given by Aleksander Kopec, chairman, Administrative Presidium of NOT (Chief Technical Organization), at the conference "Autoprogress 83/84" held on 6 and 7 January 1984 in Warsaw and organized by the Industrial Institute for the Advancement of Automotive Transportation, the Military Institute of Armored Vehicle and Automotive Engineering, and the Automotive Section of the Association of Polish Mechanical Engineers]

[Text] As a result of great financial effort of the government and creative work and involvement on the part of personnel and administrators, the Polish automotive industry has been substantially reconstructed and modernized during the 1970's. Modern construction and technological solutions, tested in production and use, suitable for multiserial and mass production were implemented. As a result, product quality improved and the distance between our industry and that of European automotive industry decreased substantially.

Attaining an annual production of almost 500,000 vehicles in 1980 made Poland a notable European producer. The programs formulated for the next several years foresee an increase in production capacity by an additional 150,000 to 200,000 vehicles annually, especially large capacity trucks and delivery vans. The country's development of a service base for various types of vehicles has been accelerated.

Aside from technical accomplishments, the automotive industry contributed substantially to the national economy. Income from sale and use of cars by our people alone amounted to approximately 800 billion zlotys in 1972-82. Despite the breakdown in production resulting from the crisis and exploitation of scarcely 60 percent of production capacity, in 1982 alone the automotive industry produced 244 billion zlotys worth of goods in current prices and enriched the national treasury by 65 billion zlotys in the form of taxes.

In addition, the automotive industry was one of the greatest suppliers of foreign exchange for exported products. In 1971-82, in car exports we achieved an increment in balance in trade with the second payments area amounting to approximately \$1.3 billion U.S.A. (over and above expenditures of hard currency on investment, license payments and cooperative-procurement imports). The former "Polmo" association paid its loans off completely, including interest. In that very year, 1980, export amounted to 3 billion

zlotys in hard currency, including 1.5 billion zlotys in hard currency to the second payments area, that is, approximately \$380 million. We may state that in past years the automotive industry was converted from an industrial branch to a significant arm of the Polish economy with a multiple social and economic significance.

Today this great and modern potential is equipped with the most modern means of production and is being exploited, as I have said, to only 60 percent capacity. This must disturb every engineer, and should disturb every Pole. It is worthwhile then in the present situation to seek methods of actually using the potential we have and ways of developing the Polish automotive industry. It would be worthwhile also to find the reasons for our lack of success. Many difficulties are the result of the breakdown of the economy in 1980-82 caused by the sharp sociopolitical conflict, and the ensuing crisis situation with various political and economic restrictions.

Basic causes of the problems in the automotive industry, however, are the result of the fact that during the crisis period a number of incorrect evaluations and erroneous developmental concepts were formulated. As time passes, we must see the mistakes that were made. But they cannot mask the positive results of work. Those who work at cross purposes made us return to the fatal views of the 1960's in the sphere of developmental and socioeconomic concepts, a move backward by about 15 years. Those who opposed the automotive industry at that time publicized various slogans, for example:

--Private cars are unnecessary in Poland and should be replaced by public transport.

--Poland cannot develop the production of cars since it does not have its own sources of petroleum.

At that time in social priorities, the development of motorization was placed in opposition to the housing industry and, as if in irony, it was also placed in opposition to the agricultural-food complex. Statements were also made that the automotive industry was supposedly characterized by being excessively capital intensive and of low economic and export efficiency.

There were more such false and harmful views. Bandyng these about paralyzed the actions of the authorities and made government decisions more difficult.

The present revitalization of these tendencies and certain views must be recognized as one of the causes of regression of this significant industrial branch and the creation of an unfavorable climate for motorization, and even a threat to its harmonious development (...). Anyone who knows world economic history and the realities of its economic development will confirm that the automotive industry does not add to the difficulties of solving socioeconomic problems, but on the contrary, makes their solution easier by making modern technology and new methods of organizing production accessible and applicable to other branches of the economy.

This very obvious dependence must be honestly presented to the authorities and to the community. I believe that the most competent people, journalists,

should do this, and therefore I am proposing the formation of a journalists' club for the automotive industry. Owing to the many false views that appeared in the recent past, I detect many dangers with which we will have to cope in our efforts to create a new image for our economy. Antitechnical and antiengineering thinking even today advertizes itself in various publications. We may, for example, note the exclusion of the technical element from the formation of development programs and active participation in implementing the economic reform or creative participation in sociopolitical life. This has its deeper foundation in the dominance of the creators of the culture of the spirit in community life over the creators of material culture, for it is difficult to hide the fact that technical creativity does not always enjoy a good press (...).

Motorization carries the progress of civilization and technology, satisfies the desires of society, improves the quality of life, and is a measure of advancement of economic development.

Products of the automotive industry enjoy a persistent and unabated demand in our country, a fact borne out by the growing lines waiting for their own cars.

The automotive industry is a bearer of technological progress in other areas of the economy. For it was this industry that was decisive with respect to progress in the forges and foundries; it was decisive with respect to the need to install automated processing, painting, and welding lines, and -- on a large scale -- modern technology for nonwaste part forming and "robotization" of production processes. The four-wheel industry sets the tempo of development for microelectronics. Only 12 years ago the average private car had electronic components worth not more than \$18. Today the value of electronic equipment has increased tenfold, and it is anticipated that in the near future it will be worth approximately 20 percent of the total value of a car.

By the end of the present decade, every new car will be equipped with at least one microprocessor, and the value of world production in the area of automotive electronics will increase from \$2 billion to more than \$14 billion.

Service manuals which indicate when standard maintenance must be done will soon become obsolete. All the necessary information will be printed out on microprocessor sheets that will inform the service people at the proper time, taking into account not only the mileage of the car, but also the conditions of use. Information necessary for safe operation will be collected by sensors located at sensitive points of the car, converted, and projected on the instrument panel.

Against this background, how embarrassing and disquieting our arguments about the role of technology in the life of society seem...

World prognosis on the subject of fuel for motor cars has improved. The fuel situation in Western countries is not forcing producers into a headlong

search for reducing car fuel consumption at present, and this is due to the stabilization or decrease in prices. It is clear to all, however, that this is not a lasting phenomenon. Therefore in research centers, work on efficient motors has not stopped for a moment. One of the important research directions is improvement of the feed system and electronization of motors. Leaders in this area are such firms as Bosch, Ford, Fiat, General Motors, and Lucas, and in some cases they are even making joint efforts.

The situation in the automotive industry in the Soviet Union and Czechoslovakia and other socialist countries is similar. The question arises: do we have a program of action in our country in a situation in which the whole world is rapidly moving forward while we indulge in stubborn polemics on the subject of the socioeconomic role of motor vehicles?

Yes, the automotive industry has such a program and is attempting to realize it in specific enterprises. The real value of this program is the full exploitation of experience with licenses purchased earlier and maintaining technical solutions (through development of our own construction and research ideas) at a level not substantially lower than that of the constantly increasing demands of the world market. All of these commitments were accepted by the association of automotive industry enterprises as a program of key tasks for the development of the technology of the branch by 1990.

Now we must unite the efforts of society around this program, mobilize, help it with a judicious credit policy and appropriate mechanisms of economic reform, and not interfere, harass or demobilize it.

The process of economic revitalization is beginning in the country. The time is approaching for forming a long-term developmental program for many branches of industry. The current year will bring basic decisions with respect to directing scientific-technical progress and creating the bases for a real, long-term technical and economic policy.

The revitalization of social-professional activity is becoming apparent in the technical center, and this is a positive thing, our reserve. The very interesting and useful meetings of the technical center with the premier, General Wojciech Jaruzelski, confirmed that the authorities are greatly interested in the problems and activity of our center. The fact that many basic problems brought out at the 20th Congress of Polish Technicians have already been settled is the best pledge for successful carrying out of many tasks in the sphere of science, technology, and the economy (...).

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POLAND

MINISTER DEFENDS DEMAND-SIDE THRUST OF INFLATION POLICIES

Warsaw ZYCIE GOSPODARCZE in Polish No 26, 24 Jun 84 pp 1, 6

[Interview of Stanislaw Nieckarz, minister of finance, by Stanislaw Chelstowski and Janusz Ostaszewski: "Balance Is Most Important" ]

[Text] [Question] You are, it seems, the only minister who during what were probably the longest meetings of the government could not allow himself even a second of inattention. Is it really necessary to watch the state cash drawer that closely?

[Answer] That's an exaggeration...

[Question] But the function of the minister of finance is always special in a sense. He is the one from whom funds are usually requested, but who gets no help in obtaining them. In addition, public opinion generally has it that the economic results can best be attained through financial miracles. It is very difficult to love the minister of finance, and this is true in every country, but if he were loved, he would not be a good minister -- of finances, obviously. He divides, or proposes to divide funds, of which there is usually a shortage, particularly at this time. At the same time, funds are demanded all the more boldly since up to now this was easy and did not usually entail any great responsibility for their efficient use. Despite all this, in all likelihood, the minister of finance is not helpless. Actually he is capable of doing a great deal.

[Answer] I will not contradict that. All the more so since I am by nature more active than passive. But let us return to the basic subject.

[Question] Mr Minister, we are troubled by three serious diseases: market imbalance, investment imbalance, and balance of payments problems. We would like to concentrate on the first two matters. Let us begin, therefore, with the question: Does the finance policy adequately support economic recovery? Does it have a deflationary character that, as you will agree, inhibits economic activity and motivation for development? It affects the demand side of the imbalance more than the supply side.

[Answer] I must caution you here. Finance policy is rarely evaluated as a logically constructed whole. More often we look at its fragments, and this leads to false conclusions applied to the whole. The criteria for evaluating

specific segments of the policy are different, and frequently particular, and the basic criterion to which the finance policy as a whole is subjected at present is different: it is the gradual overcoming of the crisis.

Therefore I doubt whether the implemented finance policy can be unequivocally described as deflationary. It is true that the instruments of this policy are directed to limiting excessive demand. But to no less a degree do they affect the development of the desired structure of supply, even if it is through a broad spectrum of financial preferential treatment. We are acting, therefore, on two sides that form a balance. This is due to the dependence of efficiency of development on the state of balance. For every imbalance weakens the internal growth factors in national income. If there is no market balance, there is no motivation for working, chaos steals in, pathological phenomena intensify. If there is no investment balance, funds expended for investment do not bring desired results. The balance of payments is crippled, and export must be forced, frequently at the cost of profitability.

[Question] Despite this, inflation has not decreased to the degree that one might expect. Is this pressure, then, adequate?

[Answer] There is no government in the world and no minister of finance who could succeed without exceptional external support in overcoming in two years such a serious imbalance as we are experiencing in Poland. It began in 1974.

At that time the economy was supported by credits, thus weakening the internal growth factors. Imbalance, therefore, rolled like a snowball, increasing its mass from year to year. It happened in exceptionally favorable circumstances in 1980 and 1981 when we paid more for less productivity, and the sources of outside support practically dried up. In the end it assumed monstrous proportions. In such a situation is it possible to avoid a deflationary policy? I think not. We are applying it in a very mild form, however, frequently inhibiting the rush to solutions consonant with economic laws, knowing that people would not tolerate the results. Purely economic play would require very great and immediate sacrifices. But are our actions sufficiently effective? In the end, regression was decelerated and economic growth began, actually very slow, but growth, nevertheless.

[Question] The structure of this growth is disquieting, however. Production of means of production is growing faster than production of market goods. We must pay more for the increase in the former, the greater their productivity is. At the same time this money cannot find goods in the marketplace. This does not favor achieving market balance. Perhaps the finance policy acts somewhat too slowly on the desired structure of increase in production?

[Answer] In the past year, production of the means of production in industry, in fixed prices, increased by 6.2 percent while production of consumer goods increased by 5.3 percent. Shifts in the structure are, therefore, rather slight. At the same time, we must remember that these shifts in the structure are affected by the mining and raw materials industries, and that increase in their production eliminated the most serious limiting factor of production, the supply of coal and energy. This was still in very short

supply in 1982. Today, with certain exceptions resulting from import difficulties, supplies have been restocked, and all production for export and almost all market production is experiencing no shortage of raw materials, supplies, or energy. This trend in production was given preferential treatment in the finance policy.

But the finance policy should not alone exert suitable pressures on this structure. This too would be inadequate. Approaching the required structure of production depends on many other factors that are difficult to eliminate today. Among them I would mention the potential of the whole economy, the structure of employment, and innovative and organizational activity. The workday has become shorter, and this was not compensated by increase in productivity. The system of social benefits does not favor professional activation. Decapitalization intensifies but is not countervailed with the necessary energy despite more than adequate potentials for doing so.

[Question] More and more frequently it is said that our system of social benefits is actually disturbing balance and that the state has been overly protective. But this thesis is open to discussion.

[Answer] The matter is very complex. On the one hand, today we have many unmet social needs, and on the other, with respect to actual economic possibilities, with respect to the national income produced, to the possibilities of the state budget, the funds allocated to social purposes are not excessive. But exclusively economic rules cannot be applied here. It is understood, of course, that pensions and annuities must be valorized when costs of living go up. But if we allocate too great a share of the funds remaining to be divided to this purpose, then we will not be able to motivate increase in production more strongly. The same is true of the nonproductive sphere of public service; compensation should increase proportionally to payments in the productive sphere. This is well-founded, logical, and necessary, but it must be correlated with an increase in national income.

[Question] But it is difficult to manage funds for development at the cost of children or the elderly.

[Answer] But we are living in a crisis, and no economy has emerged from such a state without limiting increase in consumption. As far as consumer goods are concerned, the increase cannot be any more rapid than the increase in national income to be shared. Only then will it be possible to allocate funds for appropriate motivation of the productive sphere, which, after all, draws the whole economy upward and on which depend both the increase in national income and the indispensable increase in income for the state budget. It is worth knowing that such conditions are set up, for example, by the IMF in granting credit to countries threatened by insolvency. Obviously these are economic rules which, as I have said, policy must modify, and it does so.

[Question] The tax policy with respect to people is provoking controversy. The accusation is made primarily that the policy is formulated ad hoc and is not subordinated to goals that are clear to all.

[Answer] It is really impossible to agree with this accusation. Many points might be made with respect to the tax system, but it would be difficult to say that it has no clear concepts. The basis is simple: we cannot conduct the same tax policy with respect to citizens and besides, its instruments are adapted to various groups of the population, that is, those employed in the socialized sector that has private stores and even private agricultural units.

In opinions concerning our tax system, I believe there is more psychology than economics, because we have become unaccustomed to taxes. We are probably the only country in the world that has no wage tax, for instance. This the source specifically of the storm in the matter of an equalization tax. Meanwhile, do you know how many persons paid this tax in the end? Only 75,000.

[Question] But what of relief and exceptions...

[Answer] We are aware of these. We exempted, for example, the wages of miners for work during free Saturdays and Sundays, and it would be difficult to be surprised at this.

To complete the picture, the total income from the equalization tax amounted to scarcely a billion zlotys in comparison with 3.5 trillion total budgeted income. For this year, moreover, we converted to a more lenient basis for its computation, that is, the tax-free amount was increased and the progression was less steep. We are not going to give up the wage tax, and will even broaden its coverage. But introducing this tax must be spread over many years. We believe that it must be introduced. It is a world-tested regulator of income that makes flexible and selective action possible, as distinct from prices, for example.

[Question] Only to the extent that with respect to the figures presented, it is hard to see the appropriateness of its use, if we consider the redistributive and motivational functions of the wage tax.

[Answer] In our system, the redistributive function of the tax has a secondary role. Social benefits, paid specifically from taxes in the West, will always be a burden on the budget in our country. As far as motivation is concerned, it is curious what would happen if we were to apply all the income tax regulations that are binding, for example, in Great Britain. There, after a certain threshold is crossed, scarcely 10 percent is left of earned income. And just as they do, we grant relief and certain preferences for a purposeful expenditure of money earned, for example, for the building of single-family homes, which we support and will continue to support financially.

[Question] You have given up redistribution of income, but in the case of taxing trade, does this function play a more real role?

[Answer] Only in the case of those involved in distribution of goods who make money quickly. We give preferences to those areas whose development is desirable. Probably the best evidence of the good functioning of this system is the fact that, despite complaints, we have records over the last 8 to 10 years that show an increase in the number of new trade establishments. The same thing is true of the Polonia companies; except for sporadic instances, they are not going out of business, but on the contrary, their number is increasing. We will, however, decidedly extirpate the skullduggery of every kind of grafter.

[Question] In conclusion on this subject, let us say something about the requirement that was introduced concerning evidence of turnover in agency shops, and not just about that which elicits much opposition in view of the numerous "extraordinary expenses" connected with supplies.

[Answer] This is a problem, but evidence of income is the basis for the actual functioning of every tax system. You must admit that every "pot-boiler" operation of a worker employed in a socialized economy must be accounted for. The first personnel director is informed, for example, about how much a journalist earned writing for other papers. This information implies, first of all, discretion in setting the basis for the tax and eliminates mutual distrust between the of revenue and tax services. Everyone, knowing what his income is, can compute the tax and pay it himself.

[Question] Mr Minister, you mentioned earlier that despite fair possibilities, enterprises are not preventing decapitazliation of fixed assets. In many cases hard currency is used for this.

[Answer] Yes, and I will give a specific example of this. The Mercantile Bank offered enterprises an appropriate dollar amount. Under one condition, that credit must be repaid, together with interest, in hard currency. The principle is fair, but different from former policy under which enterprises received hard currency, did what they believed to be proper, and then the budget had to worry about repayment. But what do you gentlemen think? How many volunteers were there? The bank did not enter into any agreement.

Many enterprises, frequently remembered those that were protected, and now occupy very comfortable positions. It is difficult to rid oneself of the impression that, regardless of level in the economy, they are waiting for some kind of miracle, that the situation will change radically, that a wave of funds will float by, that imports will inundate us, and deficits will disappear without our own effort, without setting our own growth potential in motion. This is a dangerous myth. In my opinion, there will be no such "miraculous" possibilities at least until the end of the current century.

[Question] It is possible that this is, to a certain degree, the result of easing the economic regulations, and that is not always in agreement with the declared economic policy and principles of the reform. In the face of this, city enterprises would rather take a chance and seek funds from the budget.

[Answer ] Many enterprises think only in immediate terms, of the short goal, assigning most funds to current consumption. What is worse, these are frequently very large enterprises that, from general economic and social considerations, must function and must develop.

[Question ] I think that Professor Bobrowski called this a threat of economic cannibalism.

[Answer ] It is extremely dangerous because if we have to divide national income judiciously, then we cannot consume it at the source. We are trying to restrain this running consumption, but we must still support certain enterprises because otherwise they will drop out of the economic chain.

[Question] On the other hand, however, ever more frequently we hear voices speaking of the excessive tendency of enterprises to invest.

[Answer] This is said because activity and attempts to invest are evident where it is not desirable from structural considerations. I would place the blame for this state of affairs on the mechanisms of the reform. A quite idealistic principle was formulated that the most efficient units would represent the greatest investment endeavor, and in view of this, those that were inefficient would automatically be eliminated from the game. But even if this idealistic principle were to be accepted, then it should be executed by a free capital market. Meanwhile there is no such free capital market even in contemporary capitalist economies. And if such an automatic factor should start to act, we would have terrible problems with meeting important social needs and more. The reality is such that enterprises that must be developed for many reasons have no funds for development. They are bound by official prices, they are subsidized, and we, despite appearances, subsidize very sparingly. There are also those, situated usually between the raw material and the finished product, for example, a co-operation, with contracted prices, where profits and development funds grow very rapidly.

The drama lies in this that presently those represent the greatest investment effort that, especially from structural considerations, should not continue to develop. The budget must, therefore, redistribute funds for development, and this is not popular, especially since the mechanisms for such redistribution are not well developed.

[Question ] The principle of shared amortization that has been adopted creates such a mechanism.

[Answer ] This is too little. The quotas under this title can cover scarcely two-thirds of the budget expenditures for production investments. Help from the budget is therefore indispensable.

[Question] The investment balance and structure of expenditures is strongly and very adversely affected by the situation of continuing the tasks begun in the 1970's. Is not the attitude toward these investments somewhat too liberal? Those bloom, while many enterprises have difficulty in using

their own funds for development. What is worse, many of them are market enterprises. The bank inhibits their actions, the conditions for giving credit for supplies and working capital are changed, making development activity more difficult. Is this not caused by excessive involvement of the budget in continuing investment?

[Answer] The investment structure is actually very strongly determined by continuation. These tasks have already been verified three times. KRG is proposing a new analysis. Please believe me when I say that in the end, specific cases are decisive in the results of these verifications. Various kinds of arguments are presented in their favor, generally concerning losses that would result from abandonment. Meanwhile the only decisive criteria should be the criterium of export and the criterium of improving urgent material balances.

This structure is very seriously affected by the fuel-energy block. These are very capital-intensive investments with a long cycle of actualization. Investments in this area must be made with a lead time of several years. On the investment front, however, reserves are sparse. They involve efficiency of investment, which continues to be very poor, just as it is in technologies and in the use of materials pertinent to them. This is particularly true of home construction. The past is a determining factor here, but then not much has changed or is changing.

[Question] But all construction has been treated exceptionally, paternally. In 1982 many construction enterprises were seriously afraid of bankruptcy. Meanwhile all of them presented themselves as being efficient. Was not the minister of finances a bit lax in this case?

[Answer] The minister of finances had no influence here; the enterprises simply increased prices sufficiently, and succeeded in imposing these prices on investors. Investors have money and the most important thing for them is to find a contractor. Here the typical producer's market prevails. In general, the situation in construction is poor and costs are going up. This is particularly threatening to home construction since, under the present system of financing it, a decisive portion of the costs are covered by the budget. From this point of view, home construction bears a social character to a marked degree. This year alone 300 billion zlotys will be paid out for this, for its infrastructure and for current use of housing.

[Question] Should allowing investments to be realized be treated somewhat differently perhaps? It must be understood that it should not exceed the total outlay prescribed in the plan, because otherwise all anti-inflationary actions will end in a fiasco. How do you see the investment structure stipulated in the plan from the point of view of the prospect of achieving a balance?

[Answer] It is not appropriate from this point of view, although in other respects, mainly social, and from the long-term point of view, it is basic. One-third, 30 percent, of outlay is for housing construction. This portion

is, obviously, indispensable from the social point of view; but it will not increase our national income.

Another 30 percent goes for living costs. And these outlays, in addition to numerous investments in the food industry, will not have rapid effects, although they will undoubtedly decrease the need for importing grain and fodder.

Further, 15 percent is allocated to the fuel-energy block. Here the matter is clear. Therefore, we have a total of 75 percent of outlay to which expenses for the construction of schools, hospitals, etc. must still be added. So 20 percent is left for modernization and production investment that could have rapid effects. On this basis, the frequently dramatic demands for additional funds for modernization, in view of the threat of decapitalization, are understandable. But how can these demands be met with such an investment structure?

Such a structure must be treated as a constant by the finance policy. We must wait for directives from the economic policy as to how to spend the remainder. We must always remember the social repercussions of choices we make. We must act very flexibly and selectively. Funds must be adapted to proportions accepted as unchangeable and redistribution must be made.

[Question] If internally collected funds are not sufficient for allocating appropriate funds to investment in enterprises that can produce the quickest results, then in view of this, will it not be necessary to treat the investment programming decidedly more drastically?

[Answer] From the point of view of finance policy, we prefer, and this has the same result, certain directions for investment. But we did not increase these preferences, and this has also resulted in our being criticized. There are many such preferences, they known in general, and I will not enumerate them or the methods of their realization. We are, therefore, attempting to affect their structure. But again, also independently of the level of administration, it has already developed that if someone has to do something, he assumes that he is automatically entitled to a grant, relief, help, in a word, that he must be given preference. We forget that the financial-economic machine is geared so as to operate with at least a minimum efficiency. Preferential treatment is like additional lubrication of the machine's selected components, those that should revolve more rapidly. But preferential treatment also removes support for requirements for efficiency. Meanwhile everyone wants to be oiled. If there is no preferential treatment, a battle begins, contentions, support from the left and from the right, and the state treasury, the villain, could give, but does not. Misunderstanding is complete.

[Question] This is a curious phenomenon since this oiling must be coupled with a certain limitation of independence of the units that benefit from financial support from the budget.

[Answer] Obviously, but even here banks are criticized for marching in their boots over the plans and intentions of independent enterprises. At the same time, this independence is something for those who are economically strong. The weak actually look toward the top. We must on the one hand force independent functioning, and to the extent that social funds are involved, then no one who gets these funds in the form of credit or relief can expect that those who are the source of these funds will passively watch what is done with them. Do banks anywhere else in the world behave differently? Here again we come to a digression linked to the conditions set by IMF for the borrowers. If we were to begin benefitting from its loans, only then would we learn how much the one who lends money can demand.

[Question] And the last question. In the interview in POLITYKA, you explained matters pertaining to our indebtedness. In ZYCIE GOSPODARCZE No 20, we presented extensive information on the subject of discussions concluded with commercial banks in the matter of refinancing debts. We would like to ask for a brief comment on these matters.

[Answer] All of this, obviously, does not eliminate our debts, but only makes it possible for the economy to breathe, to increase imports so as to be able to intensify exports. I must say sincerely that if we were again to begin to consume the funds obtained from external sources, then we would commit an unforgiveable sin against future generations. This does not mean that we will bleed the economy to satisfy our creditors. We will never move toward such extremism. The bank creditors of commercial banks understood our situation. They know our economy well and have a good evaluation of its potentials. We hope that in the end the government's creditors who granted the remaining part of our indebtedness will adopt a similar attitude.

[Question] Thank you for the interview.

[Answer] I am grateful that we were able to touch at least a small portion of the problems that pertain to our financial policy.

2950

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## SUCSESSES, SHORTCOMINGS IN INCREASING TRADE WITH ITALY

Ljubljana DELO in Slovene 31 May 84 p 3

[Article by Andrej Novak: "Italian-Yugoslav Trade Is Balanced."

[Text] From our correspondent--Milan, 30 May--In the first 3 months of this year Yugoslav exports to Italy increased by 27 percent, and, for the first time since 1966, our trade balance with this country is practically at the same level, that is, it is covered by more than 99 percent. This is said to be almost a miracle. However, in our "Networks" in Italy--mainly in Milan and Trieste, covering more than 50 percent of our export and 20 percent of our import--they are not carried away by euphoria. The conviction prevails here that we will have to work more, harder and especially, more reliably, if we want exports to increase another 20 percent this year and to be more permantly anchored on the Italian market.

Perhaps this statement sounds like a provocation in light of the fact that Italy is our third-ranking foreign trade partner--next to the Soviet Union and the Federal Republic of Germany--and we have traded with each other for a very long time. But, on the other hand, despite this, at present we are suffering from childhood diseases in our foreign trade. Italy buys everything, throughout the world. The number of Yugoslav producers who can ensure regular deliveries of sufficiently large quantities of high-quality products which are included in high-distribution networks can be counted on the fingers of one hand.

When we speak about childhood diseases we are not only thinking about the anomaly which is the result of the present difficult economic situation in Yugoslavia. We are referring, especially, to the abnormal volume of barter deals and the abnormal structure of low border traffic. In our commercial laws, as present regulations require, and among banking representatives in Milan, the opinion prevails that reasonable barter deals can be profitable and that, by means of these barter deals, it is possible to accelerate the supplying of reproduction material. Reasonable barter deals, they say, are those which are worked out in an expert manner, in the framework of the same branch or production cycle and which are accurate in regard to deliveries and prices. Now we are "trading food for automobile parts", as one of the businessmen here told us, or "the butcher is selling wood."

"Sometimes the secretariat for foreign trade has had detailed lists of products with which it has been possible to conclude barter deals." Vlado Stilinovic, director of Centroprodukt for Italy, said. "Now we frequently sell dollar products entirely on that basis." In other words, goods which could easily be sold for hard currency through normal channels is used in barter deals, in order to obtain the necessary reproduction material. In this regard, on the basis of the barter system, prices are almost completely unreal and they show conditions on the normal market.

"Barter deals are examined more carefully now," says the director of the Joint Economic Mission of the GZJ [Yugoslav Economic Federation] in Milan, Gvozdenovic. "They monitor them up to the conclusion of the transaction; in fact nothing they do is not monitored."

This is also the case in regard to low border traffic. They say in Milan that many things cross the border which could be sold by normal means, such as maize, cut wood, and colored metal. Some people complain that because of this, the business of companies operating in Milan is reduced and others want to establish their own branch units in the border area. Also, this is a response to many questions in regard to the fact that 98 percent of the imports come from low border traffic reproduction material.

In the past few years, the structure of low border traffic has changed. In 1981, cattle and cut wood accounted for 69 percent of the trade. Last year, they accounted for 43 percent while the share of industrial products increased from 27 to 45.8 percent. In Milan, among our economists, the opinion prevails that it is not advisable to advocate low border traffic at any price. It is a question of profitable agreements which would have to be arranged in such a way that they would not backfire and so that the left hand would know what the right hand was doing.

Trade with Italy [currency not indicated]

	1982	1983	Ind. 82/83
Exports	655.7	806.4	123.0
Imports	891.2	979.8	109.9
Total	1,546.9	1,786.2	115.4
Coverage	73.60 [percent]	82.30 [percent]	

Trade with Italy, as statistics show, is greater than with the majority of the other Western countries. However, there is a continuing recurrence of irregular deliveries, poor quality, defective packaging, unreliability and the like, which we hear about year after year. The whole picture is not black, but positive changes are too small to speak about an organic increase in exports. All the people we spoke to in Milan agreed that is a question of a spasmodic effort which, although it gives good results, does not assure stable prospects for the future. Rarely can Yugoslav products be seen on Italian markets. Those which do appear come from firms such as Elan, Paloma, Iskra, Keramika in Zajecar, and we soon reach the end. "For Paloma, which satisfied 10 percent of the Italian consumer needs and has nine warehouses throughout Italy, this is the 15th year of steady operation," says Vlado Stilinovic.

One recipe for success is to behave properly and reliably, to be present on the market and to preserve, even in weak moments. Elan entrusted the sale of its products in Italy to the well-known firm Colmar and "this was one of the wisest decisions of late," Engineer Zuccoli, the chairman of the Italian side of the Yugoslav-Italian board in Milan, said. Very often, our products wander here and there, keeping up with the movement of exchange rates and prices. Last year a number of Italian customers were without our beechwood, which was directed towards Egypt as soon as more advantageous opportunities presented themselves--despite the fact that contracts were not concluded in advance.

Lately, the wood industry has been having difficulties in Italy. The domestic wood and furniture industry is in a state of crisis and last year some additional protective customs fees were introduced--for example, for wood shavings. On the other hand, our producers, mainly the very large ones, could rapidly accommodate to the needs of the decimated market. The situation is much better in the metal industry, the electrical industry and the chemical industry. In all these areas, exports are expected to increase by 30 percent during the present year. More highly technical products are being exported such as electromotors, electronic components, measurement devices, household equipment, tools, etc. Koncar and Iskra are well-known in Italy. The following are important for success with the consumer: regular deliveries, good quality and continuous presence on the market. Some of our exporters have received the cooperation of the big Italian producers and now many of them are buying from us. One of the special characteristics of Italian industry is the fact that Italian industry is more and more oriented towards highly processed goods and is importing less raw material; and fewer semi-manufactured goods or entire construction complexes. There are considerable opportunities for making progress in that area. This would not be hard to do if one were to act more firmly. "Sometimes I ask myself if we are ready for the Western market"; sighed a businessmen who had just received a complaint from an Italian customer about a shipment of automobile headlights without electric bulbs.

On the whole, deliveries this year have been more regular and larger than last year. One can see that at the end of last year our industry was very well supplied with reproduction material. Also, the quality of the products is generally good,--and they are boasting about it here--but, with the extremely tense financial conditions of our exports we must keep pace with the development of technology.

"We cannot say what the future will bring. At present, we are watching the Yugoslav paper industry undergo technological development, which is a traditional process. Less progress can be noted in expanding the number of assortments," the director of Imexco, Piccardi, said. For 30 years, Imexco has been buying pulp and paper in Yugoslavia and has been selling, for the most part, reproduction material.

Our textile specialists say that the equipment in our textile mills and spinning mills for the past 15 years is more advanced than the textile industry equipment on the market in Milan. But, in spite of this, we are exporting textiles to Italy. Last year, export was increased by 20 percent and the same increase is expected both for the textile industry and the leather industry during the current year.

There were difficulties with transportation in all branches, especially in recent months. The quota of permits for transportation from the factory was used up in October and for a long time the Italians have been approving the "advancing" of permits on this year's account. For this reason the problem might appear again this year. It is also possible that there might be a shortage of trucks or that they might be tied up at the border. And there were other reasons. There were bottlenecks at the border because of poor border crossing systems or because of strikes by Italian railroad workers or customs officials. Often our trucks have been turned away at the border because they are damaged or do not fulfill requirements in other ways. In general, we often fail to meet the requirements governing international traffic and trade and because of this, losses occur.

In general, our exporters often have too little expertise and show too little caution. Contracts are frequently concluded without lawyers and it seems that the lawyers in each workers' organization are more concerned about internal regulations than about preparing business agreements. The majority of our firms in Italy do not have any insurance, which means that they have some status. But, on the other hand, they have greater losses because the buyers simply do not pay for their purchases. It is difficult to obtain data in regard to this because such failures are frequently covered up. On the other hand, the Italian partners complain that our importers do not respect payment dates. Therefore they are often faced with demands that they pay fines. At present our exporters are including these demands in the agreements since our regulations require this. Reliable Italian partners accept this because they themselves require the payment of fines in case of delays in deliveries.

Also there is talk about larger, well-organized export firms. The basis, of course, is solid management. Anyone who manages solidly is slow to select partners for the Italian side and also enjoys increasing confidence on the part of the banks because our companies in Italy must often get credits from Italian banks either because they have too little base capital or because they use money for credit payments. The large Italian banks--like the Securities Institute for Export Credits--SACE--have been very suspicious of Yugoslavia lately. They have placed us in the group of countries which are a very great risk and are almost unable to obtain credits. After the signing of the Bern agreement on the new loan for Yugoslavia, conditions improved for signing the new agreement with the International Monetary Fund. "Now we assess the economic situation in Yugoslavia as more satisfactory than it was a few months ago," says Alberto Maria Pisacrete, deputy director of the National Bank of Labor in Milan, one of the large Italian banks which does a lot of business with Yugoslavia. In spite of this, there are still a great number of debts. But the balance of trade and the balance of payments are constantly improving and the hope exists that Yugoslavia will, in the course of time, begin to pay back not only the interest, but also the principal. At present, we are approving, once again, short-term credits for stimulating trade and we are also opening up new credit lines for Yugoslav banks. However we are making decisions in this area gradually and selectively."

The representatives of our banks confirm this. "We told the Italian partners that we also have other banks and this statement has not been without its re-

percussions," says Ivo Franic, director of the Yugobank office in Milan. You also hear the opinion that the visit of the presidents of the Ljubljana Bank and the Yugobank to Rome and Milan were well received. In general, the Italian side realizes that our associated labor is becoming more export-oriented. It is thinking about the export of products which, up to now, have been neglected and underestimated, although they do not require up-to-date technology or the import of production materials. This year, chicken meat was sold in Italy for the first time. At present, Centroprodukt is very much involved in organizing the export of charcoal for heating and of dried mushrooms and the plan calls for us to put our fresh plums on the Italian market. All this requires very patient work and good organization. But there is still much to be done. The mushrooms alone earn \$20 million for Yugoslavia in Italy each year, or more than any product about which much is written, says Vlado Stilinovic. In addition, most of these mushrooms go across the border through the most varied "wild" channels.

Some Italian manufacturers are complaining about Yugoslav exports and they are trying to take protective measures to keep others from buying from us.

"Many Yugoslav products are attractive to Italian consumers because they are inexpensive--because of the less costly labor force and because of differences in currency exchange rates," says the director of IMEXCO Piccardi. The lira is stronger against the dinar than the mark or the franc, so many Italian manufacturers look for materials in our country." Engineer Zuccoli says that he is receiving more and more requests from Italina enterprises for information about opportunities for leases in Yugoslavia. The large bale technology factory INDESIT would like a line of materials for its own production and so would a large toy factory in Piemonte.

Unfortunately, the Yugoslav economy is reacting very slowly or not at all. "Actually, it is not difficult to get 20 percent more orders," Ludvik Kranjc, the director of Iskra Italiana says. "The great difficulty is in seeing them through to the end." All agree that the main problem is the scarcity of materials, saying that good material is always sold at favorable prices in Italy. It is true that the structure of our exports to Italy has improved from year to year, but "we still do not have our own export character," says Gvozdenovic. "Everyone knows what is bought in Switzerland, France or Italy. We also have to get some sort of export profile."

In the joint mission in Milan, they do not advocate "networks" at any price, in any case, not like it is. Certainly, they disagree with those critics, who are also in the federal administration, who think that we should sell our goods to the whole world from offices in Belgrade, Ljubljana, Sarajevo or Pristina. In Milan, the conviction prevails that the solution lies not in the regulation of the trading sphere for individual firms but in the modernization of our network in Italy, organizing it in larger units, reducing business expenses--because of this, some have already had greater efficiency. On the other hand, it is also true that the connection is slow, also when the registry houses in the homeland are already in agreement. Two of our companies, Ferimport and Autocentar from Zagreb, have been negotiating for months on the subject of what the name of the joint company would be. Now they have agreed on this but each is still proceeding on its own premises.

Of course, anyone is hesitant to give up favorable positions obtained, if there is no real economic pressure. But, on the other hand, Gvozdenovic says, the situation is "a bit reminiscent of 1965 when we wanted to improve highway management and, first of all, we fired all the road repairmen. Then we established a number of large highway enterprises, and we set the dimensions of capacities ahead of time, but there were still potholes on the streets."

Our economists in Milan call attention to the fact that we talk too much about exports and too little about the course of import, saying that, the great majority of irregularities and malversations occur as a result of import activity which takes place, as a rule, through our network in Italy. They give the following example: one of our large chemical combines wanted to import equipment from Italy. The price of 5 billion lire seemed to be too high and the seller cut it in half. Then the combine sent a specialist to Italy who established that, in the first place, there was a question of whether the equipment was completely suitable and, in addition, he said that it appeared to him, as a layman, that the price was still high. The manufacturer offered him 30 million lire if he would not say anything about it. But the man reported everything to our mission, which informed the chemical combine. In the meantime, the price dropped to 800 million lire from the republics and provinces where the negotiating firm comes from and political leaders are attacking our representative who sent a warning letter and botched the job.

The share of the higher forms of economic cooperation [between Yugoslavia and Italy] decreased last year from 10 to 8 percent. On the one hand, potential Italian partners are waiting for a predicted new Yugoslav law on foreign investments in our economy which would improve the position of foreign partners. On the other hand, all the special advantages for trade in the framework of industrial cooperation and other higher forms of cooperation have been practically eliminated. One hears the criticism that we are surrounded by a veritable Chinese wall of restrictive regulations.

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SERBIAN LAG IN REGIONAL ECONOMIC DEVELOPMENT

Belgrade INTERVJU in Serbo-Croatian 11, 25 May 84

[Series of two articles by Dr Kosta Mihailovic: "Quandaries in Yugoslavia's Regional Development"]

[11 May 84 pp 35-37]

[Text] Who Are the Real Poor?

Confronted with socially and ethnically pronounced differences in level of development of the republics and provinces, following World War II Yugoslavia opted for a regional policy to support the development of the underdeveloped regions. Backed up with large financial resources, but lacking well-prepared and effective measures, this policy was applied up until the end of the seventies without major changes or resistance. To be sure, before adoption of every 5-year plan discussions would flare up about various issues, but not the essential ones: Yugoslavia's actual regional development. This "distributive" policy, which devoted more concern and deliberation to how much each republic and province would contribute to the Federal Fund and Federal Budget and how much each of the underdeveloped would get from that than to the kind of impact the investments would have on income and employment, did not offer an opportunity for raising and resolving the true issues of regional development.

When on the eve of the 1981-1985 5-year plan, certainly under the pressure of the augmented disagreements among the republics and provinces, the demand was finally made to set forth criteria for an objective assessment of the level of development of the republics and provinces, it seemed that things had been set in motion. Especially since studies were requested concerning the goals and policy of regional development. The attempt to meet that request with the help of economic institutes raised an avalanche of issues which had long been frozen, casting doubt on the realism of the goal that had been set, on the scientific soundness of indicators used previously, on the accuracy of the assessment of the postwar development of the republics and provinces, and on the validity of the classification used up to now.

However, the logic of division in effect at that time again narrowed the group of issues by force of its own inertia, reducing the discussion to the

already familiar pattern. No consideration of the true goals of regional policy ever got started in the last 6 years, although the relevant studies were prepared in good time. To that extent attention was concentrated more on the criteria, on the boundary value, and, of course, on the manner of use of the Federal Fund....

#### Level of Development of the Productive Forces and the Results of Development

Yet to whatever extent the discussion over many years has been restricted to two or three issues, even that was enough to open the door and cast a glance on certain interregional relations which had been pushed far into the background. Thus the high degree of agreement concerning the criteria and indicators greatly reduced the arbitrariness and abuse of data in assessment of previous development and the level of development of the republics and provinces. Scientifically verified criteria and indicators placed in a true light the differentiation and classification which are taken up in this article. As for the criteria themselves, there is no question that these two should be used: the level of development of the productive forces and the results of development. Two indicators are taken as representative of the level of development of the productive forces: the per capita value of fixed capital and the labor force participation rate, while the per capita social product is taken as representative of the results of development.

Thorough study of the differences among the republics and provinces in level of development made it necessary to go back into the past to establish under what historical conditions the tendencies toward expansion or restriction came about and what were the factors in development that contributed to this. We cannot altogether overlook this requirement even in this article, which reassesses the accuracy of assessments of the differentiation in the last year for which we possess all the data, the extent to which that differentiation is in conformity with the official classification and what sort of consequences follow from this for Serbia proper.

#### Untenable Division

Differences among the republics and provinces have increased with Yugoslavia's overall economic growth. Whereas immediately after the war the ratio between the most highly developed and least developed region with respect to the per capita social product was 3:1, at the beginning of the eighties it was 6:1. The simple division into the advanced and underdeveloped regions was not possible in that kind of differentiation. Instead of an examination and assessment of all the various aspects of their differences, a rough division was made into underdeveloped and advanced. The republics of Bosnia-Herzegovina, Montenegro and Macedonia, as well as SAP [Socialist Autonomous Province] Kosovo were officially proclaimed to be underdeveloped so that they might exercise all the material rights arising out of that status. The other four regions were not proclaimed to be advanced, but they were treated as such. The official division into the advanced and underdeveloped regions departs significantly from the actual differentiation, which shows that in level of development the republics and provinces fall into five groups, as shown by Table 1. Slovenia stands alone at the very top and at a great distance from

Croatia and Vojvodina, two relatively advanced regions which according to the relevant indicators are 20-30 percent above the Yugoslav average, and as such constitute a second separate group. That actually takes care of all the advanced regions. However, Serbia proper is also officially included among those regions, although on the basis of these indicators it is obviously below the Yugoslav average, at a greater distance from Croatia and Vojvodina than from the three underdeveloped republics of Bosnia-Hercegovina, Montenegro and Macedonia, which are in the fourth group, while Kosovo is in the fifth group, at a rather great distance from the previous one.

Indicators of the Level of Development of the Republics and Provinces in 1982 (current prices in dinars; index numbers, Yugoslavia = 100)

Republics and Prov- inces	Fixed Capital of So- cialized Sector of Economy Per Able- Bodied Inhabitant		Employment in Social- ized Sector of Econ- omy Per 1,000 Able- Bodied Inhabitants		Per Capita So- cial Product of Entire Economy	
	Dinars	Index	Number	Index	Dinars	Index
Yugoslavia	439,923	100.0	410	100.0	129,194	100.0
Bosnia- Hercegovina	358,055	81.4	327	79.8	95,099	73.6
Montenegro	510,484	116.0	368	89.8	100,481	77.8
Croatia	535,764	121.8	480	117.0	163,195	127.3
Macedonia	313,502	71.3	370	90.2	86,181	66.7
Slovenia	871,429	198.1	645	153.3	229,587	177.7
Serbia	363,714	82.7	394	91.5	90,245	91.0
Serbia proper	354,001	80.5	394	96.1	123,760	95.8
Kosovo	191,096	43.4	216	52.5	41,472	32.1
Vojvodina	503,333	114.4	423	103.2	163,078	126.2

Sources: Comprehensive annual reports of the Federal Bureau of Statistics, "Statisticki godisnjak Jugoslavije" [Statistical Yearbook of Yugoslavia], 1983 (p 408); SGJ [Statistical Yearbook of Yugoslavia], 1982 (p 407) and INDEKS SZS, No 8, 1983, p 6; SGJ, 1983 (p 462); INDEKS SZS, No 12, 1983, p 6; SGJ, 1983 (p 407).

To speak about advanced and underdeveloped regions is to speak about differences among Slovenia, Croatia and Vojvodina on the one hand and the other five regions below the Yugoslav average on the other. The weak point of studying differentiation on the basis of sociopolitical division is that one is comparing regions of differing size whose own level is uneven. That is why in the larger republics intraregional differences are concealed which ought to be a subject for the attention of the entire Yugoslav community. This shortcoming is corrected by an economic regionalization which assumes regions of approximately the same size. Unfortunately this kind of regionalization does not exist in Yugoslavia.

Finding the line of demarcation, the so-called "boundary value," for separating the advanced from the underdeveloped is the first step on that road.

Checks have shown that the average per capita social product, the value of fixed capital per inhabitant, and the relative employment of the able-bodied population for the three underdeveloped republics might well be used for that purpose. The average of two-thirds of the per capita social product is the boundary which is taken as the line of demarcation in other countries, and tacitly even in Yugoslavia. The boundary value determined in this way is also justified in that it is difficult to decide whether the three underdeveloped republics should at the present level of development retain the status which they have had. This quandary is eliminated if their average, used as the boundary value, is not applied to the republics and provinces, but to opstinas. All opstinas which are below the boundary value with respect to all three indicators are classified as underdeveloped. This method, in accordance with a uniform methodology, gives an accurate idea of how many underdeveloped regions there are in all the republics and provinces. Underdevelopment would no longer be hidden behind the republic and provincial averages, but it would accurately be shown where it is and how great it is, just as can be seen in the table.

Underdeveloped Opstinas of Yugoslavia in 1981--Below the Boundary Value\*

<u>Republics and Provinces</u>	<u>Number of Opstinas</u>	<u>Population, thousands</u>	<u>Distribution, %</u>	
			<u>Corresponding Yugoslav Population = 100</u>	<u>Population of Republic = 100</u>
Yugoslavia	181	6,890	100.0	30.7
Bosnia-Herzegovina	62	2,135	31.0	51.8
Montenegro	9	236	3.4	40.4
Croatia	16	527	7.7	11.5
Macedonia	15	1,002	14.5	52.4
Slovenia	--	--	--	--
Serbia	79	2,990	43.4	28.5
Serbia proper	58	1,625	23.6	85.6
Kosovo	20	1,357	19.7	0.4
Vojvodina	1	8	0.1	

\* [Footnote incomprehensible]

Sources: SGJ 1982 and 1983 and BILTEN SZS, No 1295.

Two-Thirds of the Population in Underdeveloped Opstinas

The figures in this table show that under the influence of the regional expansion of the industrialization the homogeneous underdevelopment has been broken up into smaller entities. That is why a stratification which must be honored has been created in the underdeveloped republics and SAP Kosovo. Use of this method has shown that in Yugoslavia there are 181 underdeveloped opstinas with a population of 6,890,000, which is 30.7 percent of the population of Yugoslavia. Analytical refinement of these figures, especially by eliminating certain suburban opstinas which have unjustifiably been included among the underdeveloped, shows the absolute number and relative share would

decrease further. No one will be surprised to learn that all of 85 percent of the Kosovo population is in the underdeveloped opstinas, nor that this share in the three underdeveloped republics ranges between 40 and 52 percent. Those four underdeveloped regions account for 68.6 percent of Yugoslavia's population living in underdeveloped opstinas. However, of the 31.4 percent, which is the share of the Yugoslav population of underdeveloped opstinas located in the advanced regions, Serbia proper accounts for 23.6 percent! Its 58 underdeveloped opstinas have a population of 1,625,000, which is more than in Kosovo or in Macedonia and Montenegro taken together. Nothing speaks so significantly as this datum to the effect that Serbia is not only not a relatively advanced region, but on its territory is confronting backwardness on a large scale, a backwardness which it will take immense resources and a great deal of time to overcome.

The level of development of Serbia proper ought to be examined not only to bring the classification into conformity with the actual differentiation, but also because this is a region whose development has been neglected. Its lag is clearly evident. Lower growth rates of the social product, fixed capital and employment indicate that its level of development is below the Yugoslav average. Aside from these key figures, the other data also confirm that Serbia proper has not kept up with the pace of development. The share of the farm population in 1981, which was 27.6 percent, was larger than in any other republic or province, which proves that the process of industrialization has been slower in relative terms. Difficulties in creating jobs for the underemployed in agriculture will be all the greater because Serbia proper has in absolute terms the highest number of unemployed (272,000 in 1982), while in relative unemployment it follows Kosovo and Macedonia and is considerably above the Yugoslav average. Attention should also be paid to the lower percentage of the employed labor force and economic activities and especially to the lower level of the equipment-per-worker ratio. With fixed capital per industrial worker at 901,000, Serbia proper is in next to last place. That has, of course, had a bearing on the lag in other areas: it is in next to last place in the automation of production processes. There is no point in further enumerations, but it worthwhile citing the incredible figure that per capita electric power consumption is lowest in Serbia proper, although it is the largest producer and supplier of electric power to other regions of Yugoslavia.

#### The Lag of Serbia Proper

Tendencies in development and the level of development which has been attained allow us to conclude that Serbia proper, according to the present-day typology, is among the so-called "lagging regions." One essential feature of these regions is that they have relatively strong primary activities (agriculture, processing industry and the fuel and power industry), while the traditional labor-intensive branches of industry are represented in the relatively weak secondary sector. Another essential feature of these regions is that they are not managing to achieve the average for the entire country. Serbia proper fits entirely into the framework of lagging regions with respect to those features. The trouble is that its development potential is neither large nor promising, and there is a danger of its growth rate being

held at a low level either because of the low accumulative capacity or because of a possible drop in the efficiency of investments. Given its present economic structure, in which there are not enough branches that will figure as prime movers, we cannot expect Serbia proper to achieve above-average efficiency for any lengthy time in the future. But average Yugoslav efficiency, given the relatively very low level of investment, would cause a relative decline in the per capita social product.

We are in the fourth year of fulfillment of this plan, and in practical terms nothing has been undertaken except that at the beginning of the planning period a decision was made that Serbia proper could borrow a little bit more from the International Bank.... Its lag seems to have fallen into oblivion, as has the obligations set down in the official document.

[25 May 84 pp 19-21]

[Text] Why Is Serbia Lagging?

The economies of all the republics and provinces have achieved high growth rates in the postwar period. The economy of Serbia proper is no exception in that regard. However, its development tendencies have nevertheless been specific. Its economic growth has been slower than the rest of Yugoslavia, and that has been the source of many present difficulties. That is, all the underdeveloped regions have had an above-average growth rate of fixed capital, while the three advanced regions have achieved an above-average growth rate of the social product. Thus every region has improved its position relative to the Yugoslav average in some essential respect. Only in Serbia proper have these key indicators recorded values below the average, which is why the level of its development is falling ever deeper below the Yugoslav average, and the prospects are for that tendency to continue. This pessimistic supposition is based on the greatest lag in that most important respect. Since the value of its fixed capital per able-bodied inhabitant is 19.5 percent below the Yugoslav average, with respect to this most important aspect of the productive forces Serbia proper comes after Montenegro and Bosnia-Herzegovina, which have the status of underdeveloped republics.

The available data and analyses which have been made leave no room for doubt that the economy of Serbia proper is not keeping pace with the development of the Yugoslav economy. Finally, this ought to be officially confirmed. The 5-year plan for the period 1981-1985 states that during the course of fulfillment of this plan measures will be taken to "halt the relative lag in economic development of Serbia proper." The years are passing, but those measures have not been forthcoming.

What are the immediate causes of this lag? By contrast with the underdeveloped regions, demographic factors in Serbia proper have not been detracting from the results of development. On the contrary, it has had a lower rate of natural population growth than the Yugoslav average, so that all the per capita indicators have magnified the results achieved. Investment efficiency has had the same effect. Whereas in the underdeveloped regions it has been below the average and has thus detracted from the growth rates of the social

product, the reverse has been the case in Serbia proper. After Slovenia it has had the highest efficiency of investments in Yugoslavia. However, while the higher efficiency has benefited the economy of Serbia proper, it has also stood in the way of recognizing the true dimensions of its relative lag. These dimensions, measured in per capita social product, stand at 95 percent of the Yugoslav average, and it has therefore been concluded that 5 percent does not represent any great difference that would deserve particular attention. However, that result was achieved with only 80.5 percent of the Yugoslav average with respect to fixed capital per able-bodied inhabitant. That is why the capabilities of the productive forces are not always truly expressed, and this conceals the structural relations, and the per capita social product has in contemporary economic thought lost much of the prestige it once had when it was the sole indicator of development. The example of Serbia confirms the deficiency of this indicator.

The comparatively higher efficiency indicates that the immediate causes of the lag of the economy of Serbia proper should be sought first in the per capita volume of investments, which is lower than the Yugoslav average, rather than in its development policy. This region confronted a less favorable distribution of conditions at the very outset of postwar development. The First Five-Year Plan called for the investments in the industry of Serbia to be the smallest except for Slovenia. During the fulfillment of that plan international tension occurred in 1948, which meant for Serbia proper and Vojvodina not only diminished investments, but in fact a number of industrial plants were moved out of these regions to other republics. Those plants do not seem especially large from our present viewpoint, but we should not forget that they included modern and promising industries and that in general those plants represented beginnings which in the context of accelerated industrialization of an underdeveloped country grow rapidly in a very short time, as indeed they did grow in the community they were moved to.

It was all the more difficult to make up for the reduced investments in industry in that early period because agriculture, which had a high share of Serbia's production structure, was taking the heavy blows of mandatory requisitioning, collectivization, imposition of the maximum landholding, and all sorts of rough methods of draining accumulation out of agriculture. On the other hand very little was invested in agriculture. For that reason neither the growth of investments nor the growth of production in the late fifties could make up for the late start. This did not pass unnoticed. The author of these lines in 1964 made the following critical objection to the draft of Serbia's 7-year plan: "The draft of the plan has restricted itself more to enumerating the factors and illustrations of the relative lag of the Serbian economy, without measuring their significance, the economic justification of the lag, and their consequences for future development. It is also strange that such facts should be neglected as that the economy of Serbia, because of the loss of the relative position which it occupied in the Yugoslav economy in 1947, in 1962 alone had a potential loss of income in the amount of 211 billion dinars (in 1959 prices), an amount that should be identified with lost potential accumulation."\*

\* Mihailovic, Kosta, "Basic Problems in the Conception of the Development of the Economy of SR Serbia," contribution in the Conference of Economists on

In the late sixties Serbia proper had above-average per capita investments because of the construction of certain large projects, which, of course, had nothing to do with that objection. But those golden moments of its economy did not last long. In the seventies the value of per capita gross investments in fixed capital fell below 85 percent of the Yugoslav average. This was also a reason for the earliest [sic] rise in the value of fixed productive capital of industry in that period. In some years between 1976 and 1980 this value barely exceeded three-fourths of the Yugoslav average, and then in 1981 it fell to its lowest point of 69.4 percent of that average.

The causes of this tendency should be sought less in consistent implementation of the decision on reduction of investment spending, and more in the curtailed investment potential of Serbia proper, which dates from the sixties, when its 39 underdeveloped opstinas ceased to receive resources from the Federal Fund for Development of Economically Underdeveloped Regions. A situation came about that is difficult to explain in economic and social terms. Serbia proper, which is below the Yugoslav average with respect to all the relevant indicators, so that it is actually among the less developed regions, contributes to formation of the resources of the Fund ... but has no right to obtain funds from it to support its own underdeveloped regions. The appropriations of its economy to the Federal Fund ... exceeded in certain years half of its net accumulation. But in such tightened circumstances Serbia proper had to maintain an obligation to develop its own underdeveloped regions, and aside from the Federal Fund ... it set aside specific resources for that purpose on the basis of a contribution of 0.50 percent of the social product of the entire economy. However, 85 percent of all the resources created in that way served as compensation for the contribution which the economy of the underdeveloped regions of Serbia proper had to pay into the Federal Fund for Underdeveloped Republics and SAP Kosovo, while only 15 percent of that modest sum was used for their development! Any comment would be superfluous.

We cannot discuss at any length in this article the influence of noneconomic investments in slowing down the growth of the economy of Serbia proper, nor is this in fact necessary. It is sufficient to say that the high share of this type of investment did actually reduce the investment in productive investment projects, to which the noneconomic investments of Belgrade and the Federation contributed significantly. However, a few more words should be said about the unfavorable terms of trade as an important cause of the lag of the economy of Serbia proper. The overall effect of that exchange is confirmed by comparing the social product in permanent 1972 prices and current prices. In current prices this product was down 2 percent, which means that its economy was truly losing in the exchange. According to the results of certain analyses, this has persisted more than a decade. However, it is well known that that exchange was especially unfavorable up to 1965, in a period when the price scissors were open to the disadvantage of raw materials and agricultural products. The 1965 economic reform established more normal price relations, but it did not altogether correct the depressed prices of

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the 7-Year Plan for Development of SR Serbia, which was held in Nis in February 1964, published in EKONOMIKA PREDUZECA, No 3, 1964, p 155.

raw materials and energy. The prices of electric power show that this has not been done even today. It was not enough that Serbia proper had invested in the production of electric power while others in Yugoslavia did not scramble after these investments, which are economically unattractive, nor was it enough that more than 30 percent of that power was delivered outside its territory (which hardly anyone in the world does), but the price of electric power was also extremely low. This is best shown by the datum that electric power imported from abroad last winter cost 435 paras per kilowatt-hour, while the price at which Serbia proper delivered power to other republics and provinces was 164 paras. The effect of applying world prices (which incidentally does apply to petroleum) to 8.7 billion kwh, the size of the deliveries to other republics and provinces, would amount to about 20 billion new dinars. The price of electric power is one channel, an important one, for the siphoning of income, but certainly not the only one. We cannot enter into the other ones in this article.

The low level of per capita investments and the unfavorable terms of trade cannot be explained solely by the set of objective and random circumstances. No objective analysis can overlook the fact that Yugoslavia's economic development following World War II was undertaken in the belief that the Serbian monarchistic-bourgeois bureaucracy had through its political domination secured for Serbia an above-average economic development and economic exploitation of other regions. Andrija Hebrang officially expressed this belief in his address on the occasion of adoption of the First Five-Year Plan, when he spoke as follows:

"The brotherhood and unity of our nationalities would be empty rhetoric if the plan did not envisage measures to abolish the large economic and cultural differences in the level of development of the various republics. It was otherwise in the old Yugoslavia. In it the level of development of industrial production in the various regions conformed to a policy of ethnic oppression pursued by the Great Serb bourgeoisie."\*

On the basis of that assessment the plan assigned to Serbia a growth rate of investments and industrial production that was the lowest except for Slovenia. However, the assertion about the faster development of Serbia between the two wars has no basis in the facts which have been verified. The statistics on Yugoslavia's industry in 1938 constitute a solid documentary basis for a reliable assessment as to how people fared between the two wars. Using those figures and adapting them to the postwar sociopolitical division, Gojko

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\* In keeping with the style of choosing and presenting data according to a position taken in advance as evidence of the assertion made in the address, it was stated that the growth index of industrial production was highest in Serbia over the period 1929-1939. However, these figures are given without absolute numbers, with no source for the data, without the base that was used, with no assessment as to how representative the decade chosen might be—that is, with no possibility for anyone to check the validity of the data used and the conclusions based on them. The quotation was taken from the Law on the Five-Year Plan of Yugoslavia 1947-1951, Federal Planning Commission, Belgrade, 1947, pp 32-32.

Grdjic expressed the following finding in a study which the Belgrade Economics Institute published in 1953 ("Productive Forces of the People's Republic of Serbia"):

"Yet nothing shows more plastically the pace of industrial development of those regions in the two decades between the two wars as prorating the above figures per 1,000 inhabitants in each region. Whereas in Slovenia 697,000 dinars were invested for every 1,000 inhabitants, in Croatia (including Slavonia and Dalmatia) that figure was 481,000, and in Serbia together with Vojvodina (but not including Srem) it was only 281,000 dinars. But if we take Serbia itself, the situation is still less favorable, since here investments per 1,000 inhabitants amounted to 247,000 dinars of capital.... However we look at the thing, in those two decades Slovenia developed 2.5-fold faster than Serbia and Vojvodina taken together, 2.8-fold faster than Serbia itself, and 2.6-fold faster than Vojvodina. Industrial development in Croatia also proceeded 1.7-fold faster than in Serbia and Vojvodina together and 1.9- and 1.7-fold faster than in Serbia and Vojvodina individually.

"It is not superfluous to mention that Serbia has not had the least favorable development within Yugoslavia. Industrial development has shown considerably poorer results in Bosnia-Hercegovina, Macedonia and Montenegro."

If we gather together other figures of G. Grdjic given in the same study it follows that three advanced regions (Slovenia, Croatia and Vojvodina), with 44.8 percent of the total population, accounted for 65.1 percent of the factories in the total number of industrial manufacturing facilities built in the period 1918-1913. On the other hand four underdeveloped regions (Bosnia-Hercegovina, Montenegro, Macedonia and Kosovo), with 31.0 percent of the total population, received only 15.3 percent of the factories. Serbia proper was left out of that computation. With its 24.2 percent of the total population it had 18.5 percent of the total number of factories, which means that it was lagging behind the average Yugoslav development.

The widening of the gap between the advanced north and the underdeveloped south has been confirmed not only in quantitative terms, but it has even been explained why this happened. Miodrag Jelic and Radoslav Cvetkovic took this up three decades ago; like G. Grdjic, they feel that the tariff protection of domestic industry, the more favorable terms of trade for regions with a more highly developed manufacturing industry and relatively higher accumulation, were the factors that determined the faster development of the more advanced north.\* Yet to assess the interbellum development of Serbia proper we do not even need prewar statistics and postwar analyses. It is enough for any economist concerned with the subject matter of economic development to have only three indicators from 1948 to conclude that it could not be included among the advanced regions, that its favored development between the two wars was out of the question. Those indicators are these: the 72.4-percent share of the farm population (Yugoslav average 67.2 percent), a per capita social

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\* For more detail on this see Miodrag Jelic and Radoslav Cvetkovic, "Development of the Economy Between the Two Wars," "Privredni razvoj FNRJ" [Economic Development of the Federal People's Republic of Yugoslavia], Nolit, Belgrade, 1956, pp 22-57.

product which was 0.9 percent higher than the Yugoslav average, and the 14.4-percent share of industry in formation of the social product (the Yugoslav average with 18.8 percent).

The belief that Serbia's economic development between the two wars was favored is the fruit of political and ideological struggles as well as of rivalry among the nationalities. It fitted nicely into the tactics of the Comintern in Yugoslavia, and it also fitted in with the separatist goals of certain bourgeois parties. In spite of the findings which refuted the basis of that belief, it persisted in the postwar context, affording credibility to the constant suspicion of political and economic events in Serbia proper.

The trouble is that a suspicion which was once founded, in the absence of real pretexts, is fed with suppositions, insinuations, accusations, exaggeration of negative things, and other falsifications. All of this feeds nationalism at home and on the other side. Without neglecting the mutual encouragement of nationalism, we cannot ignore the fact that Serbia proper was under the pressure of constant suspicion, which perhaps was best expressed in the well-known and certainly influential view to the effect that a strong Yugoslavia should be built on a weak Serbia. It was an act of revolutionary integrity and an expression of his wisdom as a statesman when Laza Kolisevski pointed to the baneful social and economic consequences of those and similar opinions.

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